G2 | CAPITAL ADVISORS

Practice:

Transportation & Logistics

Q1 TRANSPORTATION & LOGISTICS

Quarterly Industry Newsletter

G2 | CAPITAL ADVISORS

G2 Capital Advisors is pleased to present its Transportation & Logistics industry update for Q1 2021, providing commentary and analysis on M&A and market trends within the Transportation & Logistics sectors.

G2 has seen a marked increase in M&A deal activity during Q1 as a continuation of a very strong second half of 2020. We believe that broader-based vaccination distribution, pockets of State-level easing of COVID restrictions, and the recent signing of the $1.9Tn American Rescue Plan will begin to inject much needed consumer confidence and actual spending which should help steady the U.S. economy and continue to fuel the T&L sector as the year progresses. Adding to this is another $1.2 trillion of private equity capital that is poised to be aggressively deployed into U.S. businesses, with Transportation and Logistics-related M&A targets at the forefront of that wave.

NOTABLE T&L SECTORS OF INTEREST IN 2021

So where will this $1.2 trillion of "dry powder" likely follow in the T&L sector? G2 has been extremely active in Q1 with notable interest in and promise surrounding four sub-sectors across the broader Transportation & Logistics vertical – all enjoying strong tailwinds from 2020 caused by the systemic disruptions and consumer trends resulting from the Pandemic. Each of these sectors will continue to attract capital and maintain strong trading multiples well into 2022, but for their own set of reasons:

ECOMMERCE FULFILLMENT

As noted above, we are seeing a large quantum of capital flooding into anything and everything "ecommerce" since mid-2020. Arguably this trend was already in motion pre-Pandemic, but the material changes that have occurred in global consumer consumption behaviors is lifting this sub-sector to new heights. As traditional retailers in the U.S. struggled to stay afloat in early 2020, some were adept at transitioning their business to accommodate both B2B and B2C order transactions and some were not. 3rd party fulfillment companies that could provide immediate relief for retailers and shippers by handling the enormous volumes of online purchases across multiple ecommerce shopping platforms – both through digital order management integrations as well as physical dynamic order fulfillment across multiple inventory locations, benefited greatly by gaining market share and goodwill in the marketplace. This new "normal" of omni-channel fulfillment whereby consumers want to order what they want, how they want to order it (e.g., online, cell phone, in storage) and have it delivered how they want it (e.g., in store, curb-side, or purchased online and picked up in store) is heating up this segment.

LAST MILE DELIVERY

As a natural extension to tech-enabled omni-channel fulfillment, there continues to be a growing need for brands and manufacturers to gain more control over delivery times and shorten the overall fulfillment experience for their customers. Consumers are becoming increasingly more demanding and sensitive to product and information delivery delays and companies who do not have the ability to meet these more rigorous service and informational expectations will not be competitive or cease to exist entirely over time.

COLD STORAGE & WAREHOUSING

The 3rd party cold storage and related cold-chain services industry has seen a meteoric rise in interest, deal activity, and high multiple valuations beginning five years ago. Fairly recent and robust M&A consolidation in the U.S. market – led primarily by two strategics, Americold Realty Trust and Lineage Logistics (backed by Bay Grove Capital) has driven valuations to industry record highs. However, the sector's end-market resilience during and coming out of COVID, combined with a prominent gap between demand for temperature-controlled space and the supply of contemporary and quality warehousing assets has placed this subsector squarely in the vision of public and private institutional investors across a variety of spectrums who are looking to capitalize on the need. CBRE predicts that an incremental 100m square feet or more of temperature controlled industrial capacity (combination of refrigerated and frozen) will be required to simply keep pace with the fast growth of organic fresh, frozen convenience, and prepared meal-kit products that are being consumed online. Online grocery purchases catapulted demand for these products, with $25.bn of groceries consumed in 2020, and consumers demonstrating their growing comfort level of purchasing perishable products online for home delivery, curbside or in-store retail pickup.

Source: G2 Insights, S&P Global, PitchBook

FREIGHT FORWARDING

As with ecommerce, freight forwarding companies who have invested appropriately in technology and who have demonstrated the ability to solve for the general transportation supply chain imbalances spurred by the multiple shutdowns and restarts in the U.S. economy in 2020 will benefit from heightened investor appetite in 2021 and beyond. Whether it's ocean, air, over-the-road, intermodal routes, these verticals are still experiencing tremendous upheaval, as ocean containers, over-the-road trailers, and related chassis equipment are often not positioned in the right places to adequately support inbound and outbound shipments from source point to destination. This, coupled with a systemic driver shortage and port and intermodal ramp labor inefficiencies due to COVID call-outs has further tightened freight capacity and driven spot and contract rates to all-time high levels. The freight forwarding community will continue to be relied upon by shippers to help drive efficiencies in the system through better visibility and efficient matching of shipping assets to product orders.

In addition to the considerable attention that these four key sub-sectors are receiving from investors, G2 is seeing some other important market dynamics at work in 2021 that will have direct and material deal volume and pricing impacts into 2022:

PE FUNDRAISING WILL BE AT AN ALL-TIME HIGH

G2 expects that institutional investors will continue to increase their allocations to alternatives like private equity given a general market desire to move into value-based sectors to bolster portfolios and de-risk away from less COVID-resilient sectors. Moreover, we believe that PE investors will continue their trend of writing proportionally larger checks from the back half of 2020 in 2021 as they benefit directly from the buoyant institutional public equity markets and the resulting need for fund managers to maintain a larger target allocation percentage of private equity holdings.

VALUATIONS WILL CONTINUE TO BE FROTHY

Multiples in both public and private markets have been elevated for some time, and we foresee no reason for this to change in 2021. On the private side, the median EV/EBITDA multiple for buyouts was 12.7x through Q3 2020, tying its record high[1]. Factors such as the use of low-interest leverage and a surplus of dry powder in both the private equity and direct lending sectors will help keep valuations high in the T&L space, especially where there is a scarcity of value-based assets. Furthermore, we are seeing a blurring of the lines between mature and venture growth-stage investing, particularly for those companies in the space that have a strong technology-related component, such as ecommerce fulfillment and freight forwarding. Summit Capital's recent $290MM investment into ShipMonk and Softbank's investment of $68MM into ShipBob reflect this relatively higher trade trend when compared to traditional PE targets. Additionally, buyout funds are increasingly targeting growth-stage technology companies that tend to trade at a much higher multiple of earnings than companies on the more mature side of their life cycle.

CARVEOUTS AND CARVEOUT DEAL VALUE WILL INCREASE

Given the challenging year of 2020 and the resulting economic strain it has created on many companies, especially those who were deeply concentrated in end-markets that were not "essential" or suffered from consumer spending withdrawals, G2 has been active with its operational and financial restructuring practice areas advising across an array of right-sizing options. These options often include divesting non-core operations, many of which have been saddled with debt and continue to face top-line headwinds and liquidity challenges. We expect PE firms and strategic players across the T&L sector to be highly focused and active in pursuing compelling and accretive carve-outs for the balance of the year. Coming out of 2020, asset-heavy transportation companies with burdensome on-going capex needs and/or exposure to independent contractor driver models are facing some challenges and are ripe for opportunistic PEGs or PEG-backed strategics who can de-risk them operationally or through synergies. Similarly, 3rd party logistics providers who have sizeable warehousing assets that either lack the physical configuration or geographical location necessary for efficient order selection and final delivery are carve-out targets as well - particularly if they have not kept pace with the request customer-facing technology that the market is demanding.

Source: G2 Insights, S&P Global, PitchBook
Note: (1) PitchBook Q4 2020 Analyst Note - 2021 Private Equity Outlook

OCEAN FREIGHT

Click for Article A

The maritime industry has been under a tremendous level of pressure and scrutiny to keep pace with the increase in volumes. Imported goods, driven by organic retail, will be a large driver for all T&L sectors growth into 2H of 2021. 2020 was a record year for imports and G2 expects that this volume increase will continue well into 2021 as retailers and manufacturers continue to restock their inventory levels. In the month of February alone, 771,735 twenty-foot equivalent units were moved through the Port of Long Beach, a 43.3% jump from the 538,428 TEUs handled the same month last year. This amounted to the largest year-over-year increase for a single month in the port's 110-year history. Overall imports were up 50.3% year-over-year to 373,756 TEUs, from 248,592 in February 2020. Exports declined 4.9% from 125,559 TEUs to 119,416.

Moreover, the usual annual Chinese New Year slowdown will likely not be felt in Q1 2021 as most Chinese factories worked through the holiday this year in an attempt to fill back orders and meet continued large e-commerce demand which has not slowed. Together with the current backlog of container ships (~60-70) off of the Southern California coast awaiting to dock and unload, persistent dock worker labor shortages caused by COVID is adding to the congestion and operational stress at major US port locations.

At the same time, unusually large numbers of empty containers are being repositioned back to Asia to reload and return to keep up with the surge in US import demand. Faster repositioning of empties back to Asia means that they can take advantage of the higher eastbound (US import) container rates. As in 2020, carriers remain under considerable scrutiny by shippers and regulators alike as this container imbalance is driving high container rates and large carrier profits on the Eastbound route - unfortunately at the expense of those US exporters who are looking for space.

AIR & GLOBAL PARCEL LOGISTICS

Click for Article B

While monthly airfreight rates on key global trade lanes remained relatively flat in Q1, they remain significantly higher than last year-to-date. Average prices from Hong Kong to North America in February reached $6.42 per kg, which is up by 101% year-over-year, primarily driven by the loss of passenger freight belly capacity and noticeable but gradual demand as the result of increased US retail spending. However, compared with a year earlier, average rates on the trade were up by 101%. Despite the high rates, demand for air freight will continue well into Q3 as delays in container shipping supply chains into the US could continue well into the summer and fall unless capacity issues can be addressed. Given the significant port delays along the east and west coast created by increased import volume, container shortages in Asia, and wide-spread labor shortages and productivity reductions, air freight forwarders are getting creative and beginning to leverage secondary ocean and airport markets where labor and volume levels are more manageable to ensure timely delivery. The use of charter capacity is also becoming more prevalent despite its relatively higher cost per kilo versus traditional commercial block space as it has proven to be more reliable and timelier in certain markets.

TRUCKING

Click for Article C

Click for Article D

After a highly tumultuous 2020 where the market experienced increasing volumes paired with decreasing driver availability, the trucking industry seems to be poised to catch its breath in 2021. However, one or both of these levers will need to move in the opposite direction to ultimately yield softer market conditions. G2 believes that, pending any further inclement weather or similar disruptions, spot volumes and rates should continue to fall as tender acceptance rates on contract freight continue to rise. Van and reefer spot rates trended down in January as tender rejections and spot activity fell early in the month of February. Dry van spot rates decreased by 3.7% from $2.46 per mile in December to $2.37 in January. Contract rates have continued to climb, growing by another $0.03 per mile and bring the total increase to 20.3% from $1.97 to $2.37 since May 2020. The dry van linehaul rate per mile of $2.37 for the month of January increased 26.2% year-over-year but represented the first all in spot rate decrease since May. This is an encouraging sign that the pandemic driven inflationary cycle may have finally run its course and that we may have seen an inflationary apex late in Q4-2020.

Source: G2 Insights, S&P Global, PitchBook

TRUCKING (CONT'D)

Click for Article C
Click for Article D

However, as with any elastic market, the rate and slope of any spot rate decline will be dependent upon how quickly capacity can return to the US market – both a function of both assets and drivers. Thus far this year, Outbound Tender Reject Index (OTRI) figures show that total rejections have fallen from Jan.1 by 19% to 22.9% but are up more than 300% year over year. G2 expects OTRI to be nearer to 30% by the end of Q1. While carriers are expanding fleets with new Class 8 orders up 146% YOY (over 42,200 in the month of January), carrier challenges with seating drivers in trucks is forecasted to persist in 2021 as freight demand outlook remains high and driver availability remains an issue.

LOGISTICS & WAREHOUSING

Click for Article E

Growth in U.S. GDP, real disposable income, together with the expansion of wholesale, retail, foodservice, and meal-kit grocery channel consumption, continue to drive demand within the $5.6Bn U.S. temperature-controlled warehousing industry. This has only been heightened with the material demand created by the COVID-19 lockdowns as consumers have increased their online grocery purchases, expanded the depth and breadth of their perishable product selections in high-growth segments like fresh, organic and frozen convenience foods and where online penetration for grocery purchases is expected to grow to approximately 11.2% of total grocery sales by year-end 2021. Online food delivery services like DoorDash and UberEats are helping to fuel the need for more cold storage space and overall demand for both refrigerated and frozen warehousing capacity is expected to rise by 100mm square feet by 2025, an increase over today's capacity of nearly 50%.

RAIL

Click for Article F
Click for Article G

For the first nine weeks of 2021, U.S. railroads reported their cumulative carload volumes at 1.9MM units, down 5.7% from the same time last year while their intermodal volume was at 2.5MM units, up 8.6%. Railroads are hoping to continue to increase their ratio of intermodal rail moves as consumer spending is expected to remain elevated and rail lines hope to convert truck volumes to rail amid the tight truck market. In response, several railroads like Norfolk Southern and the Union Pacific are planning to make operational improvements to improve productivity such as lengthening trains, adding more double-stack capacity, and improving container pickup efficiencies at rail ramps to improve box returns.

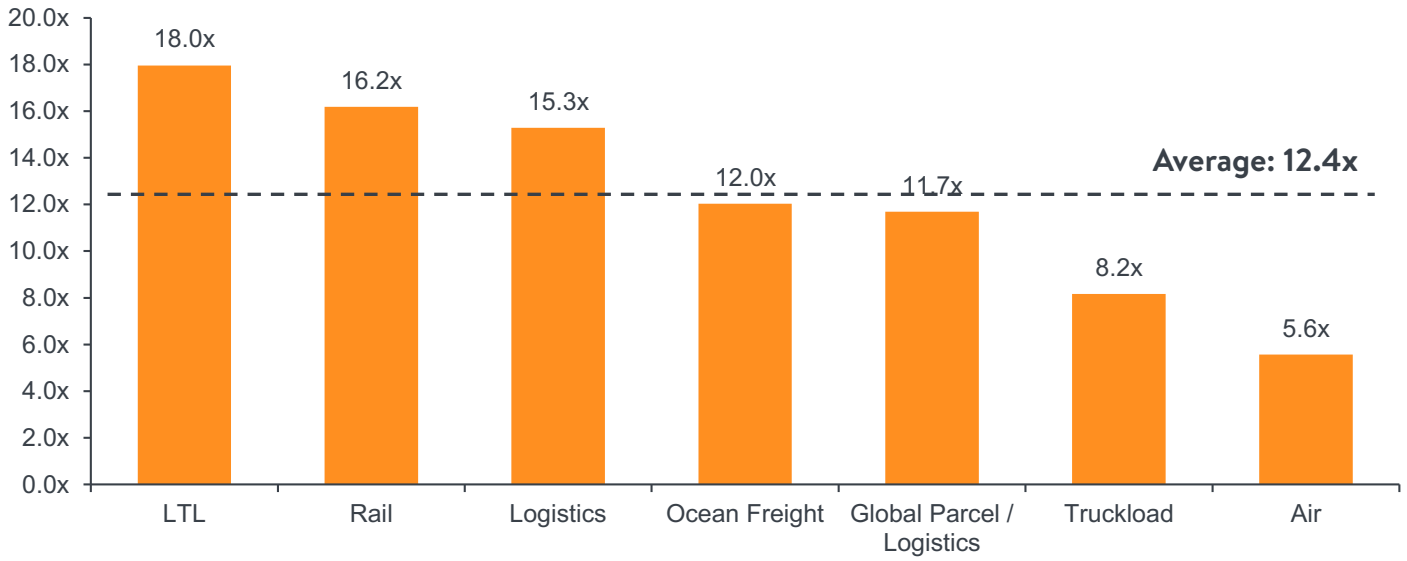
Source: G2 Insights, S&P Global, PitchBook

Key Trading Statistics

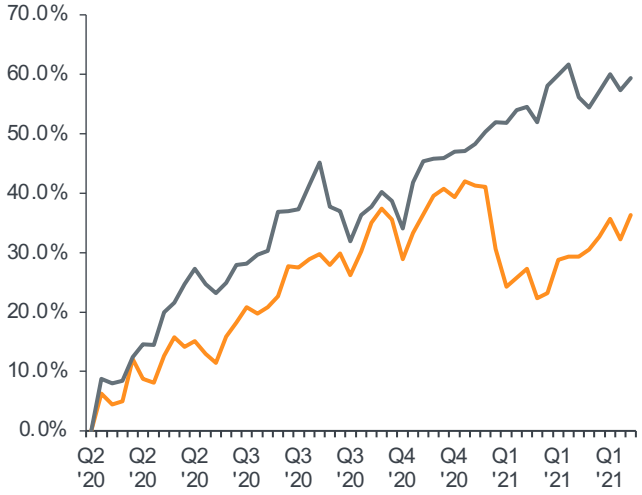
Transportation & Logistics

Overall valuations across the sub-sectors continue to recover from the lows in Q1 2020, with the average T&L EBITDA multiple increasing 11% between December and March and 32% over the last twelve months. The annual increase was largely driven by the LTL, rail and warehousing/logistics sectors with improvements of +9.7x, +6.3x, and +4.1x, respectively as the need for more intermodal transport options and warehousing demand for ecommerce orders continue to surge.

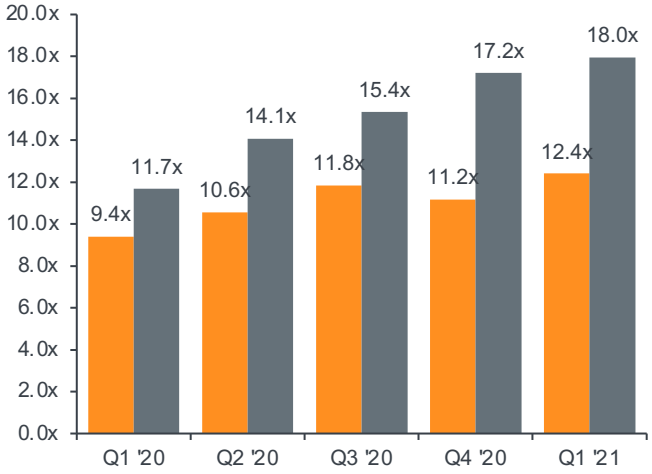
Q1 2021 Average EV / LTM EBITDA by Sub-Sector



LTM EV/EBITDA Performance



Quarterly EV/EBITDA Performance



T&L EV/EBITDA — S&P 500 EV/EBITDA

Multiples exclude outliers above 25.0x EV / EBITDA
Data sourced from S&P Capital IQ as of trading on March 31, 2021

Key Trading Statistics

Transportation & Logistics

Sector	Number of Companies	Average Enterprise Value ($MM)	LTM[1]			
			Average Revenue Growth	Average EBITDA Growth	EV / Revenue	EV / EBITDA
Ocean Freight	7	$6,693	-5.8%	3.7%	2.9x	12.0x
Global Parcel / Logistics	3	$119,370	6.1%	-5.5%	1.5x	11.7x
Air	3	$2,364	-0.8%	-11.1%	1.4x	5.6x
Truckload	9	$4,511	0.5%	8.1%	1.4x	8.2x
LTL	5	$9,297	-0.3%	2.2%	3.0x	18.0x
Logistics	10	$11,912	4.7%	9.2%	1.6x	15.3x
Rail	7	$74,617	-1.1%	-0.2%	7.4x	16.2x

For complete supporting information, click here.

[1] *LTM Multiples and comparison to March 31, 2020; Excludes outliers above 25.0x EV / EBITDA*

Key Trading Statistics in Millions USD (converted where necessary)
Data sourced from S&P Capital IQ on March 31, 2021

Selected Q1 2021 Industry Deals

Transportation & Logistics Transactions

The M&A market remains active across the T&L sector, driven largely by the shifting supply chain dynamics that are supporting "essential" product categories.

Selected Q1 2021 M&A Transactions					EV / LTM	
Date	Target	Acquirer	Target Description	Enterprise Value	Revenue	EBITDA
Mar-21	Mid-Pacific Transportation, Inc.	ZMac Transportation Solutions, LLC	Mid-Pacific Transportation, Inc. provides transportation freight services.	-	-	-
Mar-21	Kansas City Freightliner Sales, Inc.	Penske Commercial Vehicles US, LLC	Kansas City Freightliner Sales, Inc. sells and services Freightliner, Caterpillar, Cummins, Detroit Diesel and Mercedes trucks.	-	-	-
Mar-21	APPS Transport Group Inc.	Mullen Group Ltd.	APPS Transport Group Inc. provides intermodal less-than-truckload (LTL), warehousing, distribution, and logistics services.	-	-	-
Mar-21	Empire Truck Lines, Inc.	IMC Companies LLC	Empire Truck Lines, Inc. provides trucking services in the United States and Mexico. The company offers intermodal services through a fleet of custom bonded trucks that specialize in local drayage, intermediate, and line haul operations.	-	-	-
Mar-21	AIT Worldwide Logistics, Inc.	The Jordan Company, L.P.	AIT Worldwide Logistics, Inc., a transportation management company, offers transportation and logistics solutions around the world.	-	-	-
Feb-21	Fleetway Transport Inc.	TFI International Inc.	Fleetway Transport Inc. provides truckload and heavy-haul transportation solutions and logistics services.	$21.0MM	0.8x	-
Feb-21	International Truckload Services Inc.	Titanium Transportation Group Inc.	International Truckload Services Inc. provides truckload and logistics services in North America.	$60.5MM	0.8x	-
Feb-21	Savoie Inc	XTL Group of Companies	Savoie Inc specializes in the refrigerated transportation of perishable products.	-	-	-
Jan-21	Majority Of Contract Logistics Operations In The UK Of Kuehne + Nagel International	XPO Logistics Europe SA	As of January 4, 2021, Majority Of Contract Logistics Operations In The UK Of Kuehne + Nagel International was acquired by XPO Logistics Europe SA.	-	-	-
Jan-21	Bison Transport Inc.	James Richardson & Sons, Limited	Bison Transport Inc. provides truckload transportation services throughout North America.	-	-	-
Jan-21	SEKO Worldwide, LLC	Ridgemont Equity Partners	SEKO Worldwide, LLC provides transportation, logistics, forwarding, and warehousing services.	$500.0MM	-	12.0x
Jan-21	UPS Ground Freight, Inc.	TFI International Inc.	UPS Ground Freight, Inc., doing business as UPS Freight, provides less-than-truckload (LTL) and truckload freight services.	$800.0MM	0.3x	-
Jan-21	Avenger Logistics, LLC	MODE Transportation, LLC	Avenger Logistics, LLC provides transportation services, which include flatbed, O/D equipment, OTR trucking, dry van, temp controlled, LTL, hotshot, and other related services.	-	-	-

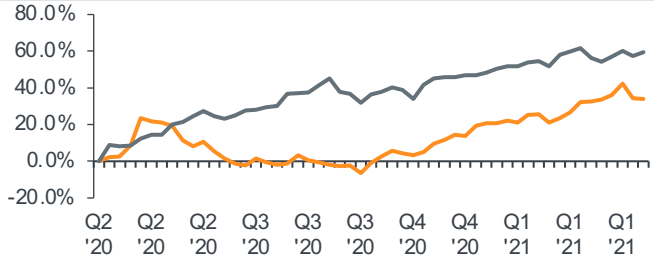
Source: S&P Capital IQ, Transport Topics, Logistics Management, FreightWaves

Public Trading EV/EBITDA Performance by Segment

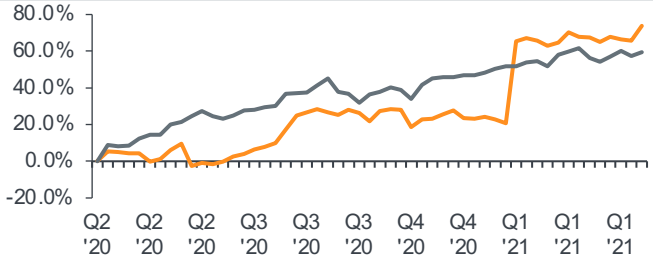
Transportation & Logistics

With few notable exceptions, sector-wide performance continues to rebound with valuation multiples strengthening over the LTM period.

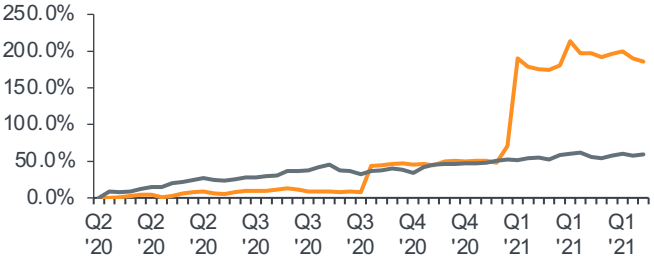
Ocean Freight



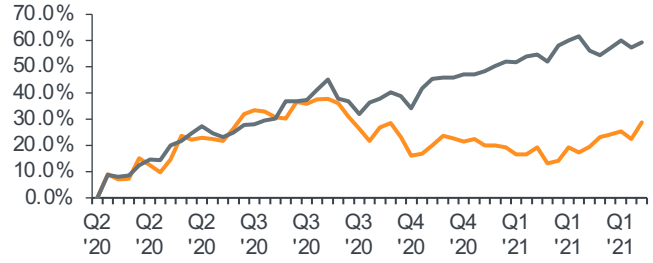
Global Parcel / Logistics



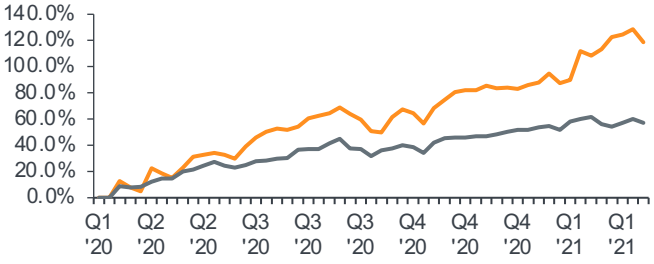
Air



Truckload

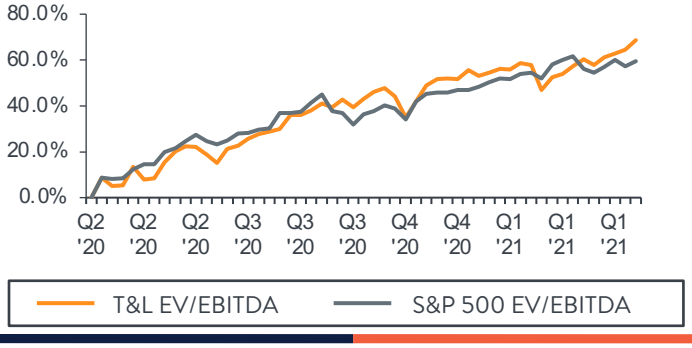


LTL



Logistics & Warehousing

Rail



	LTM Rev. Growth	EBITDA Margin	LTM EV/EBITDA Performance
Ocean Freight	-5.8%	29%	34%
Global Parcel / Logistics	6.1%	8%	74%
Air	-0.8%	19%	185%
Truckload	0.5%	18%	29%
LTL	-0.3%	15%	130%
Logistics & Warehousing	4.7%	10%	53%
Rail	-1.1%	46%	69%
S&P 500	-5%	18%	59%

Data sourced from S&P Capital IQ as of trading on March 31, 2021
Figures represent category averages

Select Ongoing G2 Projects

Transportation & Logistics

PROJECT HAWK

Sell-Side

Multi-Temp Transportation

- **Project Hawk** – G2 is currently advising a value-added transportation and logistics provider offering consolidation and multi-stop transportation for service sensitive, expedited and multi-temp loads. The company is seeking to find a new partner to support future growth initiatives.

PROJECT BOURBON

Buy-Side

Energy and Chemical Transportation Provider

- **Project Bourbon** – G2 is currently advising a leading asset-based provider of energy and chemical transportation and logistics services on a buy-side engagement. The company is seeking acquisition opportunities that will expand its brokerage and dedicated fuel capabilities.

PROJECT CHILL

Buy-Side

Freight Brokerage

- **Project Chill** – G2 is currently advising an asset-light provider of transportation and logistics services. The company is seeking acquisition opportunities that will expand its market penetration and geographic footprint.

PROJECT MONARCH

Buy-Side

Third Party Logistics

- **Project Monarch** – G2 is currently advising a provider of third-party logistics services on a buy-side engagement. The company is seeking acquisition opportunities to expand into adjacent geographic markets, industry verticals and service offerings.

PROJECT ORIOLE

Strategic Advisory

Temperature-Controlled Warehousing & Distribution

- **Project Oriole** – G2 has been engaged by a 3rd party temperature-controlled warehousing company to evaluate the optimal capital structure to grow the business based on current market conditions and the value proposition of the company.

G2 Overview

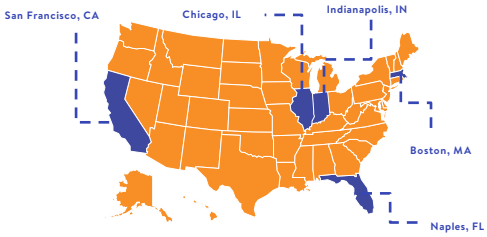
Investment Banking and Restructuring Advisory

G2 Capital Advisors provides C-level led investment banking and restructuring advisory services to middle market institutional investors and companies. G2 offers a comprehensive suite of investment banking services, creating a one-stop shop with non-conflicting strategic alternatives perspectives on what is truly best fit for each client.

Overview:

- 275+ mandates in 10 years
- $2.5B+ total executed transaction value
- Extensive industry experience
- Robust strategic and sponsor relationships
- Active touchpoints with logical sellers

~50 team members across 5 offices



A Multi-faceted Platform:

Focused on crafting bespoke operational and financial advisory solutions for our corporate and investor clients. G2 works with clients across a range of situations.

Sector Expertise:

Transportation & Logistics

T&L Focus Sectors:

- Freight Forwarding
- Trucking / Final Mile
- Warehousing / Distribution
- Third Party Logistics (3PL)
- e-Commerce Fulfillment

Industrials & Manufacturing

I&M Focus Sectors:

- Building Products / Construction
- Metals / Materials
- Container / Packaging
- Niche Manufacturing
- Distribution

Technology & Business Services

TBS Focus Sectors:

- Tech-enabled Services
- BPO
- Managed Services
- Internet & Digital Media
- Business Services

G2 offers clients an operational, experience-based approach within each of its practice sectors.

Reference
Contact & Glossary of Terms

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Term	Definition
Revenue	Total revenue from the sale of goods and services rendered during the reporting period, in normal course of business, reduced by sales returns and allowances, and sales discounts. For banks, this item is defined as net interest income after loan loss provisions
EBITDA	Earnings before interest, taxes, depreciation, and amortization. Calculated as Revenue – Expenses, excluding interest, taxes, depreciation and amortization
Market Cap	Market value of a company using most recently reported basic weighted average shares outstanding. Calculated as Market Price (as of period end) * Basic Weighted Average Shares Outstanding
Long-Term Debt	Sum of the carrying values as of the balance sheet date of long-term debt with a maturity beyond one year or the normal operating cycle, if longer
Net Debt	Net Debt shows the company's overall debt situation by netting the value of debts with cash and other similar liquid assets. Calculated as Total Debt – Cash & Cash Equivalents and Short Term Investments
Enterprise Value	Enterprise Value represents the combined economic value of a company as of the most recent fiscal year end. Calculated as Diluted Market Capitalization + Total Debt + Minority Interest + Preferred Stock – Cash and Short Term investments
P/E	A valuation ratio of a company stock price compared to its per share earnings. Calculated as Market Price / Earnings per Share for the last annual period
Tangible Book Value	Total Shareholder's Equity – Goodwill and Intangible Assets

For more information about G2, please visit: www.g2cap.com

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