

Trucking & Logistics Update

Q2-2022

August 2022



Building a better
working world

This edition's discussion: rising equipment costs creating more challenges for the trucking and logistics industry

The rapid price increase for both new and used equipment is making it difficult for owner-operators to enter the market and is increasing the average time for service of trucks.

The cost of both new and used equipment in the trucking and logistics (T&L) industry has reached levels never seen before. According to Richie Bros' June Market Trends Report, used truck prices are up 34% and 56% year over year in Canada and the US, respectively. When coupled with declining spot rates and record-high diesel prices, it makes it extremely difficult for new owner-operators to enter the market. Prospective owner-operators are forced to commit more upfront capital to purchase a truck while earning lower profit margins.

The production of new trucks and trailers worldwide has slowed dramatically, largely as a result of the worldwide shortage of semiconductors and other key components such as aluminum and steel. These production delays have resulted in the average wait time for new truck purchases to extend over a year. Because of these long wait times, trucking companies are increasingly turning to the used truck market to fulfill their equipment requirements, which has resulted in an increase in demand for used trucks.

Spare parts and repair and maintenance fees are also on the rise, further impacting the barriers to entry for prospective owner-operators. A labour shortage in the repair market, low availability of parts stemming from supply chain challenges, and lengthening equipment service lengths due to low availability of new equipment are all major contributors to these rising costs. As repairs and maintenance often makes up the third-largest expense for trucking companies – behind labour and fuel – these price increases can have a significant effect on profitability and are often eventually passed on to the end customer.

While used truck prices have declined slightly in the last month, both new and used equipment prices are expected to remain high throughout 2022. With no end in sight to the long wait times for new truck purchases, T&L companies are being forced to be more proactive than ever in evaluating their equipment needs. While some companies are simply increasing their capex budgets, others have had to turn down work they otherwise would have taken on due to an inability to service customers' needs. In addition, some companies are now hiring more company drivers as opposed to owner-operators due to the declining number of owner-operators in the market.

The rise in equipment costs is just one of the many issues T&L companies are being forced to navigate during these unprecedented times in the industry. Nonetheless, large players are continuing to turn to M&A to drive inorganic growth and increase shareholder returns.

We hope you enjoy this edition of our Trucking and Logistics Update and encourage you to reach out to a member of our team with any questions.

Author

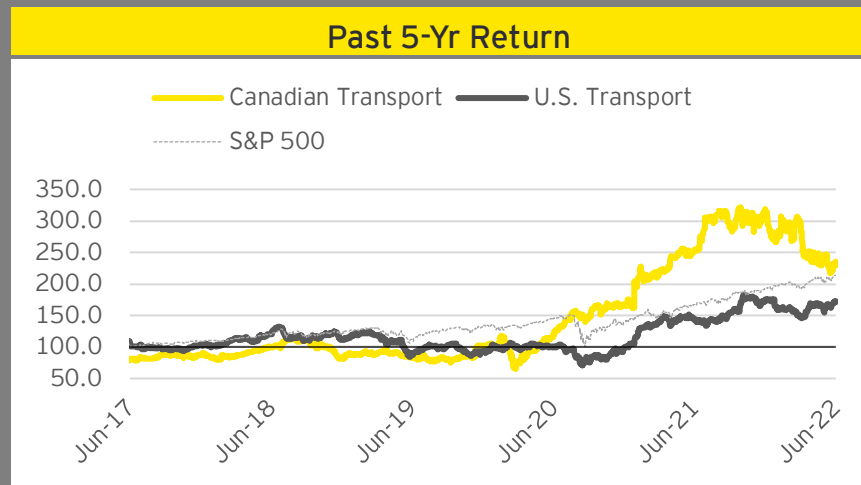
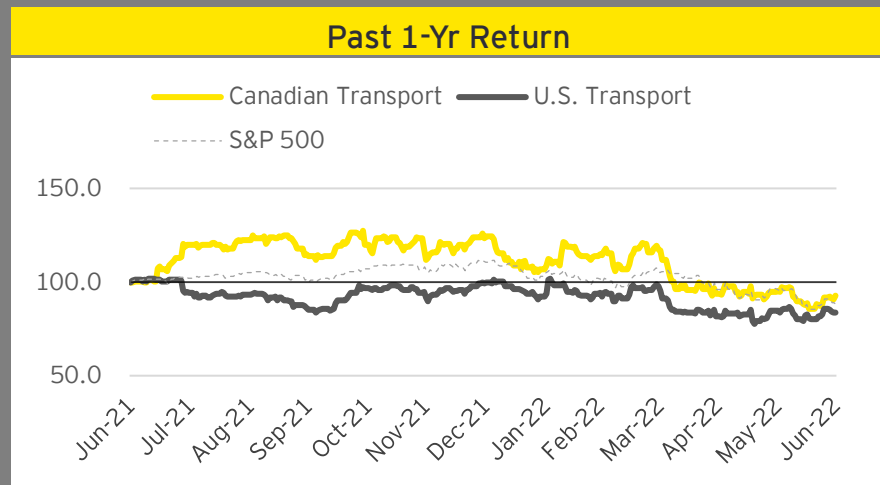


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Ernst & Young Orenda's Transportation Index

Canadian and U.S. returns have decreased in recent months, largely in line with the general decline of returns exhibited by the S&P 500. The TEV / TTM EBITDA multiples in Canada and the U.S. have also seen a recent decline as investors continue to have concerns about the strength of the economy and the impact of inflation on transportation companies.



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.

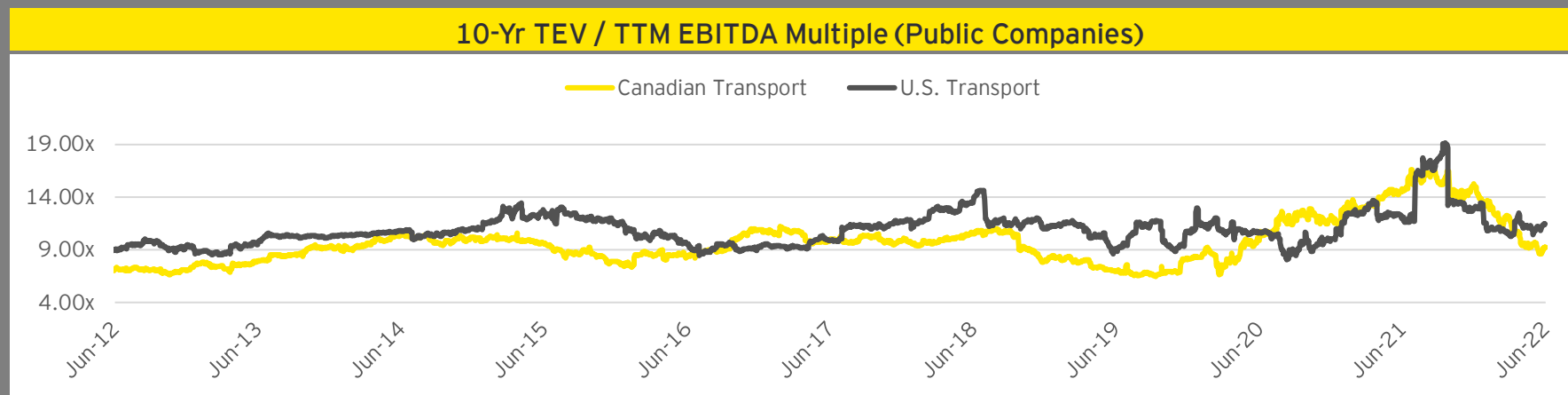
Our North American transport index consists of the following publicly traded transport companies:

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

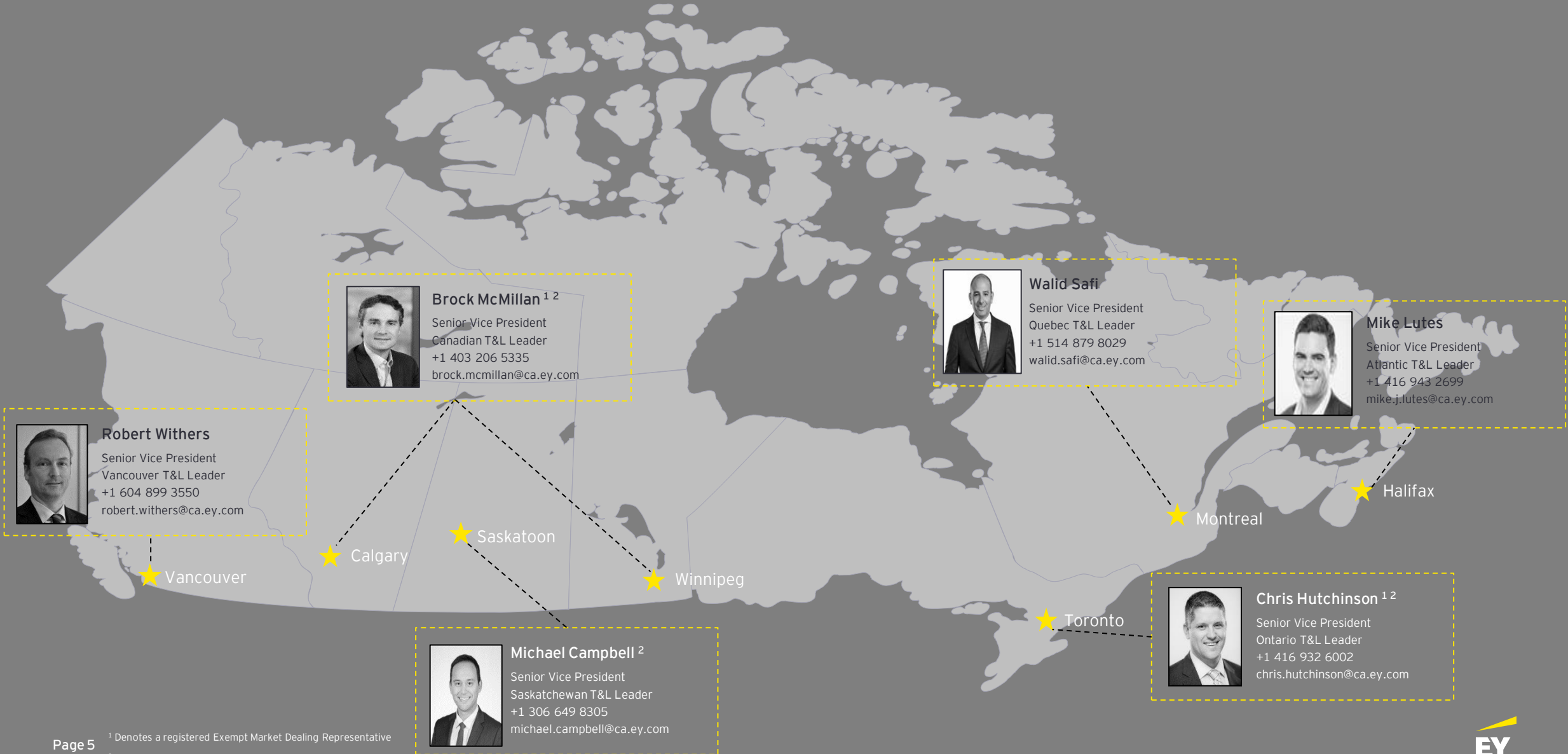


Note: The indices in this newsletter have been compiled by Ernst & Young Orenda Corporate Finance Inc. solely for illustrative purposes. The companies chosen are publicly traded companies that are commonly used for industry composites to show stock performances within a sector. The indices do not include all public companies that could be categorized within 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

- ▶ **April 5, 2022:** A consortium comprising of Forest Partners and UTC Investment, both South Korean-based private equity firms, announced the purchase of 70% of Ontario-based logistics company Traffix for approximately \$260 million USD, partnering with existing management. Traffix is one of the fastest growing asset-light logistics providers in North America. The transaction is largely funded by South Korean institutional investors through a fund set up by Forest Partners.
- ▶ **April 13, 2022:** Lineage Logistics LLC., a Michigan-based temperature-controlled logistics company, announced it has signed a definitive agreement to acquire Ontario-based VersaCold Logistics Services from Torquest Partners. VersaCold is a leading Canadian temperature controlled logistics company. The acquisition, which is expected to close in Q3, will strengthen Lineage's presence in the Canadian market.
- ▶ **April 21, 2022:** GTI Transport Solutions Inc., a Quebec-based value-added transport solutions company backed by Novacap, acquired Tennessee-based Foxconn Logistics. Foxconn is a non-asset contract brokerage specialized in container management and drayage within intermodal logistics, with a strong presence in U.S. ports across the eastern, southern, and western seaboards. The acquisition strengthens GTI's focus on the north-south corridor between Montreal and Texas and complements its extensive value-added service offering.
- ▶ **May 1, 2022:** Alberta-based Mullen Group Ltd., a transportation company that owns a network of independently operated businesses, acquired Edmonton-based Willy's Trucking Service for \$26 million. The acquisition is expected to be immediately accretive to Mullen's earnings per share.
- ▶ **May 2, 2022:** A.P. Moller - Maersk, a Denmark-based integrated transportation and logistics company, acquired Pennsylvania-based Pilot Freight Services Inc. for \$1.68 billion USD. Pilot is a leading international and domestic supply chain providers with cross-border solutions in Canada and Mexico. The transactions allow Maersk to extend its end-to-end offerings deeper into the North American supply chain of its customers by adding important supply chain infrastructure capacity and scale.
- ▶ **June 1, 2022:** Heartland Express, Inc., a Iowa-based truckload carrier, acquired Pennsylvania-based Smith Transport Inc. for \$170 million USD. Smith is an asset-based truckload carrier which provides dry van and other specialized transport services, primarily in the Eastern U.S. The transaction is expected to be immediately accretive to Heartland's earnings per share.
- ▶ **June 15, 2022:** Consolidated Fastfrate Inc., an Ontario-based provider of transportation and logistics services across Canada and the U.S., announced the majority acquisition of Ontario-based Challenger Motor Freight Inc. Fastfrate is excited to add Challenger's industry-leading cross-border trucking capabilities to complete its already diverse suite of services. Challenger will continue to operate as an independent brand following the closing of the transaction, with current shareholders retaining an ownership interest. The transaction closed in Q3. **EY acted as the exclusive financial advisor to Fastfrate.**

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



¹ Denotes a registered Exempt Market Dealing Representative

² Denotes a U.S. registered broker-dealer

Selected Trucking & Logistics transaction credentials




has been acquired by




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




* Ernst & Young Orenda Corporate Finance Inc.



has acquired



EY* acted as exclusive financial advisor to Fastfrate Group



* Ernst & Young Orenda Corporate Finance Inc.




has been acquired by




EY* acted as exclusive financial advisor to Heniff Bulk Systems




* Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



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



* Ernst & Young Orenda Corporate Finance Inc.



has been acquired by




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



* Ernst & Young Orenda Corporate Finance Inc.



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 Central Water & Equipment Services Ltd.



* Ernst & Young Orenda Corporate Finance Inc.



has sold its business assets to




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




* Ernst & Young Orenda Corporate Finance Inc.

Streep Contracting Ltd.

has been acquired by



EY* acted as financial advisor to Streep Contracting Ltd.



* Ernst & Young Orenda Corporate Finance Inc.




Assets relating to the Fort McMurray and Capstan Hauling Ltd. operations of ENT Oilfield Group Ltd. (a subsidiary of ENTREC Corporation) have been acquired by



EY* acted as financial advisor to ENT Oilfield Group Ltd. and Capstan Hauling Ltd.



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About us:

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 expertise 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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Trucking and Logistics market, please contact:



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