

Road Haulage Industry

A Summary Report of UK M&A Activity

Summer 2019

Report undertaken by The Corporate Finance Network in association with member firm
Hunter Gee Holroyd Chartered Accountants

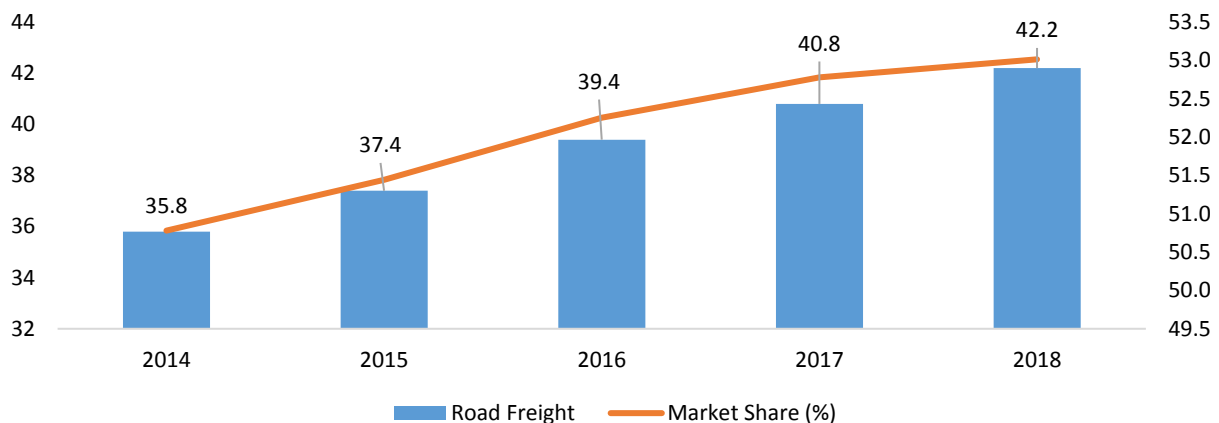
Contents

	Page
Sector Overview	1
Brexit and The Haulage Industry	2
Summary of M&A Activity in the Sector	9
Precedent Transaction Analysis	12
Companies Currently for Sale	13
Benchmarking Information	15
Appendices	16

Sector Overview

Mintel, a provider of specialised industry reports, produced a report on the UK Road Haulage sector. The total annual road freight value in the UK has experienced continual expansion from 2014 through to 2018 as displayed in Chart 1, an increase in £6.4 billion over the 4-year period. Additionally, compared to the total UK freight industry (rail, marine, air and other), road haulage has increased their market share steadily from 50.8% in 2014 to 53.0% in 2018.

Chart 1 – Mintel UK Road Haulage Value, with an augmented UK Haulage market share percentage, 2014 – 2018 (£ billion)



Performance of the haulage industry is highly correlated with business confidence. With higher business confidence, owners are more likely to increase their stock inventories, boosting demand for haulage services. As a result of the uncertainty caused by the recent Brexit vote, and the slowdown of the economy, the goods market is expected to contract or at least achieve slow to no growth. This would have a direct adverse effect on the haulage industry. A reduction in goods lifted and goods moved of 3% and 1% respectively in 2017 is indicative of this fall in business confidence. Additionally, distance travelled fell by 3% to 18.6 billion kilometres in 2017.

However, despite this outlook, there are positive signs within the industry. The number of HGVs in the UK rose by 0.8%, which can be attributed to positive long run expectations within the road haulage market. Also, employment figures have continued to increase into 2018, reaching 90,700 employees within the industry, which suggests a level of resilience in times of economic adversity. Falling fuel prices have provided relief for haulier's profit margins coupled with the sharp fall in the value of the pound is also expected to boost export activity as domestic goods become comparatively cheaper for foreign purchasers, hence increasing demand in the haulage market.

The industry continues to receive continued pressure from the UK government prompting a more fuel-efficient industry with lower emissions. The market has responded well to this with the latest Euro 6 lorries being recognised by TfL as compliant with the planned Ultra-Low Emission Zone.

Brexit and the Haulage Industry

One of the main talking points surrounding the haulage industry with regards to Brexit are permits and access for UK & EU Haulage operators. The businesses and people of the UK and the EU depend on the fast-effective transport of goods transported by road through ports and across the land border in Ireland. The RHA have detailed three potential outcomes following in the wake of the Brexit deal. In the case of a no deal Brexit, ECMT (European Conference of Ministers of Transport) permits are the only certain arrangements that will be in place for UK haulage operators. On 8 February the first-round allocation of annual ECMT permits was made; 11,392 permit applications from 1,991 haulage companies were received. However, other options are being pursued, in particular the EU Commission's proposal for a contingency arrangement for 2019. The EU Commission has proposed allowing haulage between the UK and EU for the rest of 2019 if the UK reciprocates.

The alternative being the fall back to bilateral agreements with other EU member states. Some have been positive, others negative and in some cases, some states have refused to engage.

The Road Haulage Association (RHA) have proposed the following licensing and permit options to be put forward in the negotiations;

1. UK and EU States continue to use the complete Community Licence system and all EU rules for all road haulage once Brexit has happened;
2. UK and EU States continue to use the current "Community Licence" system and all EU rules, but only for international road haulage;
3. UK and the EU set up a new authorising system for international all road haulage;
4. UK and individual EU States set up a new permit-based system for international road haulage (Bi-lateral permits).

While cross-border access processes remain relatively uncertain, the HMRC's Partnership Paper outlines the obligations HMRC have planned for road haulage operators (and traders) from the 29 March 2019 in the event of a Brexit No Deal. The paper outlines the imports process, while the export process is still currently being drafted.

Goods imported into the UK will require an importer to have pre-logged a declaration for each shipment coming to the UK. The importer will need to obtain shipment details from the exporter (shipper, consignee, packages, goods description for customs, all commodity codes, values, gross weight, etc) in order to pre-lodge the declaration. This policy amplifies the increased legislation inflicted on the haulage industry. The expectations of these increase controls are that it will increase the delivery time of market goods, reducing the efficiency of the industry.

The main effect of Brexit on the industry will be the customs bottleneck that will be created. The RHA estimate between 15 million and 27 million additional customs clearances will be required at Dover and the Channel Tunnel alone (99% of current movements currently do not require a customs clearance process at the ports). The

current customs systems that are in place slow the movement of the vehicles by between 20 minutes and 4 hours. This increase in boarder administration is likely to cause disorder at the boarders. There is no space at the ports to handle the volume of traffic that will require customs clearance exiting or entering the UK. A solution is yet to be found that will allow rapid, even instant or pre-clearance at ports, airports, inland terminals and at the Irish land border.

This will resultingly impact on the costs and operations in the international road haulage sector. However, the most serious impact will be on service levels to the supply chain.

The RHA believe that any solution will require a substantial increase in Customs resourcing to deal with driver accompanied traffic. The RHA are campaigning for a specialised dedicated working group to be established to deal with Ro-Ro and Irish land border customs issues.

A response by the RHA in order to maintain the competitiveness of the haulage industry following the implementation of red tape at the boarders has been to campaign for a fuel duty rebate. The RHA calls on the Government to introduce an 'essential user rebate' of 15 pence per litre. RHA chief executive, Richard Burnett says that a reduction would ease inflationary pressure, and points to research which demonstrates that a cut in duty would lead to more growth and create jobs. "The Centre for Economics and Business Research (CEBR) estimates that a three pence per litre cut would add another £1 billion to UK GDP and create at least 8,000 more jobs."

The RHA's submission also urges the Government to fix Britain's roads, introduce efficient customs and control arrangements to manage post-Brexit international haulage, and for funding to help the sector address the HGV driver shortage – estimated at 45,000.

The Guardian cited a government border force report stating that freight trade across the Channel could fall by up to 87% in the event of a no-deal Brexit. The decline of freight trade could last up to six months, as provided in the estimates in contingency plans drawn up for the government as part of an internal government presentation. The estimate is in reference to traffic from Dover-Calais and the Channel Tunnel. A slide from the presentation reads: "The reasonable worst-case flow through the Short Straits is reduced to between 13% and 25% of current capacity for a period of between three-six months."

Another section says: "The French will apply at least the legal minimum of third country customs controls on all goods and sanitary and phytosanitary (SPS) checks on specified food and agricultural products. "This includes the imposition of 100% customs documents checks."

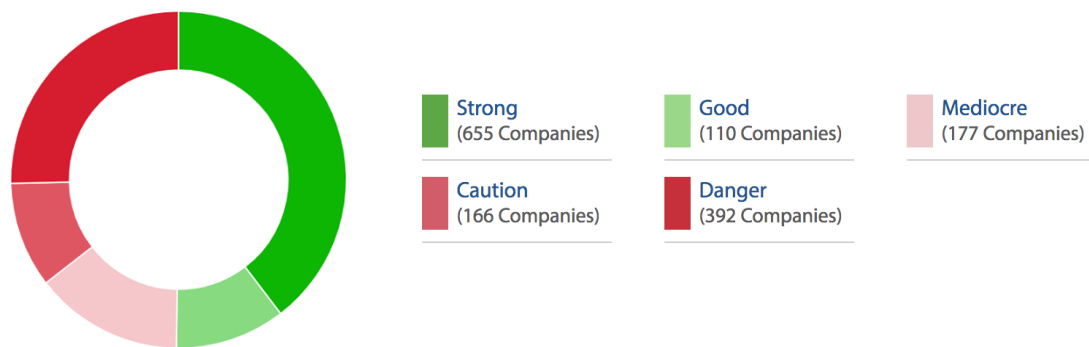
This report iterates the turbulence that may be experienced in the event of a no-deal Brexit.

Plimsoll, a provider of industry analysis has recently published a report on Haulage companies. The report analyses 1,500 UK-based companies within the sector. The analysis covers four areas:

1. Company ratings;
2. Takeover targets;
3. Profitability analysis;
4. Change in value over previous year.

Based on the analysis 44% of the companies have been rated as 'strong', the highest category. The lowest category, 'danger' accounts for 26% of the companies. See Chart 2 for a full breakdown.

Chart 2 – Plimsoll Haulage company analysis, company ratings



Using a 9-point checklist the companies are analysed for 'takeover attractiveness'. Based on this analysis 301 of the companies (20%) have been highlighted as high attractive takeover prospects.

Table 1 shows the analysed companies by location and the number of attractive prospects within each region. The top five regions by number of takeover prospects are The North West, Scotland, the Yorkshire and the Humber, the West Midlands and the South East.

Table 1 – Plimsoll Haulage company analysis, locations and takeover prospects (sorted by number of prospects)

Location	No. of companies	No. of Prospects	Percentage of prospects by region
North West	169	12	7%
Scotland	143	11	8%
Yorkshire and the Humber	172	11	6%
West Midlands	151	8	5%
South East	134	7	5%
South West	114	7	6%
East Midlands	156	6	4%
East of England	183	6	3%
North East	59	5	8%
London	72	4	6%
Wales	73	3	4%
Northern Ireland	66	0	n/a

121 of the 1,500 Haulage companies have made a loss for two consecutive years. Table 2 shows the profitability of the analysed companies.

Table 2 – Plimsoll Haulage company analysis, profitability analysis

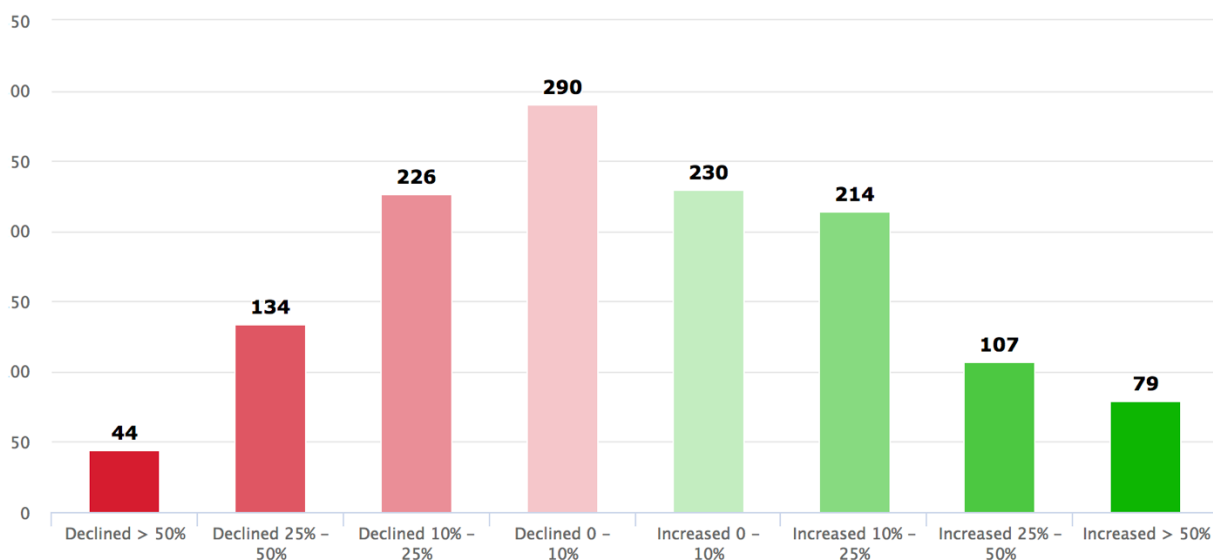
	Number of companies	Average profit margin
Most profitable	701	4.5%
Least profitable	799	0.0%
Industry average	1,500	2.0%

The final part of the Plimsoll analysis identifies change in value year on year. Due to lack of data available on all companies for two consecutive years, 1,324 companies have been analysed only.

- 48% of the companies increased in value, 14% of all companies increased in value by more than 25%;
- Of the 694 companies to decrease in value, 178 fell by more than 25%;

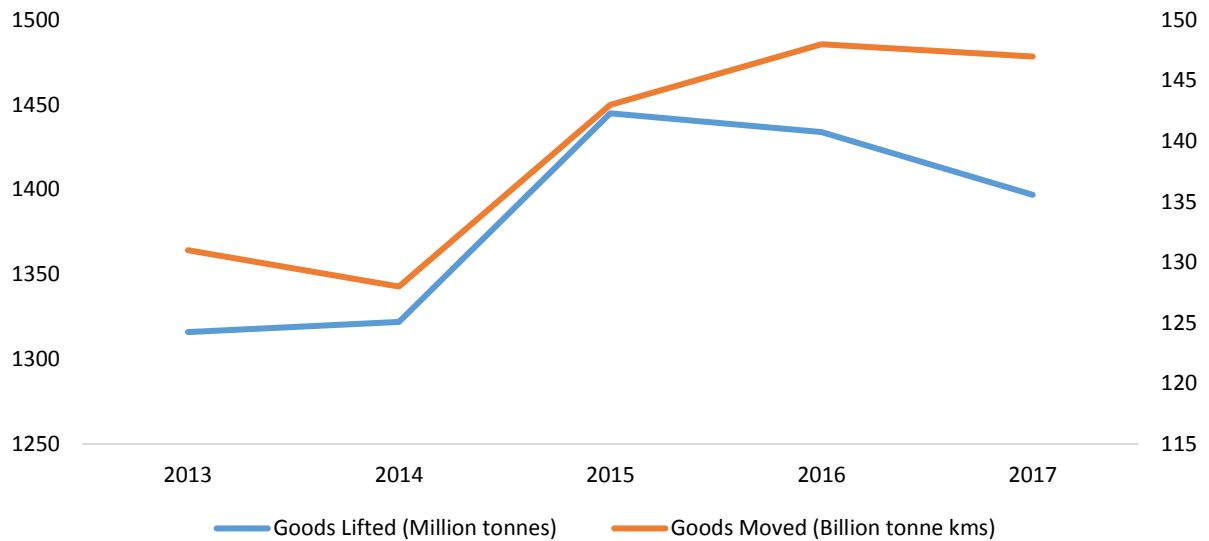
See Chart 3 for a full breakdown of the change in value.

Chart 3 – Plimsoll Haulage company analysis, change in value



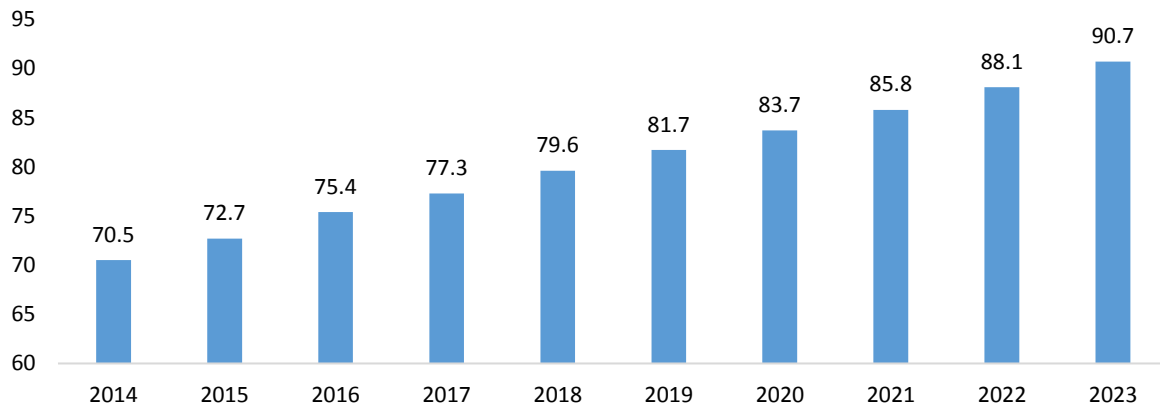
Mintel has calculated the volume of goods moved and lifted within the UK, as shown in Chart 5. (Goods lifted: measured in tonnes is the weight of goods carried) (Goods moved: is a measure of activity taking into account the weight of the load and distance through which it is hauled. It is equal to the weight of goods multiplied by distance and is measured in tonne kilometres)

Chart 4 – Mintel UK Road Haulage, goods lifted (million tonnes) versus goods moved (billion tonne kms)



Over the past few years, employment in the sector has recovered as firms take advantage of the increasing demand and look to expand their workforce.

Chart 5 – UK Road Haulage, employment (000's)



Transport by articulated lorry continues to be the largest component meeting the demand in the UK haulage sector. IBISWorld segments the market as shown below for 2018, and the forecast segmentation for 2023.

Chart 6 – UK Haulage market segmentation, 2018 (%)

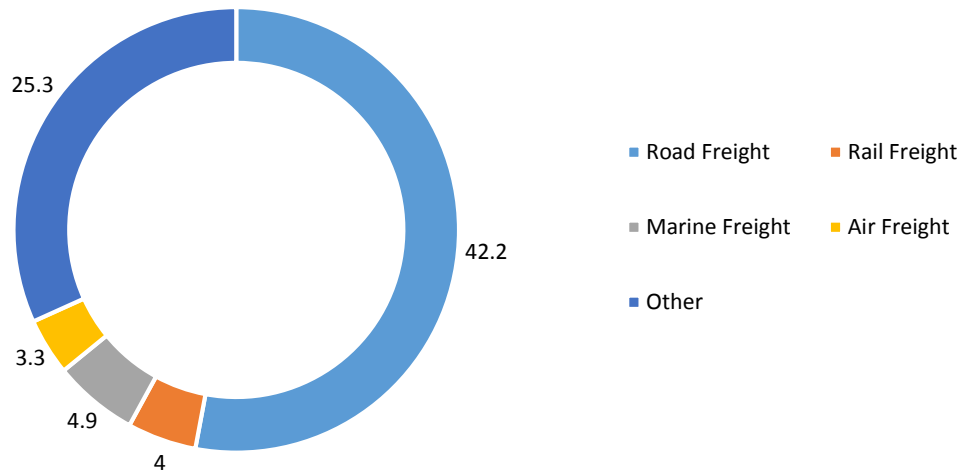
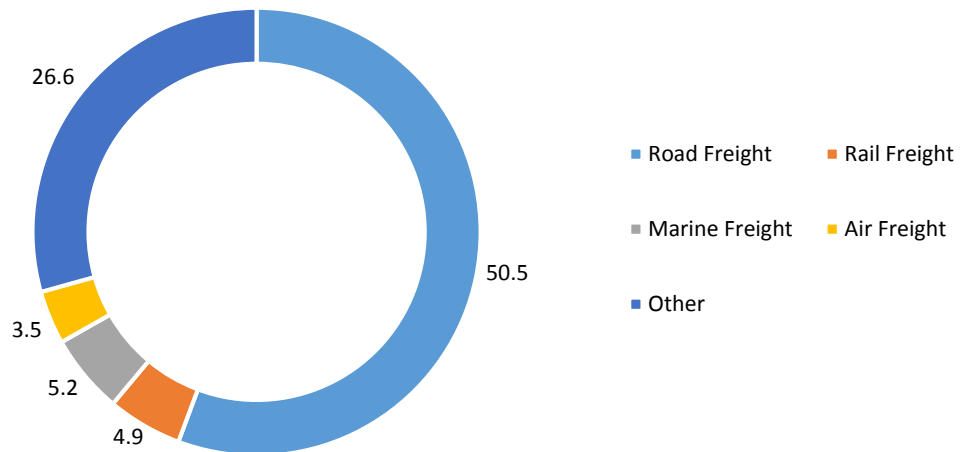


Chart 7 – UK Haulage market segmentation, 2023 forecast (%)

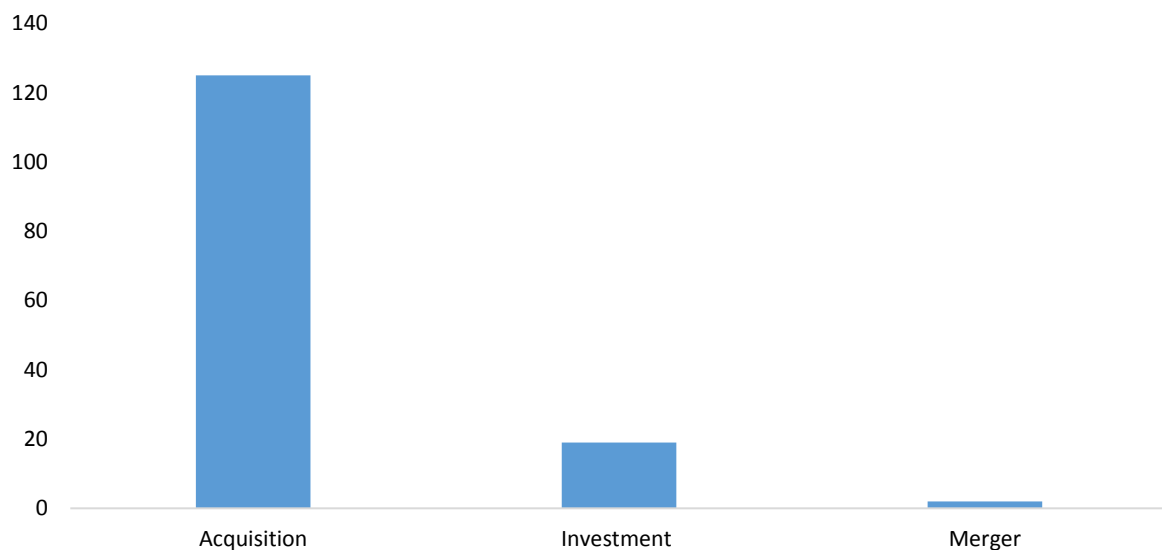


Summary of M&A Activity in the Sector

Deal Type

- Statistics from Experian MarketIQ indicate, in the UK from January 2012 to February 2019, there were 146 significant deals within the UK Haulage industry. Experian reports deals over a certain threshold; therefore, it is likely it has not captured all the deals
- Chart 8 shows how the deals breakdown by type. Note that investments include management buy-outs, secondary management buy-outs and management buy-ins
- There is a notable lack of mergers, indicating that M&A in the sector is characterised by larger companies making smaller bolt-on acquisitions rather than mergers between companies of similar size

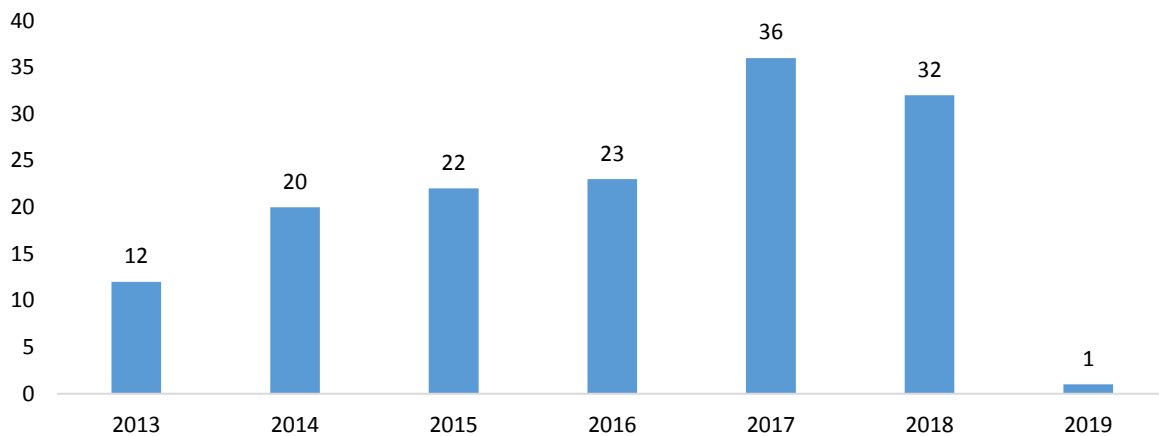
Chart 8 – Haulage M&A by deal type, January 2013 to February 2019



Deals by Year

- The spread of the 146 deals from the period of 2013 to 2019 is illustrated in Chart 9. The most active year was 2017 with 36 deals.
- M&A volumes have increased year-on-year since 2013 up to 2017. However, the contraction in M&A deals in 2018 can be attributed to the slowdown of the economy as brought on by the Brexit process and the market uncertainty.

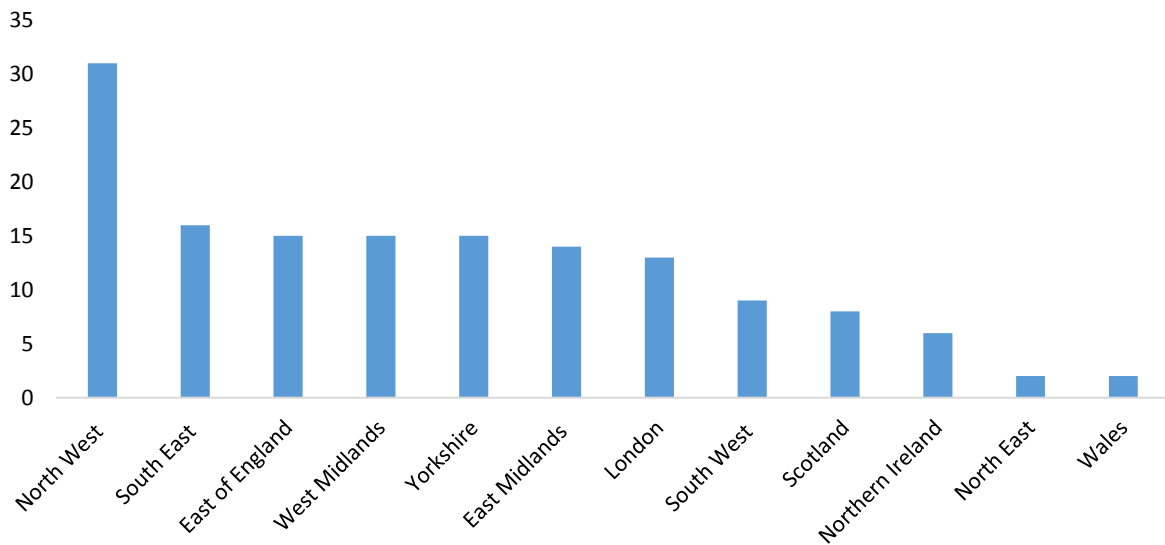
Chart 9 – Haulage M&A by year, January 2013 to February 2019



Geographical Breakdown

- A geographical breakdown of the results by target company is specified in Chart 10 below
- The North West experienced the highest volumes of M&A in recent years
- There is a relatively even spread across most regions of the country as companies seek to acquire businesses with regional clients

Chart 10 – Haulage M&A by location, January 2013 to February 2019



Precedent Transaction Analysis

- Below are some selected deals from the last six years that had sufficient data to derive valuation multiples
- The precedent transaction analysis implies Haulage companies are valued in the region of 0.5x revenue, 8.4x EBIT and 5.8x EBITDA

Table 3 – Haulage precedent transactions by year, January 2013 to February 2019

**Multiples in red excluded from averages*

Date	Bidder	Target	Enterprise Value (EV £)	EV / Rev	EV / EBIT	EV / EBITDA
Feb-12	Uniserve Holdings Ltd	Wilgo Freight Holdings Ltd	3.18	0.17x	20.53x	17.80x
Aug-15	Forcefield Bidco Ltd	Palletforce Plc	23.52	1.28x	7.86x	6.80x
Jul-14	BFS Group Ltd	PCL Transport 24/7 Ltd	48.54	0.76x	7.14x	5.88x
Jun-16	Imperial Mobility International BV	Palletways Group Ltd	156.38	0.54x	29.05x	25.81x
May-12	Potter Group Ltd (The)	House of James Transport Ltd	2.50	0.34x	6.80x	4.45x
Jun-18	Eddie Stobart Logistics Plc	Pallet Network Group Ltd	66.25	0.57x	16.73x	10.35x
Jul-16	NFT Distribution Operations Ltd	NR Evans (Holdings) Ltd	23.24	0.56x	8.94x	5.91x
Mar-18	Private Group Led By EmergeVest Ltd	CM Downturn (Haulage Contractors) Ltd	82.73	0.70x	14.64x	9.87x
Nov-17	Xpediator Plc	Regional Express Ltd	1.72	-	8.72x	7.47x
Jul-18	Xpediator Plc	Import Services Ltd	6.68	0.31x	3.43x	2.84x
Jun-18	Xpediator Plc	Anglia Forwarding Group Ltd	3.83	0.28x	54.71x	17.41x
Oct-17	Private Group Led By Total Capital Partners	George Walker Transport Ltd	20.99	1.26x	15.21x	11.99x
Jul-18	Culina group Ltd	Robsons of Spalding Ltd	6.74	0.39x	4.59x	3.99x
Dec-15	Den Hartogh Holding BV	InterBulk Group Plc	53.69	0.24x	10.17x	4.15x
Sep-14	Suttons Transport group Ltd	Imperial Tankers Ltd	27.46	0.92x	11.59x	6.95x
Feb-17	Kinaxia Transport & Warehousing Ltd	Panic Transport (Contracts) Ltd	9.77	0.72x	8.14x	5.43x
			Mean	0.5x	8.4x	5.8x
			Median	0.5x	8.1x	5.9x
			Min	0.2x	3.4x	2.8x
			Max	0.9x	14.6x	9.9x

Companies Currently for Sale in the Sector

1.

Company Type	Asking Price	Location	Turnover	Other Financials
Regional Road Haulage and Warehousing	n/a	South of England	£11.3m	n/a
<p>National and Europe-wide logistical solutions and transportation management provider to a range of blue-chip clients. It provides specialist pallet movement services. The company's revenues come from 90% repeat business. It has strategically placed operating sites located across the South of the UK, covering both the M4 corridor and major ports.</p>				

2.

Company Type	Asking Price	Location	Turnover	Other Financials
Road Haulage Company	£1.5m	Lincolnshire	£1.3m	n/a
<p>A family-run company with an impressive trade client base offering premium quality services from a well-maintained c.1.2-acre industrial site with a well fitted warehouse/office and ancillary facilities in excellent commercial location.</p>				

3.

Company Type	Asking Price	Location	Turnover	Other Financials
Road Haulage and Distribution Company	£1.3m	Lincolnshire	£5.0m	n/a
<p>Very long-established company providing fast professional UK-wide services from a c.1 acre industrial site with office & ancillary facilities in excellent commercial location.</p>				

4.

Company Type	Asking Price	Location	Turnover	Other Financials
Road Haulage Company	£6.5m	UK Wide	£5.9m	n/a
<p>An opportunity to acquire a dynamic and a long established road haulage company with, which mainly trades from a regular and repeat trade client base. Operates from an extensive and well fitted repairs workshop/office and ancillary facilities in excellent commercial location next to major transport links.</p>				

Financial Benchmarking Information

A search on Experian MarketIQ identified all companies in the UK with the SIC code '49410 – Freight transport by road', which had filed full accounts for the last two years. Key benchmarking information is summarised in Table 4.

Table 4 – Bulk Haulage Financial Benchmarking Statistics

	Mean	Median	Lower Quartile	Upper Quartile
Turnover Growth/Decline (%)	2.8	4.4	-6.2	14.6
EBIT Margin (%)	10.7	5.4	1.6	16.3
EBIT Growth/Decline (%)	-6.1	-11.3	-49.0	31.1
EBITDA Margin (%)	16.2	10.6	5.1	20.5
EBITDA Growth/Decline (%)	-8.0	-4.3	-39.4	23.2
Total Net Assets Growth/Decline (%)	2.8	4.8	-8.4	21.3
Current Ratio	1.8	1.3	1.0	2.1
Acid Test	1.8	1.3	0.9	2.0
Total Sales per Employee ('000s)	336.7	121.2	91.8	216.8

Appendices

Appendix A – IBISWorld: UK Road Haulage

<https://www.ibisworld.co.uk/industry-trends/market-research-reports/transportation-storage/freight-road-transport.html>

Appendix B – Plimsoll: Road Haulage

https://www.plimsoll.co.uk/market-reports/Road_Haulage

Appendix C Mintel: Road Haulage Market Report

<http://academic.mintel.com/display/863113/>

Appendix D – Experian Market IQ

<https://www.secure-marketiq.com>

Appendix E – Department for Transport: Domestic Road Freight Statistics

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728937/domestic-road-freight-2017.pdf

Appendix F – RHA: Policy and Campaigning Documents

<https://www.rha.uk.net/policy-campaigning/policy-campaigning-documents>