Logistics: The Art of the Deal

Benjamin Gordon
2018: A Rocky Year for the Supply Chain Sector

One Year Stock Performance

One Month Stock Performance
The BGSA Supply Chain Index, by Segment

Logistics (17.6%)

Global Parcel / Logistics (31.2%)

Truckload (29.1%)

Less-Than-Truckload (12.3%)

Railroads / Rail Services (0.6%)

Supply Chain Technology & Software (7.0%)

Technology Distribution (8.5%)

Healthcare Distribution (24.2%)

Energy Transportation & Logistics (16.5%)

Source: Capital IQ, as of December 31, 2018
The Outlook

Challenges

• Trade: War and Peace
• Labor: The $100,000 Truck Driver
• Technology: The Octopus
• The Biggest Disruptor: Amazon

Opportunities

• Technology: The Empire Strikes Back
• Incumbents Create Corporate Venture Groups
• Consolidation: The Party Continues

The power of connectivity
• The cost of freight from LA to Dallas is spiking, as the market is seeing a decline in exports from LA to China
• In November, over 186,000 containers in Long Beach were shipped empty back to Asia, reflecting an 11% increase, as China finds alternatives to the USA
• Paradox: Long Beach volumes at all time highs, with over 7.5 million containers handled, as US retailers load up on Chinese purchases to beat the tariffs
Labor: The $100,000 Truck Driver

Trucking Valuation: TEV/LTM EBITDA

- Werner
- Schneider
- ArcBest
- YRCW

Truck Driver Cost

- Average Trucking Salary
- Walmart Year-One Trucking Pay
Technology: The Octopus

New technologies and market trends can disrupt the logistics industry.
Autonomous Trucks: Coming Soon

Autonomous trucks will likely roll out in four waves.

“The future is already here. It’s just not evenly distributed!” — William Gibson

The Biggest Disruptor: Amazon

- Last-mile expansion
  - In Q4, Amazon delivered over 1 BB “free” packages via Amazon Prime
  - It spent over $9 BB on shipping charges, representing a 30% Y-O-Y increase
  - Delivers 10% of its own packages

- Warehousing expansion
  - 2017: Amazon bought Whole Foods for $14 billion
  - 2018: converting stores into distribution centers

- Aircraft expansion
  - Added 33% more planes to its leases with ATSG, while extending duration by 2 to 10 years. Plus 40 767 planes with Atlas Air
  - Plus warrants that could boost Amazon’s ownership to 39.9% of ATSG and 20% of Atlas

- Patent expansion
  - Amazon’s 2018 patents included a “robotic pitcher.” The arm will identify, grab, and throw objects into bins
  - Another patent provides ultrasonic pulses on wristbands to guide employees’ hands
Technology: The Empire Strikes Back

- Target bought Shipt
- Target bought Grand Junction
- Shipt will soon reach 50 MM households
- Target is rolling out 2-day free delivery for “Redcard” holders and purchases of over $35
- Walgreens saw Amazon buy Pillpack
  - They responded by forging a partnership with FedEx to pursue next-day prescription delivery
- Now Walmart is investing in patents too
  - A recent patent seeks to provide a “Fresh Online Experience”
  - Consumers will be able to see individual fresh items remotely before making a purchase
- Transportation meets retail
  - Pizza Hut and Toyota joined forces to create a “pie-making truck”
  - In the truck bed, robots are going to produce pizza pies on demand
Incumbents Create Corporate Venture Groups
*The Auto Case Study*

Incumbent corporations in the auto industry outpaced by technological innovators

Uber and Tesla didn’t yet exist in the year 2002. Less than 15 years later, their combined market value is larger than the combined market value of GM and Ford — despite those two companies having a one-hundred-year head start.

* Venture financing valuations shown for Uber, excluding debt
Ford’s Response: Go to the Valley
Ford’s Actions

Formation of Venture Arm

- Ford: “the fastest transformation in 100 years”
- Formed strategic venture arm in Silicon Valley: the Ford Research and Innovation Center

Investments in Mobility

Transition

- Today, Ford sees its future as not just a carmaker, but also a “mobility manager.”
- Will other transportation sectors and companies follow suit?
## Consolidation: The Party Continues

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*Source: Compiled by Cambridge Capital.*
BG Strategic Advisors – Leading Investment Bank in the Supply Chain

Representative Transactions

- LINX Partners
  - Has acquired
  - Exclusive advisor to Clover Telecom

- 3rd Choice Delivery
  - Has acquired
  - Exclusive advisor to 4SameDay

- ZMC
  - Has acquired
  - Exclusive advisor to IT Renew

- TransForce
  - Has acquired
  - Exclusive advisor to Hyphen and Wynnchurch

- Jinjiang
  - Has acquired
  - Exclusive advisor to YRCW

- Converge
  - Has been acquired by
  - Exclusive advisor to Converge

- Echo
  - Has acquired
  - Exclusive advisor to Open Mile

- Interlog
  - Has been acquired by
  - Exclusive advisor to Interlog USA

- England Logistics
  - Has acquired
  - Exclusive advisor to England Logistics

- PWC Logistics
  - Has acquired
  - Exclusive advisor to PWC Logistics

- Dixie Warehouse
  - Has been acquired by
  - Exclusive advisor to Dixie Warehouse
What Should You Do?