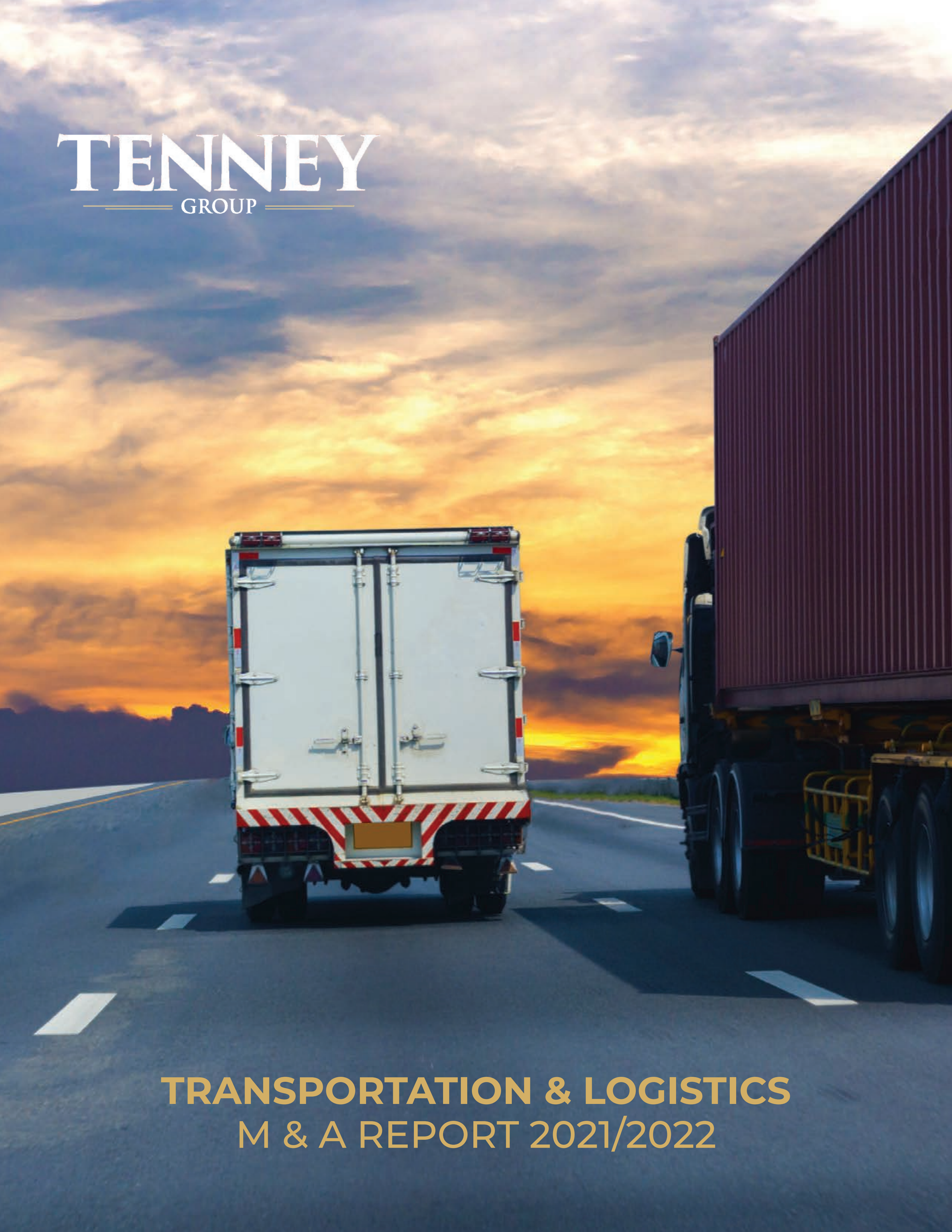


TENNEY
GROUP

TRANSPORTATION & LOGISTICS
M & A REPORT 2021/2022

2021 M&A Overview & 2022 Forecast

2021 was a remarkably active year for mergers and acquisitions in the transportation and logistics (T&L) space. This report addresses what Tenney Group observed around the deal table in 2021 and examines what we expect to take place in 2022. The commentary within this report is geared toward sellers and buyers of T&L companies with annual revenues ranging from 20M to 300M. Enjoy.

Notable Deals for 2021

Acquirer	Acquired	Vertical
AEA Investors LP	Redwood Logistics	3PL
Allen Lund Company	Magic Valley Truck Brokers	Freight Brokerage
ArcBest	MoLo Solutions	3PL
Ashley Furniture Industries Inc	Wilson Logistics - Western Division	Dry Van
CSX	Quality Carriers	Chemical Hauler
FitzMark	Riverside Transport	3PL
Geodis	Velocity Freight Transport	3PL
Hirschbach Motor Lines	Lessors	Reefer
James Richardson & Sons Ltd	Bison Transport	Reefer
Knight-Swift	AAA Cooper	LTL
Kuehne + Nagel	Apex Logistics	Freight Forwarding
Mullen Group	QuadExpress	3PL
Pilot Freight	DSI Logistics	Final Mile
PS Logistics	Patriot Transit	Flatbed/3PL
Red Arts Capital	Radius Logistics	3PL
Sutton Transport	E F Express	Dry Van
TFI	UPS Freight	LTL
Titan Transfer	Central Penn Transportation	Dry Van
Uber Freight	Transplace	3PL
Werner	NEHDS Logistics	Final Mile

A Look Back at 2021 Predictions

Prediction 1: 20% Increase in Total T&L Deal Volume

According to Price Waterhouse Cooper, the transportation and logistics deal volume increased by 11% from 2020 to 2021 (through November 15). Once the dust completely settles and all transactions are reported, Tenney Group believes the final 2021 numbers will be very close to 16%. This is largely because of the spike in deal activity that traditionally takes place in Q4 each year. **Tenney Group typically completes 60% of our annual transaction work between September and December each year.* However, PWC reported that the total value of deals was up 86% over 2021. This in large part to major transactions like TFI's acquisition of UPS Freight and Knight Swift's acquisition of AAA Cooper valued at $1.35B.

Prediction 2: 10% Value Premium Applied to 50M+ T&L companies

An 86% increase in deal value with only a 11% increase in deal volume, indicates that Tenney Group's 10% premium valuation prediction may have been understated. Capacity issues, driver shortage, limited access to new trucks/ trailers, and the anticipation of multiple interest rate hikes from the Federal Reserve in 2022 likely influenced the urgency in which buyers transacted in 2021 and why many knowingly paid a premium for the right deals.

Prediction 3: 0% Value Increase for T&L Companies Below $50M

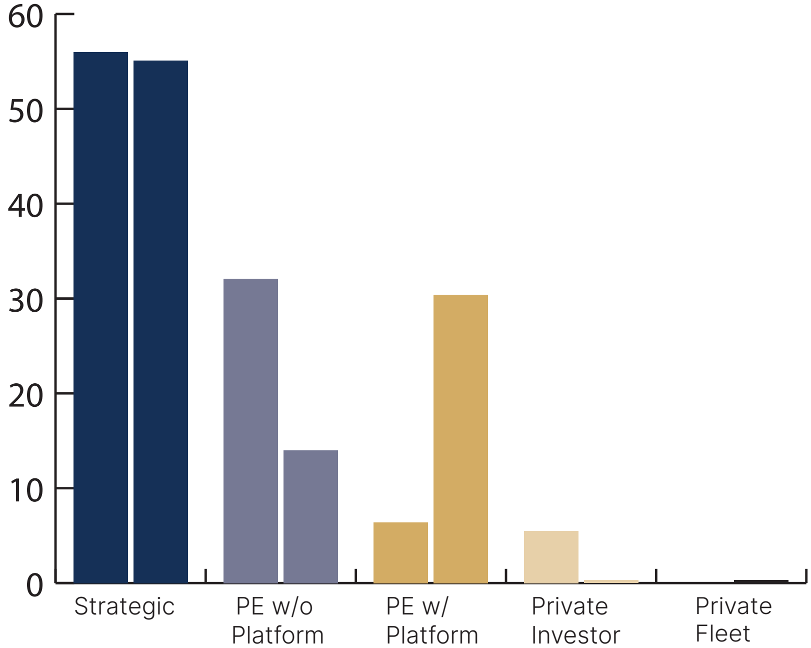
Tenney Group expected rising expenses to directly suppress earnings of small to mid-size trucking companies. We also predicted that rising value of drivers in a transaction process would offset the dip in earnings which would lead to valuations remaining flat. That is not what happened. Extraordinary pricing due to supply chain capacity issues outpaced rising expenses. In 2021, many small to mid-size companies had their best year on paper in company history. Additionally, the chip shortage and the corresponding spike in used equipment value enhanced sale outcomes beyond what we predicted or could have foreseen.

Buyer Analysis

Inside Look of Buyer/Offer/Deal Structure Analysis

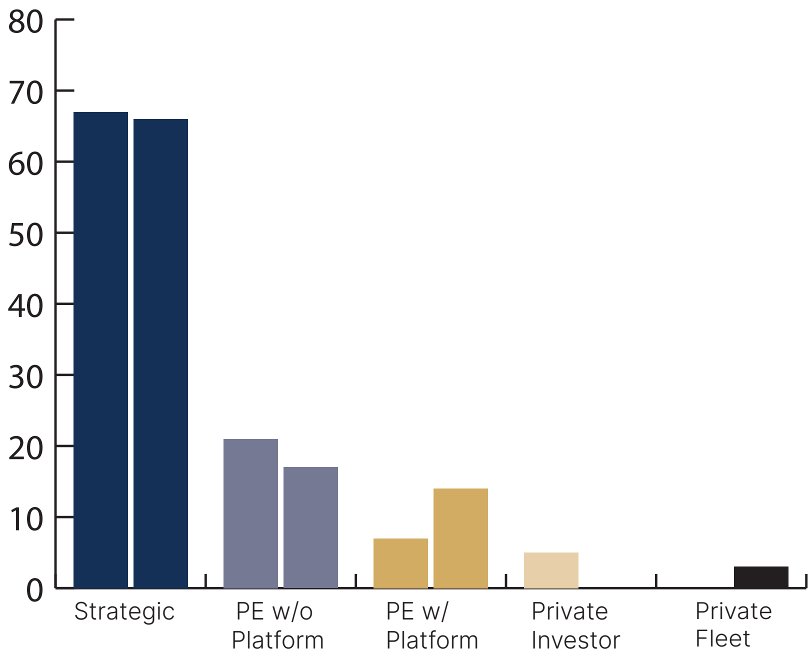
The following data is an inside look of Tenney Group's transaction activity within the last 24 months.

Buyer Engagement by Type (Signed NDAs)



	2020	2021
Strategic	**56.0%**	**55.1%**
PE w/o Platform	**32.1%**	**14.0%**
PE w/ Platform	**6.4%**	**30.4%**
Private Investor	**5.5%**	**0.3%**
Private Fleet	**0.0%**	**0.3%**

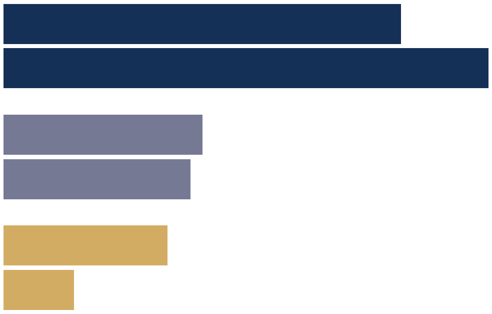
Offers by Buyer Type



	2020	2021
Strategic	**67%**	**66%**
PE w/ Platform	**21%**	**17%**
PE w/o Platform	**7%**	**14%**
Private Investors	**5%**	**0%**
Private Fleet	**0%**	**3%**

Offer Analysis

Offer Analysis by Structure



	2020	2021
Average % of Cash in Offer	68%	83%
Average % of Earnout in Offer	34%	32%
Average % of Seller Financing in Offer	28%	12%

Offers from Strategic Buyers

	2020	2021
Average % of Cash in Deal from Strategic Offer	71%	81%
Average % of Seller Financing in Deal from Strategic	28%	20%

Offers from Financial Buyers/Private Equity

	2020	2021
Average % of Cash in Deal from PE	63%	84%
Average % of Rollover Equity in PE	22%	4%

Observations: The cash component of offers went from 68% of the total consideration in 2020 to 83% of the total consideration in 2021. As we all remember, COVID-19 introduced a host of new risks into the marketplace that directly affected how buyers and lenders approached risks around the closing table. Though the pandemic continues to evolve and to be disruptive, the makeup of buyers (strategic vs. financial) has not changed in a meaningful way. Strategic or private equity backed strategic buyers continue to drive most of the buying activity in the T&L space. Lastly, it appears that private equity was much more comfortable with increasing the cash component of their offers in 2021 compared to 2020.

Takeaways from 2021 M&A

1. Access to Equipment Became a Significant Driver of M&A Activity and How Deals Were Valued/Structured

As access to new tractors and trailers became more elusive throughout the year, buyers adjusted their offers and proposed deal structures accordingly. For example, on multiple occasions Tenney Group saw buyers adjust their offers during due diligence once they clearly understood equipment replacement needs and the delays associated with getting new equipment. When a buyer saw that he/she couldn't realistically replace equipment on a normal schedule, they had to account for the post transaction economics. Anticipating an unavoidable increase in maintenance expense, the buyers reduced their offers. In one instance, the adjusted Letter of Intent was a $6M price reduction. Some sellers accepted the proposed adjustments. Some didn't. In other scenarios, we saw temporary fleet values enhance the value of a small acquisition by as much as 20% over typical market value. Buyers justified the higher purchase prices because the cost of continuing to turn away growth opportunities was more expensive and riskier than the one-time valuation bump.

> **22% more cash at closing than what was available in 2020.**

2. Cash Represented Large Component of Overall Deal Structures

Even though there was a tremendous amount of dry powder in the market 2020, the incredible uncertainties around the pandemic materially shifted the deal structure risks to the seller by way of earnouts, seller notes, and roll forward equity. As the M&A world became more comfortable with the risks surrounding the ongoing challenges of COVID – 19 and other variants, deal structures became more favorable to the seller in 2021. In 2021, we saw much more aggressive proposals from buyers that reflected the evolving risks in the market. Average offers produced by Tenney Group on behalf of our clients included 22% more cash at closing than what was available in 2020. One notable industry deal that included both a high concentration of cash and future upside was ArcBest's acquisition of MoLo Solutions. The deal included $235M cash upfront ($274 annual revenue in 2020 and approx. 600M in 2021) with an estimated additional upside of 100M+ if EBITDA milestones are hit through 2025.

3. Private Carriers Making Moves

Ashley Furniture's acquisition of the Western Division of Wilson Logistics was meaningful for several reasons. The fact that the transaction included approximately 440 trucks, 1400 trailers and 4 terminals, indicates how pronounced the challenges are within the supply chain – specifically for private carriers. Private carriers dipping a toe into the for-hire market is not a new concept. What is interesting about this transaction is that it captures the broader urgent need to leverage the best people, processes, technology, and networks to effectively respond to the record setting demand for services. This acquisition and others like it can potentially create tremendous advantages for private fleets as they respond to exploding growth opportunities. Effectively blending the cultures of private and for-hire fleets, that can at times have conflicting goals, will determine how well private carriers integrate acquisitions and fully capitalize on the available synergies.

The structure typically includes a driver retention component that allows the seller to earn more for effectively transferring qualified drivers.

4. Drivers Drive Value and Growth Strategy

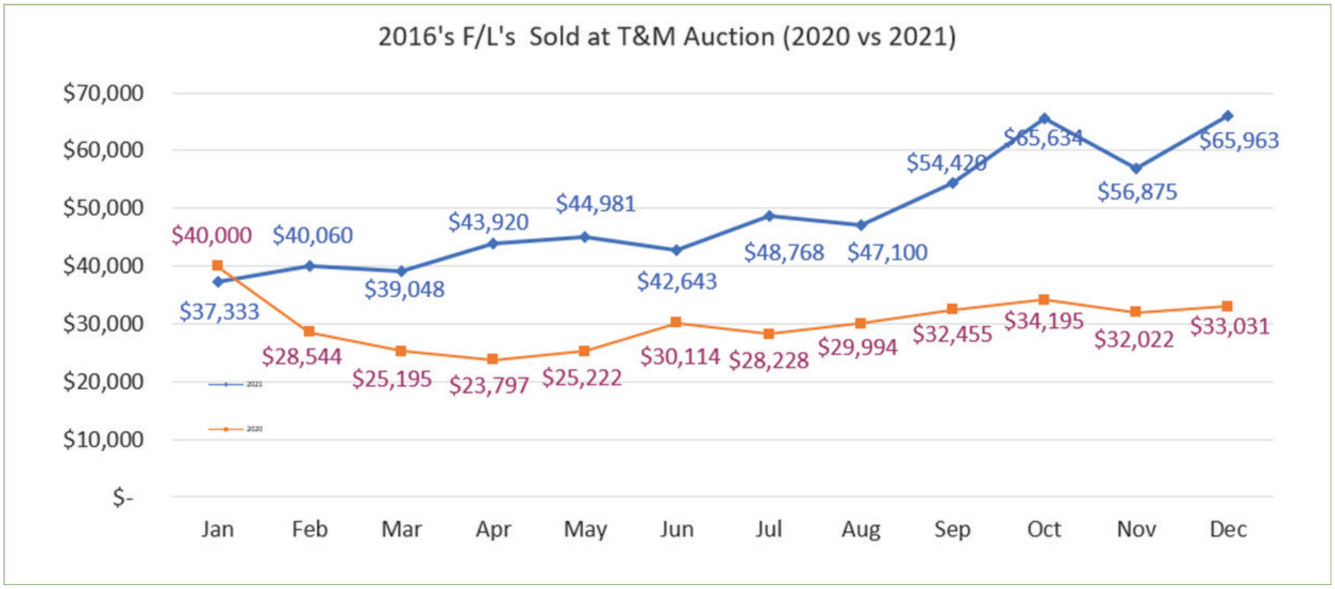
The American Transportation Research Institute's 2021 Critical Issues Report identified driver shortage as the number one challenge within trucking for the fifth straight year. Driver retention and driver compensation were second and third, respectively. It is nearly impossible to build or protect business value without effectively addressing these three connected issues. In August of 2021, Cowan Systems began offering $20,000 signing bonuses for qualified drivers. Many other carriers have delivered similar, bold responses to the driver shortage and retention challenge. Still, the exorbitant cost of recruiting one driver at a time is becoming less and less sustainable and is directly driving M&A activity.

Consequently, Tenney Group is seeing many transactions where the deal structure generously acknowledges the value of the driver. The structure typically includes a driver retention component that allows the seller to earn more for effectively transferring qualified drivers. Sellers who have not historically delivered strong profit margins or who have recently experienced large expense increases outside their control (e.g. insurance premium increases) are using the current value of their drivers to avoid discounted valuations in a business sale process. Consequently, those same owners have more exit strategy options than they have had in the past 24 months...even with a less profitable business.

5. First Time Buyers Making Waves

In the company's 65-year history, Werner Enterprises had not completed an acquisition until 2021. Werner completed two acquisitions last year including the purchase of the majority stake in ECM Transport (500 trucks & 2000 trailers) and the final mile carrier, NEHDS Logistics LLC (approximately $76M in annual revenue). As reported in FreightWaves, the expected synergies of the deal are increased scale and buying power. More importantly, the acquisitions represent a much broader reality of how growth strategies must be re-imagined to complete at the highest level in transportation and logistics. *You might remember in our 2020 report where Tenney Group cited another highly successful and established carrier making their first acquisition in their 50-year history - Fraley & Schilling. T&L companies of all sizes are integrating acquisitions into their broader growth strategies. Given the alternatives, it is quickly becoming the most risk averse and flexible approach to tackling growing industry challenges.

Issues to Watch in 2022



1. Rising Equipment Value

This graph, courtesy of Taylor Martin, shows what a 2016 Freightliner Cascadia Sleeper truck sold for in 2020 compared to 2021. In December of 2020, the vehicle sold for $33,031. In December of 2021, the same vehicle sold for **$65,963**– an approximate 100% increase in one calendar year. Taylor Martin's Director of Appraisals, Andy Vering, shared "It may be Q3 or Q4 in 2022 before the used equipment market begins normalizing. That assumes we reach a resolution with the chip shortage in the not-so-distant future, which I believe is possible." When an owner of a 200-truck fleet is confronted with the fact that their equipment value is worth 70-100% more than what it was one year ago, it changes the way he sees the future. Trusted equipment value experts believe the temporary equipment value spike in 2021 will normalize or effectively disappear in the next 9-15 months. Consequently, we expect many mid-size trucking company owners to seriously consider taking some or all chips off the table during this window.

> It may be Q3 or Q4 in 2022 before the used equipment market begins normalizing.

2. Increasing Driver Pay vs. Increasing Driver Efficiency

There is not much debate around the need for drivers to earn more money. The question is how. A carrier's response to this issue may have long and permanent ramifications on the future of the business. Some T&L

KLLM finalized their *highest driver pay increase* in company history (33%).

companies are offering 10-40% pay increases to attract new drivers and to keep the ones they currently have. It was reported January 19, 2022 that KLLM, #47 on FreightWaves Top 50 Carriers List, finalized their highest driver pay increase in company history (33%). However, pay increases alone are not automatically translating to added efficiency or production for carriers. In fact, some carriers have found that some drivers are preferring to use the pay increase to transition from a five-day work week to a four-day work week while making the same income. Some carriers are figuring out how to reengineer their network to promote greater driver efficiency which can increase driver pay without major structural compensation changes. Some are using acquisitions to help create the right network and the right efficiency for their drivers so they can earn more money. Some are using acquisitions to create economies of scale to offset inevitable and unavoidable increases in driver pay. Most owners are using some combination of all these approaches. Recommendation: Make sure you understand all your options before you commit to irreversible structural changes to driver compensation. Also, make sure you understand how structural changes may affect long term business value and exit strategy options.

3. Evolving M&A Legal Diligence

As the risks in the market continue to change from year to year, expect the legal diligence tied to M&A to evolve as well. Marc Blubaugh, Partner & Transportation Practice Leader at Benesch Law Firm, shared "As transportation and logistics companies continue to collect explosive amounts of data, expect a further emphasis on evaluating compliance with the panoply of laws and regulations governing data privacy." Heidi Hornung-Scherr, Partner at Scudder Law Firm, also offered insights into to this issue. "For asset-based deals, more diligence is required around factors that could drive projections for the target as industry capacity constraints. This includes equipment, trade cycle, maintenance expense creep, committed slots from the OEMs, capex, and, as always, drivers, drivers, drivers. For asset-light and logistics deals, a continued focus on customer relationships and concentration, as well as software and IT capabilities (including cybersecurity), should be a priority. In general, less diligence around COVID and PPP loans, that were previously such a focal point in 2020."

Predictions for 2022

Prediction 1: Record M&A Deal Volume - 20% Increase over 2021

Many T&L business owners nearing retirement have been planning to exit in 2022 (even before dealing with the wild roller coaster of 2020/2021). Those owners will likely exit as planned. What is interesting are the owners who have intended to exit over the next 3-5 years. We predict those owners will not roll the dice and wait for the next seller's market. The lowest interest rates in the foreseeable future, record Trailing Twelve Month (TTM) performances, and the highest value of used equipment on record offer the typical 50-200 truck carrier quite a compelling exit scenario. Additionally, the inability to grow without drivers will continue to draw more new players into the typical buying pool. We will see more first-time acquirers than ever in 2022 which will also contribute to record M&A deals.

Prediction 2: Talent War/Inflation Will Drive T&L Companies to Specialize Through Acquisitions

In 2021, the United States experienced the greatest period of inflation (7%) than at any other time the past forty years. Though rates were fantastic in 2021, T&L companies are beginning to feel earnings compress due to inflation. Companies that experienced record profit margins in 2021 will fiercely fight the effects of inflation and look to specialize to remain competitive. Winning the future will require the best talent, the best processes, and the most innovative technology. Many companies are recognizing that the market moves too fast and is too unforgiving to wait on home grown talent and expertise. Acquisitions accelerate talent acquisition and process improvement, but the "best" is not always found in the biggest. Expect buyers to target smaller companies with a niche expertise or technology that is not being fully capitalized under existing ownership – either because of access to capital or ownership's low appetite for new risks. Some great case studies for this acquisition strategy come from the final mile arena. Freight Rite, Linn Star Transfer, & NRX Logistics, all deals Tenney Group advised on, offered the buyer a path to rapidly advance their strategic and operational capabilities in a priority vertical.

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Prediction 3: 10 Year Valuation High for both Asset Heavy and Asset Light T&L companies.

According to Capital IQ, asset light logistics company have been on an upward valuation trend since 2016. Asset heavy companies have been up and down over that same period. Tenney Group predicts 2022 valuations for both asset light and asset heavy T&L companies will reach a 10-year high. The expected normalizing of equipment value toward the end of 2022 combined with the multiple interest rate hikes expected this year will level off valuations in 2023.

Tenney Group predicts 2022 valuations for both asset light and asset heavy T&L companies will reach a 10-year high.

About Us:

The Tenney Group is an industry specialized merger and acquisition advisory firm that has been dedicated to transportation and logistics since 1973.

Who We Serve: Tenney Group's core focus is sell-side representation services for owners of trucking and logistics companies with annual revenues ranging from $20M to $300M.

Recent Tenney Group Success Stories

- Ashley Furniture Acquires Western Division of Wilson Logistics
- Cardinal Logistics Acquires NRX Logistics
- Titan Transfer Acquires Central Pennsylvania Transportation

For More Information

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