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Trucking & Logistics Update

First Quarter 2022 | April 2022



This edition's discussion: the impact of soaring oil prices on the T&L industry

The rapid jump of fuel prices in the first quarter of 2022 is forcing trucking and logistics (T&L) companies to adjust the cost of their service to remain profitable.

Price fluctuations for the cost of fuel are nothing new to the T&L industry. However, the dramatic oil price acceleration in 2022, combined with other factors, has been particularly challenging. With oil prices surging, largely as a result of sanctions on Russia, regular gas prices in North America are up approximately 25% from the beginning of the year. As a result, trucking companies are being forced to adjust the cost of their service, often by increasing the fuel surcharge.

Sudden increases in fuel costs often have a delayed effect for T&L companies. Generally, fuel surcharges are based on fuel prices for the previous week. Rapidly increasing fuel costs can cause a lag between a company's ability to raise prices and the timing of their increased costs, which can cause large swings in profitability. In the short term, carriers must decide to either raise prices or take losses. If fuel costs remain high, the only option for logistics providers is to raise prices. On the contrary, when fuel prices fall, sales and profitability get a boost and logistics companies can redirect their efforts from mitigating high fuel costs to other aspects of their operations, such as increasing the speed of service.

Fuel is typically the second-largest operating expense for trucking companies, behind driver wages. While some companies with larger fleets may have pricing deals with fuel suppliers and fuel surcharges written into contracts, smaller owner-operators may not have this luxury. This means smaller companies often get hit especially hard by rising fuel costs if they work with customers who do not pay a fuel surcharge. Regardless, the result is that the increase in costs is eventually shared among parties along the supply chain, including the end consumer, who can expect to pay more for everything from groceries to household products to consumer staples. In short, higher fuel costs result in price inflation and affect every company along the transportation supply chain. However, the extent to which the increased costs are passed along depends on the contracts and relationships between companies and how long fuel prices remain elevated.

Rising fuel costs can also lead to a shift in the preferred method for transportation. As it becomes less economically viable to move freight using fuel-inefficient methods, logistics companies may begin to ship more product using intermodal carriers as opposed to over-the-road trucks. J.B. Hunt's chief commercial officer reiterated this during the company's investor call on January 19, 2022: "As an organization, we see tremendous pent-up demand to convert highway freight to intermodal with elevated truck rates, the tight labor market, higher fuel prices and a 60% improvement in carbon efficiency intermodal offers vs. truck."

For an industry that's already suffering from equipment and driver shortages, severe congestion and capacity issues, rising fuel costs are causing further commotion during this unprecedented time. With no indication that fuel prices will return to typical levels any time soon, the importance of forecasting is becoming increasingly important for T&L companies.

We hope you enjoy this edition of our T&L update and encourage you to reach out to a member of our team with any questions.

Author

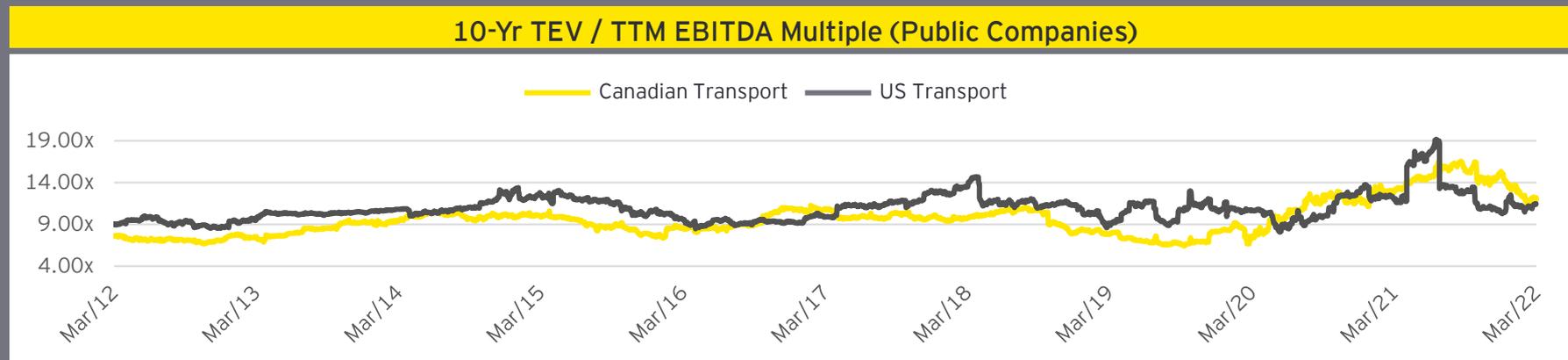
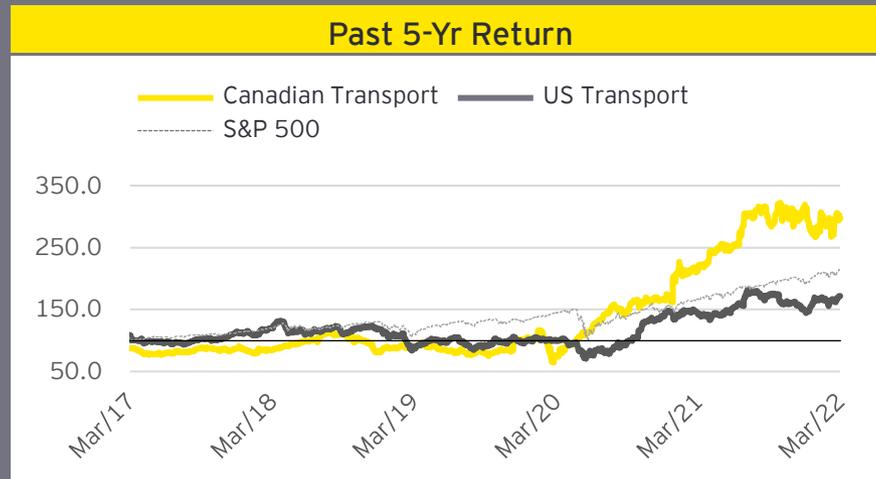
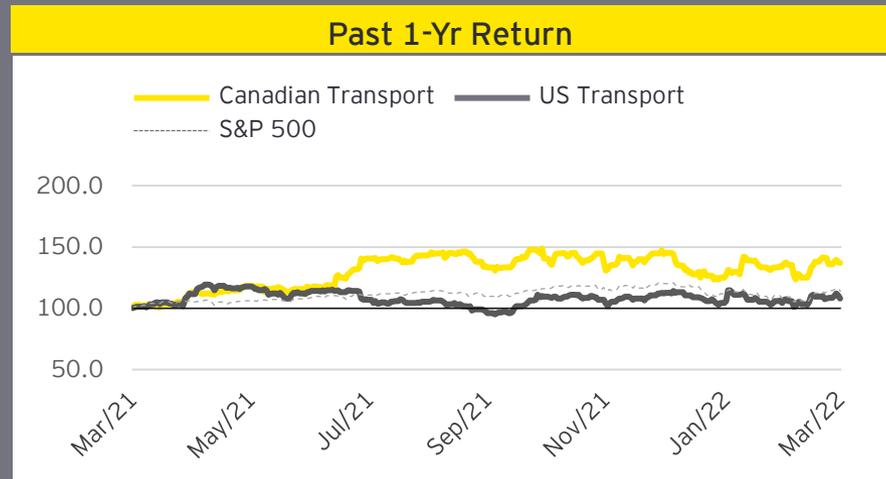


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EY's* transportation index

Canadian and US returns have remained relatively consistent over the previous 12 months. The TEV/TTM EBITDA multiples in Canada and the US peaked in the spring of 2021 following the announcement of TFI's acquisition of UPS Freight and investor optimism surrounding the reopening of the economy. Both Canadian and US multiples have retracted in the last 12 months, but remain above historical levels.



The Ernst & Young Orenda Corporate Finance North American transport index tracks the performance of the most widely traded north American transport companies relative to the benchmark S&P 500 Composite Index.

Our North American transport index consists of the following publicly traded transport companies:

Canada

- TFI International Inc
- Titanium Transportation Group Inc
- Andlauer Healthcare Group Inc.
- Mullen Group Ltd.

United States

- C.H. Robinson Worldwide Inc.
- FedEx Corporation
- Forward Air Corporation
- Hub Group Inc.
- Heartland Express Inc.
- J.B. hunt Transport Services Inc.
- Knight-Swift Transportation Holdings Inc.
- Landstar Systems Inc.
- Marten Transport Ltd.
- Radiant Logistics Inc.
- Ryder System Inc.
- United Parcel Service Inc.
- Universal Logistics Holding Inc.
- USA Truck Inc.
- Werner Enterprises Inc.
- XPO Logistics Inc.
- Yellow Corporation

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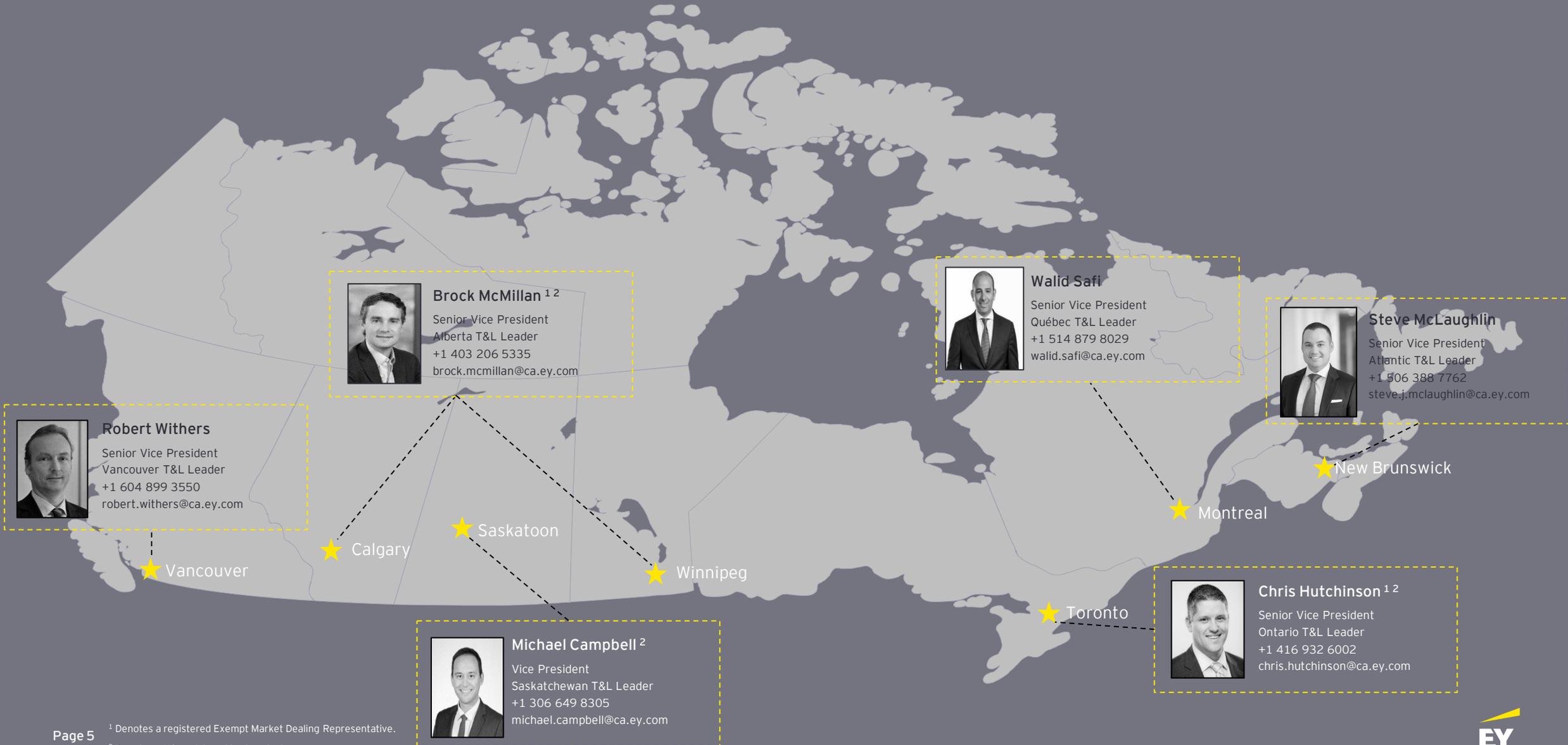
Note: The indices in this newsletter have been compiled by Ernst & Young Orenda Corporate Finance Inc. solely for illustrative purposes. The companies chosen are publicly traded companies that are commonly used for industry composites to show stock performances in a sector. The indices do not include all public companies that could be categorized in each sector and were not created as benchmarks, nor should they imply benchmarking or recommendations for a particular stock or sector.



Select North American transactions

- ▶ **December 31, 2021:** Bison Transport Inc., a Winnipeg-based freight transportation service provider serving clients across North America, acquired Maine-based Hartt Transportation Systems Inc. With over 360 tractors, 2,100 trailers and a sizable logistics offering, Hartt is one of the largest truckload carriers in the North-eastern United States. Bison believes the acquisition will help expand its footprint in the U.S. and strengthen its cross-border offerings.
- ▶ **December 31, 2021:** Schneider National Inc., a Wisconsin-based trucking, intermodal and logistics provider with operations across North America, acquired Ohio-based Midwest Logistics Systems Ltd. for US\$263 million. With operations across 30 US locations and approximately US\$205 million in revenue, the acquisition is expected to be immediately accretive to Schneider's earnings per share. Midwest will operate as an independent subsidiary of Schneider under its current name.
- ▶ **January 10, 2022:** Canada Cartage System Ltd., a Mississauga-based transportation and logistics provider, acquired Québec-based Laurentien Transport. Laurentien specializes in refrigerated freight services to the grocery, pharmaceutical, food and beverage and retail sectors. The acquisition significantly increases CCSL's scale and service capabilities in Québec.
- ▶ **February 3, 2022:** Consolidated Fastfrate Inc., an Ontario-based provider of transportation and logistics services across Canada and the US, acquired Saskatoon-based United Transfer Inc. (UT). UT provides transportation and warehousing services across Saskatchewan, Alberta and Manitoba. The acquisition will help Fastfrate increase its Canadian intra west presence and service capability as well as its last mile offerings. **EY acted as the exclusive financial advisor to UT.**
- ▶ **February 9, 2022:** Covenant Logistics Group Inc., a Chattanooga-based transportation and logistics provider, acquired fellow Chattanooga-based AAT Carriers Inc. for US\$55 million. AAT specializes in transporting highly regulated, time-sensitive loads for the US Government and generated about US\$25 million in revenue last year. The total purchase price includes a US\$20 million earnout and represents a 3.3x to 5.5x TEV/EBITDA multiple, dependant on whether the earnout is achieved.
- ▶ **February 28, 2022:** J.B. Hunt Transport Inc., one of the largest supply chain solutions providers in North America, acquired the assets of North Carolina-based Zenith Freight Lines LLC. for US\$87 million from Bassett Furniture Industries Inc. The acquisition is expected to enhance J.B. Hunt's furniture delivery capabilities by expanding its nationwide, end-to-end supply chain solution for customers. Zenith achieved revenues of US\$87 million in fiscal 2021, of which approximately one-third was generated from its former parent company Bassett. On the closing of the transaction, J.B. Hunt and Bassett will enter into a long-term master services agreement whereby J.B. Hunt will continue to provide transportation services for Bassett.
- ▶ **March 1, 2022:** Andlauer Healthcare Group Inc., an Ontario-based provider of supply chain solutions for the health care sector, acquired Québec City-based Logistics Support Unit Inc. (LSU) for \$30 million. LSU is a third-party logistics provider offering specialty pharmacy, warehousing, distribution and order management services throughout Canada to clients in the pharmaceutical, medical and biotechnology sectors. LSU will continue to operate under its own brand under the Andlauer umbrella.
- ▶ **March 25, 2022:** STG Logistics Inc., an Illinois-based provider of facilities-based containerized logistics services, acquired the North American intermodal business of XPO Logistics Inc. (XPO Intermodal) for US\$710 million. XPO Intermodal provides rail brokerage and drayage services from 48 locations and generated revenues of US\$1.2 billion in 2021. The divestiture represents a key step in XPO's planned spinoff whereby it will separate XPO into two publicly traded LTL and tech-enabled brokered transportation service businesses. The acquisition will provide STG with the ability to handle a container from the time it's ready at a port or customer facility to the time it arrives at its final destination. The combined business will go to market as STG logistics.

EY's M&A Trucking & Logistics senior industry team



¹ Denotes a registered Exempt Market Dealing Representative.

² Denotes a US-registered broker-dealer.

Selected T&L transaction credentials



has been acquired by



EY* acted as the exclusive financial advisor to United Transfer 2008 Ltd.



*Ernst and Young Orenda Corporate Finance Inc.



has acquired



EY* acted as exclusive financial advisor to Fastfrate Group



*Ernst and Young Orenda Corporate Finance Inc.



has been acquired by



EY* acted as exclusive financial advisor to Heniff Bulk Systems



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EY* acted as exclusive financial advisor to Penner International Inc.



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EY* acted as exclusive financial advisor to Argus Carriers Ltd.



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has been acquired by



EY* acted as exclusive financial advisor to Inter-Urban Delivery Service Ltd.



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



EY* acted as exclusive financial advisor to Three Star Trucking Ltd.



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



EY* acted as exclusive financial advisor to TimeLine Logistic International



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



EY* acted as exclusive financial advisor to BDK Transportation Co. Inc.



*Ernst & Young Orenda Corporate Finance Inc.



has entered a strategic partnership and made a financial investment in



EY* acted as exclusive financial advisor to Q-Line Trucking Ltd.



*Ernst & Young Orenda Corporate Finance Inc.



An investment has been made in TAM International Inc. by



EY* acted as exclusive financial advisor to TAM International Inc.



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



EY* acted as exclusive financial advisor to Coast West & Equipment Services Ltd.



*Ernst & Young Orenda Corporate Finance Inc.



has sold its business assets to



EY* acted as exclusive financial advisor to Yanke Holdings Ltd.



*Ernst & Young Orenda Corporate Finance Inc.

Streeper Contracting Ltd.

has been acquired by



EY* acted as financial advisor to Streeper Contracting Ltd.



*Ernst & Young Orenda Corporate Finance Inc.



has acquired

Norstar Passenger Services, the school bus operation of



EY* acted as financial advisor to Stock Transportation Ltd.



*Ernst & Young Orenda Corporate Finance Inc.

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EY* is one of Canada's largest mid-market corporate finance advisors. With a seasoned transportation industry-focused team, we can help navigate your business issues, capitalize on your transaction opportunities and achieve your strategic objectives.

Our corporate finance capabilities include the following:

M&A advisory

- Sell-side advisory
- Buy-side advisory
- Division/subsidiary spin-offs and divestitures
- Management and leveraged buyouts

Capital markets advisory

- Debt and equity financing
- Debt and equity recapitalizations
- Raising growth capital
- Capital structures assessment
- Preparation and assessment of financial forecast models

Strategic advisory

We have deep experience advising entrepreneurs on their Capital Agenda – how to raise, invest, optimize and preserve their capital. We can help facilitate the needed strategic conversations and action plans necessary to meet your evolving business priorities.

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About EY

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