

UK Logistics Sector Mergers and Acquisitions (M&A) Index

Insight Report 2024



LOGISTICS UK

We support, shape and stand-up for safe and efficient logistics

Logistics UK is one of the biggest business groups in the UK, supporting, shaping and standing up for efficient logistics. We are the only organisation in the UK that represents all of logistics, with members from the road, rail, water and air industries, as well as the buyers of freight services such as retailers and manufacturers whose businesses depend on the efficient movement of goods.

An effective supply chain is vital to Keep Britain Trading, directly impacting over seven million people employed in making, selling and moving the goods that affect everyone everywhere.

With Brexit, technology and other disruptive forces driving changes in the way goods move across borders and through the supply chain, logistics has never been more important to UK plc.

As champions and challengers, Logistics UK speaks to Government with one voice on behalf of the whole sector, greatly increasing the impact of our messages and achieving amazing results for members.

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RPGCC is a full-service audit and accounting firm listed in the Accountancy Age 50 + 50. We offer all the services you would expect from a firm of our size from audit, accounting, bookkeeping and payroll through to due diligence, advice on mergers and acquisitions and independent financial advice.

Our service lines are all Partner-led, there are no robots or AI here. Just real people providing professional advice assisted by best-in-class technology.

Each of our clients is different with their own unique qualities and requirements. We know that a one size service does not fit all. Our team use their expertise and innovative thinking, together with a personal approach to help, guide and support boards, business owners, entrepreneurs, and private clients helping them to achieve their goals and the best possible financial outcomes.

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Philip Bird is RPGCC's Corporate Finance Partner and head of logistics. Philip has over 25 years' experience in corporate finance in the following areas:

- Mergers & Acquisitions advice.
- Debt & equity raising.
- Exit planning.
- General strategic advice to companies.
- Private equity and management team advice.

Philip has particular experience in the transport and logistics sector. He has worked closely with a wide range of clients including major listed global logistics groups as well as privately held companies in the development and execution of their corporate strategies.

Prior to joining RPGCC Philip was a Partner at CBW LLP and BDO LLP.



David Wells OBE

Chief Executive
Logistics UK

David is Chief Executive of Logistics UK, one of the biggest business groups in the UK, and the only organisation which represents all of logistics. With more than 21,000 members from the road, rail, sea and air industries, as well as the buyers of freight services such as retailers and manufacturers, the members of Logistics UK operate more than half of the UK fleet of HGVs, and consign over 90% of freight moved by rail, and 70% of air and sea freight.

David joined Logistics UK in April 2009 as Finance and IT Director, subsequently taking on additional responsibility for the Vehicle Inspection Service and Training and Tachograph Analysis Service. David became Chief Executive in early 2015 and since then has seen membership grow by 40%.

Having completed an engineering degree in Liverpool, David studied for membership of the Chartered Institute of Management Accountants, qualifying in November 1993 whilst working in industry. His career has centred around engineering and service businesses and has both European and North American finance and operations experience.

In 2022, David was awarded an OBE by HM The Queen in the New Year's Honours list, for services to transport and logistics.

Foreword

It has been more than two years since the last UK Logistics M&A Sector Index survey was commissioned. The last, published in the autumn of 2021, showed something of a bounce back in business activity following the COVID-19 pandemic.

However, the disruption caused by the pandemic continues to cast a long shadow, and since our last report the war in Ukraine in early 2022 has caused energy prices to spike. The ripple effect of this has contributed to double-digit inflation and a higher interest rate environment in the UK, which has had a dampening effect on consumer confidence. Added to which, a spate of attacks on vessels in the Red Sea is leading to shipping lines and shippers to suspend operations along the Suez Canal, one of the world's most important routes for oil and other shipments. This is adding further pressure on logistics companies and global supply chains.

Given these economic headwinds, it should come as little surprise that the numbers in this report suggest a degree of caution in M&A activity over

the next year, particularly for larger (£100 million+) transactions. The Office for National Statistics (ONS) reports a decline of almost a quarter in total M&A transactions involving UK companies during Q2 and Q3 in 2023. This trend mirrors our survey's indication of a significant drop in M&A activity in the logistics sector.

However, logistics businesses are optimistic about the future of M&A activity, and most of our respondents think consolidation through M&A activity will continue in the logistics sector over the next 12 months. The ONS data, coupled with the Bank of England's report on subdued investment intentions and weak credit demand, convey a challenging economic environment. This context helps explain the cautious approach in M&A activities noted in our research.

We trust you will find this report useful and informative and urge you to consider its findings.

A handwritten signature in black ink, appearing to read 'Philip B', with a horizontal line underneath the first part of the signature.

Executive summary

RPG Crouch Chapman and Logistics UK in conjunction with leading independent research firm Analytiqa, have undertaken the latest survey of companies' expectations for mergers & acquisitions (M&A) activity in the sector over the next 12 months.

These results draw on the insights of 100 senior executives within UK logistics companies – 3PLs, freight forwarders, express and haulage – to provide a view on expected trends in M&A, including valuations, as well as addressing a range of issues currently facing the sector, including business investment, productivity and decarbonisation.

UK Logistics Sector M&A Index

This is the fourth M&A Index for the UK logistics sector undertaken on our behalf by Analytiqa, the first three having been undertaken in 2020, Q1 2021 and 2021.

The UK Logistics Sector M&A Index score for 2024 is 41.9, which is a significant decrease on the 62.8 score recorded in our last survey in 2021 and even lower than the 45.4 score recorded in 2020 during the middle of the COVID-19 pandemic.

Whilst our survey suggests a lower level of M&A activity in 2024, and an expected fall in the valuation of logistics companies, more than nine out of ten respondents think consolidation through M&A activity will continue in the sector over the next 12 months. This is set against a wider backdrop of economic uncertainty, with the UK economy estimated to have contracted by 0.1% in the third quarter of 2023.

1 M&A Index and business sentiment

- 1.1 A less confident and positive outlook is emerging in the UK logistics sector, suggesting that expectations of future M&A activity are lower than our previous surveys.
- 1.2 Our M&A Index score has fallen to 41.9, almost a third lower than it was in the last report in 2021.
- 1.3 Far fewer logistics businesses are optimistic about the outlook for the sector, with the average optimism score standing at 5.5 out of 10, compared to 7.1 out of 10 in our 2021 survey.
- 1.4 This outlook is reflected in our participants' views on their expectations for profitability in the current financial year, with 57% forecasting lower profits and the median fall in profits expected to be 5%.

2 Current challenges

- 2.1 Price pressures from customers top the list of factors that are having a negative impact on company performance.
- 2.2 Increased labour and fuel/energy costs are also a significant negative factor.

3 Valuation and consolidation

- 3.1 The trend for consolidation is set to continue and may even increase.
- 3.2 Just under 20% of respondents have undertaken M&A activity in the last 12 months.
- 3.3 92% of those surveyed predict that consolidation will continue over the next 12 months.
- 3.4 In terms of valuations of logistics companies, 63% of participants feel that they have fallen over the last year and 46% think they will continue to fall over the next. Both of these are significantly higher than our last survey.
- 3.5 For those companies who will undertake M&A activity, most are anticipating doing transactions up to £10 million and in the UK. However, more respondents said they will be looking at transactions outside of the UK.
- 3.6 Larger size M&A transactions, especially those over £100 million, are forecast to experience a significant fall in volume. However, it was noted that CEVA Logistics had made a substantial cash offer for Wincanton plc at the time of publication.

4 Business investment

- 4.1 Almost two thirds of respondents are looking to increase levels of investment in their business over the next 12 months.
- 4.2 The prospect of a General Election in 2024 will not impact the investment plans of 81% of respondents.

5 Productivity challenges

- 5.1 The main impediments to company productivity are financial, particularly the challenges of managing costs in an inflationary environment.
- 5.2 Geopolitics, supply chain disruption and staff recruitment will also present significant challenges to productivity in the next 12 months.

6 Future intentions

- 6.1 More than two thirds of respondents are unlikely to undertake M&A activity over the next 12 months.
- 6.2 Of those respondents likely to undertake M&A activity, the main 'timing' driver is a recent change or review of company strategy.

7 Key M&A drivers

- 7.1 In terms of operational or commercial drivers behind decisions to undertake M&A activity, more than one in six respondents (17%) report the desire to expand their service offer.
- 7.2 Respondents' wish to enhance the resilience of their business and achieve economies of scale also features highly.
- 7.3 Valuation of targets is cited as the greatest challenge to respondents' businesses when considering whether to undertake M&A activity.
- 7.4 There is a big swing towards horizontal integration (that is, acquiring companies with similar services to the acquiror), which is expected to be the most popular type of M&A activity during 2024.

8 M&A success factors

- 8.1 Managing culture and change emerges as the number one factor contributing to an M&A's success.
- 8.2 Achieving synergies and having an effective post-integration plan are also key elements.

9 Financing M&A

- 9.1 There is a slight shift in the way operators plan to obtain the finance they need to undertake M&A projects.
- 9.2 More operators are making greater use of their own financial resources to fund M&A.
- 9.3 The single most popular way of funding M&A is through a combination of internal resources and bank loans.
- 9.4 Logistics businesses looking to undertake M&A activity over the coming year are generally relying on tried and tested techniques to structure the deal.
- 9.5 Successful cultural integration is seen as the main challenge on completion of an M&A deal by almost a quarter (23%) of respondents.
- 9.6 Systems and technology integration is a close second for one in five companies, followed by managing customer expectations and employee retention.

10 Barriers to M&A activity

- 10.1 Alternative, higher priority strategies are the major barrier to undertaking M&A activity for four in ten respondents.
- 10.2 Fewer than one in six respondents cite the overall outlook of the logistics sector as a potential barrier to M&A activity.

11 The road ahead for M&A activity in logistics

- 11.1 The cost-of-living crisis, energy inflation and customer price pressures continue to present challenges for logistics, while decarbonisation moves up the agenda.
- 11.2 More than half of respondents will not undertake any form of M&A activity in the coming year.
- 11.3 Valuations of companies have fallen significantly over the last year and are expected to continue to fall during 2024.
- 11.4 Under a fifth of respondents are undertaking background research on target companies and compiling lists.
- 11.5 Just under a third of respondents (31%) have mid-term strategies for M&A activity.

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