RPGCC

LOGISTICS UK

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

Insight Report 2024

Executive Membership

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

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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Analytiqa

All figures and data relating to the UK Logistics Sector M&A Index within this report have been researched by Analytiqa (www.analytiqa.com). Logistics UK and RPG Crouch Chapman take no responsibility for the accuracy or completeness of the information given, nor liability for the impact of any decisions made based on information contained and views expressed.

About the authors

Philip Bird
Corporate Finance Partner & Head of Logistics
RPG Crouch Chapman LLP

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.

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.

1

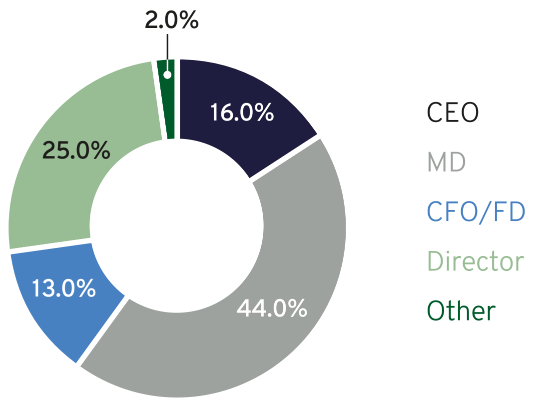
Business sentiment

Our respondents

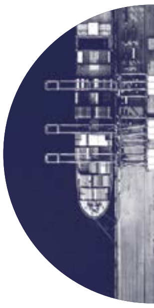
We are extremely grateful to our 100 respondents for taking part during such a challenging time for the logistics sector.

All our respondents occupy senior roles in a cross-section of organisations, ranging in size from smaller operators to large, multinational companies. More than one in four (44%) describe themselves as Managing Directors, while just under one in six (16%) describe themselves as CEOs.

1.1 Background to the research/job titles of respondents



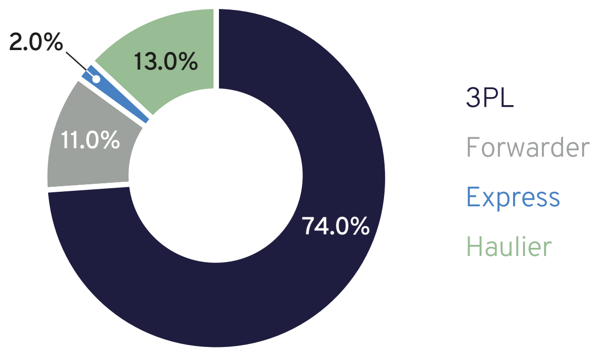
Source: Analytiqa 2023



Respondents hail from four sub-sectors in logistics, from third-party logistics businesses (3PLs) to general haulage.

Almost three in four respondents (74%) work for 3PLs, just over one in eight (13%) work for hauliers, more than one in ten (11%) work for freight forwarders and one in 50 for the express sector.

1.2 Background to the research/company type of respondent



Source: Analytiqa 2023

The M&A Index and business sentiment

The UK Logistics M&A Index is based on respondents' views on historic and expected M&A activity and associated valuations of logistics companies over the past and next 12 months, and general sentiment around consolidation in the sector.

A less confident and positive outlook is emerging in the UK logistics sector, according to this research, suggesting a lower level of M&A activity in 2024 and a further decline in the valuation of logistics companies. Respondents also forecast a 5% decrease in profits for the year 2023, compared to a 10% increase in 2021.

Our M&A Index score has plummeted to 41.9, almost a third lower than it was in the last report in 2021.

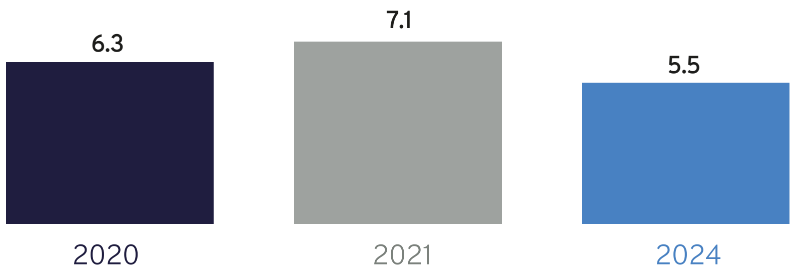
1.3 UK logistics sector M&A Index

Source: Analytiqa 2023

Less positive sentiment towards M&A reflects a more pessimistic outlook for the sector, following a succession of wider challenges that have occurred since 2021, including the war in Ukraine, double-digit energy inflation and a stubborn cost-of-living crisis, which is dampening consumer confidence. While these issues are likely to persist in the short to medium term, energy prices have fallen from their peak and are forecast to fall in 2024, interest rates have plateaued and inflation is falling.

Overall, 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 and 6.3 out of 10 in the 2020 survey.

1.4 On a scale of 1-10, where 1 = least optimistic and 10 = most optimistic, how optimistic are you about the outlook for the UK logistics sector over the next twelve months?



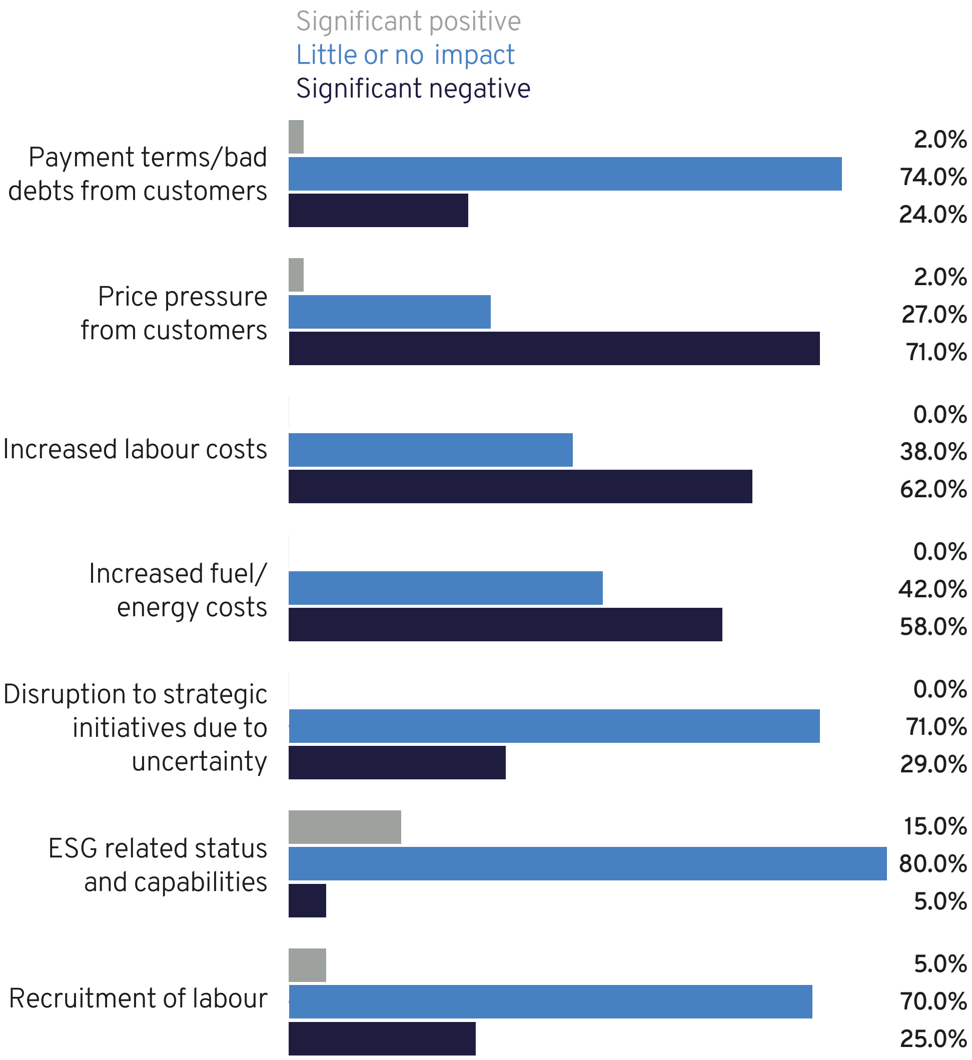
Source: Analytiqa 2023

The degree of optimism and confidence shown by operators varies depending on the nature of the business, with express operators generally in a stronger position (7.0) than hauliers (5.6) and 3PLs (5.5) in the current environment.

Price pressures top table of current challenges

Logistics businesses currently face an array of economic headwinds. Topping the list of factors that are having a significant impact on company performance are price pressures from customers, which are having a negative impact on the businesses of more than seven out of ten respondents (71%). Other significant negative factors were also associated with costs, with more than six out of ten respondents (61%) reporting increased labour costs having a significant negative impact, and a slightly smaller number (58%) similarly reporting increased fuel/energy costs.

1.5 To what extent are the following currently having a significant positive or negative impact on your company's performance?



Source: Analytiqa 2023

The only significant positive factor is ESG (environmental, social and corporate governance) related status and capabilities, which is reported by fewer than one in six respondents (15%).

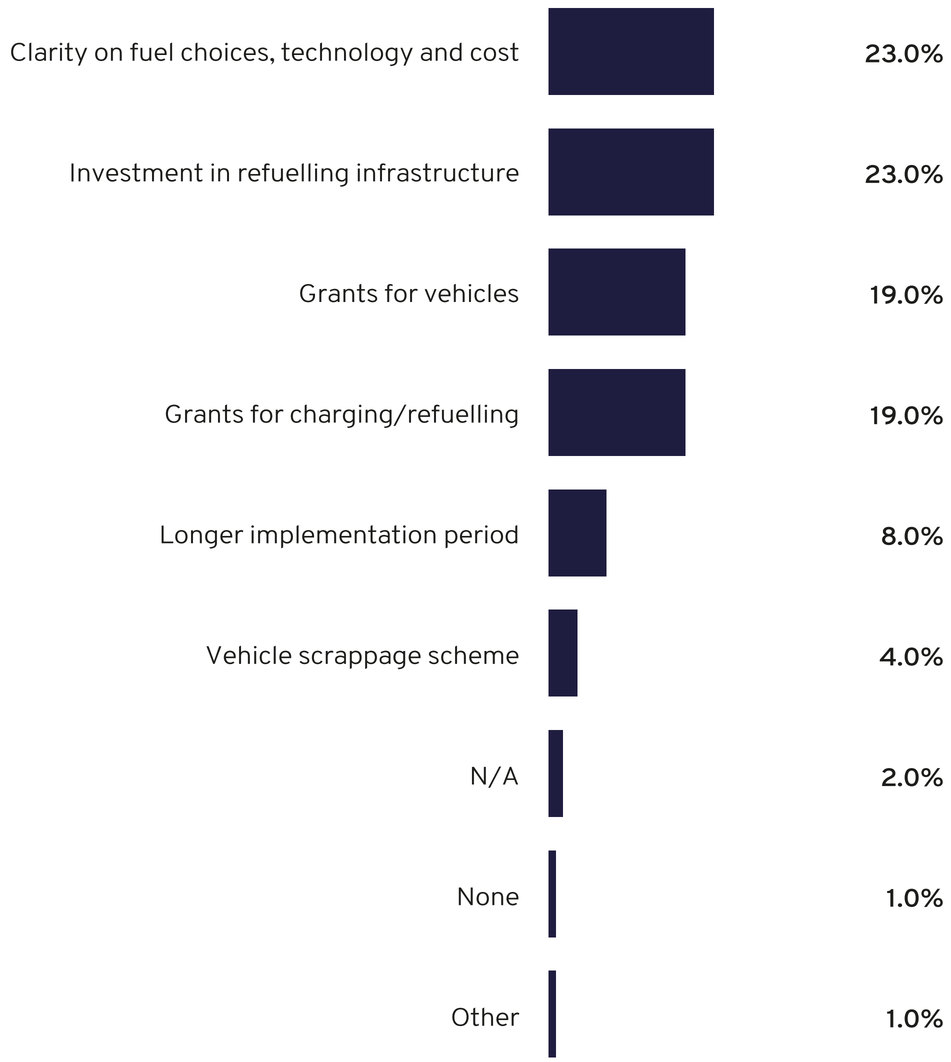
The drive to decarbonise

Decarbonisation has risen up the logistics sector's agenda rapidly in recent years, with news of natural disasters caused by climate change occurring daily. With 2023 now confirmed as the hottest year on record, greener supply chains have a major role to play in tackling decarbonisation.

The Zero Emission Vehicle (ZEV) Mandate was passed into law in January 2024, setting increasingly stringent zero-emission vehicle quotas on manufacturers in the run-up to the 2035 ban on the sale of all new petrol and diesel vans.

We asked respondents what sort of government support they need to decarbonise their road fleet operations. Greater investment in fuel choices, technology and cost, and refuelling infrastructure, are the major priorities for almost one in four respondents (23%). Around a fifth (19%) also want grant support for charging and vehicles.

1.6 What support from government do you most want to see to assist you to achieve decarbonisation targets?



EV/hydrogen is years away from being an affordable alternative, and the increase in electrical demand as a result of trucks going electric would not be possible to support in the next 20–30 years unless a new "super" technology is forthcoming.

Source: Analytiqa 2023

Respondent comments

"I think as a UK transport industry we should tell the government what fuel source we want and they then put the infrastructure in."

"We are a big supporter of decarbonisation, but need to have the practical possibility to do it – availability and affordability of bio-fuels for example."

"EV/hydrogen is years away from being an affordable alternative, and the increase in electrical demand as a result of trucks going electric would not be possible to support in the next 20-30 years unless a new "super" technology is forthcoming."

The sector is willing to play its part in delivering decarbonisation, but logistics businesses clearly require more support and guidance from government before making the necessary investment.

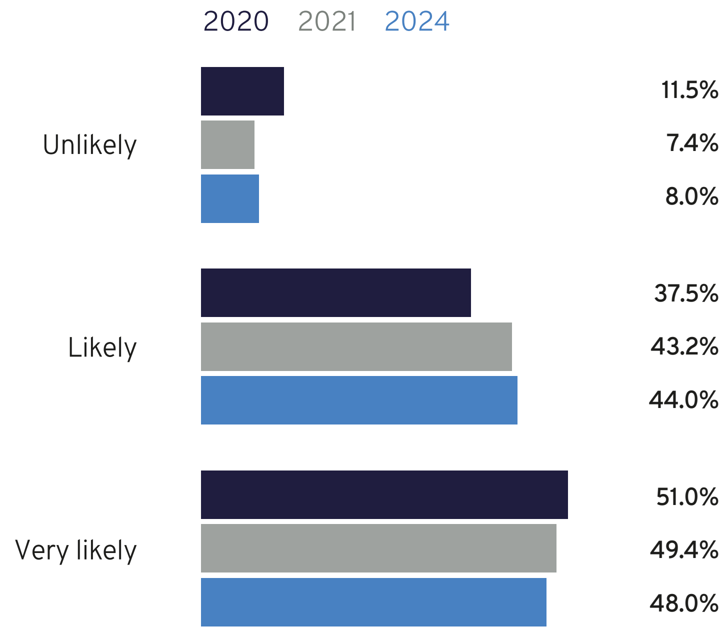
2

Mergers and acquisitions trends

Consolidation set to continue

Despite the backdrop of rising costs, increased price pressures and a lower M&A Index, it seems the expectation for further consolidation is set to continue and may even increase. While fewer than one in five respondents (19%) have undertaken M&A activity over the last 12 months, this is broadly similar to the 20.8% which undertook this activity in 2021. Meanwhile, the overwhelming majority of respondents (92%) think that consolidation will continue over the next 12 months.

2.1 Do you think that consolidation, through M&A activity, will continue in the sector over the next 12 months?

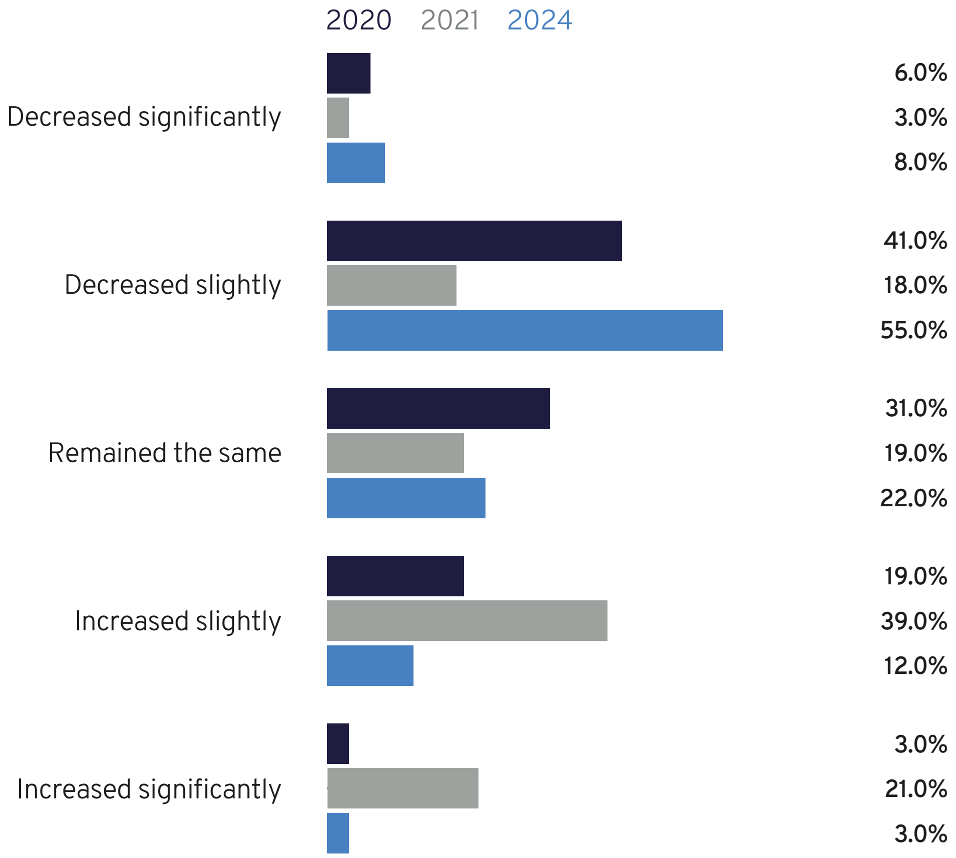


Source: Analytiqa 2023

This appetite for consolidation is set against a mixed backdrop, where tight margins and increased debt levels are squeezing companies' finances, but acquisition targets with good prospects or consolidation potential remain attractive. However, respondents forecast a 5% decrease in profits for the year 2023, compared to a 10% increase in 2021.

In terms of valuations of companies, almost two-thirds of respondents (63%), believe the valuations of companies in their sector of logistics have decreased over the last 12 months. Comments from respondents about valuations being unrealistically high may indicate that valuations have not yet been adjusted between the buyer and seller. As a result, 47% of respondents expect valuations to fall during 2024.

2.2 Do you think valuations of companies in your sector of logistics have increased, decreased, or remained at the same levels over the last 12 months?



Source: Analytiqa 2023

Respondent comments

"This is a mixed picture."

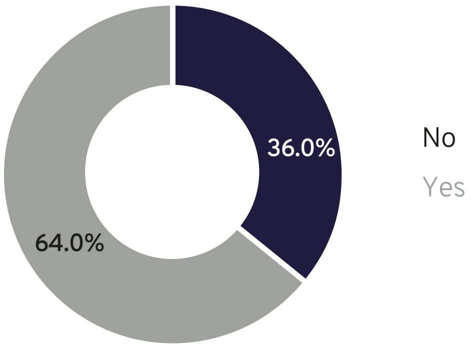
"The cost of finance from the banks can be prohibitive and detrimental to incurring debt into a marginal business."

"Expected valuations by sellers remain unrealistically high."

Business investment levels buoyant

One cause for optimism in the sector is that almost two-thirds of respondents (64%) are looking to increase levels of investment in their business over the next 12 months. Plus, despite the prospect of a General Election in 2024, more than eight out of ten respondents (81%) said the prospect of a change in government would not impact their strategy or delay their investment plans. One respondent commented: "We work on the basis there will be a change of government in the UK, but need to continue to run our business irrespective."

2.3 Are you looking to increase levels of investment in your business in the next 12 months?

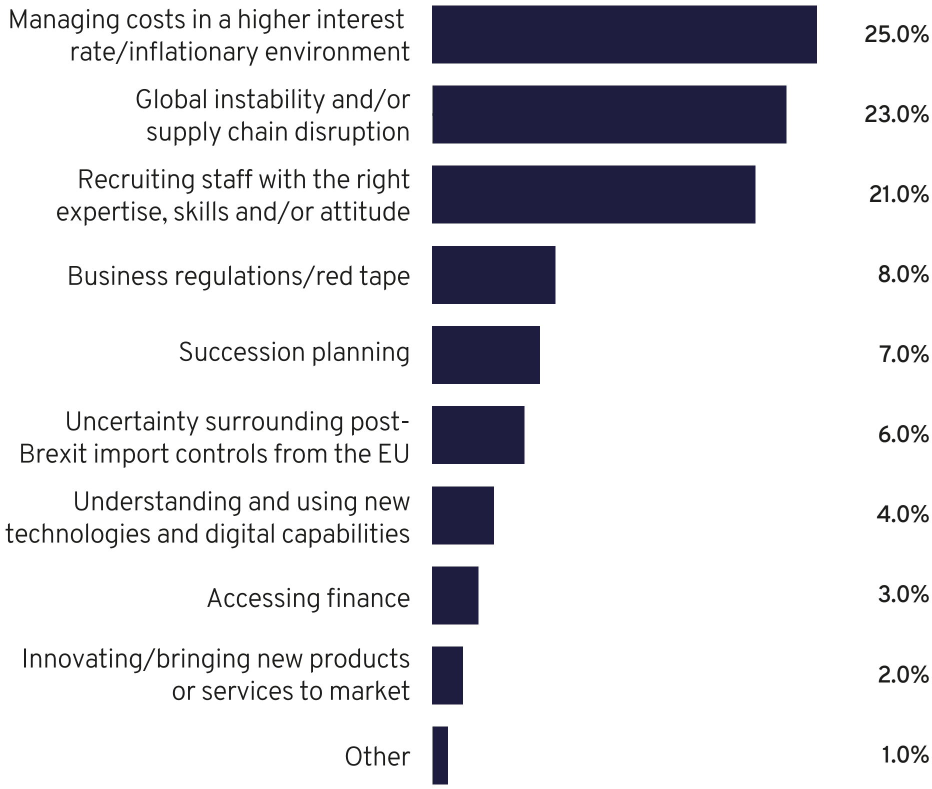


Source: Analytiqa 2023

Productivity challenges

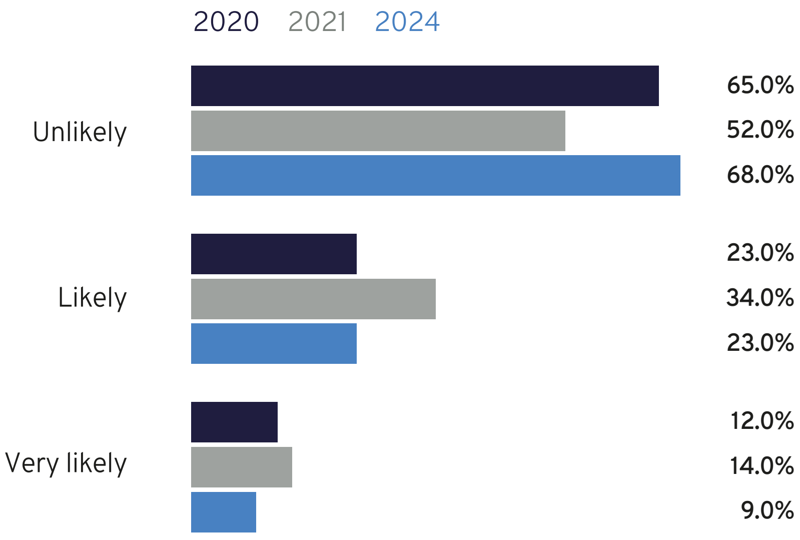
On productivity, the key causes for concern are financial, with one in four respondents reporting challenges with managing costs in an inflationary environment. Geopolitical issues, supply chain disruption and staff recruitment also present significant challenges to productivity, according to our research. Almost one in four respondents (23%) cite global instability and/or supply chain disruption as the main impediment to their company's productivity, while more than one in five respondents (21%) report that recruiting staff with the right expertise, skills and attitude is one of the main difficulties they may face in achieving their business objectives in the next 12 months.

2.4 What would you say are the main impediments to your company's productivity, or the main difficulties that you might face in achieving your business objectives in the next 12 months?



Source: Analytiqa 2023

2.5 Do you intend to undertake M&A activity over the next 12 months?



Source: Analytiqa 2023

Of those companies that reported being likely or very likely to undertake M&A activity, the main 'timing' driver was a recent change or review of company strategy. This is consistent with responses from the 2021 and 2020 reports. Recent market activity is cited as the second main driver, followed by resources available to undertake activity.

Respondent comments

"Opportunistic in terms of failing companies. We do expect more distressed M&A activity in 2024."

"We have funds available to take advantage of the tight opportunities aligned to our strategy."

"The right target becoming available or willing to sell at realistic and reasonable multiples. This is the biggest inhibitor to the timing of when a deal can move into formal process."

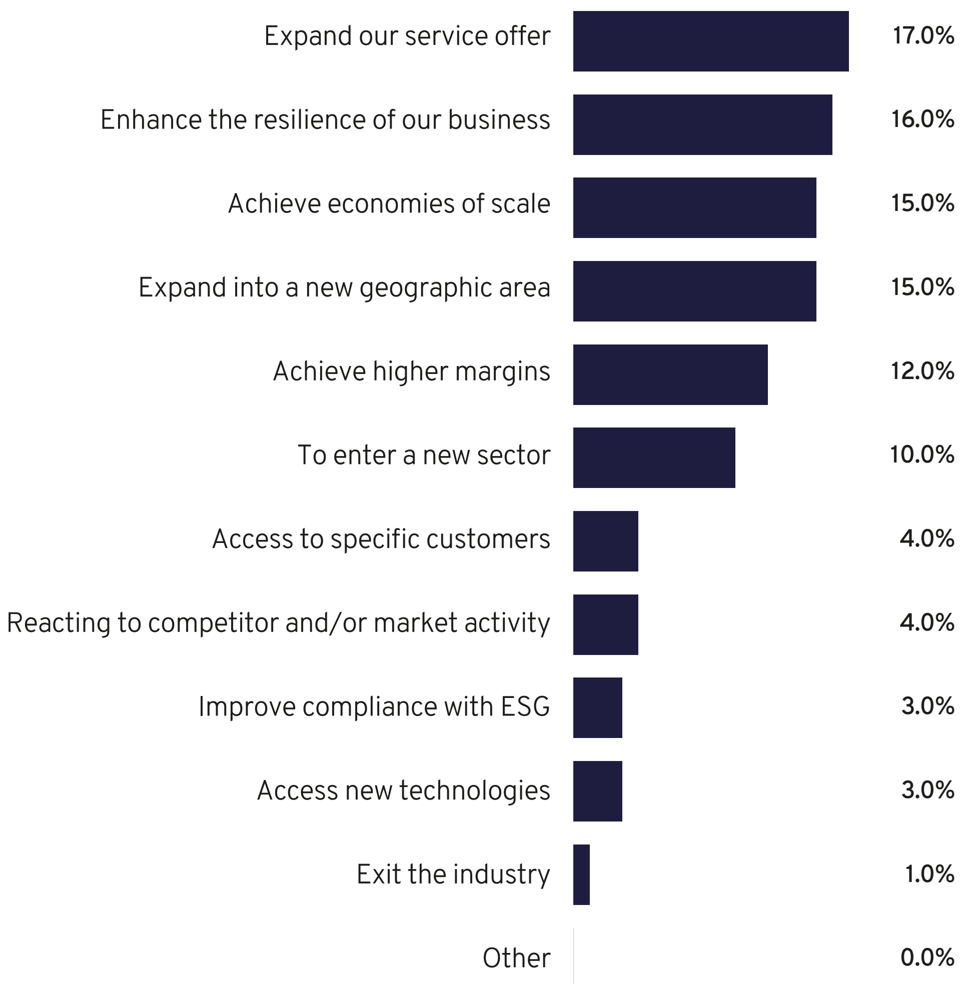
Key M&A drivers

Improved service offerings, enhanced resilience, economies of scale and expanding into new areas are the priorities when considering acquisitions in the future.

In terms of the main operational or commercial drivers behind respondents' decisions to undertake M&A activity, more than one in six respondents (17%) report the desire to expand their service offer, which was also the main driver in 2021. Slightly fewer respondents report the wish to enhance the resilience of their business (16%) and achieve economies of scale (15%).

The opportunity to extend into new geographic areas is given greater prominence as a driver of M&A in this year's report and is now rated joint third (15%), up from sixth in 2020.

2.6 What are the main operational/commercial drivers behind your decision to undertake M&A activity?

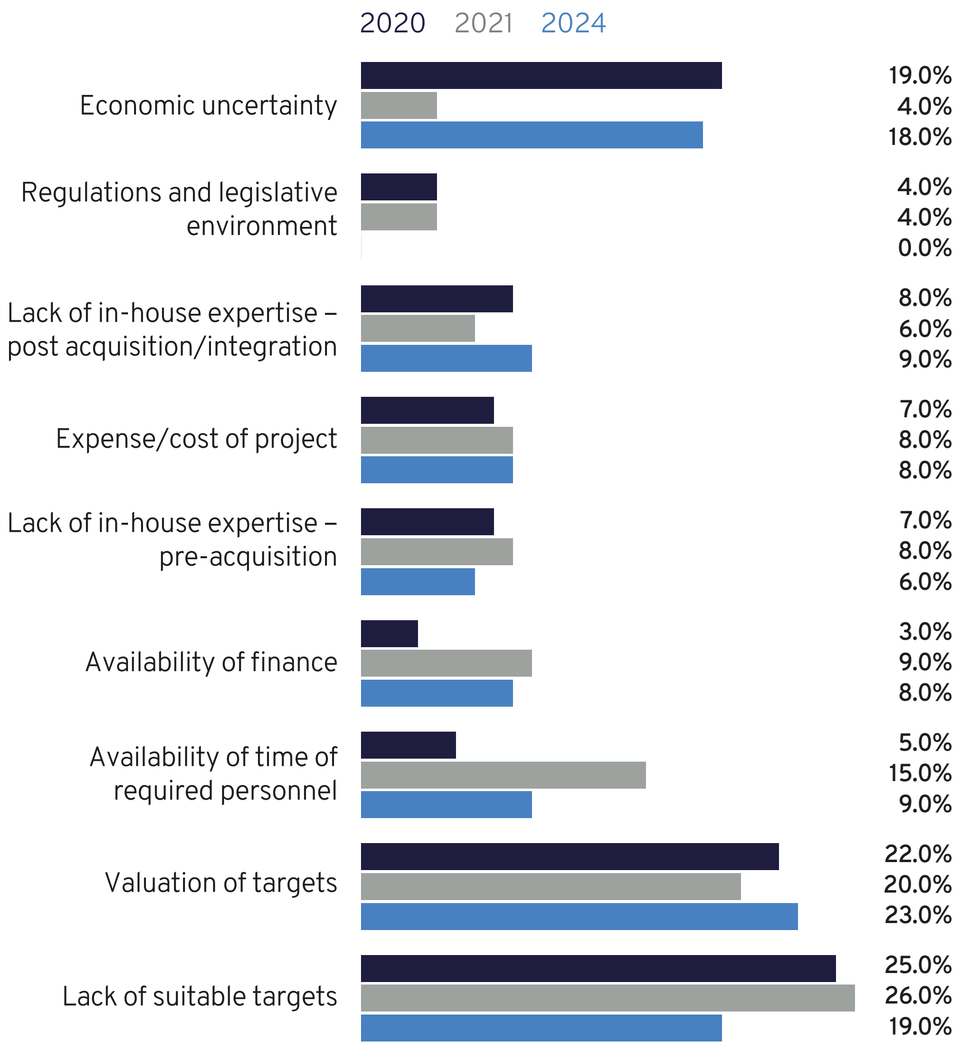


Note: prior year comparisons not possible due to changes in category options

Source: Analytiqa 2023

When evaluating the greatest challenges when considering whether to undertake M&A activity, almost one in four respondents (23%) cited valuation of targets. Slightly fewer than one in five respondents identified a lack of suitable targets (19%) and economic uncertainty as their main challenges.

2.7 What factors pose the greatest challenges to your business when considering whether to undertake M&A activity?



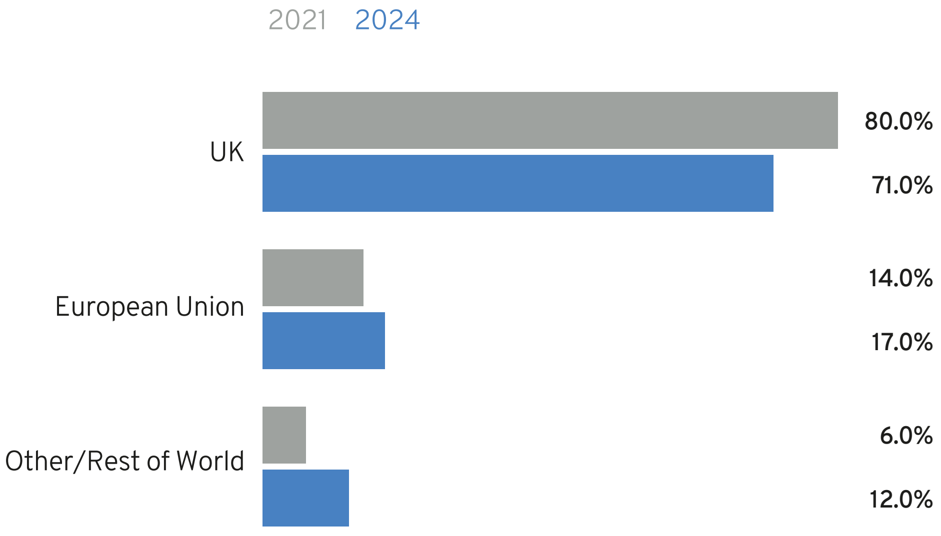
Source: Analytiqa 2023

In terms of which type of M&A activity is being planned for the next 12 months, there is a big swing towards horizontal integration this year, that is, acquiring companies with similar service offerings to the acquiror. It is by far the most popular type of M&A activity, being reported by more than eight out ten respondents (81%), up from under half of respondents (46%) in 2020. Horizontal integration is followed by forward vertical integration (15% of respondents), that is acquiring companies with service offerings in the next stage of the logistics supply chain and conglomerate integration (4%), that is companies involved in unrelated activities to the acquiror. No respondents report planning backward vertical integration this year.

In terms of the size of M&A transactions, there is expected to be little activity in the large deal arena, with no respondents contemplating £100 million+ deals, and 12% considering deals in the £50 million – £100 million range (up from 7% in 2021). However, it must be noted that at the time of the report's publication, CEVA Logistics had made a significant cash offer to acquire Wincanton plc. Half of respondents said they would contemplate deals up to £10 million, down from almost two thirds (64%) in 2021. Given that the logistics sector has a long tail of smaller operators, it is not surprising that much of the M&A activity is expected to continue to happen at the lower end of the valuation spectrum.

In terms of where M&A activity will be taking place, more international mergers and acquisitions are being contemplated. More than seven out of ten respondents (71%) report M&A activity will be focused on the UK (down from 80% in 2021), while more than one in six (17%) will be considering activity within the European Union and slightly fewer than one in eight (12%) are contemplating M&A activity in the rest of the world, including the US.

2.8 What geographies will you be contemplating for M&A activity over the next 12 months?



Source: Analytiqa 2023

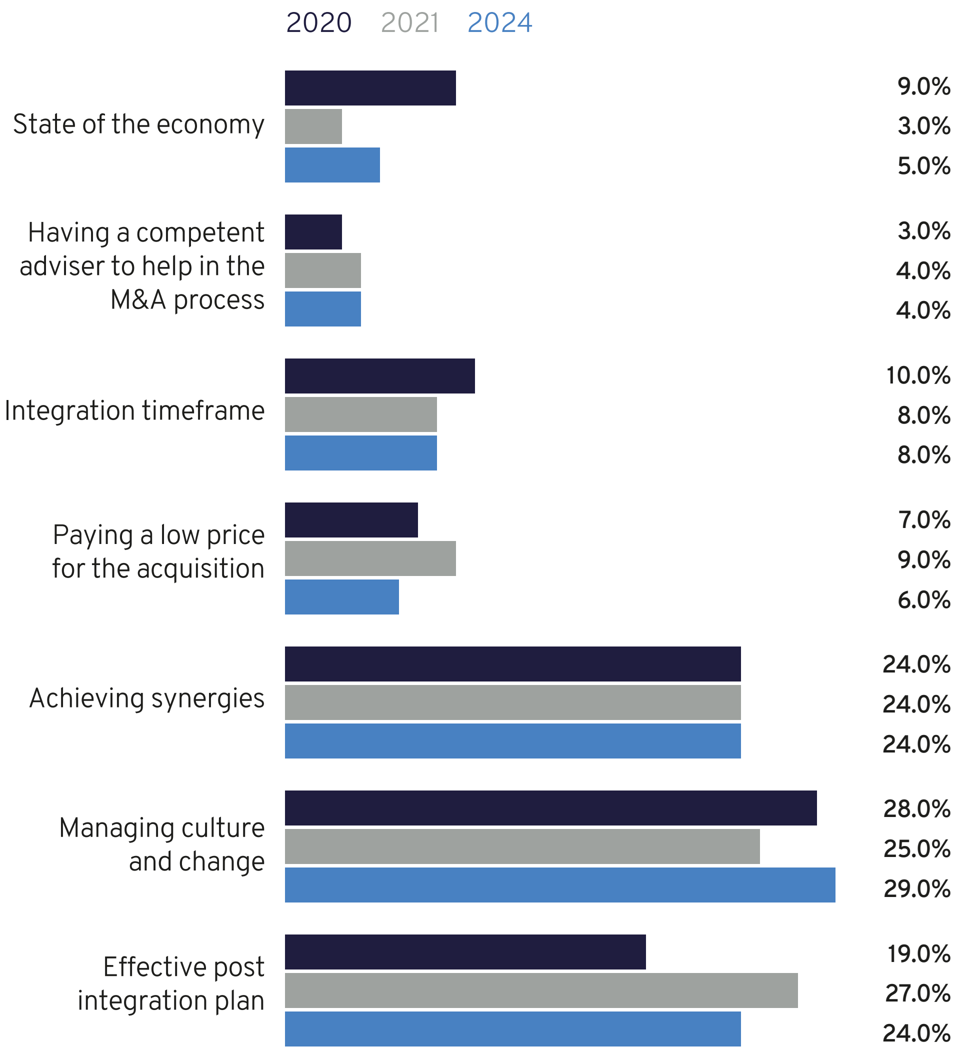
M&A success factors

Managing culture and change emerges as the number one factor contributing to an M&A's transaction success, our research shows. Almost three in ten respondents (29%) cite this as the number one issue, while achieving synergies and having an effective post-integration plan come in at joint second, referenced by almost one in four respondents (24%). This has been broadly consistent since 2020.

The ability of operators to plan and implement effective acquisitions will be a key factor in the growth and resilience of the industry moving forward. Viable and well-thought-out integration plans are needed more than ever, following increasingly stringent and exhaustive due diligence on potential acquisitions being applied by acquirers, and a greater focus on assessing the cultural fit of the target business.

M&A deals now typically involve more critical assessment of the target company's strategy to ensure alignment with the buyer, lengthier interaction at senior management level, as well as the ability of the relevant staff to deliver the post-integration plan smoothly.

2.9 Which are the three most important factors for an M&A's transaction success?



Source: Analytiqa 2023

Financing M&A

When it comes to funding M&A objectives over the next 12 months, our research suggests a balanced picture, with a slight shift in the way operators plan to obtain the finance they need.

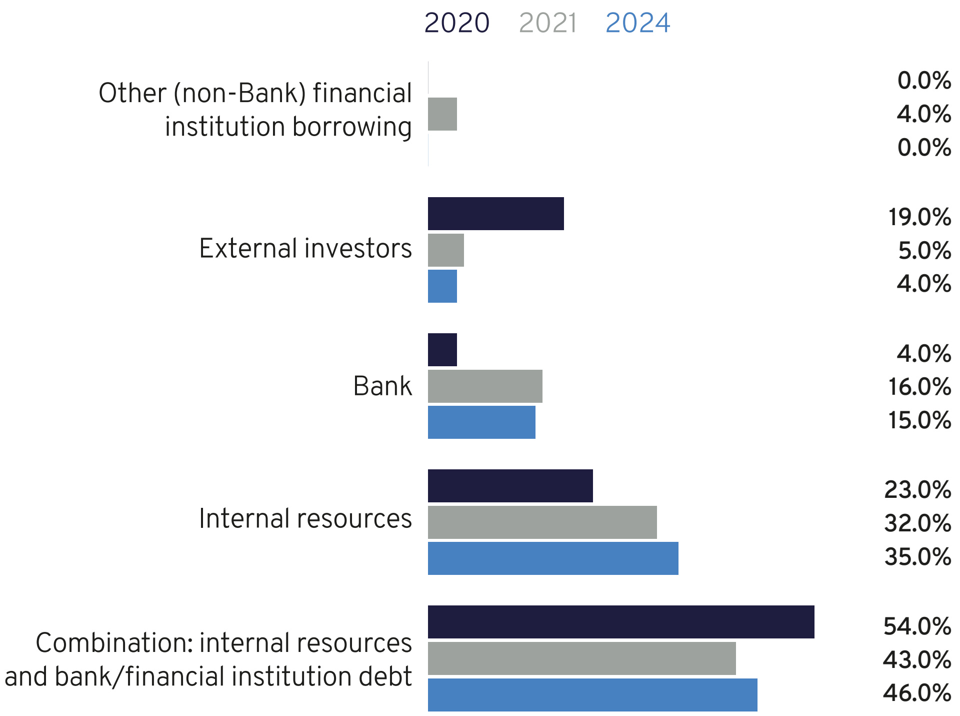
Despite a challenging period of navigating customer price pressures, energy inflation and a cost-of-living crisis, some operators are now in a stronger cash position. With more cash on the balance sheet, these operators are expected to make greater use of their own internal financial resources to fund M&A, with more than a third (35%) of respondents saying they expect to finance M&A activity over the next 12 months in this way – a significant increase from 23% in 2020.

While the interest rate environment is more challenging, the increased diversity of availability of debt and bank finance provides other options to support M&A. As a result, respondents are now more than three times as likely to consider bank and debt funding for M&A activity over the next 12 months as they were in 2020 (15% versus 4%).

By contrast, funding acquisitions through external investors, formerly considered a viable option by almost a fifth of companies (19%) in 2020, is now cited by just 4% of our respondents in 2024.

The single most popular M&A funding route (46%) continues to be a combination of internal resources and bank loans, up 3% on 2021 but down by 8% on 2020.

2.10 If you are likely to undertake M&A activity over the next 12 months, how will this activity be financed?



Source: Analytiqa 2023

Structuring a deal

Logistics businesses looking to undertake M&A activity over the coming year are generally relying on tried and tested techniques to structure the deal. Fewer than one in six (15.4%) of respondents are considering using different techniques. Those who are indicate that they will be using earn out and incentive and performance-related payments within the deal structure.

Respondent comments

"Most likely cash up front and earn out over a three-year period."

"Performance-related incentives."

"Share incentive in post-deal business."

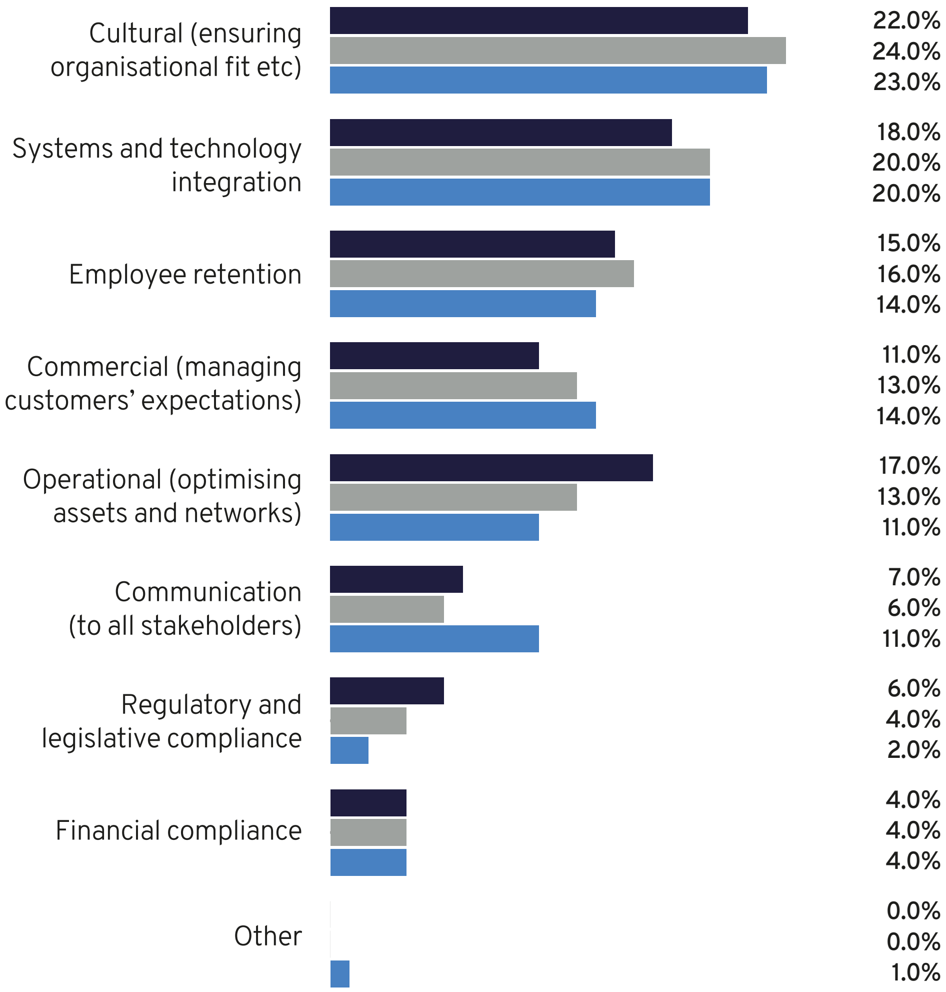
When it comes to selecting external advisors, respondents rank their track record and deal experience first, followed by the logistics sector expertise of their staff and their fees. This is broadly in line with respondents' responses reported in 2021 and 2020.

Post-deal issues

Nearly a quarter of operators (23%) see successful cultural integration as the main challenge on completion of an M&A deal, with systems and technology integration a close second for one in five companies. These have remained at broadly the same levels as 2021 and 2020.

Coming joint third in the list of post-deal challenges are managing customer expectations and employee retention (both at 14%), which again is broadly in line with the issues reported in 2021 and 2020.

2.11 Which, if any, are the biggest challenges you expect to face upon completion of M&A deals?



Source: Analytiqa 2023

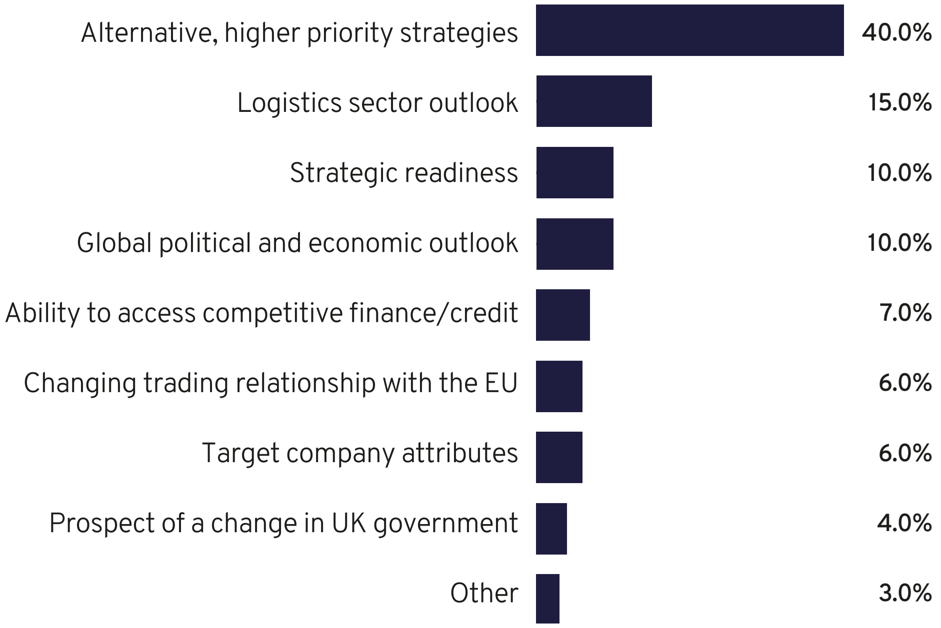
Barriers to M&A activity

The major barrier identified by four in ten respondents that are considering M&A activity in the next 12 months is that they have alternative, higher priority strategies. This is a broadly similar result to 2021.

Fewer than one in six respondents (15%) attribute the overall outlook of the logistics sector as a potential barrier to M&A activity. One in ten operators cite the wider political and economic outlook.

Just 7% identify availability of finance as an issue, which is encouraging given the wider economic headwinds the industry is facing and indicates that most operators do not consider obtaining finance as a barrier to undertaking M&A activity.

2.12 Which of the following reasons help explain your intentions not to undertake M&A activity in the next 12 months?



Source: Analytiqa 2023

Respondent comments

"Many logistics/haulage companies are vulnerable to the financial conditions that exist and sources of finance, banks especially, will be drawing in their horns."

"We can access funds, but interest costs are higher so we would prefer to reduce borrowings."

"We made an acquisition in early 2023, so will be concentrating on that integration."

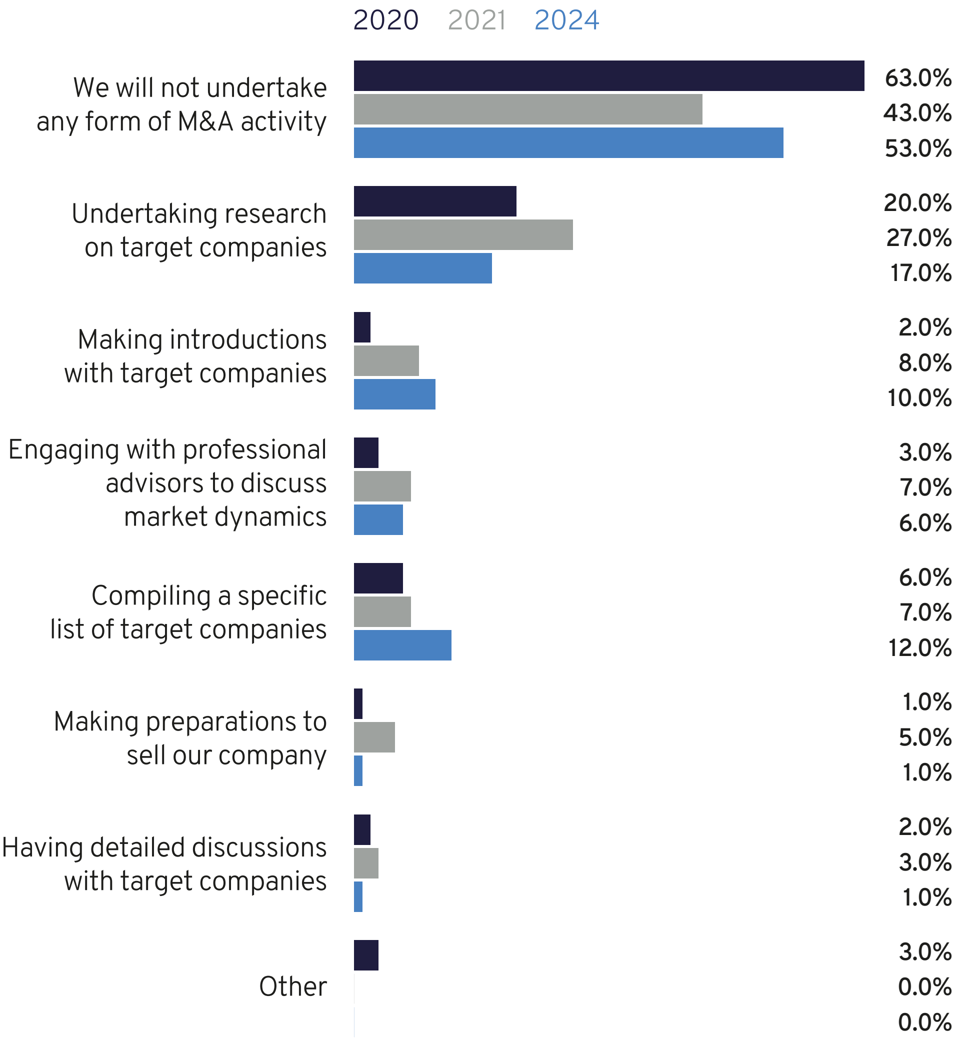
The road ahead for M&A activity in logistics

The cost of living crisis, energy inflation and customer price pressures continue to present challenges for the logistics sector, while decarbonisation moves up the agenda.

The disruption to global supply chains seen during the COVID-19 pandemic has not gone away, and whilst energy inflation, sparked by the Ukraine war which started in 2022, may have dipped, prices remain well above pre-'energy crisis' levels. It remains to be seen what the impact of the current Red Sea crisis, disrupting international shipping through the Suez Canal, will have on the sector.

This combination of factors is having an effect on the willingness of logistics companies to contemplate M&A activity in the next 12 months. More than half (53%) of respondents will not undertake any form of M&A activity in the coming year, up from 43% in 2021. The most common form of M&A activity is preliminary in its nature, with just over one in six respondents (17%) saying they will undertake research on target companies, while fewer than one in eight respondents (12%) intend to compile a specific list of target companies. Meanwhile, only one in a hundred respondents are having detailed discussions with target companies whilst a similar share are making preparations to sell their companies.

2.13 Though you are not expecting to complete M&A activity in the next 12 months, are you likely to undertake any of the following activity in the next 12 months?



Source: Analytiqa 2023

Looking further ahead, just under a third of respondents (31%) have mid-term strategies for M&A activity, and just under a quarter of respondents (23%) plan such activity in one to two years' time. Just 3% of operators have long-term strategies on M&A activity of five years or longer, while a significant 43% (up from 36% in 2021) have no foreseeable plans.

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