

TRANSPORTATION & LOGISTICS

Q3 2023 MARKET UPDATE

Demand and capacity imbalances and lingering economic uncertainty signal a muted peak season in Q4 2023.

In this quarter's industry update, we will explore the dimensions driving the current environment and discuss tactics operators could take to maximize performance.

As peak season approaches, operators usually prepare for a spike in holiday freight volumes. However, despite relatively constant freight demand in August, as evidenced by stable trucking rates and a rise in container imports compared to pre-pandemic levels, our team expects a subdued 2023 holiday season. Here, we will explore the economic drivers that inform our position: high-interest rates dampening discretionary spending, consumer buying habits shift toward services, retail inventory remains high, over-capacity across transportation modes, and labor uncertainties.

Soft consumer demand

Recessionary concerns coupled with lasting effects from rapid inflationary price pressures have reduced purchasing power and changed buying behaviors as consumer confidence wanes—which will likely impact holiday consumption. In response, retailers have prioritized clearing overstocked warehouses and pulling back purchase orders in hopes of burning off excess inventory once and for all. What's more, the Fed reported a 4% YoY increase in the inventory-to-sales ratio, now hovering at 1.40 and signifying that for every sale, 40% more stock is held. These high inventory levels validate retailer concerns—and their efforts to manage oversupply.

Excess shipping capacity

Since 2020, ocean carriers have accelerated new vessel production in response to COVID-era disruptions. But as supply chains stabilized, carriers found themselves with excess capacity. Seeking supply-demand equilibrium, carriers have resorted to 'blank sailing,' either by skipping a port or canceling the entire route. Despite their efforts, shipping rates have not exhibited signs of meaningful recovery, with the Shanghai-to-Los Angeles rate hovering just above \$2,000. Once reserved for extraordinary circumstances, blank sailing practice is expected to persist through the end of the year as carriers focus on managing capacity to preserve profitability.

Labor dynamics

In the US and China, the cost and availability of labor could affect this year's peak season. In the US, members of the International Longshore & Warehouse Union began a 13-week contract dispute in June that was resolved in early September with a 32% pay increase over the six-year term of the new agreement. The summer dockworker disruption created slowdowns in West Coast ports and shifted volumes to the East Coast and Gulf Coast gateways—capacities that may not come back. International Longshoremen's Association members, including dockworkers from Maine to Texas, are now beginning their contract negotiations. In the near term, slowdowns or strikes will be particularly impactful, given the current volume concentration in the East Coast and Gulf Coast ports. In the long term, rising labor costs will continue to increase overall supply chain overhead and affect volumes shipped and sold.

Furthermore, the big three automotive manufacturers are in the throes of a strike by the United Auto Workers union with a focus on higher wages, reimplementing of certain retirement benefits, and reduction in weekly work requirements. Even though the automotive sector hasn't traditionally had a significant impact on peak, such a strike could impact Q4 performance for certain transportation and logistics service providers that have variable contract arrangements in the sector.



FREIGHT FORWARDING



FINAL MILE / COURIER



WAREHOUSING / DISTRIBUTION



ASSET-BASED TRANSPORTATION



FREIGHT BROKERAGE

TRANSPORTATION & LOGISTICS

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Looking to China, shippers traditionally prepare for a surge in September in advance of the country's Golden Week holiday slowdown, which happens during the first week of October. However, early September's falling container prices may suggest that demand is easing and the 2023 peak has already crested.

The Upside: How Operators Are Finding Opportunity

Make the most of a muted peak season by prioritizing 2024 planning now. Here, we are offering subsector-specific ideas to help you sharpen strategies, take advantage of market opportunities, and consider key investments.

Warehousing and eCommerce Fulfillment	Domestic Transportation	International Logistics
<ol style="list-style-type: none"> Evaluate brand forecasts relative to orders received and consider personalization marketing strategies for target customer in delivery network Create stickier customer relationships with tech-enabled, customized service offerings, such as sub-assembly, kitting, sequencing, trans-loading, and direct-to-consumer fulfillment Expand geographically into high-growth regions with an eye towards port-proximate locations that are benefiting from supply chain stabilization Invest in automation technologies to increase efficiency, reduce labor costs, and improve scalability 	<ol style="list-style-type: none"> Right size and align fleet capacity with demand while evaluating partnerships for peak periods Rebalance rate strategies across contracted and transactional spot activities to create a natural hedge to market volatility Refine recruiting, retention, and compensation strategies to pick up drivers released by bankruptcies and hold on to top performers Identify and vet partnerships with a service-first lens to foster ongoing growth and consistent execution 	<ol style="list-style-type: none"> Renegotiate agreements with carriers for more competitive rates and terms while carriers are eager to secure volume commitments Expand into end markets with strong resilience and/or robust growth prospects, such as food and beverage, industrial, or specialty Develop digital technologies to streamline operations, automate booking process, and enhance customer experience

Active Mandates

Project Mosaic
Project Frigid
Project Spirit
Project Sirius
Project Surge

Project Angel
Project Schaumburg
Project KanoPi
Project Rx

Project Move
Project Glide

Throughout 2023, G2 has seen many private equity firms proceed cautiously, while well-funded strategic organizations have executed aggressive roll-up strategies to:

- Add new service capabilities,
- Expand geographically,
- Enter new end markets,
- Penetrate new customer accounts, and
- Deepen their bench of talent.

We expect these activities will position organizations for tremendous growth as the broader market fully rebounds. A few recent examples of such transactions include Schneider National's acquisition of M&M Transport, for which G2 advised the seller, GXO's acquisition of PFSweb, and UPS's acquisition of MNX Global Logistics. G2 is anticipating that other strategics will announce highly relevant deals in Q4 2023.



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FREIGHT BROKERAGE

G2 RECENTLY CLOSED PROJECTS



About the Mandate:

Founded in 1990 by Mark R. Warsofsky, M&M Transport Services (“M&M” or the “Company”) has steadily grown into a leading nationwide provider of dedicated transportation services. The Company is headquartered in West Bridgewater, Massachusetts, and serves a diverse retail, manufacturing, and distribution customer base. M&M operates a modern equipment fleet with approximately 500 tractors and 1,900 trailers.

Over the past 30 years, M&M has been independently owned and operated by the Warsofsky family. The Company has evolved into a highly unique provider of two-way dedicated transportation and yard management services supporting Fortune 500 customers. The Company sought to identify a partner with the same strategic vision and customer-first approach to propel M&M into the next growth phase.

G2 Capital Advisors, LLC (“G2”) was engaged by M&M Transport as the exclusive sell-side advisor to run a highly tailored, strategic, and competitive process focused on identifying the right strategic partner to build upon the legacy established by the Warsofsky family.

The transaction was successfully executed on August 1, 2023, through a full sale of M&M to Schneider National, Inc. (NYSE: SNDR) (“Schneider”), a premier multimodal provider of transportation, intermodal and logistics services.

“The decision to sell M&M was extremely difficult and one my family and I took a long time to reach. We identified a list of attributes we felt were important in a partner and challenged G2 to address as many of those attributes as possible. We couldn’t have been happier with the senior leadership and support we received from G2. They understood our business and, more importantly, helped craft a vision for the process that identified a partner who would align with our culture and minimize change. We are thrilled to become a wholly owned subsidiary of Schneider National and leverage their broad capabilities and resources to make the combined entity uniquely positioned in the market,” said M&M Transport Founder Mark Warsofsky.

SELECT ONGOING G2 PROJECTS

Third Party Logistics

**PROJECT
MOSAIC**

Sell-Side

About the Mandate:
G2 is currently advising a leading provider of dedicated contract logistics and value-add supply chain services. The company is seeking a partner to support the next phase of growth through a sale or recapitalization.

Temperature-Controlled Warehousing

**PROJECT
FRIGID**

Sell-Side

About the Mandate:
G2 is currently advising a temperature-controlled value-added warehouse & distribution service provider. The company is seeking to find a new partner to support the future growth of the business.

Third Party Fulfillment and Logistics

**PROJECT
SIRIUS**

Sell-Side

About the Mandate:
G2 is currently advising a leading port-proximate provider of value-added warehousing and distribution services. The company is seeking a partner to support the next phase of growth through a sale or recapitalization.

Final Mile Delivery

**PROJECT
ANGEL**

Sell-Side

About the Mandate:
G2 is currently advising a regional provider of final mile delivery services. The company is seeking a partner to support the next phase of growth through a sale or majority recapitalization.

Asset-Based Transportation

**PROJECT
SCHAUMBURG**

Sell-Side

About the Mandate:
G2 is currently advising a multimodal transportation provider including asset heavy, freight brokerage and warehouse services. The company is seeking a partner to support the next phase of growth through a sale or recapitalization.

Freight Forwarder

**PROJECT
GLIDE**

Refinancing

About the Mandate:
G2 is currently advising a premier provider of customs brokerage and freight forwarding services. The company is seeking financing to support the acquisition of a highly complementary logistics provider.

SELECT ONGOING G2 PROJECTS

Freight Forwarder

PROJECT MOVE

Buy-Side

About the Mandate:

G2 is currently advising a provider of customs brokerage and freight forwarding services. The company is seeking acquisition opportunities that will expand its market penetration, service capabilities or geographic presence.

Third Party Fulfillment and Logistics

PROJECT SPIRIT

Buy-Side

About the Mandate:

G2 is currently advising a leading provider of value-added warehousing and distribution services. The company is seeking acquisition opportunities that will expand its geographic reach and capabilities.

Spare Parts Logistics

PROJECT SURGE

Buy-Side

About the Mandate:

G2 is currently advising a global provider of mission-critical, time-sensitive spare parts logistics solutions for high-tech OEM customers. The company is seeking acquisition opportunities that will expand service offering.

Final Mile Delivery

PROJECT Rx

Buy-Side

About the Mandate:

G2 is currently advising a provider of pharmaceutical delivery services. The company is seeking acquisition opportunities that will expand its market share and service capabilities.

Freight Brokerage

PROJECT KANOPI

Buy-Side

About the Mandate:

G2 is currently advising a provider of tech-enabled freight brokerage services. The company is seeking acquisition opportunities that will expand its market penetration, geographic presence or end market reach.

KEY T&L TRADING STATISTICS

Sector	Number of Companies	Median Enterprise Value (\$MM)	LTM ¹			
			Median Revenue Growth	Median EBITDA Growth	EV / Revenue	EV / EBITDA
Ocean Freight	7	\$9,760	-3.5%	-10.5%	1.7x	5.3x
Air	2	\$2,339	-0.4%	-3.1%	1.9x	6.7x
Truckload	9	\$4,957	-2.4%	-6.4%	1.0x	6.7x
LTL	5	\$14,475	-4.7%	-11.0%	2.9x	13.2x
Third Party Logistics	13	\$33,429	-5.4%	-8.2%	1.2x	9.5x
Rail	6	\$78,441	2.7%	4.5%	4.7x	12.7x

Data sourced from S&P Capital IQ. LTM as of September 30, 2023

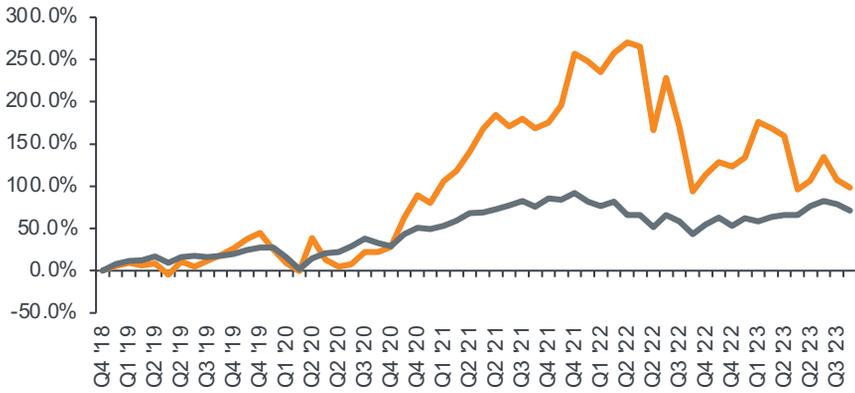
Q3 2023 M&A TRANSACTIONS

DATE	ACQUIRER	TARGET	DESCRIPTION	ENTERPRISE VALUE	EV / REVENUE	EV / EBITDA
Sep-23	United Parcel Service, Inc.	MNX Global Logistics	Global time-critical logistics provider of radiopharmaceuticals and temperature-controlled transportation services	NA	NA	NA
Sep-23	Warehouse Services, Inc.	Sky Transportation Services, Inc.	Regional truckload carrier focused on dry-van freight movements in the Southwestern U.S. and cross-border trade between the U.S. and Mexico	NA	NA	NA
Sep-23	Estes Forwarding Worldwide, LLC	Superior Brokerage Services, Inc.	Provider of freight forwarding, international shipping, logistics, and warehousing services. Estimated \$850MM in revenue	NA	NA	NA
Sep-23	J.B. Hunt Transport, Inc.	Brokerage operations of BNSF Logistics	Provides logistics services, including full truckload, flatbed, temperature-controlled, drayage, expedited and less-than-truckload	NA	NA	NA
Sep-23	GXO Logistics, Inc.	PFSweb, Inc.	Multinational provider of e-commerce luxury goods fulfillment services	\$179.6	0.9x	10.8x
Sep-23	Commercial Trailer Leasing, Inc.	Star Leasing Company, LLC	Provider of trailer leasing and maintenance services. Previously a portfolio company of I Squared Capital	NA	NA	NA
Sep-23	TorQuest Partners, Inc.	Brimich Logistics Inc	Ontario-based provider of ambient, refrigerated, and frozen storage services across five locations,	NA	NA	NA
Sep-23	TFI International Inc.	The Vedder Transportation Group	Provides tank truck transportation of food grade liquids and dry bulk commodities, generating annual revenue in excess of \$80MM CAD	NA	NA	NA
Aug-23	Trimac Transportation Services Inc.	Doyle Sims & Sons Trucking, Inc.	Hauling freight company, engages in the transportation of bulk products	NA	NA	NA
Aug-23	H.I.G. Capital, LLC	Ascent Global Logistics Inc.	Provider of technology-enabled, expedited logistics and supply chain solution services	NA	NA	NA
Aug-23	Trident Management LLC, Blue Jay Capital	Priority Courier Express	Priority operates an expedited B2B courier service in the Minneapolis-St. Paul area.	NA	NA	NA
Aug-23	LongueVue Capital, LLC	TTI Logistics, LLC	Asset-light provider of white-glove transportation, storage, and installation services for time sensitive high value products and retail displays	NA	NA	NA
Aug-23	Forward Air Corporation	Omni Logistics, LLC	Asset-light provider of freight forwarding, fulfillment services, customs brokerage, distribution, and value-added services for time-sensitive freight	\$3,200.0	1.9x	17.7x
Aug-23	Schneider National, Inc.	M&M Transport Services, Inc.	Dedicated contract carrier, offering specialty services for retail and manufacturing customers	\$225.0	NA	NA
Jul-23	Titanium Transportation Group Inc.	Assets and Equipment of Crane Transport	Crane Transport provides full truckload transportation and freight brokerage services.	NA	NA	NA
Jul-23	GSC Enterprises, Inc.	MacMillan-Piper, Inc.	Provider of transloading services in the Pacific Northwest with expertise in agricultural, paper, lumber, steel, dry bulk commodities and more.	NA	NA	NA
Jul-23	Angeles Equity Partners, LLC	Custom Goods LLC	Asset-light provider of warehousing and value-add fulfillment, transportation and other logistics services	NA	NA	NA
Jul-23	P & S Transportation LLC	Transportation assets of Action Dedicated	Provider of dedicated transportation services to automotive customers	NA	NA	NA
Jul-23	SMG Industries Inc.	Barnhart	Barnhart provides full truckload, less-than-truckload, dry bulk, heavy haul, drayage, and brokerage services.	\$53.4	NA	NA

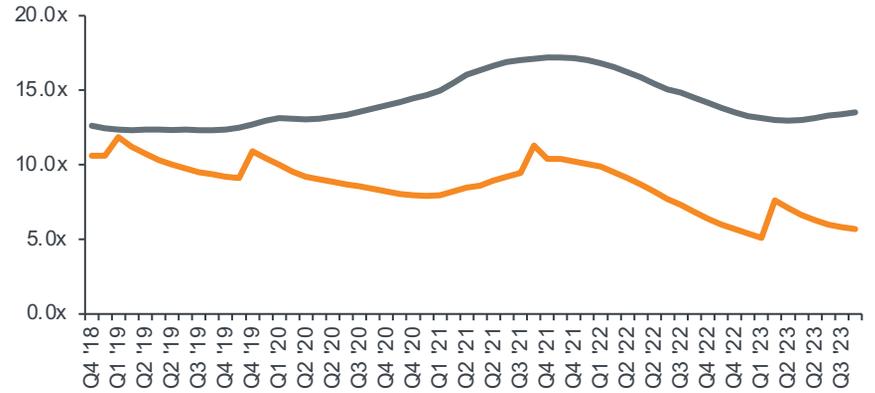
Data sourced from S&P Capital IQ as of trading on September 30, 2023
Past performance is no guarantee of future results

MARKET INDICATORS

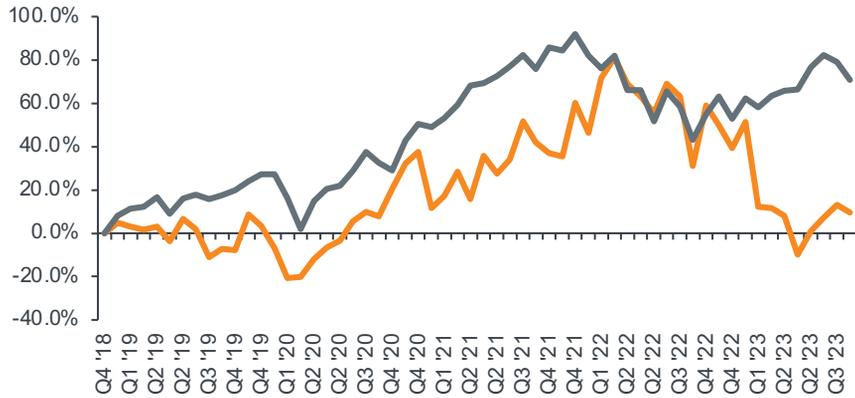
Ocean Freight Market Cap



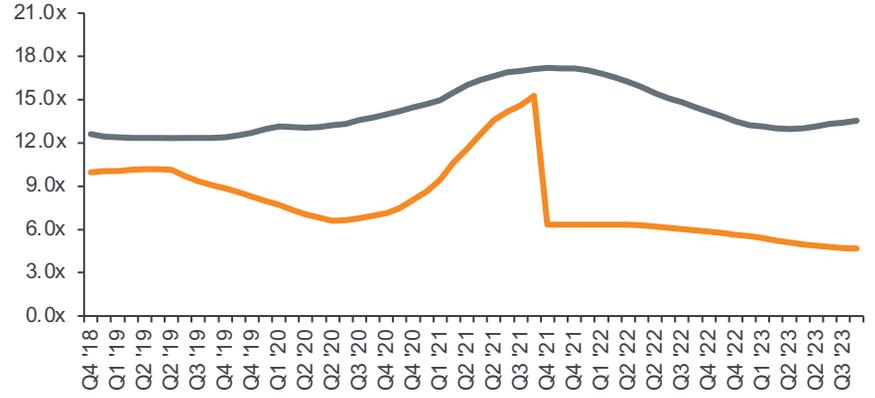
Ocean EV / EBITDA



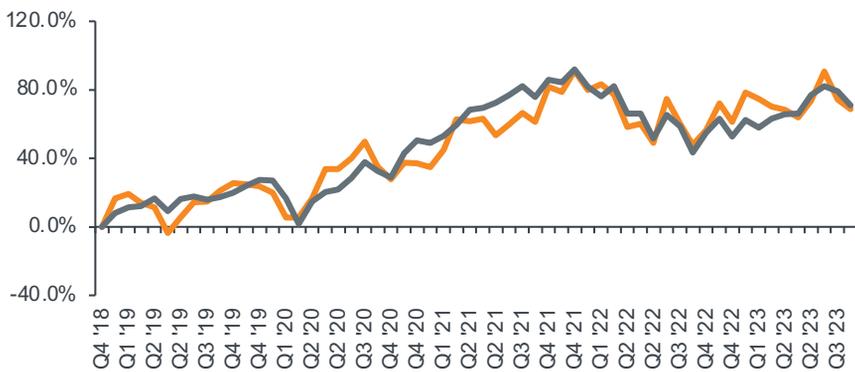
Air Freight Market Cap



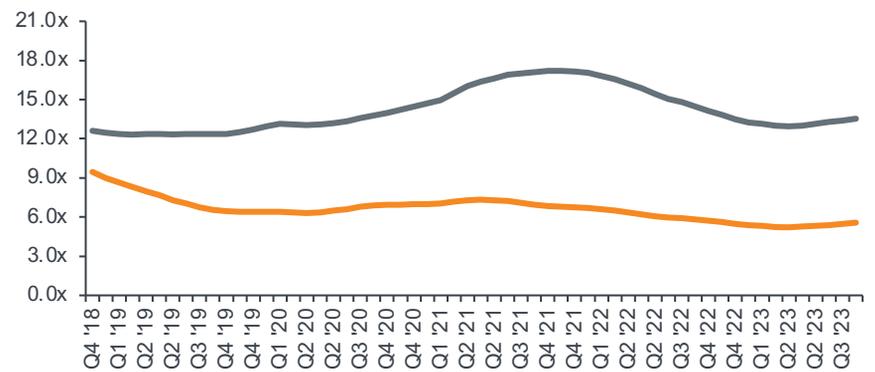
Air Freight EV / EBITDA



Truckload Market Cap



Truckload EV / EBITDA

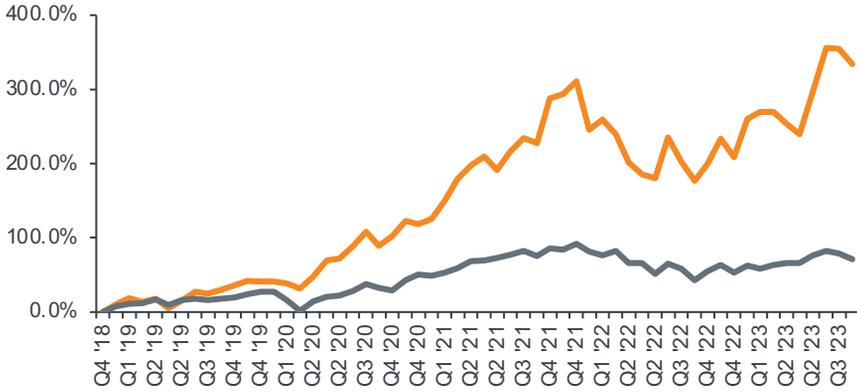


— T&L Sector — S&P 500

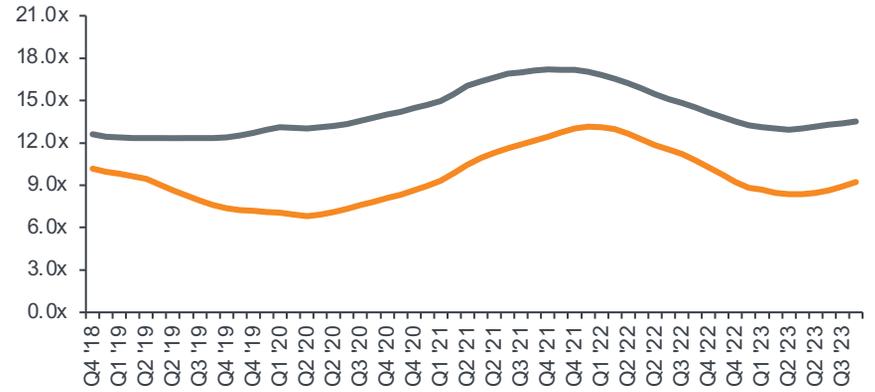
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MARKET INDICATORS

LTL Market Cap



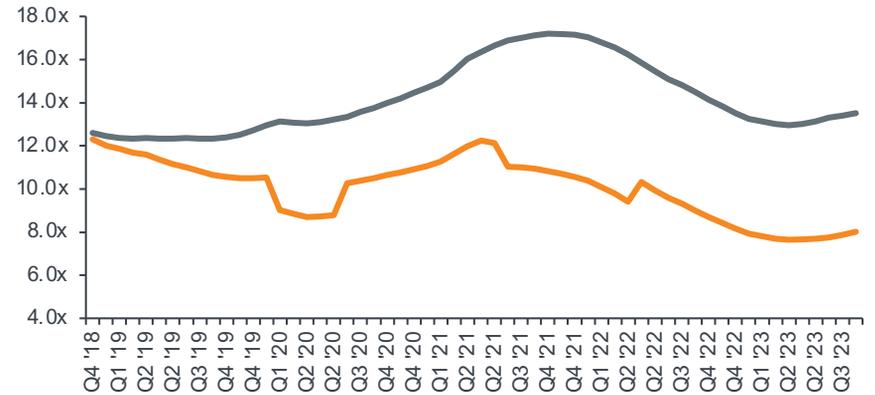
LTL EV / EBITDA



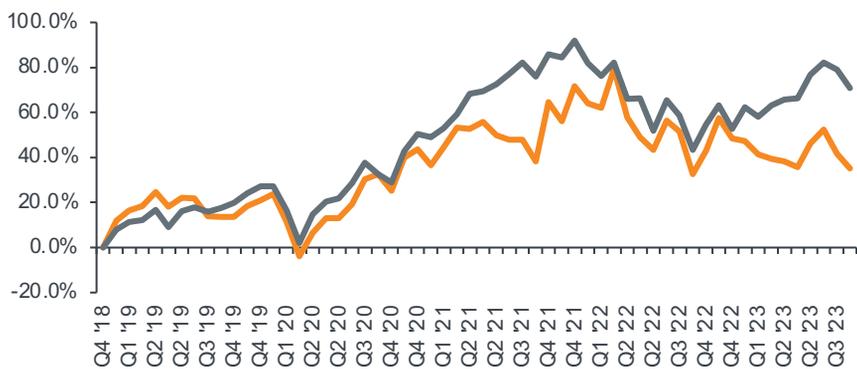
Third Party Logistics Market Cap



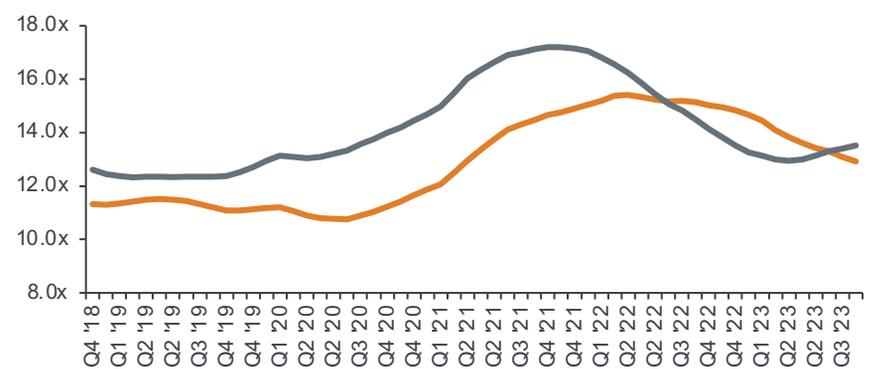
Third Party Logistics EV / EBITDA



Rail Market Cap



Rail EV / EBITDA



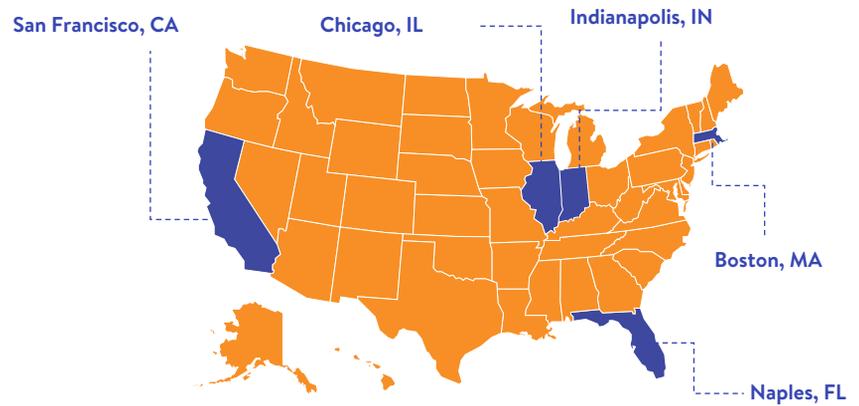
— T&L Sector — S&P 500

Data sourced from S&P Capital IQ as of trading on September 30, 2023
Past performance is no guarantee of future results

G2 FIRM OVERVIEW

Overview:

- 450+ mandates in 12+ years
- \$4B+ total executed transaction value
- Extensive industry experience
- Robust strategic and sponsor relationships
- Active touchpoints with logical sellers and buyers



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:



T&L Focus Sectors:

- Freight Forwarding / Customs
- Trucking / Freight Brokerage
- Final Mile / Courier / Big & Bulky
- Warehousing / Distribution
- e-Commerce Fulfillment



I&M Focus Sectors:

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



TBS Focus Sectors:

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



C&R Focus Sectors:

- Fast Moving Consumer Goods
- Retail & E-Commerce
- Quick Serve Restaurants
- Fast Casual Dining
- Marketing Services

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