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Capital Thinking:

Supply Chain Dynamics Fuel a Surge in Transportation & Logistics Deals

By: Michael Miller, Managing Director

As manufacturers, wholesalers, retailers, and consumers continue to encounter significant supply chain challenges from the global COVID-19 pandemic, companies across the Transportation & Logistics ("T&L") landscape have experienced increased customer demand for their problem-solving services. Additional volumes have helped spur earnings growth. Valuations for Transportation & Logistics companies remained in an up-cycle throughout 2021, according to data from Statistica[1] and Transportation Intelligence.[2]

Within this strong backdrop a healthy pace of mergers and acquisitions has occurred, allowing acquiring T&L companies to expand market share, enter new markets, diversify services, or enhance human / IT capital. Other T&L companies have engaged in divestitures to free up assets and focus on core competencies. The current macroeconomic environment and supply chain ecosystem suggest that these industry tailwinds may continue in the near-term, and, therefore, the potential for additional M&A activity may continue into 2022.

ECOMMERCE TRAJECTORY

Strong M&A interest has been particularly evident in several logistics subsectors, including freight forwarding, managed transportation, freight brokerage, same-day / last mile transportation, warehousing, and e-commerce / omnichannel fulfillment. These services have been meaningfully impacted by the wide-scale channel shift from in-person to online shopping that was triggered by the pandemic.[3]

All else equal, ecommerce supply chains demand (1) more warehouse capacity and (2) distribution centers closer to the consumer. Third-party logistics providers have responded by growing their warehouse networks – both organically and via M&A – investing in technology, and consulting with shippers on DC optimization.

As ecommerce facility networks become more disparate and complex, the need grows for an efficient "middle-mile" solution, or the linehaul transportation move between distribution centers. The trends toward same-day, next-day, and two-day service demand that this middle-mile be consistent and reliable. Truck and driver shortages have amplified the need for logistics providers to focus on this opportunity, and source capacity to service the demand.

SUPPLY CHAIN CONSTRAINTS

Broadly speaking, the mega-trends of supply chain disruptions and capacity constraints have stemmed from labor, equipment and parts shortages, and their resulting impacts (e.g., facility shutdowns). While truck driver shortages are nothing new, the supply chain has been coping with severe labor shortages in many areas, including in warehouses, ports and repair facilities. Coronavirus – and attempts to mitigate the spread of infection, such as business closures and stay-at-home policies – exacerbated pre-existing labor shortages. Inflationary pressures are now prompting some employers to raise wages and compete for skilled workers.[4]

These labor and other capacity constraints may persist into the second half of 2022, if not longer. Logistics providers are tasked with helping shippers find creative ways to solve these labor and equipment problems. Strategic investments to enhance scale, capabilities, and efficiency / technology (notably automation and robotics) by logistics providers may continue to fuel M&A in the T&L sector.

DEAL CONSIDERATIONS

Both strategics and financial sponsors have been active in recent M&A transactions. Strategic investors accounted for the majority of Transportation & Logistics deal value in 2021, while financial sponsors accounted for the majority of deal volume, according to data from PwC.[5] Total T&L deal value and deal volume also both increased in 2021 compared with the previous year, PwC found.

Understanding what growth and earnings are sustainable and not simply due to transitory pandemic-induced factors is critical when assessing valuations in the sector. The aforementioned supply chain disruptions have driven strong recent earnings growth for many operators in the space.

E-commerce volumes have taken a major step upward. Rates for air freight, ocean freight, and domestic trucking have soared in the past 18 months, with maritime prices at record highs.[6] U.S. trucking contract rates climbed throughout 2021, with spot rates near all-time highs by the end of the year, and rates are likely to stay elevated for a prolonged period, according to the January 2022 Freightwaves | Ryder State of the Industry Report.[7]

LOGISTICS EVOLUTION

Decision-makers considering buying or selling Transportation & Logistics assets should be cognizant of a logistics market that is dynamic and constantly evolving. That fact alone will continue to drive M&A as T&L companies strive to keep up with where supply chain trends are moving. However, doing so successfully will call for a thorough understanding of how the industry is evolving, the continued impact of the pandemic and inflation, as well as how one's company can best help the sector solve those problems.

[1]Transportation & logistics: value of M&A's worldwide 2021 | Statista

[2]Will logistics sector M&A keep pace in 2022? - Transport Intelligence (ti-insight.com)

[3]The future of work after COVID-19 | McKinsey

[4]What's causing America's massive supply-chain disruptions? - ABC News (go.com)

[5]Transportation and logistics deals outlook: PwC

[6]New Studies Find Unprecedented Impact from Supply-Chain Turmoil - WSJ

[7] Ryder: State of the industry, January 2022 (freightwaves.com)