M&A IN THE GLOBAL LOGISTICS INDUSTRY

PART 3

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INTRODUCTION

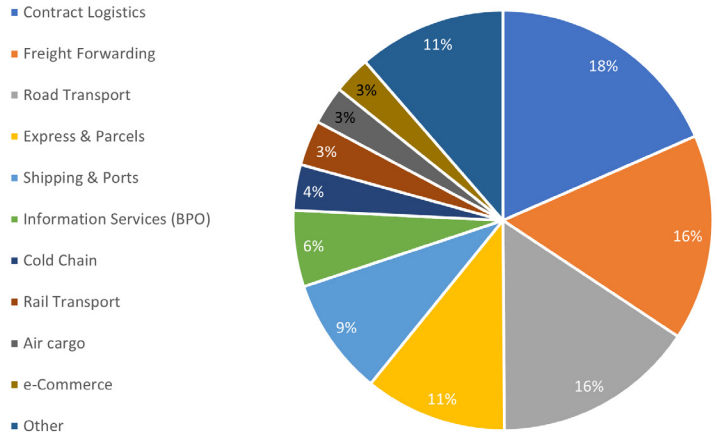
In this, the final of our papers examining M&A in the global logistics sector, we take a look at data from Ti's own acquisition database which lists deals which have taken place over the past twenty five years. We find out which sectors have been most popular for acquisitive companies; the players which have been at the forefront of market consolidation; the largest deals and the multiples paid for companies. We then drill deeper into the acquisition strategies of two of the most active companies in the sector: XPO and DSV.

WHICH LOGISTICS SECTORS HAVE SEEN THE MOST DEALS?

Accounting for almost two thirds of deal volumes, the four largest industry segments, according to Ti Insight's M&A database, are Contract Logistics, Freight Forwarding, Road Freight and Express and Parcels. The volume of contract logistics companies acquired shows the appetite for more value-adding and higher margin operations. As detailed in an earlier paper, shipping line CMA CGM has been the most recent company to enter the market, looking to provide its customers with end-to-end services as well as add value to its commoditized shipping business.

Of the fours sectors mentioned, 'Express and Parcels' is by far the smallest in terms of market size, and consequently the number of deals is, in relative terms, much greater than that in the other sectors. One of the reasons for this apparent disparity is that all the major express companies as well as many Post Offices have been highly acquisitive. In order to build scale quickly, these companies have bought multiple smaller domestic competitors, which have subsequently been integrated into global or regional networks. The same is true of M&A in the road freight/ trucking sector. Both in Europe and in the US, multiple acquisitions have been made to build out groupage/less-than-truckload networks.

Chart 1 Deals by Logistics Sector



Source: Ti Insight

DEAL VOLUMES BY MAJOR LOGISTICS PLAYER

Table 1 (see page 4) shows how many of the industry's biggest deal makers themselves became consolidated into even bigger, more aggressive conglomerations. For example, we can see that UK-based but global logistics player Tibbett & Britten was acquired by Exel, which in turn was acquired by Deutsche Post DHL. Between them these three companies alone comprise 245 separate companies, showing not only the scale of the acquisition effort, but also the challenge of dealing with the integration of these entities into a coherent and focused organisation.

Chart 2 illustrates the most acquisitive companies.

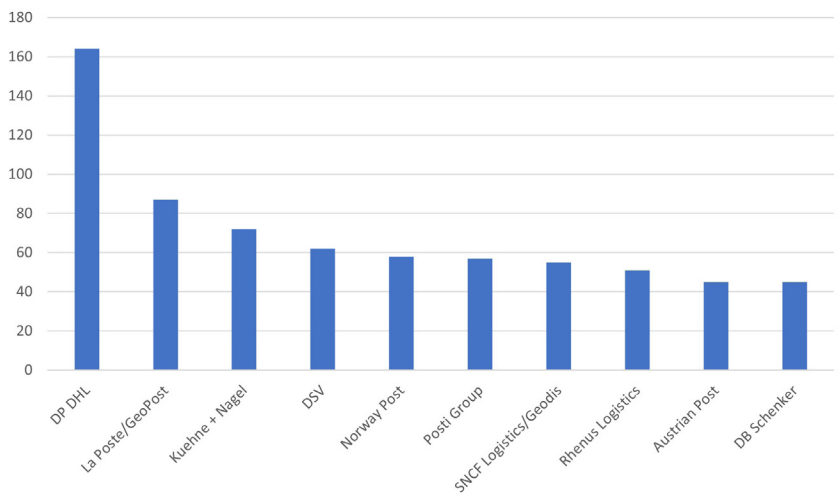
Of course, deal volume is not everything. Many of the companies bought, for example, by the Nordic post offices, have been relatively small express parcels operators. Some companies have preferred to make a small number of very large deals, which allows them to avoid the sometimes painful process of integration. Even this strategy is not fool proof. As was highlighted in our previous paper on M&A, Japan Post's rush to buy Toll Group made the management blind to the underlying problems within the company.

THE ROLE OF STATE PLAYERS IN CONSOLIDATION

Chart 2 also shows the extent to which the public sector has been involved in the consolidation of the industry, mainly through either postal or rail organizations. The leading publicly fully, partly or formerly owned market consolidators include:

- Austria Post
- Deutsche Post (DHL)
- Deutsche Bahn (DB Schenker)
- La Poste (GeoPost/DPD)
- Japan Post
- Norway Post
- Posti Group
- Post Nord
- Royal Mail (GLS)
- Russian Railways (Gefco)
- Singapore Post
- Sinotrans
- SNCF (Geodis)
- Swiss Post

Chart 2 Largest companies by deal volume



Source: Ti Insight

Table 1 Deal volume by Acquiring Company (min 20 deals)

Consolidator	Deals	Secondary	Deals	Tertiary	Deals
Agility	40				
Aramex	31				
Austrian Post	45				
Bollore/SDV	34				
C.H.Robinson	28				
DP DHL	164	Exel	62	Tibbett & Britten	19
CMA CGM	29	CEVA	41	EGL	4
Dachser	22				
DB Schenker	45				
DP World	22	P&O Ports	11		
DSV	62	ABX Logistics	22		
		Frans Maas	28		
		Panalpina	12		
		UTI Worldwide	20		
Echo Global Logistics	21				
FedEx	31	TNT	90		
Fiege	24				
La Poste/GeoPost	87				
Imperial Logistics	29				
Japan Post	6	Toll	92		
Kerry Logistics	45				
KWE	7	APL Logistics	16		
Kuehne + Nagel	72				
Logwin	28				
Maersk	31				
Nagel Group	27				
Norway Post	58				
NYK	32				
Posti Group	57				
PostNord	23	Post Danmark	5		
		Posten	23		
Rhenus Logistics	51				
Singapore Post	27				
SNCF Logistics/Geodis	55	Ozburn-Hessey Logistics	8		
Swiss Post	21				
Royal Mail	11	GLS	22		
TransForce	20				
UPS	36	Marken	10		
XPO	27	Norbert Dentressangle	41	TDG	17
				Christian Salvesen	9
		Kuehne + Nagel (UK)	1	ACR Logistics	26
		Menlo Logistics	3		

Source: Ti Insight

By owning some of the world's largest transport and logistics players, the role of the state has gone way beyond merely providing the structure in which companies can operate (i.e. 'setting the rules of the game'). As we have seen, many of these state-owned players have not been content just to participate in markets - they have actively transformed them by acquisition programmes either using public money or at the very least leveraging their borrowing power.

In the past, the role of government in the supply chain and logistics industry has waxed and waned along with the prevailing political sentiment of the time and the present situation is no different. On one hand, post-Covid, governments will be desperate for revenues to prop up ailing national accounts and consequently could be minded to sell off their assets. On the other, the control which ownership of very large transport and logistics assets provides could allow politicians to influence corporate strategy where it intersects with public policy. For example, in matters relating to employment, investment or environmental behaviour, the latter being particularly important.

LARGEST DEALS BY VALUE

Table 2 shows the top 20 largest logistics acquisition deals of the past 25 years. Between them, these deals amount to around $50 billion and have resulted in what could be described as a seismic shift in the express, contract logistics, road freight/trucking and freight forwarding sectors.

Table 2 Largest logistics deals of the past 25 years

Year	Company	Target	Region	Deal value
2005	DP-DHL	Exel	Global	€5.6bn
2015	Japan Post	Toll	Asia	$5.1bn
2016	FedEx	TNT	Global	€4.4bn
2019	DSV	Panalpina	Global	$4.6bn
2018	CMA CGM	CEVA	Global	$3.7bn
2015	XPO	Norbert Dentressangle	Europe/US	$3.5bn
2015	XPO	Con-Way	US	$3bn
2002	Deutsche Bahn	Stinnes (Schenker)	Europe/Global	€2.5bn
2007	CEVA	EGL	Global	$2bn
2002	Deutsche Post	DHL	Global	€2.44bn
1999	Ocean	NFC (Exel)	Global	€2.2bn
1998	Deutsche Post	Danzas	Europe/Global	€1.3bn
2016	DSV	UTi Worldwide	Global	$1.35
2021	Kuehne + Nagel	Apex International	Asia	$1.5bn
1999	Deutsche Post	AEI	USA/Global	€1.2bn
1996	TNT Post Group	TNT	Global	€1.2bn
2005	Deutsche Bahn	Bax Global	Global	$1.1bn
2003	DP-DHL	Airborne Express	USA	$1.05bn
2012	Russian Railways	GEFCO	Europe	€800m
2015	Geodis	Ozburn Hessey	US	$800m
2021	Transforce International	UPS Freight	US	$800m

Source: Ti Insight

More of these mega-deals are on their way. Japan Post and XPO are both looking at selling or floating off their acquisitions whilst rumours abound over the future of DB Schenker. Other companies are re-evaluating their corporate development strategies and market positioning. Such a re-structuring has resulted, for example, in UPS selling off its Trucking division.

What can be said with a great deal of certainty is that the market landscape is shifting constantly due to changing industry dynamics; changes in political priorities (especially important given levels of public ownership in the sector); shifting management corporate development strategies and vacillating investment fashions.

DEAL MULTIPLES

How much should one company pay to buy another? There is no single way of arriving at a valuation – it depends on many considerations, some of which are mentioned below. Hence, as can be seen from the table, even within the same sector, valuations, as measured by the Enterprise Value to EBITDA multiple, can vary widely.

The amount which an acquiring company is willing to pay for its target is not just based on its present financial performance. Prospects of future growth are a major consideration which has led many companies to pay large sums for businesses due to their desire to enter a particular market niche.

E-commerce logistics is a case in point – specialists in this sector (such as iForce, for example) have attracted considerable attention from other logistics players looking to diversify their offering and gain access to certain technologies and expertise.

At the other end of the scale, companies will be willing to pay high figures for scale players, especially businesses which have already undertaken multiple acquisitions and borne the sometimes painful experience and risk of integration. This can work well; for example, Deutsche Post's acquisition of Exel in 2005 or Deutsche Bahn's acquisition of Schenker in 2002. However, it is not guaranteed (c.f. Japan Post and Toll).

Even providers making a loss can be attractive as a way of adding scale to an existing network. In 2015 DSV acquired loss-making UTi Worldwide for $1.35 bn, a transaction multiple of 0.34x its previous 12 months reported sales of $3.9 billion. That year it had made losses of $6m.

Table 3 Selected deal multiples

Year	Company	Target	Type	Multiple (EV/EBITDA)
2015	Eddie Stobart	iForce	eCommerce	18
2020	Maersk	KGH Customs	Customs Brokerage	16.3
2016	FedEx	TNT	Express	16
2019	DSV	Panalpina	Freight Forwarding	15.3
2021	Kuehne + Nagel	Apex International	Freight Forwarding	12.5
2016	Imperial Holdings	Palletways	Road/Trucking	12
2021	Transforce International	UPS Freight	Road/Trucking	10
2015	Japan Post	Toll	Logistics	9.2
2015	XPO	Norbert Dentressangle	Distribution	9.1
2019	CMA CGM	CEVA	Freight Forwarding	8.5
2015	XPO	New Breed Logistics	Distribution	8
2020	Maersk	Performance Team	Distribution	6
2015	XPO	Con-Way	Trucking	5.7

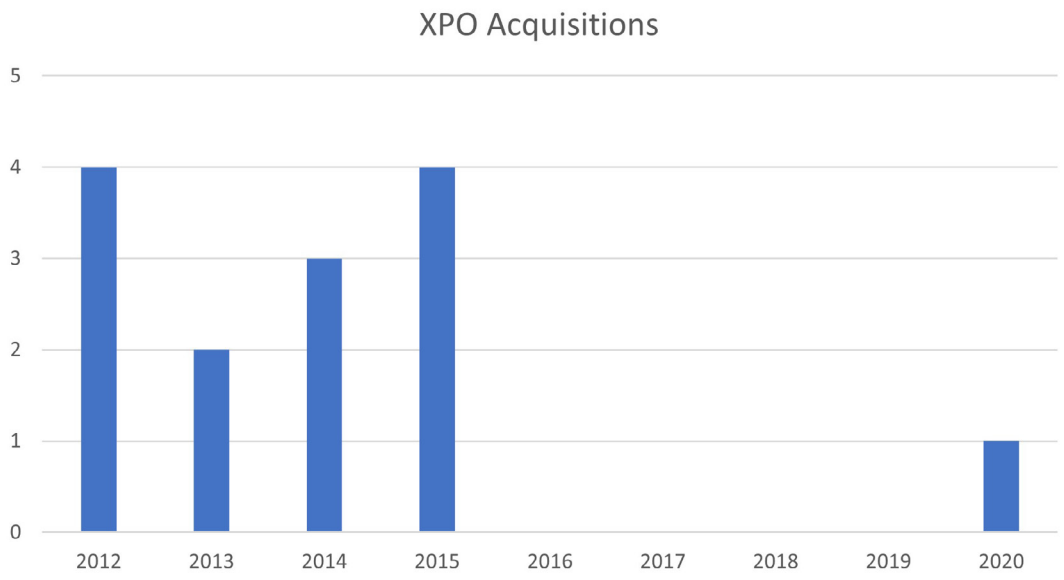
Source: Ti Insight

Case Study: XPO Transforms The Logistics Landscape

XPO Logistics is a US-based asset-light third-party logistics provider of freight transportation and logistics solutions. It is the second largest contract logistics provider in the world and a major player in the US LTL market.

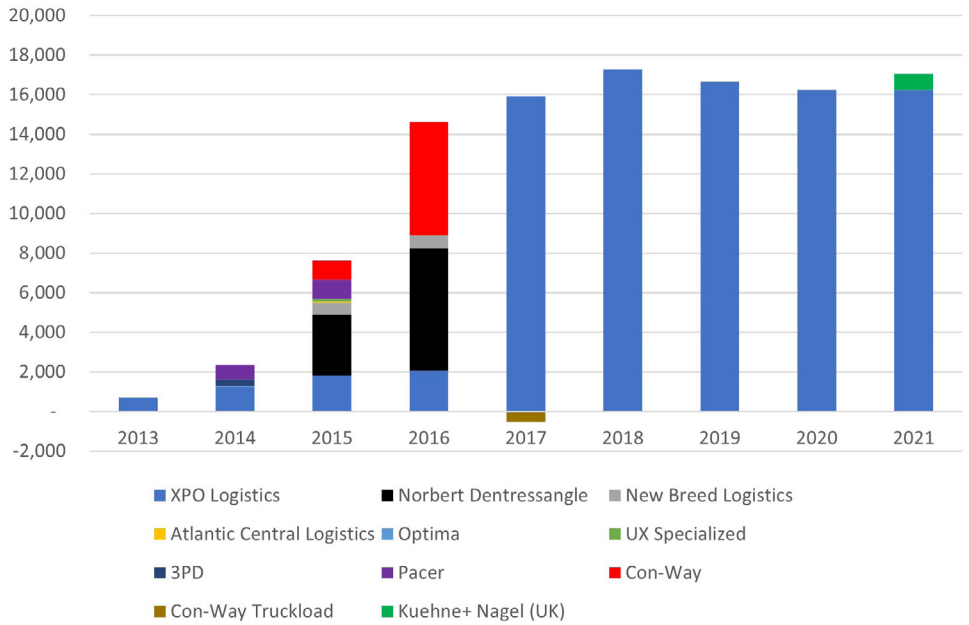
The company's story is one of growth by acquisition. As recently as 2008, it had revenues of less than $100m. 10 years later, revenues were in excess of $17bn. The transformation of the company occurred after Bradley Jacobs took over as CEO and the company listed on the New York Stock Exchange (NYSE).

Chart 3 XPO acquisitions by deal volume 2012-2020



Source: Ti Insight

Chart 4. The impact of acquisitions on XPO revenues



Source: Ti Insight (n.b. illustrative purposes only)

The speed of development of the company can be seen from Chart 4. The year of transformation came in 2015 when XPO bought New Breed Logistics, Norbert Dentressangle and Con-way at the same time as integrating Pacer International. These acquisitions were reported in full in 2016, catapulting revenues to more than $14 billion.

Since then, M&A activity and revenue growth has been subdued, with the company selling off Con-way Truckload in 2017 to Canadian Transforce (which recently acquired UPS's trucking operation). To many people's surprise, XPO entered the market again in 2020 buying Kuehne + Nagel's UK contract logistics operations just at the time Bradley Jacobs had been talking about breaking up his empire.

As can be seen from Table 4, XPO has spent over $8 billion on acquisitions, the majority of which was allocated to just two purchases, Norbert Dentressangle and Con-Way.

Table 4. XPO's deal values and multiples paid

Target	Price ($m)	Multiple of EBITDA
Norbert Dentressangle	3,530	9.1
New Breed Logistics	615	8
ACL	36.5	5.9
UX Specialized	59	7.2
Optima	26.6	7.2
3PD	365	n/a
Pacer	335	11.3
Con-Way	3,000	5.7
Kuehne+ Nagel (UK)	<100	n/a

Source: Ti Insight

It is always very difficult to assess the success of an acquisitions programme such as the one undertaken by XPO. It has obviously created one of the world's largest logistics operators, achieving scale in some of its key markets whilst also maintaining profitability.

XPO is now:

- Second largest Global Contract Logistics provider (by revenue)
- Second largest European Contract Logistics provider (by revenue)
- Fourth largest US Contract Logistics provider (by revenue)
- Seventh largest European road freight operator (by revenue)
- Fourth largest US LTL operator (by revenue)

However, a complete restructuring of the business is likely. In January 2020 XPO issued a statement that its "board of directors has authorized a review of strategic alternatives, including the possible sale or spin-off of one or more of XPO's business units". Jacobs commented that despite XPO being "the 7th best-performing stock of the last decade on the Fortune 500" and the share price increasing more than ten-fold since its initial investment in 2011, the company continued to trade at well below the sum of its parts and at a significant discount to its pure-play peers. Speaking on US television Jacobs went on, "As a diversified company the market is only giving us a multiple of eight or nine times (earnings)... if you look at what you would get if you sold off four of our business units, each one as a smaller pure-play would get a higher multiple".

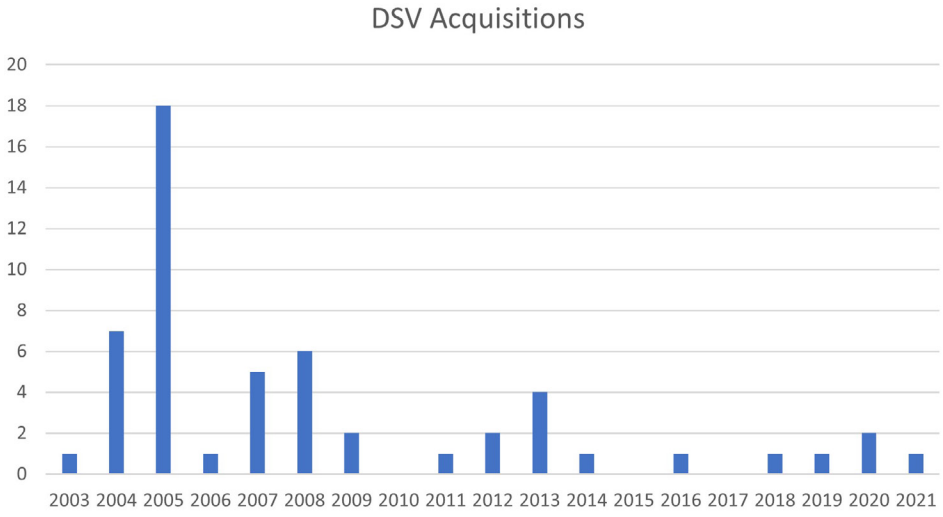
The only one of its business units that XPO will not sell is its North American less-than-truckload operation. That leaves the trucking and contract logistics businesses in Europe; North American intermodal; freight forwarding and last-mile divisions with, reportedly, several PE companies in the running. There were reports that one, Blackstone, pulled out over the price being asked (apparently $4.5bn for the 'European Supply Chain Business'). Given that XPO paid $3.5 bn for the company, this would be a good return in the space of five years or so. An IPO could be an alternative exit strategy for Jacobs.

Case Study: DSV's Ambitious Strategy

Danish-based logistics company, DSV, has perhaps had an even more transformative impact on the global logistics industry. Indeed, whilst XPO may be reaching the end of its ambitious acquisition programme, DSV is unlikely to follow suit. As CEO Jens Bjørn Andersen recently commented, "M&A is carved in stone in the strategy document of DSV".

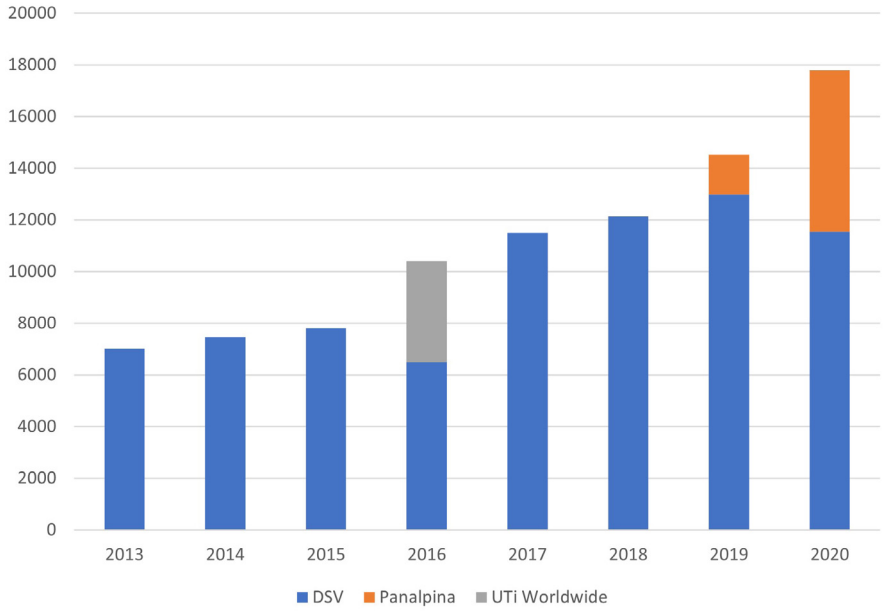
DSV began life as a consortium of Danish road freight operators but expanded quickly throughout the 2000s to become a major European player through the acquisition of small, medium and large trucking companies. As well as a significant number of predominantly German road freight operators, DSV also acquired Frans Maas (2006), which enhanced its forwarding and contract logistics capabilities, as well as ABX Logistics (2008). Both of these companies required a large element of 'turnaround'. In this respect, DSV has not shied away from buying companies with underlying problems. UTi Worldwide was a further example (2016) and this has led DSV's management to be widely acknowledged as experts in the integration of acquisitions, especially difficult ones.

Chart 5. DSV acquisitions by deal volume 2003-2021



Source: Ti Insight

Chart 6. The impact of acquisitions on DSV revenues



Source: Ti Insight

Since 2010, although the number of acquisitions it has made has reduced, two of those which have been made – UTi Worldwide and Panalpina – have been transformative in terms of scale.

As Chart 6 shows, the acquisition of UTi Worldwide led to a significant increase in DSV's revenues as well as giving it substantial global forwarding operations. After a few years to integrate and turnaround its business, DSV then embarked on its biggest ever acquisition, that of Panalpina. The deal provided DSV with more geographic scale and, importantly, increased buying power on key trade lanes, both air and sea. The deal has made it the:

- Third largest sea freight forwarder (TEUs)
- Second largest air freight forwarder (tonnes)

- Tenth largest European contract logistics provider (by revenue)
- Third largest European road freight operator (by revenue)

Now that DSV has completed the integration of Panalpina it could turn to further M&A, on what management calls an 'opportunistic' basis. It is not known which companies DSV would like to buy, however, it may want to strengthen its presence in Asia where it is known that a number of companies are up for sale. In Europe, where it already has strength and scale, it may choose to consolidate its market position. The prospect of buying DB Schenker must have occurred to DSV and there could be other targets as well, especially if it wants to become a major contract logistics operator (perhaps even XPO).

In the US, DSV already has a presence in the trucking sector and it might take the opportunity to rebalance its business by an acquisition. There are probably more potential large purchases in North America with the market growing faster and being more coherent than in Europe. It would also represent a further step towards DSV becoming one of the world's very largest logistics providers.

DSV'S MEGA-DEAL WITH PANALPINA: UPDATE

In August 2019, DSV finalised its purchase of Panalpina Welttransport (Holding) AG, the new company becoming 'DSV Panalpina A/S'. Reporting in February 2021, management confirmed that it had had a successful first full year, with the integration stage completed. Amidst cost cutting measures (including reducing staff numbers by 5% in April 2020), and new synergies from the Panalpina integration, the company's profits increased by 43%.

In terms of integration, CEO Jens Born Andersen said that the company had kept DSV's own IT systems which he said were highly productive whilst Panalpina had been on a "journey with its productivity" with their systems. Andersen also commented that there was not the same sense of urgency in integrating Panalpina as there was with its previous purchase, UTi Worldwide, which he described as a "rescue mission" and that comparing the condition of Panalpina with that of UTi before DSV took it over "would be highly wrong".

The merger has led to the fundamental transformation of both DSV and Panalpina. The final quarter of 2020 was the first with the full impact of the Panalpina acquisition seen in comparative figures and it shows the new company is smaller than the individual entities of DSV and Panalpina combined. The loss of a major customer, scaling back of Panalpina's perishable business and discontinuation of other activities were noted as reasons for air volumes falling 26% year-on-year in Q4, well below market performance. In Sea, volumes fell 14%, also below the market. However, DSV was able to use Panalpina's air charter network to good effect at the height of the pandemic when air passenger bellyhold capacity was restricted.

CONCLUSION

Whilst all sectors of the global logistics industry have undergone radical consolidation in the past 25 years, for the main, the sector remains highly fragmented. With the exception of a few markets, even the largest players command a relatively small market share and this will mean that the pace of transactions is unlikely to slow. Deals will be driven by the quest to:

- increase economies of scale
- enhance buying power (especially in the forwarding industry)
- build out global networks
- exploit potential in fast growing niches or
- gain access to innovative technologies and business models.

At the same time, new targets will continue to come onto the market due to:

- failing management
- market pressure
- obsolescent IT
- the need to access new sources of capital
- the retirement of business owners and
- the sale of government-owned assets.

PE companies will continue to play a role in identifying short/medium term opportunities to leverage assets and create scale players whilst moving in and out of the market at regular intervals.

Given the shifting market dynamics influencing the development of the logistics and supply chain sector, it seems inevitable that the companies which make up of the upper echelons of the industry will be very different in ten years' time from those which dominate today.

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ABOUT TI

Ti Insight is a leading logistics and supply chain market research and analysis company providing:

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- Global Supply Chain Intelligence (GSCi) online knowledge platform
- Consulting and Market Research projects
- Training, Conferences and Webinars.

Ti has acted as advisors to the World Economic Forum, World Bank, UN and European Commission as well as providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

Expertise includes:

- Analysis of corporate strategies of leading express, freight forwarding and logistics companies.
- Global usage and perception studies of shipper and logistics provider behaviour.
- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
- Analysis of supply chain strategies employed in industry vertical sectors: pharmaceutical, fashion, high tech, oil and gas, consumer, chemical, cold chain, automotive and retail.
- Market sizing and forecasts of key logistics segments and vertical sectors.
- Intelligence on emerging markets logistics sectors in Asia, Africa, Latin America, Eastern Europe and Middle East.

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- More than fifteen years of knowledge delivery to global manufacturers, retailers, banks, consultancies, shipping lines and logistics providers
- Unique web-based intelligence portals
- On-going and comprehensive programmes of primary and secondary research.

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