
# M&A IN THE GLOBAL LOGISTICS INDUSTRY

# PART 2

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## M&A In The Global Logistics Industry Part 2

*In our previous paper on M&A activity in the global transportation and logistics industry we looked at some of the key trends which have shaped the market. In our second paper, we continue this theme looking at:*

- How shipping lines are playing a bigger role in market consolidation
- The role private equity is playing in facilitating deals
- What happens when a deal 'goes bad'.

## ENTER THE SHIPPING LINES

A major trend in the container shipping market has been the attempt by various carriers to add value to their existing business models by extending their scope beyond port-to-port operations to encompass end-to-end supply chain services (see our earlier paper, The Future of the Container Shipping Industry, December 2020). This is not a new phenomenon; Maersk and others have been offering their customers freight forwarding and consolidation services for many decades. However, it is now becoming more central to their offering, evidenced by the way in which Maersk recently integrated its forwarding division's operations and did away with the Damco brand. There have been some particularly important examples of this trend which are dealt with below.

### CMA CGM buys CEVA

The stand out example in recent years of a shipping line expanding into this value adding sector has been CMA CGM's 'blockbuster' acquisition of CEVA Logistics. In the first quarter of 2019 the French shipping line acquired the global logistics provider for reportedly over $1.2bn. This was justified on the basis of three "key initiatives":

- the ability to cross-sell shipping and logistics services
- the potential to increase efficiency in back-office processes and
- the strengthening of its own freight forwarding business.

It then set about integrating its purchase into the wider CMA CGM Group establishing an operations centre in Marseille, close to its own headquarters as part of "a new, stronger governance structure". A new Chief Executive, Nicolas Sartini, was appointed, tasked with implementing a turnaround plan and returning the company to profitability. He was quickly replaced by Mathieu Friedberg, a former senior vice president of parent CMA CGM and the timeline to turnaround the company was pushed back to 2023/4. Concerning the acquisition, CMA CGM's Chairman and CEO Rodolphe Saadé said, "We can now offer our customers a complete range of solutions that meet all their needs and set us apart from the competition."

The problem that both CMA CGM and CEVA have faced since the purchase has been the difficult market environment caused by the Covid-crisis and especially its impact on key sectors such as automotive and technology. The parent company has also been struggling with debt and just a year after the acquisition there were rumours that it might have to sell a share of the company that it had just bought. Given the reverse in fortunes for the shipping industry in the second half of

2020, with rates at record highs, its ability to raise new funds to restructure the debt may well have changed. Certainly, there has been no more talk of selling part or all of the acquisition, although CEVA's new CEO has commented about how the freight forwarding operation needs to maintain its distance from the shipping business of its parent company. This alludes to the innate tension which exists between asset heavy shipping lines and asset light, freight management companies whose job is to find the best solution for their customer, rather than provide volumes for its parent.

### Maersk extends its logistics operations

Rather than buying a global logistics company, Maersk has taken the different approach of strengthening parts of its business through more targeted acquisitions. This has led to a number of diverse purchases such as the acquisition of customs brokers and warehouse operations.

- Maersk buys customs brokerage

Maersk acquired KGH Customs Services in 2020 as part of its strategy of diversification. Based in Sweden, KGH is one of the larger stand-alone customs brokerages, with a network of offices across Western Europe as well as extensive exposure to a number of industry sectors outside Scandinavia. The company has been owned by the private equity company Bridgepoint Development Capital since 2013.

The price paid was generous. Maersk stated that it acquired KGH for a consideration of SEK 2.6bn ($279.0m) on a cash and debt free basis equivalent to a multiple of 16.3x 2019 EBITDA. However, it is worth noting that the deal included an "earn-out component contingent on future Brexit performance". Maersk went on to assert that "when ramped up, annual EBITDA synergies from the combination are expected to amount to approximately SEK 50m-75m ($5.4m-$8.0m)." Presumably, the price reflected the fact that KGH had in the past years achieved double-digit annual growth and an EBITDA margin of approximately 18%.

Expanding into customs brokerage makes sense as part of Maersk's strategy to increase the value from marine based logistics although presumably it will need to be integrated with its existing customs brokerage, not least that of its erstwhile freight forwarding brand, Damco. Certainly, KGH will have the opportunity to extend its business globally.

What the deal does highlight is that niche activities in logistics can be much more profitable than the often volatile returns in container shipping. If Maersk really can stretch a business such as KGH across its global operations, it might be a useful addition to its bottom-line.

- Maersk expands its North American logistics

Maersk has also expanded its warehousing and distribution operations in North America. In 2020 it completed the acquisition of Performance Team, a US 3PL offering services in the retail, wholesale and direct-to-consumer segments.

The acquisition will bring Maersk's total number of warehouses in North America to 46. The warehouses will offer logistics solutions, transload, consolidation, e-commerce fulfilment, inland drayage, facility management, yard management and value-added services. The transaction has been valued at $545m (EV) including lease liabilities of around $225m. Performance Team 2019 EBITDA was estimated at $90m.

## THE ROLE OF PRIVATE EQUITY

The transport and logistics industry has attracted considerable interest from Private Equity (PE) companies in the past few years. Part of the interest is the growing acknowledgment that transport and logistics plays a fundamental role in key aspects of the economy, not least in the fast development of e-retailing logistics. For a logistics and transportation company, PEs can provide an attractive source of capital, avoiding the need to go public through an IPO.

Speaking on a Freightwaves' organised webinar, one PE executive, Mark Yeager of CI Capital Partners said that the benefits included:

- The acceleration of top and bottom-line growth
- Building scale/critical mass
- Developing new products and services
- Accessing new customer and supplier relationships
- Adding new talent and expertise
- Diversifying away from risk

The logistics industry also has the characteristic of being highly fragmented, which is important to those PEs who are interested in driving consolidation in order to cut costs, leverage economies of scale and gain market share.

Investment in the sector can also bring about improvements in technologies, which consequently drive efficiencies and result in the better use of available capacity. In addition to logistics operators, the PE sector has also invested in supply chain technology companies themselves.

Once acquired by a PE company, a target can become a keystone for further growth by 'add-on' purchases. This has the benefit of increasing scale but also extending the range of services which a company can provide to its customers.

Like all acquisitions, there are risks involved in the introduction of private equity. For customers and suppliers (such as carriers) the new ownership may pursue an alternative corporate development strategy which could leave them marginalized.

## Private equity invests in Hermes

The Otto Group sold a controlling stake in the parcel carrier Hermes UK in August 2020, along with smaller parts of its last-mile operations in Germany, to London-based private equity firm Advent International. Advent bought a 75% shareholding in Hermes UK, as well as committing to a 25% stake in Hermes Germany, which includes other Group companies including BorderGuru and a share in the ParcelLock joint venture.

The deal was structured so that Hermes was established as an independent company, with the statement from Advent commenting that it would partner with the existing management team. Otto Group will continue to own 25% of the company with 'business as usual' for employees, suppliers and customers. Neither of the parties disclosed the size of the transaction; however, it was rumoured that the deal valued this 'new' Hermes company at £900m (US$1.17bn) including debt.

Otto Group had been struggling with Hermes for some time, with the German retail conglomerate indicating earlier in the year that it was looking for a strategic partner. One of the key issues has been the ability of Otto Group to support the considerable capital investment requirements of Hermes which is struggling in the face of meagre returns in the last-mile sector and the threat of competition from large global competitors. This was referred to by the present CEO of Hermes UK, Martijn de Lange, who commented, "the investment will enable us to remain independent and be agile and responsive to future market requirements. It will help to expedite the development of our capacity and technology, supporting the introduction of new innovative products and services".

It seems likely that Advent was attracted to a sector which is experiencing rapid growth and which appears to have almost unlimited potential. However, whilst the pricing environment may have eased a little with many e-retailers now willing to charge shoppers for delivery, the level of competition is growing. In markets such as the UK, the large supermarket groups are now fully focussed on home-delivery and groups such as Ocado are likely to begin to edge into market segments beyond food delivery. This could make life very tough for the likes of Hermes. It will be interesting to see what the new company will do in terms of investment in technology and its market positioning. Further acquisition and consolidation activity should not be ruled out.

## Blackstone spends $18bn on US warehouses

It is not just logistics providers in which PE companies are interested. The boom in demand for warehousing space, not least associated with e-retailing logistics, has encouraged a massive investment in this sector.

In 2019, the US private equity company Blackstone agreed an $18.7bn deal to purchase 179m sq ft of warehousing space in the US. Blackstone bought the assets from GLP, originally Global Logistics Partners, which is based in Singapore. GLP grew in great part by buying the property assets of the old ProLogis in China and other emerging economies. It then expanded into the US by buying IndCor for $8bn, originally owned by Blackstone. Presumably the sale is motivated by the wish of GLP to reallocate capital to other markets, especially in Asia. However, GLP will retain $8bn worth of property in the US, although this appears to have less logistics exposure.

In a statement explaining the logic of the deal, Ken Caplan, Global Co-Head of Blackstone Real Estate observed that, "logistics is our highest conviction global investment theme today, and we look forward to building on our existing portfolio to meet the growing e-commerce demand." The purchase represents a doubling of Blackstone's logistics property assets.

The sector has undergone a boom over the past decade as the need for e-retail fulfilment centres has grown. The GLP business in the US had exposure to this, with Amazon being a key customer.

Obviously, the key question around this transaction is the immediate prospects of the fulfilment centre property market. The Covid pandemic has provided a transformational boost for the sector due to a shift in consumer buying behaviour on-line. This has made Blackstone's bet look very smart.

## Other recent major PE Group acquisitions

- In late 2018, private equity firm EmergeVest merged six UK logistics operators to create a new company, EV Cargo. The consolidation of Adjuno, Allport Cargo Services, CM Downton, Jigsaw, NFT and Palletforce into a single corporate structure has created one of the UK's largest logistics providers with a turnover of £850m.
- Also in 2018, US-based DSI Logistics was acquired by Headhaul Capital Partners. DSI is a non-asset based 3PL specializing in "white glove", home delivery and installation of large, non-conveyable goods such as furniture, appliances and electronics.
- Headhaul Capital Partners and Argosy Capital also acquired that year Anderson Cargo Services, LLC which operates US domestic freight management, truckload and LTL brokerage, value-added warehousing and fulfilment services.
- Brixey & Meyer Capital BMC Growth Fund II acquired CityDash, a courier, trucking and logistics provider. CityDash offers same day courier services, small package delivery, expedited palleted freight, full truckload, and brokerages services.
- Midwest-based private equity firm Mason Wells acquired RJW Logistics Group, Inc. a supply chain solutions provider, with a focus on LTL consolidation services.

- H.I.G. Capital acquired Cardinal Logistics a provider of dedicated transportation and logistics services in North America with a fleet of 10,000+ tractors/trailers and 3,200+ drivers.
- Valedo Partners Fund II signed an agreement in 2019 to divest Best Transport Holding AB, a leading provider of express and same day last-mile deliveries in the Nordics, to Nalka Invest AB.
- Polaris Equity acquired a majority shareholding in Link Logistics in 2019, a leading Nordic logistics supplier within express transport.
- In January 2020, EMZ and Siparex took a €150m majority stake in the third largest transportation provider in France, Jacky Perrenot, in order to provide liquidity and assist the deployment of the Group's strategy.
- Ardian, a private investment house, acquired a majority stake in STACI, a European leader in specialty logistics, from Cobepa in 2019. STACI specializes in fulfilment and offers B2B and B2C solutions to a wide range of industries.
- Hivest acquired French transport and logistics group STG in 2018. STG provides temperature controlled logistics services in the agri-food sector. Subsequently Hivest acquired Cryo International, a provider of temperature-controlled services to the healthcare sector in 2020.

## WHEN ACQUISITIONS GO BAD...

Of course, not all acquisitions go to plan although when things go wrong the problems rarely come to light. A bad acquisition may result from:

- poor due diligence
- a clash of cultures (especially if the acquisition is cross-border)
- the migration of customers and employees to competitors
- poor integration of marketing, operations and
- weak or incompatible IT.

Small or medium-sized acquisitive companies can often be over-stretched by the integration process both in terms of financial and management resources whereas large organisations with more resources and with dedicated teams of experienced personnel can handle acquisitions more efficiently. However, as detailed in the case study below, this is not always the case.

## CASE STUDY: JAPAN POST'S ACQUISITION OF TOLL GROUP

An investigation by journalists writing for the 'Australian Financial Review' brought to light significant problems faced by Japan Post following its acquisition of Australian-based global logistics player, Toll Group. The report, based on interviews with former managers within Toll Group, describes a strategically incoherent company with chaotic operations bought by a Japanese institution which struggled to control its purchase.

Toll Group was created through a string of acquisitions by Paul Little and Peter Rowsthorn over several decades and the structure of the company reflected this. Composed of numerous different businesses whose relationship to each other was often tenuous, the company was held together only by the founder's energy and charisma.

According to the Australian Financial Review report, with the final departure of Mr Little the company rapidly broke-down into semi-autonomous fiefdoms that were difficult for the central management to control. Indeed, the article suggests that the company had increasingly little control over the day-to-day operations of its different divisions, with bad operational practice in areas such as procurement and sales increasingly common. As is so often the case, such problems were the result of weak management control systems. However, there were wider problems as many of Toll Group's constituent businesses were found to be barely competitive in their markets and were incapable of responding to change.

Japan Post seemed to have been unaware of these problems when it bought Toll Group in 2015. According to the report, Toll Group was on the brink of insolvency when the Japanese giant offered to buy the company for AUS$6.5bn. However, it also appears that Japan Post's purchase was driven by a sense of urgency to diversify its own business, not least due to pressure from the Japanese government. Looking in envy at Deutsche Post DHL, Japan Post thought of Toll Group as a platform to enter global logistics and desperately grabbed at the Australian company without sufficient forethought or research.

The lesson from Japan Post's experience is evident. The institution made a decision of immense importance under pressure and without fully understanding the nature of its acquisition. Even after Japan Post had bought Toll it seems to have little control over its management.

Of course, most deals do not go as dramatically wrong as this. However, there have been significant numbers of deals made by companies acting 'on trend' which have disappointed management and shareholders. As was mentioned in Part One of this series of papers, strategies which include building 'one stop shops' and filling in geographic 'white spots' are particularly risky as managers can come under pressure to make deals regardless of the quality of company which is being bought. If an acquired company turns out to be struggling it is often impossible to turnaround its performance as this requires specialist managers as well as time and resources, especially difficult if it is based in a foreign market. Instead of being value accretive and bringing benefits such as cross-selling or economies of scale, these companies become a massive drain on resources and eventually are written off or quietly sold.

In our final paper on M&A in the logistics and supply chain industry we look in more depth at the acquisition strategies of the major logistics players and provide more in-sight into the types of deals being undertaken.

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