Transport & Logistics Barometer

Special edition, October 2023

Transact to Transform – How M&A is Reshaping the Transport and Logistics Industry

pwc

strategy&

Part of the PwC network

This publication was developed in collaboration between the PwC Transport and Logistics practice and Strategy&, PwC's global strategy consulting business. Our purpose is to build trust in society and solve important problems.

Strategy& is a global strategy consulting business uniquely positioned to help deliver your best future: one that is built on differentiation from the inside out and tailored exactly to you. As part of PwC, we build winning systems at the heart of growth daily. We combine our powerful foresight with this tangible know-how, technology, and scale to help you create a better, more transformative strategy from day one. As the only at-scale strategy business part of a global professional services network, we embed our strategy capabilities with frontline teams to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

www.strategyand.pwc.com/

Contents

1

An industry in flux: seizing the opportunities

Transport and logistics companies are reinventing themselves for numerous reasons, such as responding to global trends, including technological disruption, supply chain changes, climate concerns, demographic shifts, outdated business or operating models, and evolving customer needs. In fact, more than 40 percent of CEOs in the transport and logistics industry worldwide fear for their organisation's viability just one decade into the future if they maintain their current trajectory[1].

But transformation is not about survival. It's about success. Leading businesses often make strategic investments such as M&A to gain new capabilities or a competitive advantage.

Of course, deals don't guarantee successful transformation. We believe the leading companies will move forward by understanding market trends and maintaining a unified, integrated vision for the future that encompasses strategic, operational, and financial factors. They will also realise that deals often accelerate organic growth or serve as a catalyst for transformation.

In a dynamic deals market, companies that want to engage in M&A must navigate fluctuating valuations, funding, and capital costs. Moreover, shifting regulations are impacting deal execution. Consequently, buyers and sellers have evolved to pursue intricate deals with ambitious synergy targets and tighter timelines.

It's essential to have a well-structured portfolio management strategy that includes divestments and other M&A activities. Leading organisations involve their executive teams to enhance value during and after transactions. Industry leaders also plan multi-year journeys that feature deals and transformative investments. Companies can maximise shareholders' returns by harmonising deals and transformation activities.

This special edition of our Transport & Logistics Barometer emphasises the pivotal role of M&A in driving industry and corporate transformations. It takes a journey into the last five years, including the tumultuous era of the COVID-19 pandemic. Our latest issue continues the rich tradition of this biannual publication, which has evolved from providing M&A analysis to delivering a holistic view of the key dynamics and trends in this industry.

We are releasing our special edition in time for the 40th International Supply Chain Conference (#ISCC23) in Berlin. This event is a powerful networking opportunity that brings together decision-makers across the logistics and supply chain management industry. It is also one of Europe's largest logistics congresses. At #ISCC23, PwC and Strategy& will join leading figures from a wide range of industries, as well as the logistics services sector. Together, we will discuss the potential for transactions to drive transformation in this market and within corporate structures.

Previous studies have shown an increase in transformational deals across all industries as CEOs reposition and reinvent their businesses for long-term success. However, the number of transactions in the transport and logistics industry has plummeted since the second half of 2022. This drop creates an intriguing paradox because logistics companies are under intense pressure to spearhead transformation. Our special edition of the Transport & Logistics Barometer aims to demystify this apparent contradiction. The following chapters apply a fine-tuned methodology that exclusively focuses on the freight sector. We draw conclusions and recommendations based on a comprehensive analysis and classification of over 1,000 M&A activities.

2

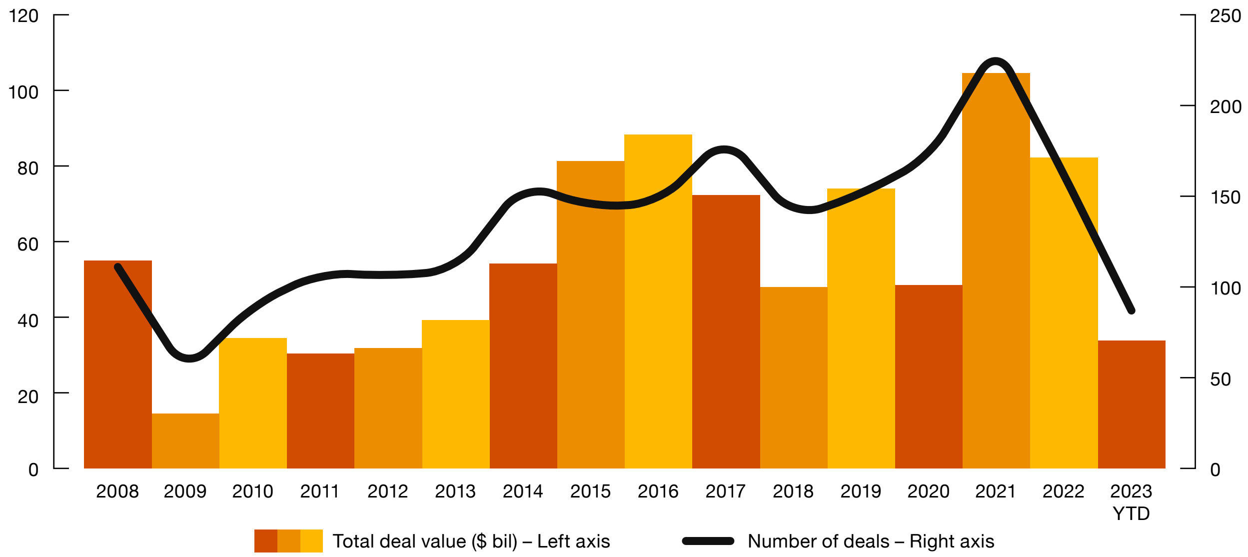
Deals down, transformation pressure up

Highs and lows for T&L deals

In the past fifteen years, M&A activity[2] in the transport and logistics industry has hit highs and lows regarding deal volume and total deal value. These were caused by market changes and shifts in the business environment and by individual megadeals that pushed up the total deal value.

The global financial crisis caused a particularly significant slump in M&A volume and value during 2009 – the recovery took approximately four years. From 2014 onwards, a new high point for deal volume was reached. This level was maintained in the following years, with stand-out levels of total deal value and record-high average deal values in 2015 and 2016. This high was caused by the consolidation of major logistics players and many significant acquisitions, including FedEx's purchase of TNT Express in 2016.

Figure 1: M&A deals with targets in the transport and logistics industry's freight segment



Source: PwC analysis, based on Refinitiv; Deals with a value greater than $50 million

The years 2017 and 2018 marked the beginning of increased vertical integration activity, fuelling the M&A market. This activity was primarily driven by large shipping liners, including Maersk, COSCO, and CMA CGM. By acquiring logistics service providers, they aimed to offer integrated logistics services while gaining direct contact with industrial and retail clients. High profits during the COVID-19 pandemic enabled these companies to intensify their M&A activities.

The M&A market in transport and logistics experienced a brief slump in the first half of 2020 during the COVID-19 outbreak period. However, the market recovered quickly in the second half of that year and hit record levels of deal volume in 2021. This record was achieved against a backdrop of disrupted supply chains, an imbalance of supply and demand, and capacity constraints in air and ocean freight. The transactions market was boosted by the industry's high levels of available cash and an intense battle for additional capacity and margins.

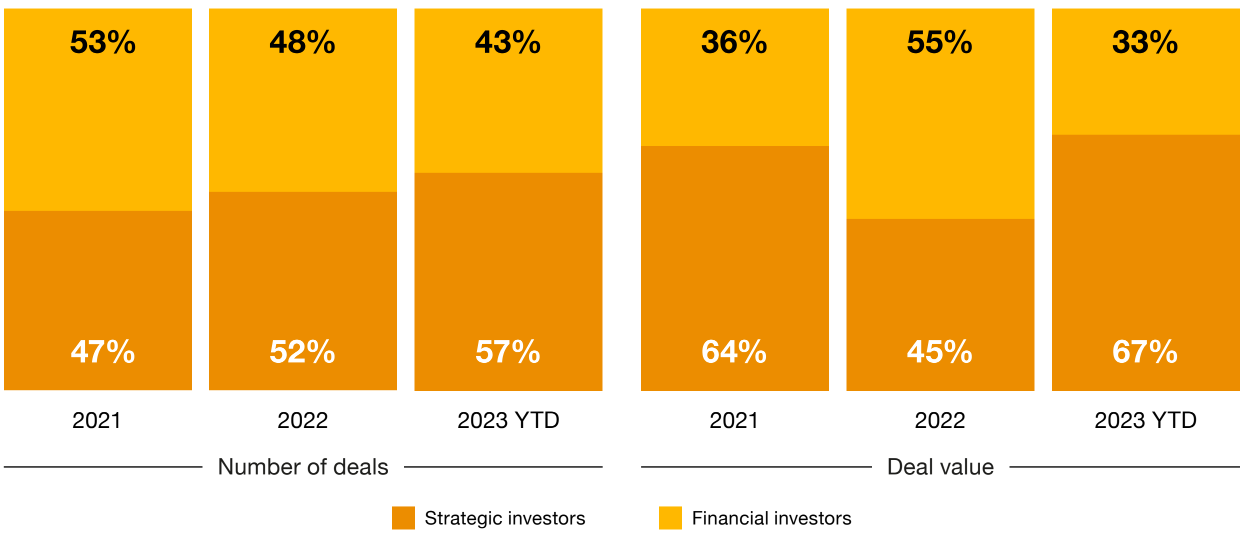
In 2022, the deal volume stabilised, and the average deal value reached the highest level since 2016. This was largely due to several major deals that resulted from vertical and horizontal integration among shipping liners and the attractiveness of infrastructure targets.

At the same time, Russia's invasion of Ukraine caused macroeconomic distortions, uncertainties, and increased inflation. During the first half of 2023, the M&A volume in the transport and logistics sector fell to its lowest level in ten years. This downward trend continued; the third quarter of 2023 saw the lowest number of announced deals (22) of any quarter during the last decade (see Figure 1). By the end of September, 87 deals totalling $33.8 billion had been announced in the transport and logistics industry in 2023. Full-year M&A activity in 2023 might end up at the same lows seen in 2008 when 111 deals were announced with a total deal value of $55 billion. Remarkably, the average deal value ($388.5 million) is only slightly below the average of the last five years and on the same level as the 2008-2010 average. This shows that certain M&A patterns repeat themselves in cycles.

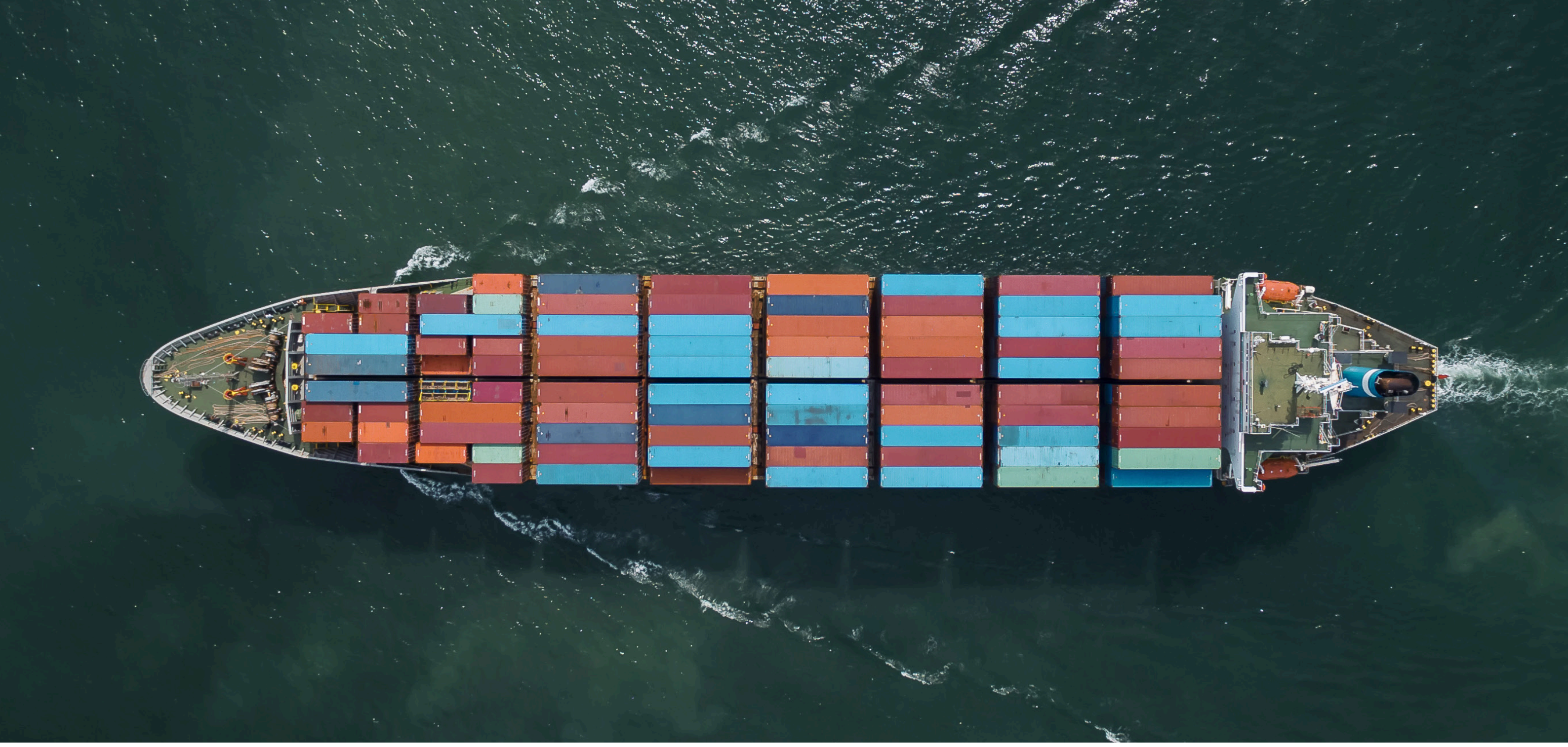
The distribution across transport and logistics sub-sectors[3] shows that logistics and trucking (volume: 68%, value: 62%) stand out, as usual. This is followed by deal announcements in shipping (volume: 33%, value: 25%), including port infrastructure. Deals announced in the third quarter had a similar structure, with most transactions targeting freight trucking, warehousing, and shipping companies, primarily in the United States and Europe. Only one megadeal was announced in Q3. Forward Air Corp agreed to merge with Omni Logistics LLC in a cash-and-stock transaction aimed at creating a leading position in the expedited less-than-truckload market. The transaction is valued at $1.9 billion. This merger brings the total megadeals announced in 2023 to five, with a combined 48% share of the total deal value in the transport and logistics industry.

Financial investors were involved in 43% of the deals announced in 2023, continuing the trend of steady decline since 2020 (see Figure 2). These deals accounted for only 33% of the total value, the lowest share in over ten years. This is a result of declining debt financing due to rising interest rates. Institutional financial investors such as private equity (PEs) are withdrawing. Instead, they are focusing on value creation and portfolio companies and small and mid-cap deals.

Figure 2: Number and total value of deals involving financial investors

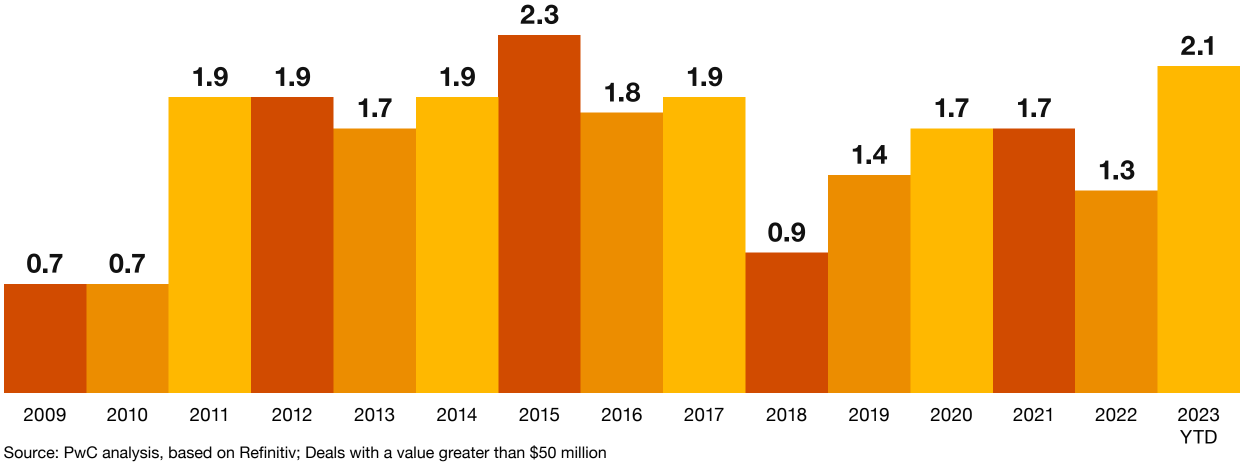


Source: PwC analysis, based on Refinitiv; Deals with a value greater than $50 million



When valuations fall, the focus is typically on restructuring rather than sales. However, financial investors and strategic investors remain cautious. The trend from this year's first half has continued into the third quarter. Investors are willing to pay a higher price for targets with the perfect strategic fit. The median sales multiple (2.1x) is one of the highest since our observations began – and is significantly higher than the previous year (1.3x) and the ten-year average (1.7x) (see Figure 3).

Figure 3: Median of value/sales multiples



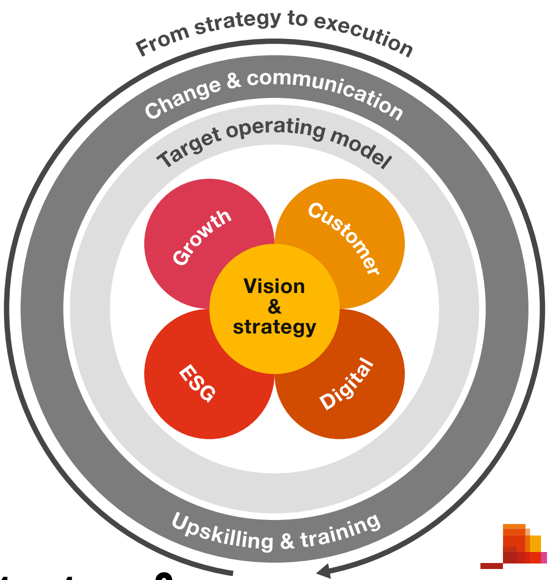
Source: PwC analysis, based on Refinitiv; Deals with a value greater than $50 million

Overall, the transaction volume in the transport and logistics industry is plummeting, while the pressure on logistics companies to spearhead transformation has never been more pronounced. Prices for attractive targets are now returning to high levels, and interest rates are increasing, too. As a result, large-cap deals are becoming increasingly expensive for private equity firms, while strategic investors may no longer be able to fund such deals from their own cash reserves. This scenario could lead to an increase in bidder consortia (joint bidding), involving primarily financial investors. The focus of strategic investors may also shift towards small and mid-cap deals. Many corporates will be cautiously looking at their EBIT, while wisely using their cash reserves to develop new markets or build new capabilities – and make transformational deals.

An industry under pressure to transform

The low level of M&A activity in this industry today reflects an environment of rapidly declining freight rates, rising interest rates and an uncertain outlook for market fundamentals. Challenging boundary conditions are compelling companies to prioritise bottom-line performance over expansion via acquisitions. Against this background, the entire T&L industry faces a clear and urgent need for transformation. To achieve this, we recommend focusing on seven transformation areas that must be addressed holistically – from strategy to execution.

Figure 4: Seven transformation areas from strategy to execution



strategy&
Part of the PwC network

pwc

Transformation Area 1: Vision & Strategy

A corporate vision and strategy set the direction for any business transformation. Articulating a shared, unifying vision of the desired target state and linking it to a holistic value-creation plan with market-oriented product and service offerings and a corresponding operating model is vital to success. The transformation must be enabled by capabilities that provide a distinct value proposition. A transformation strategy that is built on these elements and introduced with an effective roadmap will set out the requirements for all other transformation areas while linking them together.

Transformation Area 2: Customer Excellence

Price remains a top priority for transport and logistics customers. However, B2B customers now have rising expectations for usability and responsiveness. These expectations mean businesses can grab a competitive edge by offering a truly unique customer experience. Companies that excel in experience management are rewarded with greater customer loyalty, positive recommendations, increased market share and higher profitability. Boosting that Return on Experience (RoX) requires a clear understanding of the customer journey. Businesses must also recognise how technology and data can enable a superior experience, as well as how to equip customer service staff with the right skills to provide timely and accurate information across channels and how to deploy automation and self-service offerings effectively.

Transformation Area 3: Digital

Businesses can unlock value creation and gain a competitive advantage by effectively leveraging data, technology and digital solutions, products, and services. Eight essential core technologies will build the foundation of a new era in the transport and logistics industry: Artificial Intelligence (AI), Augmented Reality (AR), Virtual Reality (VR), blockchain, drones, the Internet of Things (IoT), robotics, and 3D printing. Businesses that embrace these technologies will improve customer centricity, employee experience and operational excellence.

This step change in new tech can be seen through the example of generative AI (GenAI), which is expected to improve employee productivity significantly. Using Chat-GPT can achieve 37% office worker efficiency gains[4], and it's claimed that GenAI-based assistants enable up to 55% coding time savings[5] and 14% customer service productivity increases[6]. These are just some of the striking efficiency benefits available to the transport and logistics industry. Harmonising and using existing data, mining new data and developing data services should be the key focus to fuel these technologies and their value-creation potential. A well-defined and thoroughly implemented data strategy will guide your transition to a data-driven company.

Transformation Area 4: Environmental, Social and Governance (ESG)

The transport and logistics industry is in the spotlight during environmental sustainability discussions because it significantly and directly contributes to global CO_2 emissions. Consequently, shareholders are stepping up their focus on climate protection goals and measures – and placing more weight on these factors during investment decisions. Governments have reaffirmed their commitment to the Paris Agreement by setting net-zero targets and pursuing other efforts to limit global warming to 1.5° Celsius. The need for action is clear, but it is not yet clear which institutions must take the lead and make the necessary investments. Vehicle OEMs are leading the way towards low-emission road freight, for example. Now, logistics companies must decide how and to what extent they can effectively drive the sustainability transformation. At the same time, there is an increasing need to provide full transparency on social responsibility topics such as working conditions along multi-tiered supply chains. This brings their own set of challenges for complex logistics networks.

Transformation Area 5: Growth

For some logistics companies, organic growth might be a viable option for gradually extending geographical coverage (e.g., with a follow-your-customer approach), increasing or complementing the product and service offering, and building adjacent capabilities from a strong foundation. However, in many cases, this will not be sufficient to acquire capabilities at the required depth or scale or within an acceptable time frame. A clearly defined M&A strategy that includes the specific value chain areas for investment is a critical factor in ensuring success – from target screening to deal value delivery. Evidence shows that comprehensive M&A integration success along strategic, operational, and financial dimensions remains elusive[7] in many cases. This evidence highlights the importance of diligently determining the deal rationale and strategic fit before executing the integration plan.

Transformation Area 6: Target Operating Model (TOM)

Several factors are involved when aligning the Target Operating Model (TOM) with the envisioned future state. These include considering operational processes, organisational structures, roles, responsibilities, and governance mechanisms – everything must be geared toward achieving transformation goals. In the logistics network sector, prioritising the acceleration and expansion of operational excellence is particularly vital. Achieving this requires robust support for rigorously implementing performance initiatives. At all times, a culture of continuous improvement is essential.

Transformation Area 7: Change, Communication, Upskilling and Training

Every industry faces challenges with talent acquisition today. However, this is a particularly tough challenge in the transport and logistics sector because of its uniquely diverse workforce requirements. The increasing importance of digital technology and data has amplified the demand for highly qualified and specialised experts. This demand puts the transport and logistics industry in direct competition with top technology companies, as well as nearly every other industry. Effective communication and change management led by highly skilled management teams at all organisational levels are essential for driving industry-wide transformation. At the same time, the industry's workforce is undergoing a fundamental shift in work processes – this involves a wide range of manual roles within transport and logistics companies' value chains. Creating appealing job profiles, attracting and retaining talent, providing ongoing upskilling and training, and establishing clear career paths are vital. This is a key factor in successfully acquiring new talent. It will also help motivate existing employees with valuable institutional knowledge to embrace and support these changes.

Summary

These seven transformation areas are closely connected and can all be fuelled by acquisitions. Focusing on "Growth", we want to investigate how T&L players have leveraged acquisitions to position themselves along the value chain. Have they strengthened their core positioning or extended their reach into new value chain areas? In the following chapter, we dive deeper into these questions. The other transformation areas will provide our focus point for future editions of the Transport & Logistics Barometer.

3

Value chain transformation changing the competitive landscape

The last five years have been a rollercoaster ride for the transport and logistics industry. The COVID-19 pandemic marked a phase of disruption – where initial worries about needing to pause economic and logistics activities gave way to capacity shortages and record-high freight rates. The pandemic also led to increased financial power across the transport and logistics value chain. Viewing acquisitions along value chain areas shows how T&L players have leveraged acquisitions to build their strategic positioning before and throughout this time.

A close look at the areas of acquisitions in the value chain based on the buyer's core positioning shows the extent of horizontal and vertical integration activities. Our analysis is based on classifying 388 strategic acquisitions between 2018 and mid-2023. The bubble sizes in Figure 5 show the activity intensity in terms of the number of acquisitions in the various value chain areas. A single acquisition can cover multiple areas if the target has activities across them. The bubble sizes in Figure 6 depict the acquisition value.

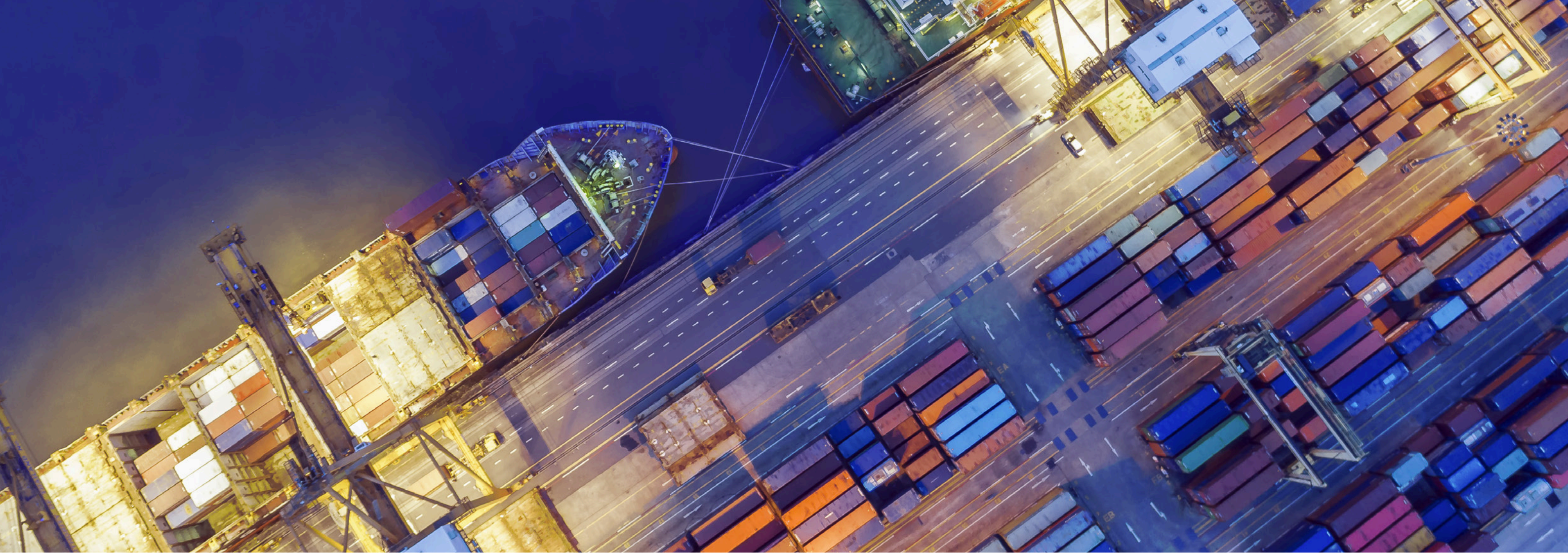
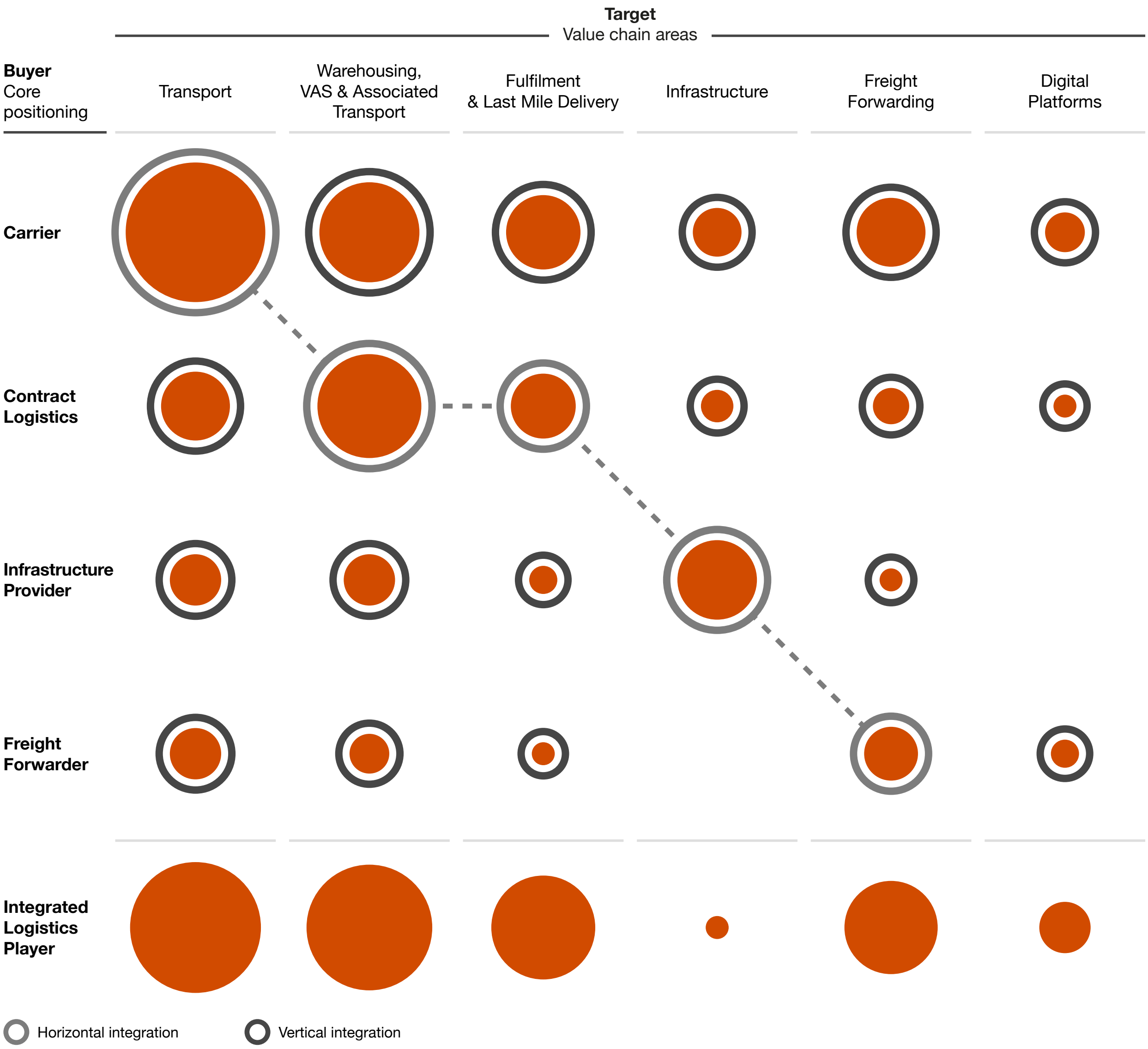


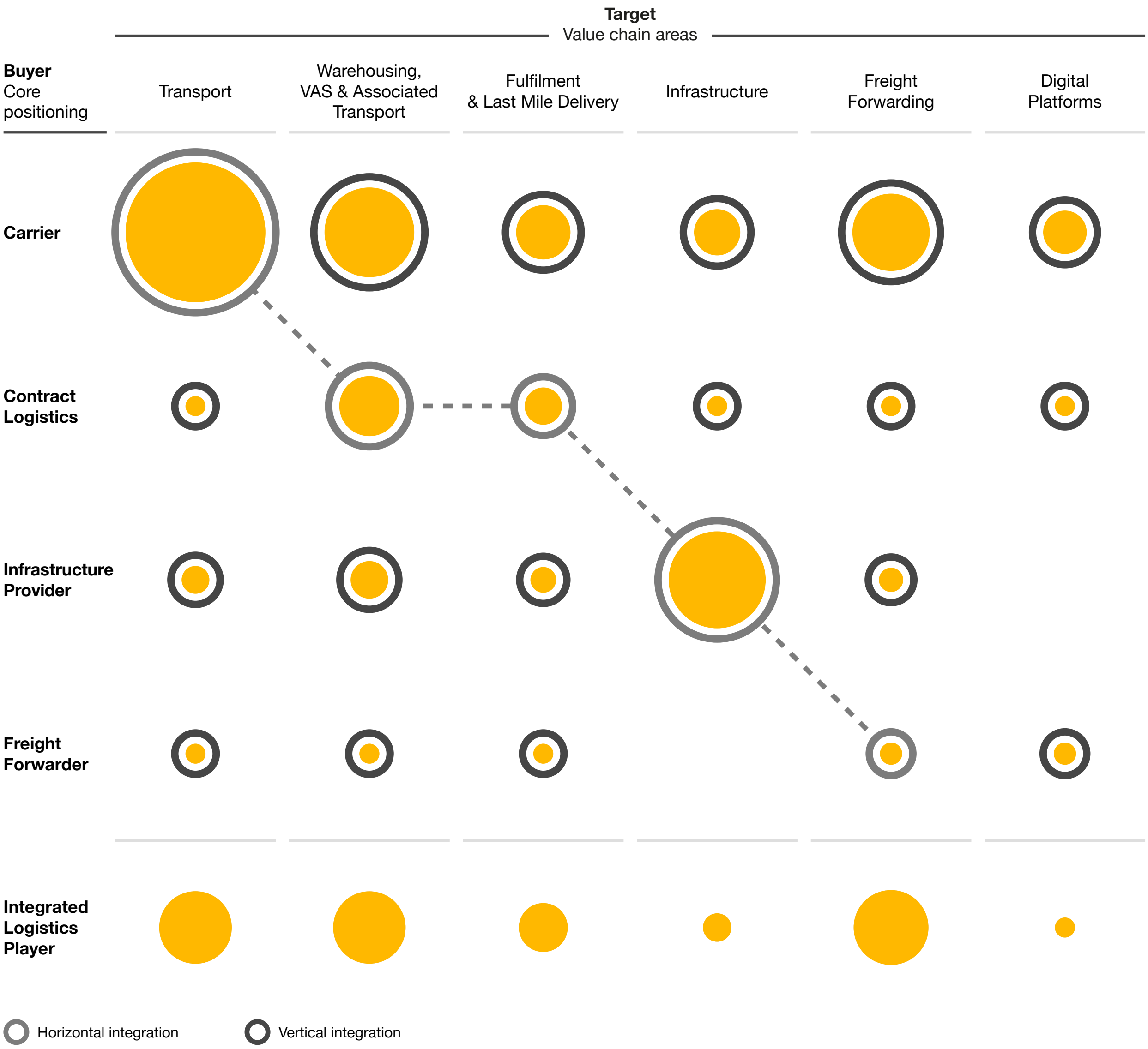
Figure 5: Targeted value chain areas based on number of acquisitions and investments



Bubble sizes represent the number of acquisitions; based on a classification of 388 strategic acquisitions between 2018 and mid 2023.
A single acquisition can cover multiple areas if the target has activities across them.

Strategy& analysis based on PitchBook Data, Inc.; *Data has not been reviewed by PitchBook analysts.

Figure 6: Targeted value chain areas based on total deal value



Bubble sizes represent the total deal value; based on a classification of 388 deals between 2018 and mid 2023. Values <$1 bn have been rounded up for visual purposes. A single acquisition can cover multiple areas if the target has activities across them.

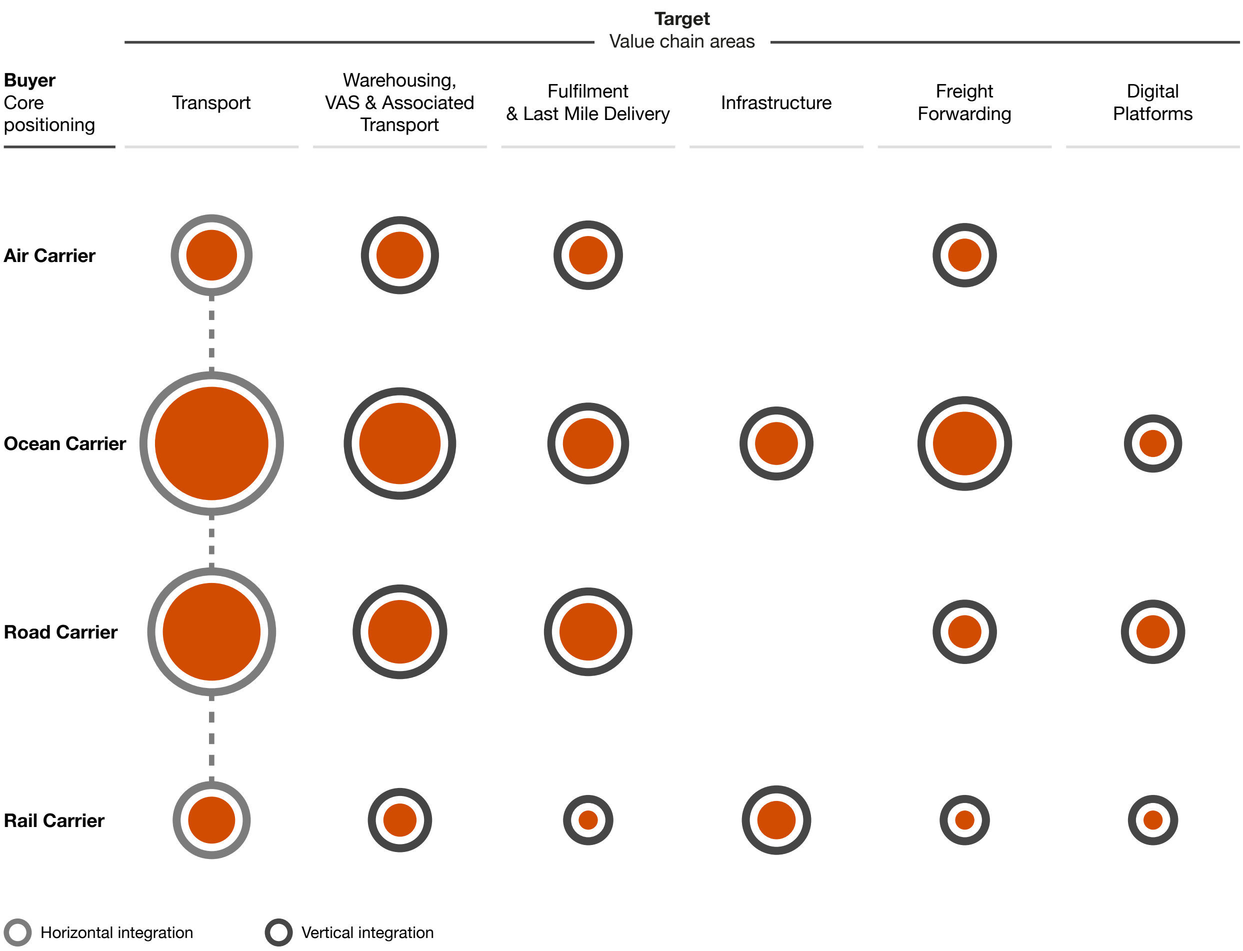
Strategy& analysis based on PitchBook Data, Inc.; *Data has not been reviewed by PitchBook analysts.

Vertical integration towards end-to-end coverage

Looking at the areas left and right from the dotted line tells us how companies have pushed vertical integration and acquired parts of the value chain outside their core positioning. While all players have been engaged to some extent, carriers have made remarkable moves by buying into contract logistics and forwarding - and last mile capabilities to a lesser extent. Integrated transport and logistics companies have further expanded their reach across the value chain by focusing on transport and contract logistics businesses.

Distinguishing the carriers by mode (124 acquisitions in scope) provides rich insights into how they have expanded their focus over the last few years (see Figure 7 and Figure 8). For example, strategic moves by shipping liners have gained considerable attention. While the absolute number of acquisitions is not striking, their total deal values show the strong relevance of these deals. It is important to consider the historical background of the role of ocean carriers to understand the substantial shift we now see. Through several decades of market ups and downs in the ocean carrier business, the focus has been chiefly on consolidation within the segment or expansion within core shipping activities (e.g., cruise shipping) or diversification into adjacent value chain steps like port and terminal infrastructure (e.g., investments by COSCO into the port of Piraeus, terminal investments by MSC, Maersk and CMA CGM). With significant transport and logistics companies as their primary customer base, carriers' direct customer ownership was relatively low.

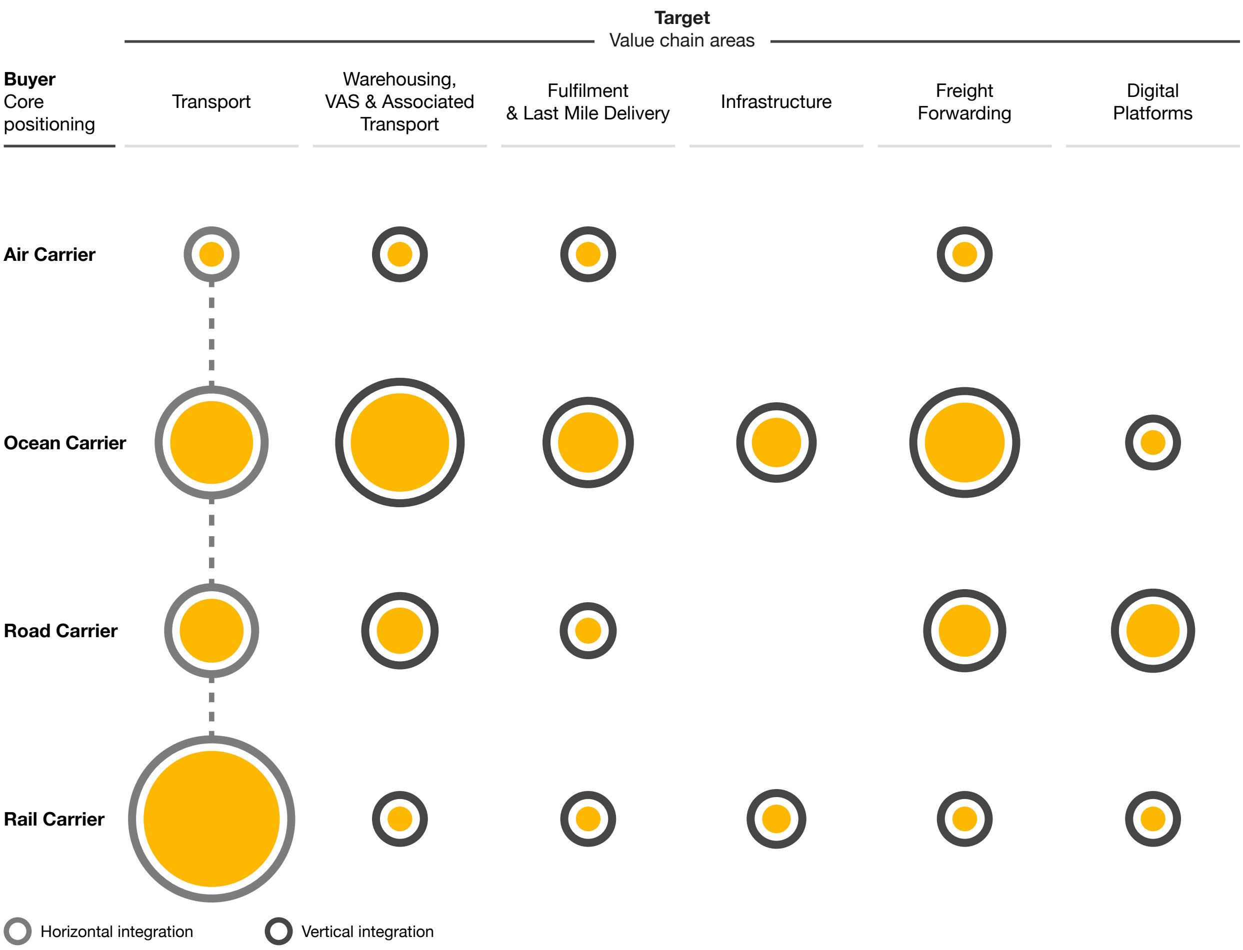
Figure 7: Carrier targeted value chain areas based on number of acquisitions and investments



Bubble sizes represent the number of acquisitions; based on a classification of 124 strategic acquisitions between 2018 and mid 2023. A single acquisition can cover multiple areas if the target has activities across them.

Strategy& analysis based on PitchBook Data, Inc.; *Data has not been reviewed by PitchBook analysts.

Figure 8: Carrier targeted value chain areas based on total deal value



Bubble sizes represent the total value of acquisitions; based on a classification of 124 strategic acquisitions between 2018 and mid 2023. Values <$1 bn have been rounded up for visual purposes. A single acquisition can cover multiple areas if the target has activities across them.

Strategy& analysis based on PitchBook Data, Inc.; *Data has not been reviewed by PitchBook analysts.

In this context, the moves that began in 2018 (e.g. the COSCO buyout of Congent and the acquisition of CEVA by CMA CGM) were steps away from this classic positioning and towards an integrated service offering. The COVID-19 pandemic led to high freight rates that fuelled this development and provided carriers with the necessary cash to expand their businesses. Maersk, in particular, entered the growing markets in contract logistics, last mile and e-commerce fulfilment through a series of acquisitions in America (Performance Team, Visible Supply Chain and Pilot Freight Services) and Asia (LF Logistics) while also building its forwarding capabilities and diversifying into air freight (Senator International). In the meantime, CMA CGM further built its contract logistics, e-commerce and last mile capabilities with acquisitions of Colis Privé and Ingram Micro while adding a vertical focus in the automotive sector (GEFCO) and strengthening its overall positioning towards becoming an integrated logistics player with the acquisition of Bolloré Logistics. More specialised players like Danish company DFDS focused on acquisitions in cold chain logistics (HSF Logistics Group, McBurney Transport Group).

These prominent examples mark a structural change that might yield a very different competitive setup in the future. With direct access to shippers and the move towards end-to-end value chain coverage, there are several upsides that ocean carriers can capitalise on. The rationale for a specific deal might be a combination of several perceived opportunities. At the same time, it remains important to consider the challenges related to making these moves (see Figure 9 and Figure 10).

Figure 9: Deal rationales and chances from ocean carrier vertical integration

Growth and resilience	Providing new pockets of growth	In a largely consolidated ocean carrier market with upcoming regulatory restrictions, new opportunities for potential growth must be found outside core activities.
	Reducing business volatility	Against a backdrop of volatile shipping rates, expansion into other services can stabilise the top and bottom line.
Positioning and negotiation power	Gaining direct access to shippers and end consumers	Carriers gain visibility and negotiation strength from direct contact with shippers, while also reaching end consumers – enabling control along the value chain and more holistic business model optimisation.
	Positioning as strategic partner	With a more integrated service offer, carriers become credible strategic partners for shippers to discuss supply chain resilience in a volatile market environment.
	Positioning towards port authorities[8]	Government institutions and port authorities aim to maximise the throughput of their port, so more integrated carriers that bring volume and hinterland connectivity may be a more attractive partner.
Service attractiveness	Offering end-to-end full service	Becoming a one-stop-shop for shippers can be attractive, especially during global supply chain disruption when shippers seek to decrease complexity.
	Improving customer experience and services	Carriers get direct ownership of critical points along complex supply chains and can move towards a seamless customer experience with increased end-to-end visibility and transparency.

Figure 10: Potential challenges arising for ocean carriers from vertical integration

Integration and synergies	Ensuring successful integration	Acquisitions are a big step and maximising their value brings challenges such as integrating companies across geographies that have a different operational or cultural context.
	Realising synergies	Synergy realisation along e.g. complex IT system landscapes and physical footprints is a challenge. Respective opportunities have to be evaluated and realisation needs to be tightly tracked against targets.
Business offering	Keeping focus	These acquisitions are very different from ocean freight operations, so carriers need to pay attention to not lose focus on the core business when engaging in substantial acquisitions along the value chain.
	Building real integrated offerings	While the idea of providing end-to-end services is striking, putting it into practice is not easy. It involves evaluating and integrating operations and systems where new offerings create a real advantage.
Customer relationship	Convincing shippers	Shippers may feel reluctant to increase dependency on a single provider of end-to-end services and need convincing that they will not suffer higher prices in the long-term future.
	Managing co-opetition	Carriers may compete with their customers by growing deeper into the value chain – so while major T&L customers are unlikely to face big challenges, specialised or high-margin trades might face pressure.

The expansion along the value chain is less explicit for other core positionings. This is because, in many cases, the business had already diversified to some extent. CH Robinson's move to build its European land transport capabilities with its acquisition of Combinex and the Italian forwarder and road freight specialist Dema Service is a strong example of strategies that aim to extend offerings and diversify geographically. For road carriers, expansion into contract logistics and last mile services appears to be a more natural step. Companies took this step in a focused way, such as when North American J.B. Hunt invested in big and bulky final mile capabilities by acquiring Cory 1st Choice Home Delivery and Mass Movement. With DP World acquiring Imperial, we also saw a substantial move from an infrastructure-focused provider aiming to develop into an integrated logistics services provider.

How are large integrated logistics players acting in this environment? They leveraged acquisitions for focused expansions – but in different ways. The DSV megadeals for Panalpina and Agility GIL established a top-three global logistics player. While DHL Group expanded its forwarding capabilities around beverage logistics with its acquisition of Hillebrand, K+N strengthened its pharma vertical (acquisition of Quick International Courier) and later its forwarding and e-commerce capabilities with a focus on Asia (Apex Logistics acquisition). DB Schenker invested in US-based trucking (its acquisition of USA Truck). There is no single, unifying thread that runs through these acquisitions. However, they reflect efforts to seek a strong strategic fit based on differentiated capability profiles and expectations for geographic and sector growth.

While we are looking at these acquisition trends, it should be noted that we have seen spin-offs creating separate businesses, too. Former XPO Logistics was very much on a business-building mission until it decided to separate its contract logistics (GXO) and forwarding businesses (RXO), leaving XPO with a clear focus on less than truckload (LTL) road freight. The rationale behind these steps does not contradict the points mentioned above. Instead, it highlights that there has to be real value for businesses to gain by integrating offerings. Otherwise, the company will be perceived as complex and might be traded at a discount. This is one of the points stressed in XPO's demerger because the market considered the company to be undervalued.

Ongoing trend for consolidation

Consolidation within each area of the value chain is far from over. Beyond contract logistics (recent) pure-player GXO, which executed its strategy with the significant acquisition of Clipper Logistics, we see a focus on geographic expansion and the build-out of focused industry-specific capabilities. Americold has led the way, with 12 acquisitions in food cold chain logistics over the five-year time horizon that expand its breadth and depth in established markets, while also entering the market in Europe. In ocean freight, the consolidation pace has slowed. This is a highly consolidated market, and megadeals like the one between COSCO and OOCL in 2018 are highly unlikely in future. This marks one reason for the increased vertical integration activity discussed earlier. Focused acquisitions for geographical coverage, such as Hapag-Lloyd's deals for NileDutch and DAL Deutsche Afrika-Linien to build its position in Africa, reflect that deal rationale is becoming more focused and differentiated. The high value of rail carrier consolidation deals is driven by a concentration in the North American rail market, most notably with the megadeal between Canadian Pacific Kansas City and Kansas City Southern.

US players like Knight Transportation and Heartland Express stood out in road transportation with larger transactions of >$100 million. The booming e-commerce business was a key driver for growth. Looking at both these road carriers, a further increase in acquisitions since 2021 can be observed – with service expansion playing an important role (e.g., adding LTL to existing FTL services). The European market has not seen such large deals in road transportation so far.

Consolidation activities have taken place in the infrastructure segment, especially in ports. This is driven by players from the Middle East and Asia. Expansions in geographic coverage are particularly noticeable. Examples include Abu Dhabi Ports acquiring Noatum with a strong footprint in Europe and North America, India's Adani Ports acquiring Haifa Port and UAE's DP World making acquisitions in North and South America.

The basic rationales for horizontal acquisitions include top-line growth, reducing costs through economies of scale and increasing overall market power. Additional rationales now include responding to labour market challenges and having access to qualified personnel. The road carrier segment is highly exposed to these challenges and might consider them as a driver for deal activity. In addition, the horizontal integration in ocean transportation and infrastructure can be seen as a response to potential global supply chain shifts. Geographical expansion into an established core business area is seen as a viable way of diversifying and de-risking a company – particularly when considering the potential reconfiguration of shippers' logistics footprints.

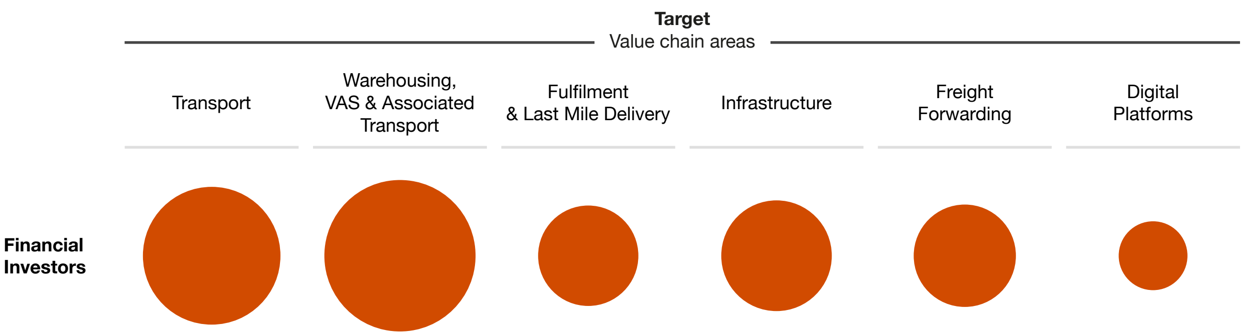
M&A priorities of financial investors

Financial investors have also played a significant role in recent acquisition activities. Across the value chain, three areas stand out concerning the total number of deals and associated deal value over the last five years (280 acquisitions in scope). These areas are contract logistics, transport, and infrastructure (see Figure 11 and Figure 12).

Remarkably, asset-heavier areas are also among investment priorities. Part of the explanation is that infrastructure assets have proven to be crisis-resilient, as they form the backbone of international trade. Also, operational transport assets have gained in attractiveness due to realised price increases in an environment of substantial asset imbalances and scarcity. The transport and logistics industry generally has managed to remove the commodity label, and respective companies are now considered strategic assets. Increased activity of infrastructure PEs as a financial investor class leads to increased investments in asset-heavy transport infrastructure.

Transportation also attracted several investments distributed across all modes of transport, with a particular focus on rail and marine transportation for major acquisitions. Among the largest deals in rail were Brookfield Infrastructure´s and GIC´s acquisition of Genesee & Wyoming and the acquisition of VTG by Global Infrastructure Partners and Abu Dhabi Investment Authority. Notable marine transportation deals in the observed period included the acquisition of SK Shipping and H-Line Shipping Company, targeted by Hahn & Company.

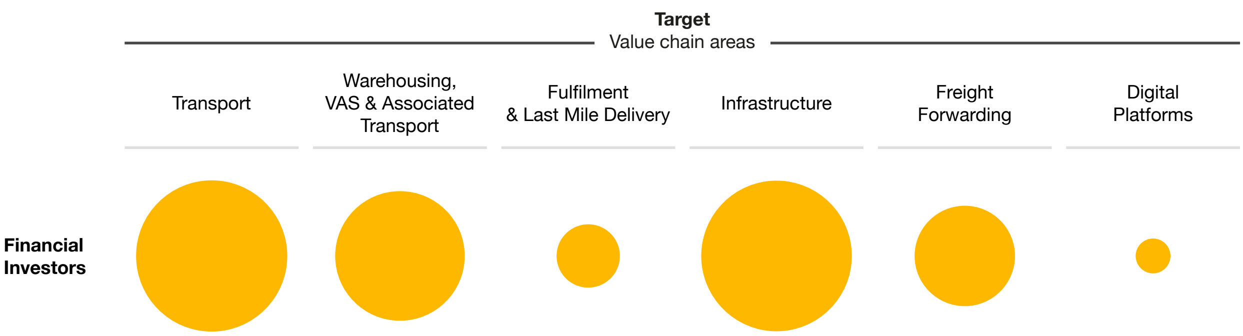
Figure 11: Financial investor targeted value chain areas based on number of acquisitions and investments



Bubble sizes represent the number of acquisitions; based on a classification of 280 acquisitions between 2018 and mid 2023. A single acquisition can cover multiple areas if the target has activities across them.

Strategy& analysis based on PitchBook Data, Inc.; *Data has not been reviewed by PitchBook analysts.

Figure 12: Financial investor targeted value chain areas based on total deal value



Bubble sizes represent the total value of acquisitions; based on a classification of 280 acquisitions between 2018 and mid 2023. A single acquisition can cover multiple areas if the target has activities across them.

Strategy& analysis based on PitchBook Data, Inc.; *Data has not been reviewed by PitchBook analysts.

Acquisitions by financial investors also hint at the build-up of related transport and logistics portfolios. This build-up is illustrated by investments in a set of assets along different value chain areas. Taking more recent investments by KKR as an example, its acquisitions of Ocean Yield (which owns a fleet of 70 vessels, including oil tankers, liquified natural gas carriers and container ships serving chemical industry clients) and Central Tank Terminal (a chemical storage tank operator) illustrate the general approach of related portfolio companies. A fragmented transport and logistics industry with many still unsolved visibility and interface management challenges is principally attractive for such integrated strategies.

The continuing e-commerce boom amplifies the relevance of tech, digital and data-driven solutions. It also shows the need for physical infrastructure. Blackstone's recapitalisation of Mileway, a last-mile logistics real estate provider, and its investment into Carrix and Allcargo Logistics are examples of strategies related to the long-term build-up of a comprehensive logistics asset portfolio. The acquisition of NewEase China and the merger with D&J China by Warburg Pincus show how existing capacities are expanded in an environment of growth. Apart from warehousing assets, we see investments in terminal infrastructure (e.g. Long Beach Container Terminal, HES International, Baltic Hub) and ports (e.g. Thessaloniki Port Authority) as centres of strategic control within the global transport and logistics industry.

Reflecting on these recent acquisition trends in T&L, we see exciting industry dynamics. Transport and logistics players are taking bold moves to build capabilities along the value chain. When these are effectively integrated, we expect lasting effects on the breadth and quality of service and new levels of efficiency and profitability. It is important to acknowledge the role that financial investors will play in driving the transformation agenda. They are expected to accelerate the transformation journey along the previously outlined areas with a clear value-creation focus. In the context of the increased strategic importance of the transport and logistics industry, the participation of financial investors in T&L deals might further increase going forward.

4

Time to transact, time to transform

The number of transformational transactions has increased in recent years. Transformational deals are making a comeback. Businesses find themselves in a new landscape where data and technology are reshaping industries, and markets are disrupted by geopolitical turmoil, a global pandemic, and economic upheavals. As a result, CEOs are increasingly exploring transformational acquisitions as a way of repositioning and revamping their companies to ensure sustained success in the long term.

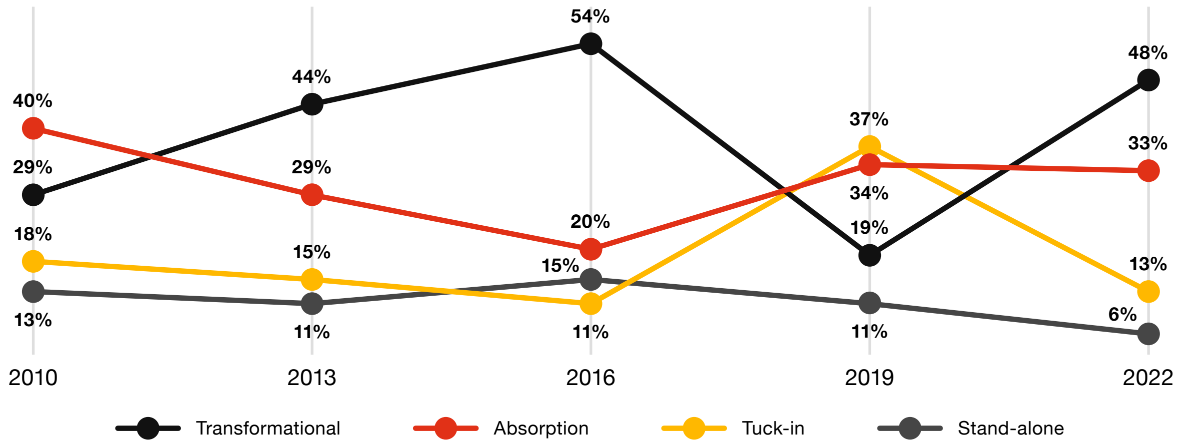
Our analysis shows that companies in the transport and logistics industry are making targeted acquisitions to grow within their core business segment or to expand into adjacent areas in the T&L industry – or even beyond industry boundaries. Financial investors are also entering the industry and acting as transformation catalysts.

Companies are recognising a clear formula for success with transformational deals. This formula involves drawing from prior experience, making early and consistent investments in integration, and demonstrating a commitment to defining and executing new operating models.

Figure 13 shows how transformational deals have evolved compared to other deal types. It is based on a 2022 global survey across all industries that aimed to identify the key motivations of strategic investors when making acquisitions[9].

Figure 13: Transformational deals are once again on the rise

Acquisition type of the largest acquisition in the past three years



How would you characterise the M&A by integration type?
Base: 2022: 232, 2019: 200, 2016: 151, 2013: 106, 2010: 135

The level of absorption deals has remained steady over the years. These transactions involve acquiring and integrating companies similar to the buyer, such as industry competitors. Typically, absorption deals are the result of industry capacity considerations. However, the COVID-19 pandemic led to strategic shifts as companies sought to fortify their operations, enhance capacity and ensure supply chain stability in the face of disruptions caused by pandemic-related shutdowns in labour markets and supply chains. The availability of low-cost capital and ongoing uncertainty encouraged companies to acquire redundant capabilities rather than confront business disruptions.

Tuck-in deals have declined compared to absorption deals. These acquisitions involve a larger company completely acquiring a smaller company. This type of deal experienced a resurgence from 2017 to 2019, as dealmakers viewed them as a means to acquire specific talent, technologies, products and services. However, there was mixed success with integrating tuck-in deals. From 2020 to 2022, tuck-ins returned to their historical baseline.

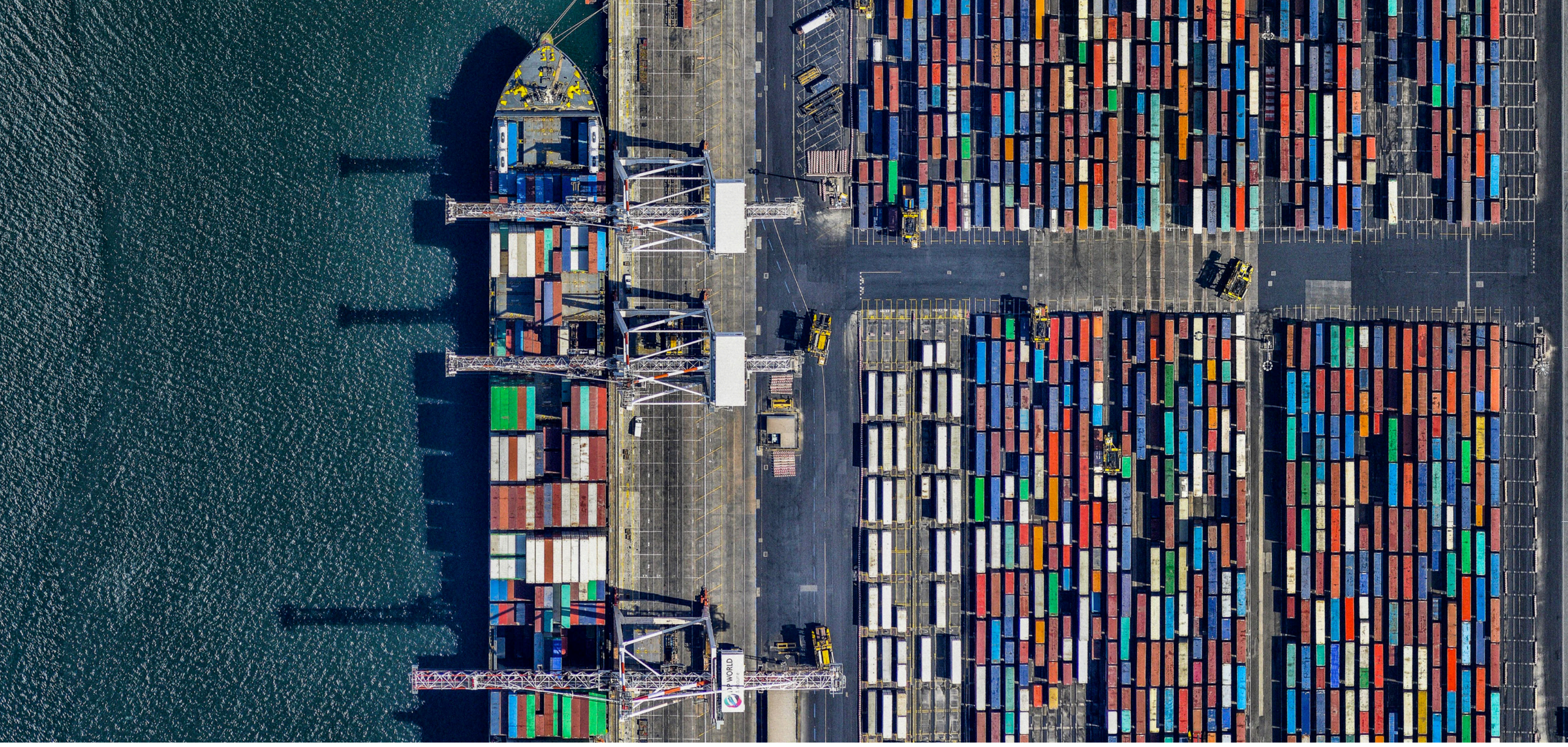
Finally, standalone deals have become less relevant. These acquisitions involve buying a business and operating it separately from the rest of the organisation. They now comprise a minimal share of overall transaction activity.

Transformational deals comprised approximately half of all transactions between 2014 and 2016. However, companies struggled to integrate these targets successfully due to underinvestment and a lack of experience with transformational transactions. From 2017 to 2019, the proportion of transformational deals dropped significantly.

Since then, corporate leaders have returned to transformational deals – against a backdrop of disruptive challenges and ultralow interest rates. They are now making earlier and more extensive investments in integration and have more experience. This return is leading to increased success.

M&A activities present a mix of opportunities and challenges. The impressive resurgence in transformational deals over the past few years is noteworthy, especially considering the unprecedented circumstances. However, the upcoming years are expected to remain just as challenging for dealmakers and business leaders.

73% of CEOs anticipate a global economic downturn in the next 12 months. Nevertheless, only 14% indicated they would postpone acquisitions. This view emphasises the importance of effective dealmakers who can lead a focused, proven approach to integration. This approach will ultimately lead to more successful transformational transactions.



In summary, the past three years have seen a noticeable mindset shift. More companies are placing their bets on transformational deals to acquire new markets, channels, products, services, operations, and talent. Executives understand the fundamental need to reposition their businesses for sustained success. Companies have become more strategic in their pursuit of these significant deals.

Companies are also initiating integration processes earlier and allocating more resources to ensure successful transformational deals. However, there are still substantial opportunities for further improvement. Companies must establish a solid foundation to turn transactions into long-term transformations. Cross-functional areas are the toughest to integrate, while technology and data are core enablers for transformation.

Upcoming editions of our Transport & Logistics Barometer will provide further insights into the transformation needs of transport and logistics players – building on the findings presented here and exploring other transformation drivers too.

Appendix

Methodology

Chapter 2 covers all mergers, acquisitions, sales, leveraged buyouts, privatisations and acquisitions of minority interests with a transaction value greater than $50 million. All transactions announced between 1 January and 30 September 2023 have been included. The focus is on freight-related targets in the transport and logistics industry. The data is derived from Refinitiv and includes all deals announced where the target company comes from one of the following NAICS industries: logistics, trucking, shipping, other.

The analysis included all transactions whose status at the time of analysis was “completed”, “not yet completed because of antitrust approval procedures”, “unconditional” (buyer-side conditions have been met, but the deal has not yet been completed) or “withdrawn”.

The value chain analysis in Chapter 3 is based on deals information from PitchBook Data, Inc., covering the period from 1 January 2018 to 30 June 2023, focused on transport and logistics companies. Data has not been reviewed by PitchBook analysts.

Sources

1 PwC’s 26th Annual Global CEO Survey (www.ceosurvey.pwc)

2 Deal announcements with freight-related targets in the logistics industry and a deal value of at least $50 million are considered. Source: Refinitiv

3 According to the Transport & Logistics Barometer methodology

4 Experimental Evidence on the Productivity Effects of Generative Artificial Intelligence, Shakked Noy, Whitney Zhang, MIT (2023)

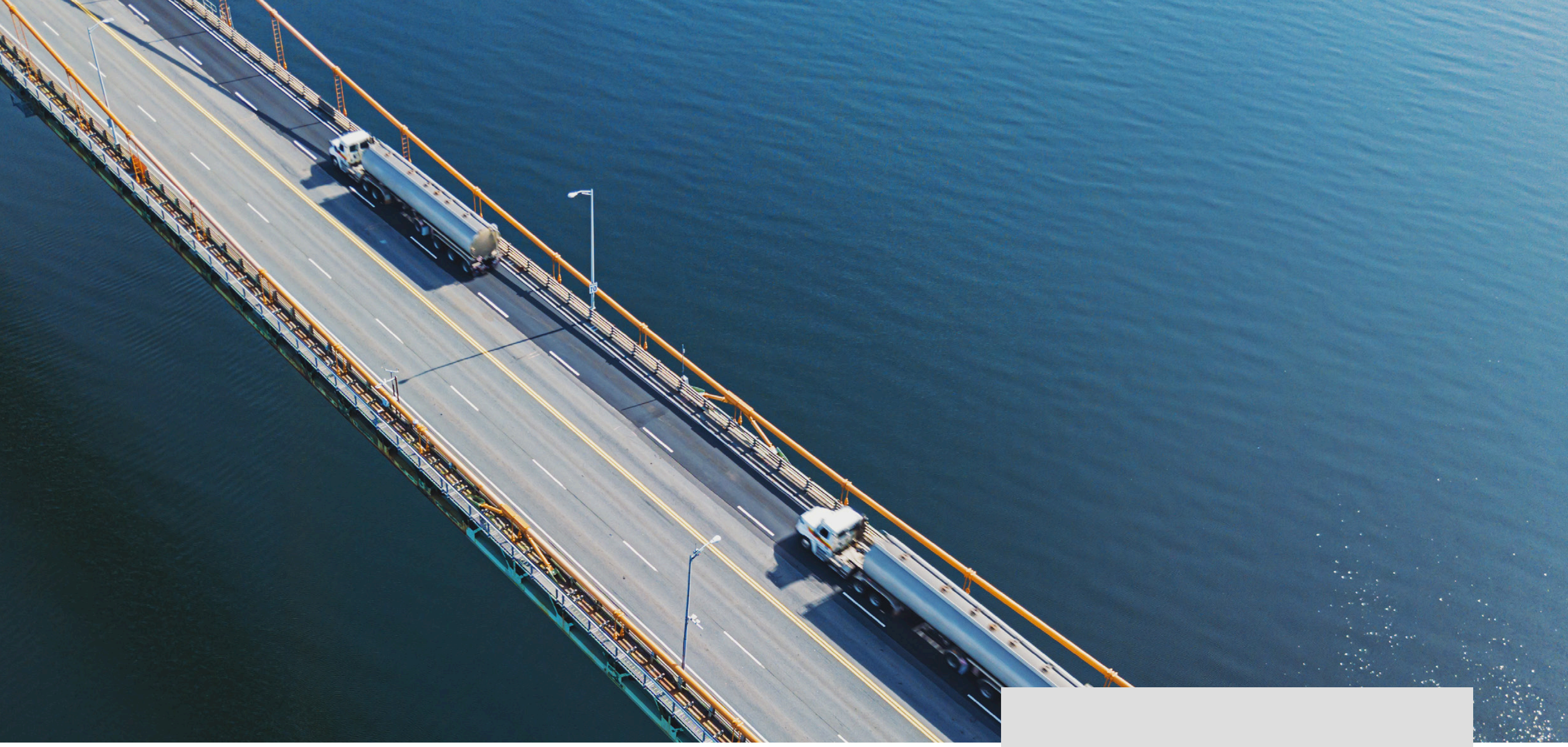
5 GitHub Blog, Thomas Dohmke (2023)

6 Boost Your Productivity with Generative AI, Bernhard Marr (2023)

7 Transact to Transform - PwC’s 2023 M&A Integration Survey

8 Review of Maritime Transport 2022, UNCTAD (2022)

9 Transact to Transform - PwC’s 2023 M&A Integration Survey



Contacts

Ingo Bauer

Partner, Transport,
Logistics and Tourism
Industry Leader,
PwC Germany

ingo.bauer@pwc.com

Miriam Kröger

Partner, Transport
and Logistics,
Strategy& Germany

miriam.kroeger
@strategyand.de.pwc.com

Dr. André Wortmann

Partner, Coordinator for
Transport and Logistics
Deals, PwC Europe

andre.wortmann@pwc.com

Dr. Peter Kauschke

Director of Transport,
Logistics and Mobility,
PwC Germany

peter.kauschke@pwc.com

Sebastian Pieper

Director, Transport
and Logistics,
Strategy& Germany

sebastian.pieper
@strategyand.de.pwc.com

Burkhard Sommer

Director, Deputy Head,
Maritime Competence
Center, PwC Germany

burkhard.sommer@pwc.com

Elisa Domnik

Business Development
Transport and Logistics
PwC Germany

elisa.domnik@pwc.com

Philip Wöbse

Research Center
PwC Germany

philip.woebse@pwc.com

We want to thank the following experts for their valuable contributions to this report:

Max Livingstone-Learmonth
Partner, PwC United Kingdom

Vladislav Kulikov
Director, Strategy& Germany

Philipp-Marcel Strobl
Senior Manager, Strategy& Germany

Renan Santos
Senior Manager, PwC United Kingdom

Stefan Westerwalbesloh
Manager, PwC Germany

Luis Carl Müller
Senior Associate, Strategy& Germany

Faustin Ziemke
Associate, Strategy& Switzerland

Phillip Robbers
Associate, Strategy& Germany

Sven Hatzfeld
Associate, Strategy& Germany

Florian Marciniak
PwC Germany