

# YOUNG BROTHERS' 5-YEAR STRATEGIC BUSINESS PLAN 2022-2026

**YOUNG  
BROTHERS**  
Your Neighbor Island Partner



# TABLE OF CONTENTS



04	EXECUTIVE SUMMARY
12	INTRODUCTION
14	METHODOLOGY

## 17

### STRATEGIC GOALS & INITIATIVES: CUSTOMERS

We are instrumental in sustaining Hawai'i's statewide economy and well-being by providing reliable transportation for our partners. It is our responsibility to continuously improve our service experience and the efficiency of our operations to continue to provide frequent, affordable, and reliable service.



## 22

### STRATEGIC GOALS & INITIATIVES: 'OHANA

It is our commitment to be responsible and accountable for our results and actions.

## 29

### STRATEGIC GOALS & INITIATIVES: STABILITY

We understand the critical service we provide and are committed to implementing best practices that allow us to continue servicing the State of Hawai'i for another 120+ years.



37	DEVELOPING YB'S IT ROADMAP
39	CONCLUSION



# EXECUTIVE SUMMARY

As Young Brothers, LLC (Young Brothers, YB, or Company) embarks on its 122nd year of service, this Strategic Business Plan (Strategic Plan or Plan) charts a path forward for 2022–2026.

As YB developed its Strategic Plan, it considered the major trends, opportunities, challenges and risks affecting its future business. Some are economic trends that are beyond YB's control, such as:

- Anticipated future growth in the “big box” retail sector and e-commerce, which will reduce the volume of intrastate cargo over time.
- Inflation, which will affect YB's costs.
- Technological innovation, which has the potential to change how YB will do business in the future.

Taking these broader economic trends into account, YB considered the most important aspects of its business that will drive its future financial success, and which are to some extent within YB's control:

- Labor costs, which account for approximately 60% of YB's total operating costs. Over the next 12 months, YB will negotiate a new collective bargaining agreement with the union representing approximately 230 of YB's 370 employees.
- Cost allocation between regulated and unregulated services, which in turn will affect the Commission's evaluation of the reasonableness of regulated rates, as well as YB's business strategy for unregulated services.
- Capital expenditures to maintain and improve service.
- External debt financing to align the company's actual capital structure with the capital structure adopted for ratemaking purposes, to provide liquidity, and to support YB's capital expenditure program.

We built the Strategic Plan on three core pillars or areas of focus for the Company: YB's Customers, YB's 'Ohana (defined as family, our employees), and YB's Stability. For each pillar, we identified three strategic goals and a number of initiatives to accomplish those goals. The pillars, goals and initiatives are consistent with the Company's core values—ho'ohiki (commitment) to safety, our 'ohana, partners, environment, and island communities and sustainability—which also align with the State of Hawai'i's broader social, economic, and environmental goals. To evaluate the success of each planned initiative, YB has identified metrics that link to the achievement of strategic goals and will refine those metrics to define targets that represent success.







# THE THREE PILLARS OF YOUNG BROTHERS

## CUSTOMERS



SERVICE OUR CUSTOMERS RELIABLY, EFFICIENTLY, AND WITH ALOHA

CONTINUALLY ADAPT TO DELIVER THE BEST VALUE AT THE BEST PRICE

ENGAGE WITH STAKEHOLDERS FREQUENTLY AND PROACTIVELY

## 'OHANA



BUILD A HIGH-PERFORMING, VALUES-DRIVEN CULTURE TO FOSTER AN ENGAGED WORKFORCE

LEAD AND MANAGE SMARTER

FOSTER A CULTURE OF SAFETY AND COMPLIANCE

## STABILITY



CONTINUOUS PROCESS IMPROVEMENT TO DRIVE EFFICIENCY AND COST CONTAINMENT

ACHIEVE MODERATE REGULATED RATE INCREASES, OBTAIN EXTERNAL FINANCING, AND ENABLE FAIR RETURN OF AND ON INVESTED CAPITAL

OBTAIN COMMISSION APPROVAL OF A REASONABLE COST ALLOCATION METHODOLOGY BETWEEN REGULATED AND UNREGULATED SERVICES

## HO'OHIKI







# CUSTOMERS

**1.1 SERVICE OUR CUSTOMERS RELIABLY, EFFICIENTLY, AND WITH ALOHA**

**1.2 CONTINUALLY ADAPT TO DELIVER THE BEST VALUE AT THE BEST PRICE**

**1.3 ENGAGE WITH ALL STAKEHOLDERS FREQUENTLY AND PROACTIVELY**

As the first of YB's three core pillars, our success depends on providing freight transportation services that meet the needs and expectations of our customers—service that is frequent, affordable, and reliable. To support this pillar, YB has identified three related goals for 2022–2026 (identified above) and designed four initiatives to advance those goals.

INITIATIVES	METRICS	BENEFITS
<b>Customer Portal Project (1.1, 1.2)</b> <ul style="list-style-type: none"> <li>Portal will allow customers to create, manage, and track their cargo shipments online</li> </ul>	Customer Satisfaction Rate Percent of online bookings	<ul style="list-style-type: none"> <li>Improved customer options and convenience</li> <li>Reduced customer wait times, including less idling time and fewer CO2 emissions, as well as a reduction in paper consumption</li> <li>Improved asset utilization and cost-efficiency</li> </ul>
<b>LCL Enhancement + Rate and Tariff Revisions Project (1.1, 1.2)</b> <ul style="list-style-type: none"> <li>Streamline LCL service and cost-efficiency through technological improvements</li> <li>Standardize and simplify tariff structure</li> </ul>	LCL cost per revenue ton-mile Number of tariff commodity codes	<ul style="list-style-type: none"> <li>Reduced customer wait times, including less idling time and fewer CO2 emissions</li> <li>Improved asset utilization and cost-efficiency</li> <li>More efficient tariff administration</li> </ul>
<b>Samsara Realtime Asset Tracking and Reporting (1.1, 1.2)</b> <ul style="list-style-type: none"> <li>Install GPS or RFID trackers on all shoreside equipment to track status, use and location</li> </ul>	Number/Percent of assets with trackers	<ul style="list-style-type: none"> <li>Improved asset utilization</li> <li>Improved cost recovery for loss or damage</li> <li>Improved capital investment decisions</li> </ul>
<b>Public Information Campaigns (1.3) &amp; Outreach Team (1.3)</b> <ul style="list-style-type: none"> <li>Regular cadence of educational campaigns to create engagement with customers</li> <li>Redeploy outreach team for engagement with all stakeholders</li> </ul>	Customer Satisfaction Rate	<ul style="list-style-type: none"> <li>More successful implementation of other customer-facing initiatives (such as Customer Portal Project)</li> <li>Better understanding of customer needs</li> </ul>



# 'OHANA

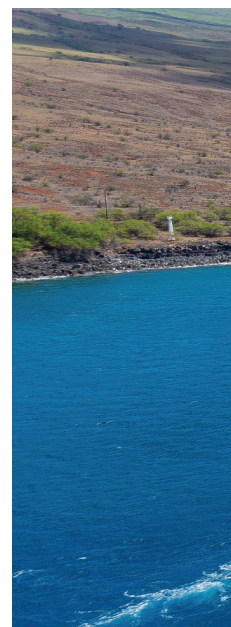
**2.1 BUILD A HIGH-PERFORMING, VALUES-DRIVEN CULTURE TO FOSTER AN ENGAGED WORKFORCE**

**2.2 LEAD AND MANAGE SMARTER**

**2.3 FOSTER A CULTURE OF SAFETY AND COMPLIANCE**

With over 370 employees statewide, 80 percent of which are unionized under three collective bargaining agreements, our 'Ohana is the second core pillar of this Plan. A strong commitment to and from our employees is essential to achieving our mission of serving customers. To support this pillar, YB has identified three related goals (identified above) and designed six initiatives given the critical need to optimize employee equity and performance.

INITIATIVES	METRICS	BENEFITS
<b>Performance Management (2.1, 2.2)</b> <ul style="list-style-type: none"> <li>Improved process for feedback and evaluation</li> <li>Develop a customer service learning certification program to improve the service experience</li> <li>Develop a leadership academy</li> </ul>	Employee Satisfaction Rate Number of customer service training certificates Attrition of high-potential employees	<ul style="list-style-type: none"> <li>Improved management of employees and employee satisfaction</li> <li>Improved customer service and overall customer experience</li> <li>Retain and develop future leadership</li> </ul>
<b>Total Rewards (2.1)</b> <ul style="list-style-type: none"> <li>Improve administration of employee benefits and audit existing benefits to evaluate possible cost-savings</li> </ul>	Employee Satisfaction Rate Benefit cost per employee	<ul style="list-style-type: none"> <li>Improved employee satisfaction with and use of benefits</li> <li>Reduced costs</li> </ul>
<b>CBA Negotiation Planning (2.1)</b> <ul style="list-style-type: none"> <li>Plan for and engage in union contract renegotiation to achieve a well-balanced contract</li> </ul>	Employee Satisfaction Rate Labor costs	<ul style="list-style-type: none"> <li>A stable workforce</li> <li>Reasonable labor costs</li> </ul>





INITIATIVES	METRICS	BENEFITS
<b>Entrepreneurial Operating System (2.2)</b> <ul style="list-style-type: none"> <li>Optimize day-to-day decision-making for managing YB and create space for leadership team to advance strategic initiatives</li> </ul>	Percent completion of strategic initiatives	<ul style="list-style-type: none"> <li>More efficient management of day-to-day operations</li> <li>Greater capacity for management to engage in strategic planning</li> </ul>
<b>Safety Culture Assessment (2.3) &amp; Safety Interdependence (2.3)</b> <ul style="list-style-type: none"> <li>Complete a safety culture assessment to evaluate whether YB appropriately prioritizes safety and mitigates safety risks</li> <li>Strengthen interdependence, including through safety campaigns and trainings and YB's Speak Up / Take Action program</li> </ul>	Lost Time Incident Rate Number of injuries and near misses Percent of employees trained	<ul style="list-style-type: none"> <li>Improved safety and safety performance</li> <li>Lower costs</li> </ul>
<b>Process Transparency (2.3)</b> <ul style="list-style-type: none"> <li>Improve access to and use of YB's comprehensive process library for guiding employees in performing their jobs</li> </ul>	Percent of employees with easy access to process library	<ul style="list-style-type: none"> <li>Improved quality control</li> <li>More efficient management of employees</li> </ul>

# STABILITY

## 3.1 CONTINUOUS PROCESS IMPROVEMENT TO DRIVE EFFICIENCY AND COST CONTAINMENT

## 3.2 ACHIEVE MODERATE REGULATED RATE INCREASES, OBTAIN EXTERNAL FINANCING, AND ENABLE FAIR RETURN OF AND ON INVESTED CAPITAL

## 3.3 OBTAIN COMMISSION APPROVAL OF A REASONABLE COST ALLOCATION METHODOLOGY BETWEEN REGULATED AND UNREGULATED SERVICES

The third pillar—Stability—is the essential thread connecting Customers and ‘Ohana for YB’s long-term success. YB must manage its costs effectively without sacrificing the quality of service. YB must have a financial plan that involves reasonable regulated rates, a balanced capital structure, and provides a fair return of and on invested capital. YB must be financially self-sufficient. To that end, YB has taken steps to strengthen its Board governance and to make financial decisions in a manner that serves the interests of YB.

YB does not project any change in regulated rates prior to 2024. YB’s goal is to obtain a moderate increase in regulated rates in 2024 followed by an inflation adjustment in 2025 and

2026. The magnitude of these increases depends on a number of key business assumptions, which are inherently subject to significant business, economic, competitive, industry, regulatory, market and financial uncertainties and contingencies (many of which are, to some extent, beyond YB’s control), such as inflation, intrastate and interstate cargo volumes, adoption of a jurisdictional cost allocation methodology, the outcome of collective bargaining negotiations, emergent capital needs driven by unforeseen events, and tax rates, to name a few. YB’s goal is to request and obtain an increase in regulated rates in 2024 of between 4% and 6%, but YB emphasizes that this goal is based on assumptions and forecasts, which may change, and thus these rate levels cannot be guaranteed. Similarly, in 2025 and 2026, YB’s goal is to increase rates by only 1-2% annually, but the actual increase will depend on inflation, which is outside YB’s control. Rates for specific cargo types may vary from the average, depending on the Commission’s adopted rate design and the outcome of the tariff revision project referenced previously.

Beyond these regulated rate goals, YB has identified three broad strategic goals to support the Stability pillar (identified above) and designed seven key initiatives to advance these goals.

INITIATIVES	METRICS	BENEFITS
<b>SMSS Transition to Hawai‘i (3.1)</b> <ul style="list-style-type: none"> <li>Migrate most remaining shared services back to YB</li> </ul>	Costs for services previously shared Percent of indirect costs (vs. revenue)	<ul style="list-style-type: none"> <li>Reduced costs associated with shared services and lower the cost of Company overhead</li> <li>Strengthen YB’s operational independence</li> <li>Improve cost transparency</li> </ul>
<b>Supply Chain Initiatives (3.1)</b> <ul style="list-style-type: none"> <li>Improve supply chain process to ensure consistency and realize uniform cost savings</li> </ul>	Reduction of costs associated with supply chain	<ul style="list-style-type: none"> <li>Cost savings of about \$1 million per year by end of 2022</li> </ul>
<b>Pension Improvement Program (3.1)</b> <ul style="list-style-type: none"> <li>Contain and reduce the impact of wage, salary and benefit escalators</li> </ul>	Pension-related costs	<ul style="list-style-type: none"> <li>Cost savings in outside consulting fees</li> <li>Cost savings in pension accruals</li> </ul>



INITIATIVES	METRICS	BENEFITS
<b>Rate Cases &amp; Regulatory Trajectory (3.2, 3.3)</b> <ul style="list-style-type: none"> <li>Fair and sustainable rate case trajectory through a General Rate Case for Test Year 2024 and inflation adjustors for 2025–2026</li> <li>Obtain Commission approval of a fair and reasonable cost allocation methodology and rate design</li> <li>Obtain Commission approval of an annual rate adjustment mechanism (e.g., water carrier inflationary cost index)</li> </ul>	Customer rates	<ul style="list-style-type: none"> <li>Fair rates for regulated customers through projected rate increases</li> <li>Support YB's ability to earn a reasonable rate of return and provide a return of invested capital</li> </ul>
<b>Banking Recapitalization (3.2)</b> <ul style="list-style-type: none"> <li>Negotiate revolving credit facility <math>\geq</math> \$10 million</li> <li>Attract long-term debt financing</li> <li>Gradually rebalance capital structure to more closely align with imputed capital structure</li> </ul>	Established banking relationship(s)  Credit available  Long-term debt raised  Debt/Equity ratio	<ul style="list-style-type: none"> <li>Improved, independent access to capital (liquidity)</li> <li>Support YB's ability to earn a reasonable rate of return and provide a return of invested capital</li> </ul>
<b>Labor Cost Containment (3.1, 3.3)</b> <ul style="list-style-type: none"> <li>Improve cost transparency and increase confidence that YB's allocated costs are fair, consistent, and follow causation</li> <li>Obtain Commission approval of a cost allocation methodology</li> <li>Enable better control of and reduction in labor costs</li> </ul>	Labor costs	<ul style="list-style-type: none"> <li>Improved management of labor costs</li> <li>Improved asset utilization</li> </ul>
<b>Unregulated Interstate Service (3.2)</b> <ul style="list-style-type: none"> <li>Negotiate with unregulated customers to manage rates and drive volumes</li> </ul>	Unregulated volumes  Unregulated revenues	<ul style="list-style-type: none"> <li>Fair allocation of costs to regulated customers</li> <li>Support YB's ability to earn a reasonable rate of return and provide a reasonable return of and on invested capital for investors</li> </ul>

## DEVELOPING YB'S IT ROADMAP FOR 2022-2026

YB recognizes the Commission's direction to address ongoing development of an IT roadmap in this Plan. Technology and innovation are key themes throughout the various initiatives YB has identified and thus IT plays an integral, cross-cutting role for much of what YB has planned for 2022–2026. This Plan also specifically elaborates on YB's approach to developing its IT Roadmap and describes the different prongs of YB's IT strategy: (i) strategic information services; (ii) IT infrastructure; (iii) IT applications; and (iv) IT security and compliance.

## INTRODUCTION

# OUR STORY

The service we provide is personal to us.

Since its founding in 1900, YB has been Hawai'i's leading interisland freight handling and transportation company. Throughout its history, Young Brothers has continuously adapted to changing market conditions and evolved to meet the interisland marine transportation needs of the Hawaiian Islands. YB has spurred innovations and spearheaded industry breakthroughs, developing a reputation as a trusted and reliable industry leader and partner in the State of Hawai'i.

The Company has grown from originally providing small "bumboat" services, ferrying passengers and supplies throughout Honolulu Harbor in the early 1900s to transporting interisland freight of all kinds via tugs, barges, and other equipment between the State's six major islands in 2022. Today, as the only water carrier authorized to ship all cargo that originates and ends within the State of Hawai'i, Young Brothers is regulated by the Hawai'i Public Utilities Commission for intrastate water carrier services and provides such services that are frequent, affordable, and reliable.

Headquartered in Honolulu Harbor, YB is the only water carrier to serve all the major islands in the state: Hawai'i Island, Maui, O'ahu, Kaua'i, Moloka'i and Lāna'i. YB's more than 370 dedicated and highly skilled employees join a fleet of eight tugs and eight barges to provide 12 regularly scheduled weekly port calls, with "just-in-time" arrivals to the Neighbor Islands. YB's customers include small and large businesses of varying industries, (e.g.,

tourism, construction, and agriculture), government agencies, other utilities, and the U.S. military, as well as individuals and families. YB is open to serve all. From the rural lifestyle of Moloka'i to the city adventures found on O'ahu, YB's service enables the members of its community to choose not only where to live, but how they want to live. YB delivers a significant proportion of the essential items required for community and personal daily life, while also moving the necessary supplies for businesses to manufacture, and then transport, the same products that YB's employees depend on.

We honor our history at Young Brothers by continuing to be the lifeline of the Hawaiian Islands, while caring for our environment and focusing on excellence and innovation in everything we do. This means that YB must be financially independent and secure, while continuing to offer customers frequent and reliable service with actionable information. YB must also be nimble enough to adapt to recent changes in the transportation sector and position itself to take advantage of further changes it anticipates in the near future, all while ensuring that it continues to deliver high quality, reliable, and affordable service to its regulated customers.

It is YB's hope and expectation that this 5-Year Strategic Business Plan for 2022–2026 will begin to chart the path forward toward another 120 plus years of serving our customers and community.



# MISSION

We are Hawai'i's marine highway connecting our island communities by providing interisland marine transportation of freight of all kinds.

# VISION

To be Hawai'i's trusted interisland freight company.



# METHODOLOGY

In developing YB's Strategic Plan, the Company identified strategic business opportunities, challenges and risks—both internal and external to YB—that will affect the Company and its success over this period. In addition, YB determined what the Company would build on its core pillars of the business to craft strategic goals and specific initiatives that respond to and take advantage of the strategic business factors we have identified to drive YB's performance and success over this period.

## STRATEGIC BUSINESS FACTORS FOR 2022-2026

**Y**B has identified the key factors most likely to have a significant effect on our performance in 2022–2026. YB is subject to market trends within the freight transportation sector and the broader economy. YB cannot control these trends but must plan for and adapt to them. This Plan begins by recognizing that Hawai'i's intrastate and interstate freight transportation sector is undergoing a period of market evolution, driven by continued growth in the “big box” retail sector and e-commerce. For YB, this means that intrastate or regulated cargo volumes are likely to decline over time, while interstate cargo volumes may increase. These market changes present both a strategic opportunity and a challenge for YB's business. In addition, economic indicators suggest that the economy may be entering an inflationary period.

Upward pressure on prices could become a dominant economic feature of the 2022–2026 period. This will require consistent attention and focus by YB management to ensure that rates—for both regulated and unregulated service—keep pace with increases YB sees in its operating costs. Finally, advances in technology, together with social and environmental mandates, are transforming various sectors across the broader economy. YB will need to implement technological solutions in a manner that makes sense for the Company, is consistent with YB's core values, and is responsive to the needs of YB's customers, employees, investors, and the communities it serves.

Within the context of these broader economic

trends, YB identified the most important aspects of its business that will drive its future financial success. The first of these is labor costs, which account for approximately 60% of YB's total operating costs. YB's ability to improve cost transparency to enable better control of and reduction in labor costs is critical to the Company's success and financial stability over this period. Closely related to this factor is cost allocation. Since YB provides both regulated and unregulated services to its customers and largely uses the same employees and physical assets to do so, properly allocating costs is essential. For 2022–2026 it is incumbent upon YB to drive consensus around a cost allocation methodology that is fair, consistent, transparent, and follows causation.

There are two additional YB-specific factors for this period: one is YB's capital expenditures and the second being overall trend in and mix of cargo volumes. Over this period YB plans to make significant capital investments in its facilities and infrastructure, totaling approximately \$95 million. In the near-term this includes investing in the construction of new barges to serve the communities of Moloka'i and Lāna'i as well as other capital expenditures planned for 2022–2026 that will improve and modernize YB's facilities and enable YB to better serve its customers. As unregulated cargo volume and/or demand changes over time, YB must work toward agreements with interstate carriers so that these changes are commensurate with the applicable rates and charges in those agreements.

## STRATEGIC GOALS & INITIATIVES

By aligning the core pillars of YB's business with the key business factors for 2022–2026, YB created strategic goals and specific initiatives that respond to and take advantage of these opportunities and challenges. The Strategic Plan sets forth the three core pillars or areas of focus for the Company: YB's Customers, YB's 'Ohana (defined as family, our employees), and YB's Stability. For each, YB has identified three underlying strategic goals that describe broad end results. Each of YB's various initiatives drive improved service for customers, better engagement with stakeholders (employees, customers, vendors, government agencies, and communities), and a path to long-term operational and financial stability, all in a manner targeted to

the key business factors YB sees as determining its performance over the 2022–2026 period.

YB approaches each of these pillars and goals from the Company's core values—ho'ohiki or commitment to safety, our 'ohana, partners, environment, and island communities and sustainability—which also align with the State of Hawai'i's broader social, economic, and environmental mandates. We understand our responsibility to the people of Hawai'i as a vital community resource, and as such, in support of advancing the State of Hawai'i's social, economic, and environmental mandates as described in the Hawai'i State Planning Act codified in Hawai'i Revised Statutes Chapter 226, YB has aligned its core values to the State's objectives.





# TRACKING PERFORMANCE

---

This Plan charts YB's path forward for the next five years and describes initiatives the Company has designed to address and respond to the key business challenges and opportunities the Company faces, and identifies what we hope to accomplish over this period.



The Company's business outcomes will depend in large part on its ability to implement this Plan. Evaluating success requires metrics to measure performance. A key part of the implementation of the Strategic Plan is to refine and update those metrics, to the extent necessary, and to define targets that represent success.



## STRATEGIC GOALS & INITIATIVES: CUSTOMERS

Customers are integral to everything that we do. Although YB provides a critical, lifeline service to the State of Hawai'i and its economy, YB can successfully perform this role only by ensuring that its transportation services meet the needs and expectations of its customers. Our success—both in the short-term and the long-term—depends on providing our customers with frequent, affordable, and reliable service. For this reason, customers are the first of YB's three foundational pillars and areas of focus for this Strategic Plan.

To support this pillar, YB has identified three related goals for its growth and development in 2022–2026. We believe that focusing on each of these three goals will drive our success in serving our customers. Indeed, it is incumbent on us to strive to continuously improve the experience and service our customers receive and to innovate in order to bring greater efficiency and less complexity to our customer-facing operations. Accordingly, this Plan identifies four key initiatives described in more detail below that are designed to advance these three goals, ranging from efforts to streamline the customer experience initiating and accepting shipments to improving asset tracking and reporting.

### 1.1

#### SERVICE OUR CUSTOMERS RELIABLY, EFFICIENTLY, AND WITH ALOHA

- CUSTOMER PORTAL PROJECT
- LCL ENHANCEMENT + RATE & TARIFF REVISIONS PROJECT
- SAMSARA REALTIME ASSET TRACKING AND REPORTING

### 1.2

#### CONTINUALLY ADAPT TO DELIVER THE BEST VALUE AT THE BEST PRICE

- CUSTOMER PORTAL PROJECT
- LCL ENHANCEMENT + RATE & TARIFF REVISIONS PROJECT
- SAMSARA REALTIME ASSET TRACKING AND REPORTING

### 1.3

#### ENGAGE WITH ALL STAKEHOLDERS FREQUENTLY AND PROACTIVELY

- PUBLIC INFORMATION CAMPAIGNS & OUTREACH TEAM

Although YB's primary focus centers on its customers, this pillar encompasses not just YB's direct customers who utilize our transportation services but also our partners and the communities in which we serve. In this way, "customer" is defined broadly, and we recognize our role in adding value and giving back to society and the State of Hawai'i. We support our communities by hiring local and paying it forward to non-profit organizations that support youth, education, health and human services, environmental stewardship, and agriculture. We also firmly believe in a "Sustainable Hawai'i," such as through YB's participation in the Signol Fuel Savings Pilot Project, which aims to optimize voyage fuel efficiency and thereby reduce both fuel expense and greenhouse gas emissions with a target fuel usage reduction of 5,000 gallons per month. YB also recognizes the importance of farm-to-table initiatives and supports local food production and food security through discounted service offerings.

INITIATIVE	METRICS	BENEFITS
<b>Customer Portal Project (1.1, 1.2)</b> <ul style="list-style-type: none"> <li>Portal will allow customers to create, manage, and track their cargo shipments online</li> </ul>	Customer Satisfaction Rate Percent of Online Bookings	<ul style="list-style-type: none"> <li>Improved customer options and convenience</li> <li>Reduced customer wait times, including less idling time and fewer CO2 emissions, as well as a reduction in paper consumption</li> <li>Improved asset utilization and cost-efficiency</li> </ul>

The Customer Portal Project is designed to improve the convenience of using our services for our customers by providing timely information in a user-friendly and accessible manner. The Customer Portal Project builds on earlier phases of digitizing the processing of cargo, including both its acceptance and delivery, and once fully implemented will empower customers to create, manage, and track their cargo shipments online. The overall objective is to provide customers with real-time information to reduce their dependence on calling customer service, make informed decisions on when to drop off or pick up cargo, reduce YB's carbon footprint and congestion at the ports, and improve our communication with customers and the overall customer experience. In other words, the Customer Portal Project is intended to provide detailed information about a customer's specific shipments and services most commonly requested through customer service and will be an efficient way to boost customer relationships and outreach throughout the customer life cycle. YB expects the Customer Portal Project to advance goals 1.1 and 1.2, improving YB's ability to service customers reliably, efficiently and with Aloha and to continually adapt to deliver the best value at the best price.

Although foundational work began in 2019, the Customer Portal Project officially launched in July 2021. And YB anticipates significant developments in this initiative over the 2022–2026 period:

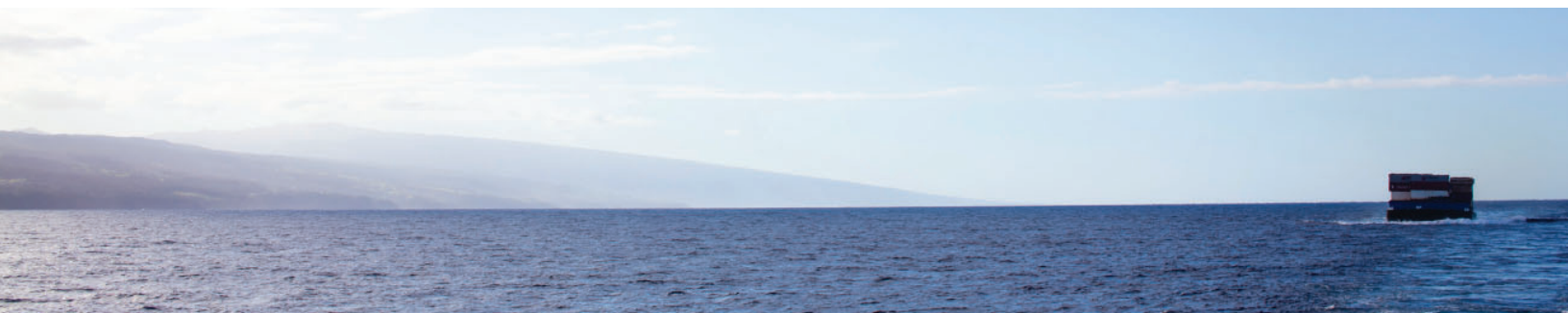
2022	Complete setup for online booking of container and roll-on/roll-off (RO/RO) Add less than container load (LCL)/mix cargo as it becomes available Track and report results to YB management, Board, and PUC
2023	Track and report results to YB management, Board, and PUC
2024-2026	Track and report results to YB management, Board, and PUC

The Customer Portal Project has tremendous potential for improving overall customer experience and satisfaction, while also easing the strain on some of the most labor-intensive aspects of YB's business. YB expects that the Customer Portal Project will result in improvements in the customer service metrics that it tracks, including net promoter scores, average phone wait times and dissatisfied customer feedback.

The Customer Portal Project also has the potential to provide YB with more accurate data regarding future or upcoming shipments once an online booking and reservation is made, thus enabling YB to better forecast operational needs. That said, care must be taken in designing the prebooking process to ensure that reservations result in actual shipments, or that no-show or cancellation penalties cover YB's associated costs. For example, if a customer does not deliver booked cargo on the day of shipping, that position on the barge likely would not be filled, resulting in lost revenue and an increase in the allocated costs for the other shipments.

Finally, the potential environmental benefits associated with streamlining cargo acceptance and delivery through the Customer Portal Project are also significant. For instance, fluctuations in customer traffic patterns for acceptance and delivery of cargo means that some customers may end up waiting in long lines at YB facilities during peak times. This can result in significant vehicle idling time—both an inconvenience for our customers and also a source of harmful greenhouse gas emissions. To put some data around this, a typical medium heavy truck (with no load and assuming no use of accessories such as air conditioning) uses approximately

0.84 gallons of gasoline or 0.44 gallons of diesel for each hour of idling time; a typical delivery truck uses approximately 0.84 gallons of diesel for each hour of idling time.<sup>1</sup> Likewise, a gallon of diesel fuel produces 22.46 pounds of CO<sub>2</sub>, whereas a gallon of gasoline produces 18.74 pounds of CO<sub>2</sub>.<sup>2</sup> Thus if the Customer Portal Project enables YB to reduce vehicle idling time related to cargo processing by just 10 minutes per day for each customer freight bill (estimated to be 225,000 per year), over the course of a year that would yield a minimum overall reduction in CO<sub>2</sub> emissions between 370,590 and 707,490 pounds.<sup>3</sup>



INITIATIVE	METRICS	BENEFITS
<b>LCL Enhancement + Rate and Tariff Revisions Project (1.1, 1.2)</b> <ul style="list-style-type: none"> <li>Streamline LCL service and cost-efficiency through technological improvements</li> <li>Standardize and simplify tariff structure</li> </ul>	LCL cost per revenue ton-mile Number of tariff commodity codes	<ul style="list-style-type: none"> <li>Reduced customer wait times, including less idling time and fewer CO<sub>2</sub> emissions</li> <li>Improved asset utilization and cost-efficiency</li> <li>More efficient tariff administration</li> </ul>

Less than Container Load (LCL) service has always been recognized as the most labor-intensive and costly service YB provides. Yet LCL service also provides tremendous value to our customers. The LCL Enhancement + Rate and Tariff Revisions Project is focused on improving YB's approach to LCL service to make it more efficient and cost-effective while continuing to deliver value for our customers. This initiative also dovetails with the Customer Portal Project, particularly as that project becomes available for LCL cargo. Beyond the booking and reservation process, the LCL Enhancement + Rate and Tariff Revisions Project also includes other measures to streamline LCL service, such as moving to check-in via iPad, digitizing the gate entry and exit process, and providing gate passes to ease access. In addition, the assignment of LCL cargo to specific flatracks and on the barge will allow visibility and tracking of LCL cargo between the islands and better customer notification. As part of the Rate and Tariff Revisions aspect of this initiative, YB also aims to standardize, simplify, and rationalize its tariff structure for LCL service. For example, YB will be evaluating the prospect of developing a flat-rate box model for LCL cargo and reducing the overall number of commodity codes to better meet the needs of our customers and to make our tariffs easier to understand for YB customers, employees, and stakeholders alike.

<sup>1</sup> Fact #861 February 23, 2015 Idle Fuel Consumption for Selected Gasoline and Diesel Vehicles, Office of Energy Efficiency & Renewable Energy, U.S. Dep't of Energy (Feb. 23, 2015), <https://www.energy.gov/eere/vehicles/fact-861-february-23-2015-idle-fuel-consumption-selected-gasoline-and-diesel-vehicles>.

<sup>2</sup> Carbon Dioxide Emissions Coefficients, U.S. Energy Information Administration (Nov. 18, 2021), [https://www.eia.gov/environment/emissions/co2\\_vol\\_mass.php](https://www.eia.gov/environment/emissions/co2_vol_mass.php).

<sup>3</sup> This reflects the following three calculations using the general formula—((gallons of gasoline or diesel per hour / 6) x pounds of CO<sub>2</sub> per gallon of gasoline or diesel x YB's total estimated freight bills per year):

- $(0.84 / 6) \times 18.74 \times 225,000 = 590,310$  pounds of CO<sub>2</sub>
- $(0.44 / 6) \times 22.46 \times 225,000 = 370,590$  pounds of CO<sub>2</sub>
- $(0.84 / 6) \times 22.46 \times 225,000 = 707,490$  pounds of CO<sub>2</sub>



INITIATIVE	METRICS	BENEFITS
<b>Samsara Realtime Asset Tracking and Reporting (1.1, 1.2)</b> <ul style="list-style-type: none"> <li>Install GPS or RFID trackers on all shoreside equipment to track status, use and location</li> </ul>	Number/Percent of assets with trackers	<ul style="list-style-type: none"> <li>Improved asset utilization</li> <li>Improved cost recovery for loss or damage</li> <li>Improved capital investment decisions</li> </ul>

The Samsara Realtime Asset Tracking and Reporting Project aims to provide critical data for improving YB's management of and capital investment in shoreside equipment, particularly containers. While the immediate focus is on container installation, our plan is to extend the use of this technology to monitor all shoreside equipment to include chassis, flatracks, platforms, and lifts. This project involves installing GPS or RFID trackers, which will provide real time information on equipment status, use and location. This will enable YB to better understand equipment utilization and need and to better forecast seasonal and other changes and improve capital investment decisions. Samsara tracking also will improve accountability for YB customers and employees when using equipment, better protect against equipment theft and damage and enable YB to more effectively charge customers when equipment use exceeds the allotted period that is free of charge. YB anticipates that moving to an electronic tracking and reporting system also may reduce labor costs currently associated with managing YB shoreside equipment.

2022	Complete device deployment and move to program enforcement phase to recover assets and/or collect late fees Track and report results to YB management, Board, and PUC
2023	Incorporate lessons learned and expand programs (as appropriate) to cover all shoreside assets Track and report results to YB management, Board, and PUC
2024-2026	Track and report results to YB management, Board, and PUC

INITIATIVE	METRICS	BENEFITS
<b>Public Information Campaigns (1.3) &amp; Outreach Team (1.3)</b> <ul style="list-style-type: none"> <li>Regular cadence of educational campaigns to create engagement with customers</li> <li>Redeploy outreach team for engagement with all stakeholders</li> </ul>	Customer Satisfaction Rate	<ul style="list-style-type: none"> <li>More successful implementation of other customer-facing initiatives (such as Customer Portal Project)</li> <li>Better understanding of customer needs</li> </ul>

Engaging with stakeholders frequently and proactively is necessary for YB's success. Yet COVID severely disrupted the typical channels of engagement with customers, communities and stakeholders. Thus, looking forward to 2022–2026 as part of this Strategic Plan, YB seeks to re-establish, rebuild, and reimagine its approach to customer and stakeholder engagement to meet current needs and limitations.

YB has two initiatives in this area. First, YB plans to develop a regular cadence of educational campaigns to create engagement with customers using consistent and clear messaging. Particularly as YB moves forward with implementing improvements to its systems and processes for interacting with customers (such as the Customer Portal Project and the LCL Enhancement + Rate and Tariff Revisions Project), proactive, clear, and consistent communication regarding these changes and what customers should expect is imperative. Customer engagement also is more than just information sharing, requiring meaningful opportunities for bidirectional communication. Customer feedback will be a critical element for successfully implementing the various customer-facing projects YB has planned.

Second, YB will re-establish and redeploy its outreach team for engagement with all stakeholders—i.e., customers, legislators, businesses, employees, and the broader communities YB serves—on important issues. For example, COVID has accelerated broad changes to the freight cargo industry and also changes specific to the State of Hawai'i. YB's long-term success depends on our ability to adapt to and take advantage of these changes and part of that is engaging with stakeholders. Thus, throughout 2022–2026 YB intends to engage with stakeholders to assess these changes and to address island-specific cargo issues and the role for interisland water carrier service. YB also plans to engage specific community organizations and partners that share and value YB's mission to more effectively communicate YB's role and significance in the communities we serve.



## STRATEGIC GOALS & INITIATIVES: 'OHANA

Our 'Ohana is the second strategic focus area of this Plan. YB has approximately 370 employees across all of its business units and over 80 percent of employees are unionized. At bottom, our business is organized around serving the needs of our customers but we cannot successfully do that without a strong commitment to and from our employees. This means empowering our employees to take ownership of and collective responsibility for YB's success and to serve as drivers of the change necessary to accomplish our objectives.

Our commitment to 'Ohana is multi-faceted. We want our employees to be reliable partners and team members dedicated to serving our customers, but we also are committed to providing a workplace that promotes the safety, health, and wellbeing of our employees both professionally and personally. Indeed, our commitment to safety goes beyond regulatory compliance. We encourage our employees to live and own safety every day and in every aspect of their lives. We also encourage our partners to work with us to make the environment we all work in a safer place. It is our commitment to the communities we serve that makes us responsible and accountable for our actions and results.

To support this pillar of 'Ohana, YB has identified three related goals for its growth and development in 2022–2026. Focusing on achieving each of these three goals with respect to our workforce will enable YB to provide the safe, reliable, efficient, and cost-effective service that our customers demand and expect.

### 2.1

#### BUILD A HIGH-PERFORMING, VALUES-DRIVEN CULTURE TO FOSTER AN ENGAGED WORKFORCE

- PERFORMANCE MANAGEMENT
- TOTAL REWARDS
- CBA NEGOTIATION PLANNING

### 2.2

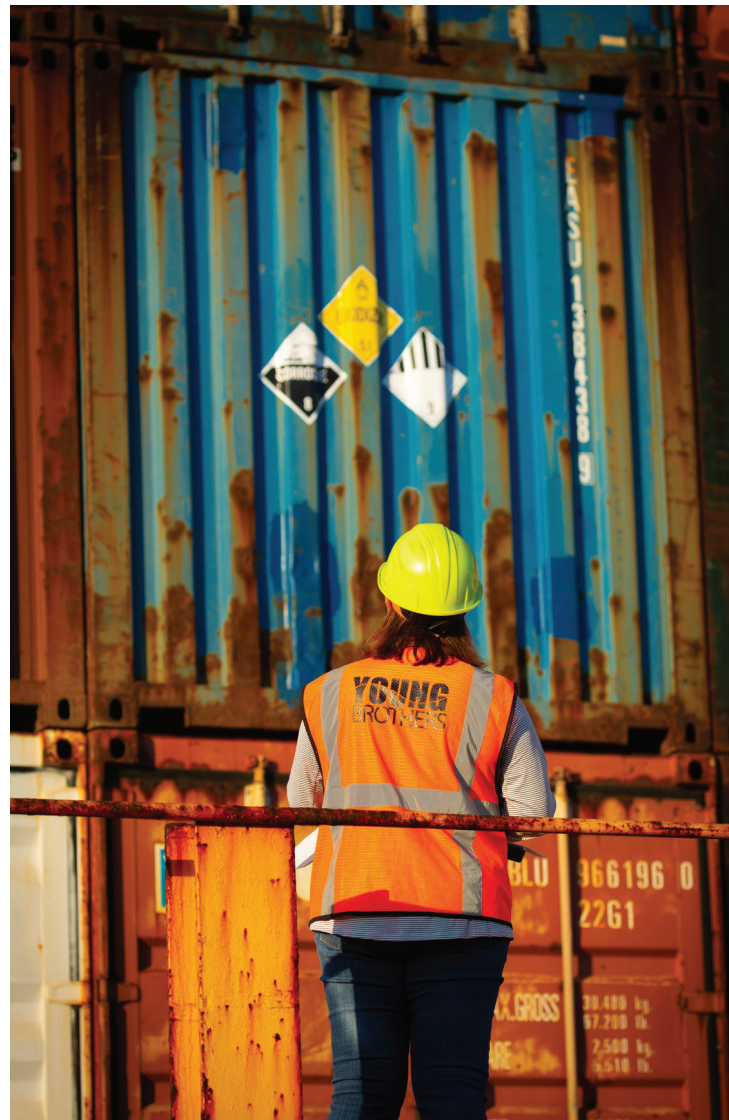
#### LEAD AND MANAGE SMARTER

- PERFORMANCE MANAGEMENT
- ENTREPRENEURIAL OPERATING SYSTEM

### 2.3

#### FOSTER A CULTURE OF SAFETY AND COMPLIANCE

- SAFETY CULTURE ASSESSMENT & SAFETY INTERDEPENDENCE
- PROCESS TRANSPARENCY





INITIATIVE	METRICS	BENEFITS
<b>Performance Management (2.1, 2.2)</b> <ul style="list-style-type: none"> <li>Improved process for feedback and evaluation</li> <li>Develop a customer service learning certification program to improve the service experience</li> <li>Develop a leadership academy</li> </ul>	Employee Satisfaction Rate Number of customer service training certificates Attrition of high-potential employees	<ul style="list-style-type: none"> <li>Improved management of employees and employee satisfaction</li> <li>Improved customer service and overall customer experience</li> <li>Retain and develop future leadership</li> </ul>

Effective management of our employees is critical for individual and team performance and driving the overall success of the business. As part of the Performance Management program, the Human Resources department will assist and guide all of YB's business units in the development and management of our employees. This will involve establishing clear, aligned, realistic, and achievable goals. It also will involve developing a standardized process for providing timely, consistent and constructive feedback and evaluation, which depends in part on identifying and measuring the right levers and metrics for driving individual and team performance. To build a high-performing, values-driven culture that fosters an engaged workforce, we must invest in the development of our employees and ensure that they receive the training and mentorship necessary for them to grow and excel. Our success requires that YB employees understand where the Company is headed and their individual and collective roles and expectations in achieving those objectives.

The Performance Management program also includes two specific areas of focus: (1) developing a customer service learning certification program to drive improvements in customer service and the overall customer experience; and (2) developing a leadership academy in order to identify, track and develop high-potential employees with targeted training. The leadership academy, in particular, will help support our ability to attract and retain our most talented employees, which is especially critical in today's environment where finding skilled talent can be challenging.

2022	Identify team performance metrics and appropriate benchmarks Review shared service training to assess compliance, effectiveness, and alignment with corporate goals
2023	Identify annual training requirements for all employees that support corporate goals and personal development Create new service learning certification program
2024	Create YB leadership academy to identify, track and develop high-potential employees with targeted training
2025-2026	Assess training and leadership academy effectiveness based on key performance indicators and driver metrics Identify and implement any recommended improvements

INITIATIVE	METRICS	BENEFITS
<b>Total Rewards (2.1)</b> <ul style="list-style-type: none"> <li>Improve administration of employee benefits and audit existing benefits to evaluate possible cost-savings</li> </ul>	Employee Satisfaction Rate Benefit cost per employee	<ul style="list-style-type: none"> <li>Improved employee satisfaction with and use of benefits</li> <li>Reduced costs</li> </ul>

Our ability to attract and retain our employees depends on more than just financial compensation. Accordingly, Total Rewards focuses on YB's entire suite of compensation and benefits, which includes financial compensation (gross pay and incentive pay potential) and benefits, such as health, vision, dental, drug, life, and disability insurance, financial counseling, critical illness coverage, retirement, sick and vacation time, work-life flexibility, training & development opportunities, and wellness programs. The objective of a Total Rewards approach is to ensure that (1) YB meets the needs of its employees; (2) employees know about and take advantage of the suite of available benefits; and (3) YB can assess any benefits not being utilized and valued by employees for possible elimination and cost savings. We hope that highlighting the true value of the overall compensation and benefits package will enable YB to withstand changes to the labor market and economic forecasts of an overall loss of skilled talent in Hawai'i. By allowing YB to attract and retain team members, this holistic approach to employee compensation will be key to the long-term success of the Company.

2022	Review and conduct a full benefits audit  Complete migration to on-line benefits administration or employee self-service, with a goal of \$80K in one-time cost savings and \$30K annually  Continue Pension Improvement Program  Conduct compensation market benchmark study
2023	Continue Pension Improvement Program  Initiate multi-year review of self-funded Health & Welfare Program options  Design & implement rewards program to recognize customer kudos
2024	Complete Pension Improvement Program  Assess self-funded Health & Welfare Program in connection with rate case; review other potential benefit cost-savings and efficiencies
2025-2026	Implement comprehensive Health & Welfare Program  Design & implement rewards program to recognize employee ideas for cost savings and new business development opportunities  Review annual incentive plan design

INITIATIVE	METRICS	BENEFITS
<b>CBA Negotiation Planning (2.1)</b> <ul style="list-style-type: none"> <li>Plan for and engage in union contract renegotiation to achieve a well-balanced contract</li> </ul>	Employee Satisfaction Rate Labor costs	<ul style="list-style-type: none"> <li>A stable workforce</li> <li>Reasonable labor costs</li> </ul>

The existing collective bargaining agreement between YB and the International Longshore and Warehouse Union (ILWU) expires in 2022. Approximately 90 percent of YB's Terminal Operations employees are members of the ILWU, and Terminal Operations employs more than half of the YB workforce. In other words, the ILWU represents approximately 230 of YB's 370 employees and these employees are essential to our operations.

With the impending expiration of the collective bargaining agreement, one of the most important aspects of 2022 for this Strategic Plan is the union contract (re)negotiation process. YB's goal with the union contract renegotiation process is to engage with the ILWU in good faith, based on mutual trust in order to move YB forward with a new and invigorated partnership and a well-balanced contract that supports YB's partners, customers, and employees, as well as YB's long-term financial strength.

YB also has a collective bargaining agreement with the affiliated Inland Boatmen's Union (IBU) for approximately 80 of its employees who work as tug crews. This agreement expires in 2023 and likewise will need to be renegotiated.

2022	Renegotiate collective bargaining agreement with ILWU
2023	Renegotiate collective bargaining agreement with IBU
2024	Renegotiate collective bargaining agreements with ILWU or IBU as necessary





INITIATIVE	METRICS	BENEFITS
<b>Entrepreneurial Operating System (2.2)</b> <ul style="list-style-type: none"> <li>Optimize day-to-day decision-making for managing YB and create space for leadership team to advance strategic initiatives</li> </ul>	Percent completion of strategic initiatives	<ul style="list-style-type: none"> <li>More efficient management of day-to-day operations</li> <li>Greater capacity for management to engage in strategic planning</li> </ul>

Now more than ever, it is critical for YB and all of its stakeholders, including the Commission, to work together to assure the long-term success of YB's strategic goals so customers can continue to be assured of reliable service at a reasonable cost. This is particularly true as YB continues to adapt to changing market conditions, including COVID. Internally, YB's leadership has begun implementing an Entrepreneurial Operating System (EOS), designed to strengthen YB's capacity to focus on both the company's day-to-day operations as well as setting and working towards long-term strategic goals for the business. The EOS is intended to help YB leadership optimize and prioritize work by (1) creating an actionable focus on the decisions that need to be made to ensure our barges continue to deliver on time and on schedule, preserving the lifeline for the communities we serve; and (2) while also allowing YB's small leadership team to advance critical strategic initiatives that will strengthen our business and improve our services over time. EOS operationalizes the Traction® concepts and tools to create a tight, effective day-to-day leadership and management operational rhythm that accomplishes the mission, while also creating more time and structure to focus on strategic growth and development in the near- and long-term.

YB began the EOS process in late 2021, after reaching a degree of financial stability earlier in the year following the 2020 financial crisis. During this initial phase, the leadership team worked to identify the key challenges and activities facing the Company and to develop a system for prioritizing work towards these key challenges and activities, with a focus on overall strategic objectives for the business. As YB continues to operationalize EOS, it will inform the development and structure of effective meetings to advance YB's strategic priorities. EOS imposes necessary discipline on a lean leadership team that has a full schedule for working concurrently in and on the business.



INITIATIVE	METRICS	BENEFITS
<b>Safety Culture Assessment (2.3) &amp; Safety Interdependence (2.3)</b> <ul style="list-style-type: none"> <li>Complete a safety culture assessment to evaluate whether YB appropriately prioritizes safety and mitigates safety risks</li> <li>Strengthen interdependence, including through safety campaigns and trainings and YB's Speak Up / Take Action program</li> </ul>	Lost Time Incident Rate Number of injuries and near misses Percent of employees trained	<ul style="list-style-type: none"> <li>Improved safety and safety performance</li> <li>Lower costs</li> </ul>

A safety culture assessment is intended to evaluate whether a company prioritizes safety and mitigates safety risks of catastrophic events. It includes examining whether a company's culture and governance prioritizes safety and adequately directs resources to promote accountability and achieve safety goals and standards, assessing attitudes and understanding of safety and safety processes by a company's managers and employees. For the 2022–2026 period, YB intends to focus on ways to reinforce YB's safety culture and to evaluate and establish baseline safety culture measurements to identify areas for improvement.

Safety Interdependence is related to safety culture. The DSS Bradley Curve is a system designed to comprehend and benchmark progress toward strong safety performance and graphically shows a negative correlation between injury rates and relative strength of a company's safety culture—i.e., injury rates decline as safety culture strengthens. The DSS Bradley Curve also identifies four stages of safety culture strength: (1) reactive; (2) dependent; (3) independent; and (4) interdependent. The interdependent stage is exemplified by low injury rates and a strong safety culture where employee teams take ownership of and responsibility for the company's safety culture and safety performance. YB will strengthen interdependence through a reinvigorated safety committee, specific safety campaigns and trainings, and collaboration in the hiring process and in new hire orientations. One specific safety campaign is YB's Speak Up / Take Action program. YB has a long commitment to empowering each employee to speak up and, where necessary, exercise stop-work authority, and YB intends to launch a reinvigorated Speak Up / Take Action and associated trainings.

2022	Complete safety culture assessment Launch Speak Up / Take Action campaign Improve new hire orientation and training
2023	Speak Up / Take Action trainings, including bystander training
2024-2026	Reassessment of Safety Culture Continuous improvement and ongoing safety and safety culture initiatives

INITIATIVE	METRICS	BENEFITS
<b>Process Transparency (2.3)</b> <ul style="list-style-type: none"> <li>Improve access to and use of YB's comprehensive process library for guiding employees in performing their jobs</li> </ul>	Percent of employees with easy access to process library	<ul style="list-style-type: none"> <li>Improved quality control</li> <li>More efficient management of employees</li> </ul>

Since 2006, Young Brothers has held a Quality Management Certification that meets the International Organization for Standardization's ISO 9001 criteria. ISO 9001 requires a quality management system based on a number of principles, such as a strong customer focus, motivation and commitment by top management, and a process-based approach for continual improvement. The standard is meant to ensure that a business's customers receive consistent, quality products and services. Indeed, the ultimate goal of any quality assurance program is to boost customer loyalty through consistently good service. Although our services focus on freight cargo, the range of cargo types and sizes creates unique challenges when it comes to ensuring that we provide the consistent and quality services our customers expect—challenges that we willingly embrace each and every day.

Consistent with the ISO 9001 standard, YB's management processes are robust and address every facet of our business. YB has an extensive and comprehensive process library to guide our employees in performing their jobs and achieving success. One challenge we have confronted for ensuring that YB's processes are readily available and accessible to all employees is that a number of employees do not have access to a computer. Thus, a critical goal for 2022 is to build tools and resources to support employees without access to a computer. This will consist of personalized departmental trainings and tangible resource guides. YB's focus for the remainder of 2022–2026 will include continuous improvement to its processes to drive a robust culture of safety and compliance.





## STRATEGIC GOALS & INITIATIVES: STABILITY

The first two pillars—Customers and 'Ohana—reflect the key constituent parts of YB's business: Customers drive everything that we do since our business is about serving their needs; 'Ohana is how we accomplish that objective and deliver YB's services to our customers. The third pillar—Stability—is the essential thread connecting Customers and 'Ohana for YB's long-term success. Stability ensures that YB will remain Hawai'i's leading interisland freight handling and transportation company able to serve its customers with frequent, affordable, and reliable service for the next 120 plus years.

To that end, YB must be financially strong, independent, and secure. Thus, it is our responsibility to manage costs effectively without sacrificing services or quality of service and implement programs that stabilize the company despite cyclical and market-driven fluctuations of cargo volumes. YB must also be nimble enough to adapt to recent changes in the transportation sector and position itself to take advantage of further changes it anticipates in the future.

To support the Stability pillar, YB has identified three related goals for its growth and development in 2022–2026. Focusing on achieving each of these three goals will place YB on firmer financial footing, better able to take on and adapt to ongoing changes to the freight cargo industry and changes specific to the State of Hawai'i. Accordingly, this Plan identifies seven key initiatives described in more detail below that are designed to advance these three goals.

### 3.1

#### CONTINUOUS PROCESS IMPROVEMENT TO DRIVE EFFICIENCY AND COST CONTAINMENT

- SMSS TRANSITION TO HAWAII
- SUPPLY CHAIN INITIATIVES
- PENSION IMPROVEMENT PROGRAM
- LABOR COST CONTAINMENT

### 3.2

#### ACHIEVE MODERATE REGULATED RATE INCREASES, OBTAIN EXTERNAL FINANCING, AND ENABLE FAIR RETURN OF AND ON INVESTED CAPITAL

- RATE CASES & REGULATORY TRAJECTORY
- BANKING RECAPITALIZATION
- UNREGULATED INTERSTATE SERVICE

### 3.3

#### OBTAIN COMMISSION APPROVAL OF A REASONABLE COST ALLOCATION METHODOLOGY BETWEEN REGULATED AND UNREGULATED SERVICES

- RATE CASES AND REGULATORY TRAJECTORY
- LABOR COST CONTAINMENT



INITIATIVE	METRICS	BENEFITS
<b>SMSS Transition to Hawai'i (3.1)</b> <ul style="list-style-type: none"> <li>Migrate most remaining shared services back to YB</li> </ul>	Costs for services previously shared  Percent of indirect costs (vs. revenue)	<ul style="list-style-type: none"> <li>Reduced costs associated with shared services and lower the cost of Company overhead</li> <li>Strengthen YB's operational independence</li> <li>Improve cost transparency</li> </ul>



The Saltchuk Marine Shared Services (SMSS) Transition to Hawai'i Program is intended to further YB's goal of financial and operational self-sufficiency. It also complements YB's other initiatives that further this goal, such as the Banking Recapitalization Program. YB views this transition as smarter both financially and operationally. YB plans to complete the migration of most remaining shared services over 2022–2023. This includes transitioning remaining finance and accounting functions, information technology, human resources and benefits, and legal and risk management. Some of these will require systems and personnel changes and thus transitioning them back to Hawai'i is slightly more complicated in comparison to what has already been moved. This is the final phase of a multi-year strategic program designed to reduce costs, improve service, and increase YB's operational and financial self-sufficiency. A core driver of cost savings is a higher leverage point for staff (doing more with fewer people) driven mostly by technology improvements and changes to processes that optimize the use of innovation and technology. YB will continue to share a few services, however, where it makes sense financially or practically and does not undermine YB's strategic goals.

INITIATIVE	METRICS	BENEFITS
<b>Supply Chain Initiatives (3.1)</b> <ul style="list-style-type: none"> <li>Improve supply chain process to ensure consistency and realize uniform cost savings</li> </ul>	Reduction of costs associated with supply chain	<ul style="list-style-type: none"> <li>Cost savings of about \$1 million per year by end of 2022</li> </ul>

In conjunction with the SMSS Transition to Hawai'i Program, YB also has a Supply Chain Initiatives Project that aims to drive the Company's supply chain process to ensure consistency and realize uniform cost savings across all the buyers in the business. In 2019–2020, YB began to consolidate the supply chain purchasing function to allow for strategic Company-wide processes, vendors, and controls and hired a Supply Chain Manager to oversee this process. Currently, a majority of YB's approximately \$30 million spent annually goes through its Purchase Requisition/Purchase Order (PRPO) process overseen by the Supply Chain Manager, and the Company intends to continue to grow that percentage over 2022–2026 as we comprehensively evaluate and consolidate our vendors across the Company consistent with best practices. As a subsequent phase of the Supply Chain Initiatives Project, YB envisions working with a consultant to ensure best in class performance by reviewing the Company's then-current suppliers and making further recommendations to improve vendor optimization, establishing baseline spending metrics, and realizing and tracking savings.

There is significant cost-saving potential from the consolidation of services as a result of the SMSS Transition to Hawai'i Program. YB anticipates realizing around \$1 million in annual costs savings by the end of 2022.



INITIATIVE	METRICS	BENEFITS
<b>Pension Improvement Program (3.1)</b> <ul style="list-style-type: none"> <li>Contain and reduce the impact of wage, salary and benefit escalators</li> </ul>	Pension-related costs	<ul style="list-style-type: none"> <li>Cost savings in outside consulting fees</li> <li>Cost savings in pension accruals</li> </ul>

The Pension Improvement Program is designed to contain and reduce the impact of wage, salary and benefit escalators. This is an area of particular importance in light of the high percentage of YB's overall costs attributable to labor—60 percent. YB has seen some initial success in reducing costs in 2020 and 2021 through the Pension Improvement Program. This involved a private letter ruling from the Internal Revenue Service allowing YB to smooth the discount rate it uses for calculating contributions as well as an experience study that showed YB employees retire later, on average, than projected, resulting in a lower burden for YB ratepayers. Separately, through the Pension Improvement Program, YB also is working with a consultant to more cost-effectively fund accruals under YB's other pension plans.

2022	Continue Pension Improvement Program
2023	Continue Pension Improvement Program
2024	Complete Pension Improvement Program



INITIATIVE	METRICS	BENEFITS
<b>Rate Cases &amp; Regulatory Trajectory (3.2, 3.3)</b> <ul style="list-style-type: none"> <li>Fair and sustainable rate case trajectory through a General Rate Case for Test Year 2024 and inflation adjustors for 2025–2026</li> <li>Obtain Commission approval of a fair and reasonable cost allocation methodology and rate design</li> <li>Obtain Commission approval of an annual rate adjustment mechanism (e.g., water carrier inflationary cost index)</li> </ul>	Customer rates	<ul style="list-style-type: none"> <li>Fair rates for regulated customers through projected rate increases</li> <li>Support YB's ability to earn a reasonable rate of return and provide a return of invested capital</li> </ul>

YB's rate case cycle and overall regulatory trajectory are core drivers of the Company's financial stability and sustainability over the 2022–2026 period and beyond. Indeed, interactions between YB's rate structure and cyclical and market-driven fluctuations of cargo volumes have been a source of financial instability in recent years and periodically throughout YB's history. Thus, getting these issues right is absolutely critical for YB's financial success, particularly as the Company contends with emerging trends in the freight transportation market.

YB does not project any change in regulated rates prior to 2024.<sup>4</sup> This will require that YB obtain Commission approval of an annual, post-Test Year rate adjustment mechanism (e.g., water carrier inflationary cost index), which will help smooth rate increases from year to year and reduce rate shock. YB's goal is to obtain a moderate regulated rate increase in 2024 followed by an inflation adjustment in 2025 and 2026. YB views this rate trajectory as reasonable under currently anticipated conditions, though the assumptions and risk factors described below, particularly the current inflationary environment, introduce significant variability in this trajectory. Rates for specific cargo types may vary from the average, depending on the Commission's adopted rate design and the outcome of the tariff revision project referenced previously. The Commission does not regulate the rates YB charges for interstate cargo. A key


building-block of YB's regulated rate forecast is its capital investment plan. Over the period 2022–2026, YB forecasts that its capital expenditures will exceed its depreciation and amortization expense by approximately \$15–30 million, depending on the extent of government grants received to support a portion of the anticipated expenditures for new facilities and upgrades. A substantial portion of YB's capital plan is for the purchase of barges and tugs to provide safe and reliable service as YB's existing fleet ages.

Another key building block is YB's operating costs, particularly its labor costs. YB's labor costs will be substantially affected by the outcome of upcoming collective bargaining, as previously referenced.

Also critical to the Commission's adoption of reasonable rates is a jurisdictional cost of service study. This strategic plan, including the rate trajectory described above, is premised on YB's jurisdictional cost of service study, which allocates shared costs between YB's regulated and unregulated services. The Commission's decision on the cost of service study will serve as the foundation for the Commission's determination of the reasonable costs of providing regulated services. YB's goal is to work with the regulators to obtain a successful conclusion to the cost of service docket, so that the allocation of costs between regulated and unregulated services will be transparent, predictable, and reasonable.

<sup>4</sup> This goal depends on a number of assumptions (as described above).



An aerial photograph of the ocean. In the upper left, a large container ship is moving away from the viewer, leaving a white wake. Its deck is covered with stacks of colorful shipping containers in shades of red, blue, and white. In the lower right, a smaller tugboat with a blue hull and white superstructure is moving towards the viewer, also leaving a white wake. The water is a deep, textured blue.

YB's regulated rate goals depend on a number of key business assumptions, which are inherently subject to significant business, economic, competitive, industry, regulatory, market and financial uncertainties and contingencies, many of which are beyond YB's control. These key drivers include:

- Inflation, which will affect YB's costs
- Intrastate cargo volume
- Interstate cargo volume
- Adoption of YB's jurisdictional cost of service study
- Outcome of collective bargaining negotiations
- Emergent capital needs driven by unforeseen events
- Tax rates

YB's goal is to request and to obtain an increase in regulated rates in 2024 of between 4% and 6%, but YB emphasizes that this goal is based on assumptions and forecasts, which may change, and thus these rate levels cannot be guaranteed. Similarly, in 2025 and 2026, YB's goal is to increase rates by 1-2% annually, but the actual increase required will depend on inflation, which is outside YB's control. These regulated rate goals (like all of the strategic goals set forth in this document) should be taken as reflecting YB's aspirations, and should not be taken as a commitment or guarantee.



INITIATIVE	METRICS	BENEFITS
<b>Banking Recapitalization (3.2)</b> <ul style="list-style-type: none"> <li>Negotiate revolving credit facility <math>\geq</math> \$10 million</li> <li>Attract long-term debt financing</li> <li>Gradually rebalance capital structure to more closely align with imputed capital structure</li> </ul>	Established banking relationship(s)  Credit available  Long-term debt raised  Debt/Equity ratio	<ul style="list-style-type: none"> <li>Improved, independent access to capital (liquidity)</li> <li>Support YB's ability to earn a reasonable rate of return and provide a return of invested capital</li> </ul>

Like the SMSS Transition to Hawai'i Program, a major strategic focus of YB's finance function is to transition banking relationships and duties back to Hawai'i from the mainland. This is another element of our Strategic Plan designed to develop more independence and greater control over YB's financial future. An initial priority for the Banking Recapitalization Program is to negotiate and close on a revolving credit facility in late 2022 to meet YB's projected working capital needs. YB anticipates that this will be at least a \$10 million facility and provide YB the necessary flexibility to address short-term cash flow fluctuations and manage cyclical business trends.

The Banking Recapitalization Program will also be closely linked to YB's broader capital investment plans as well as YB's aim to rebalance its capital structure over time. YB's goal for 2022–2026 is to secure \$40 million in long-term debt financing to finance new and pre-existing capital investments.

YB currently has no long-term debt on our balance sheet and is capitalized with 100 percent equity from Saltchuk as the overall corporate parent. However, for ratemaking purposes and to calculate YB's allowed rate of return, the Hawai'i Public Utilities Commission imputes a ratemaking capital structure. In the approved 2018 test year general rate case, the Commission imputed 55 percent equity and 45 percent debt; in the pending 2020 test year general rate case application, YB proposed a ratemaking capital structure of 60 percent equity and 40 percent debt. The Banking Recapitalization Program will help support YB's goal of bringing its actual capital structure more in line with the imputed capital structure used by the Commission for ratemaking. Rebalancing YB's capital structure also will further support the regulatory compact, recognizing the importance of YB earning a reasonable return on its investments and providing a return of capital invested in the business.



Together with the SMSS Transition to Hawai'i Program, the Banking Recapitalization Program also likely will require some changes to the personnel and structure of YB's finance department and affect reporting requirements within the department over the coming years. This will include a strategic focus on more robust and integrated financial analysis and reporting. The goal is to drive financial analysis along with data from the Labor Cost Containment Program, the Collective Bargaining Agreement, and the Jurisdictional Cost of Service Study, to a single dashboard where it can all be used to assess performance against YB's key performance indicators.



INITIATIVE	METRICS	BENEFITS
<b>Labor Cost Containment (3.1, 3.3)</b> <ul style="list-style-type: none"> <li>Improve cost transparency and increase confidence that YB's allocated costs are fair, consistent, and follow causation</li> <li>Obtain Commission approval of a cost allocation methodology</li> <li>Enable better control of and reduction in labor costs</li> </ul>	Labor costs	<ul style="list-style-type: none"> <li>Improved management of labor costs</li> <li>Improved asset utilization</li> </ul>

The Labor Cost Containment Program is designed to improve YB's cost transparency to enable better control of and reduction in labor costs. The goal of this program is to both (i) develop transparency of cost causing activities, and (ii) develop information that will assist management in apportioning and controlling labor costs, including overtime costs. The transparency and potential for cost savings make this a valuable effort in our ongoing efforts to reach agreement on the new Cost of Service (COS) modeling tool. YB expects that the Labor Cost Containment Program will increase confidence that YB's allocated costs are fair, consistent, and follow causation.

Phase 1 began with existing data, sampling, and regression testing of business and financial variables to better understand the impact of these variables on specific types of labor overtime costs. YB will use this data, along with enhancements to operations applications for improved data tracking, to create greater after-event analysis to identify, isolate, and measure regulated and unregulated drivers of overtime costs. Phase 1 includes three steps: (i) gather and analyze historical data to show patterns of cost increases relative to variables that may influence that increase; (ii) make modifications to labor scheduling where the insights gained in the model analysis suggest cost savings opportunities; and (iii) make minor adjustments to ADP timekeeping where modeling and schedule modifications suggest greater transparency will be achieved.

Phase 2 of the Labor Cost Containment Program uses data collected in the first phase as well as additional operational data from the LCL

Enhancement Program to track movement and stowing of regulated and unregulated cargo to further isolate activities that directly and indirectly drive overtime costs. This will be used to identify potential process changes to reduce labor costs and provide management with real-time, cost-specific volume information for decisions regarding overtime support at the point of causation. This is critical for YB's overall labor cost containment efforts as a new level of understanding of cost drivers for cargo consolidation, loading and discharge activities, especially overtime cost drivers, will allow the Company to take direct, targeted steps that allow for better management of operating expenses without sacrificing service, while also increasing the accountability of management at each department or port for overtime thresholds and targets.

This information from the Labor Cost Containment Program is also important for testing alignment with and potential areas for refinement to YB's COS model for the regulated rate design process. It will be used to drive technological enhancements and changes to key enterprise software applications to unlock greater cost isolation, e.g., through changes to timestamping, job coding, time entry, scheduling, and/or adjustments to the COS model. Increased confidence that YB's COS model results in cost allocation that is fair, consistent, and follows causation will lead to timely regulatory determinations and agreements on fair and equitable revenue requirements that result in a return on costs and an opportunity to earn a reasonable return on investments.

INITIATIVE	METRICS	BENEFITS
<b>Unregulated Interstate Service (3.2)</b> <ul style="list-style-type: none"> <li>Negotiate with unregulated customers to manage rates and drive volumes</li> </ul>	Unregulated volumes Unregulated revenues	<ul style="list-style-type: none"> <li>Fair allocation of costs to regulated customers</li> <li>Support YB's ability to earn a reasonable rate of return and provide a reasonable return of and on invested capital for investors</li> </ul>

While YB's interstate services are beyond the Commission's regulatory jurisdiction, they nevertheless form an important part of the Company's strategic plan. As the proportion of overall cargo demand changes over time, YB's goal is to modify both its volume and its rates for interstate services. To achieve this goal, YB will work closely with interstate carriers to support their needs for reliable interisland transport.



## DEVELOPING YB'S IT ROADMAP FOR 2022-2026

YB recognizes the Commission's direction to address the ongoing development of an IT roadmap in this Plan. As is evident, technology and innovation are key themes throughout the many initiatives YB has designed to support the core pillars of its business. Thus, IT plays an integral, cross-cutting role for much of the strategic work YB has planned for 2022–2026. In conjunction with the development of this Strategic Plan, consistent with the Commission's direction, YB also is developing a comprehensive IT Roadmap. This will set forth YB's vision for how current and anticipated future IT systems should work together to support both the Company's day-to-day business operations and its strategic initiatives. YB's approach to developing its IT Roadmap centers on four different prongs which are described in more detail below:

- **Strategic information services:** This covers the business aspects of information services, including planning and alignment with YB's business and strategic goals.
- **IT infrastructure:** This covers tangible information services technology, network, connectivity, the cloud environment, and data centers.
- **IT applications:** This covers the wall of Company applications that YB uses to run the business. These applications collect data, transform data, and create all the information and analytics YB uses in its day-to-day operations.
- **IT security and compliance:** This covers YB's cyber, physical and policy security goals that aim to mitigate risk and remain compliant with regulations and standards across industries.

	2022	2023	2024-2026
<b>STRATEGIC</b>	<ul style="list-style-type: none"> <li>• Complete Phase 2A of SMSS Transition to Hawai'i</li> <li>• YB Change Advisory Board</li> <li>• Ticketing System Rollout</li> <li>• IS Procurement and Policies</li> </ul>	<ul style="list-style-type: none"> <li>• Establish IS program portfolio</li> <li>• Deliver ticketing system to other depts</li> <li>• Establish a reasonable baseline spend</li> </ul>	<ul style="list-style-type: none"> <li>• Sync three year Information Services plan with Operations plan</li> </ul>
<b>INFRASTRUCTURE</b>	<ul style="list-style-type: none"> <li>• Connected Port (P1): New - WAN (Spectrum)</li> <li>• Move Data Center (DR Fortress)</li> <li>• Lift and Shift to Cloud</li> <li>• Clean up LAN</li> <li>• Harden physical security and patching</li> </ul>	<ul style="list-style-type: none"> <li>• Connected Port (P2): Paperless Portal</li> <li>• Integrate GPS into Portal</li> <li>• FOCUS: Retail experience at Port</li> <li>• Harden physical security and patching</li> </ul>	
<b>APPLICATIONS</b>	<ul style="list-style-type: none"> <li>• SAP ECC enhancements</li> <li>• Phase 1: YB AP system implementation</li> <li>• Salesforce CRM Build out Phase 1</li> <li>• Point of Sale App for Ports</li> <li>• Mobile Ops build out for billing/dispatch</li> </ul>	<ul style="list-style-type: none"> <li>• Phase 1 ERP: Evaluate options (HANA, other)</li> <li>• Phase 2: Build out S2P functionality</li> <li>• Salesforce CRM Build out Phase 2</li> <li>• Data analytics: Tableau v. Power BI</li> <li>• Terminal Management System (TMS): Phase 1</li> </ul>	<ul style="list-style-type: none"> <li>• ERP Decision: Likely target 2026 go-live</li> <li>• Customer portal/app: Phases 2 &amp; 3</li> <li>• Data analytics: Refinement/Automation</li> <li>• TMS: Phase 2–Selection, Phase 3–Implementation, and Phase 4–Refine &amp; Perform</li> </ul>
<b>SECURITY &amp; COMPLIANCE</b>	<ul style="list-style-type: none"> <li>• Establish NOC and SOC</li> <li>• Multi-Factor Authentication Rollout Mobile Device Management Rollout</li> <li>• YB IS Policy Build Out</li> </ul>	<ul style="list-style-type: none"> <li>• CMMC 2.0 target 2 achieved</li> </ul>	





# CONCLUSION

**T**his Strategic Plan charts YB's path forward for 2022–2026. It considers the major trends, opportunities, challenges and risks affecting the Company and its success over this period and builds the core pillars of YB's business to craft strategic goals and specific initiatives to guide YB's growth and development. YB recognizes the challenge: To be nimble enough to adapt to recent changes in the transportation sector and position itself to take advantage of further changes, all while ensuring that YB continues to deliver high quality, reliable, and affordable service to its regulated customers. YB looks forward to engaging with all of its stakeholders and the Commission over the coming years as it implements this Plan.







**YOUNG**  
**BROTHERS**  
Your Neighbor Island Partner