# M&A experts: Hot market for logistics acquisitions isn't cooling

Benesch panelists say lower freight rates aren't slowing deal volume, but figuring out valuations is a challenge

**John Kingston** • Thursday, December 15, 2022


A panel at the Benesch law firm conference on private equity in logistics. From l to r: Peter Shelton, Benesch; Mark Niznik, Linx; Peter Stefanovich, Left Lane Associaties; Alexander Rafla, Clarendon Capital; Spencer Tenney, Tenney Group (Photo: Benesch)

Freight rates may be declining and there's lots of talk of a recession for at least part of 2023, but the market for mergers and acquisitions in logistics remains brisk.

That was the theme of several panels at an early December one-day conference on private equity investing in the transportation and logistics industry sponsored by the Benesch law firm and its transportation practice.

"I'm getting calls every day," Ron Lentz, a managing director of PE firm Logisyn, said of the market going into the new year. "I see that in 2023 we're going to have a lot of deal flow."

And it's not as if a strong 2023 would be a sharp reversal from what went on in 2022. On one of the panels that focused heavily on M&A activity and valuation, Mark Niznik, the managing director of Linx Partners, said the first half of 2022 was "very strong with a lot of pent-up supply of deals that were ready in 2021."

However, he said that a slowdown in deal volume has been occurring, "and we've seen companies pulled from the market or not come to the market at all."

But on that same panel, Spencer Tenney, CEO of the Tenney Group, said he was not seeing that deceleration.

"There's tremendous activity and interest in increased capabilities," Tenney said. What has been changing, though, is "structure."

That was a reference to ways in which buyers and sellers are structuring deals so as to protect themselves on post-closing developments. Peter Stefanovich, the president of Left Lane Associates, concurred. "Our buy-side clients are structuring transactions in a way to make sure there are some protective measures in case there are any issues in the market."

But concerns about a market downturn and the need to build in protective covenants aren't putting a damper on volume, Stefanovich added.

If there is one factor that might be slowing the volume of deals, it was described by several of the panels' members during the course of the day as what might be referred to as "irrational exuberance" (though nobody actually used that legendary phrase at the Benesch conference.)

“Some of the sellers had unrealistic expectations,” Stefanovich said. “It takes the right people to remind your clients that their expectations can’t be astronomical.”

One issue that is of concern to buyers was noted by Tenney: deferred capital expenditures, in which a company that is to be acquired may have underspent its normal capex needs in order to help boost its profit and loss statement.

“I think there is high sensitivity around deferred capex right now,” Tenney said, explaining that deals are being structured with that issue in mind, and it’s driven in part by large fluctuations in the price of used and new equipment.

Tenney and Stefanovich ticked off other steps buyers and sellers are taking to protect themselves while doing deals in the middle of the record-breaking freight market of last year and the uncertainty of 2022. They include “earnouts,” in which the deal is structured so the seller can continue to earn a piece of the profits if certain targets are met under the new ownership and escrow accounts set up to deal with future issues on such costs as insurance and capex.


The protection comes as valuations have become challenging. Alexander Rafla, a principal at Clarendon Capital, said valuing logistics companies is coming against a backdrop of a “hockey stick environment,” in which freight rates zoomed higher beginning in 2020 that if put into a graph would resemble the shape of a hockey stick.

“Going into 2023, it’s really going to be a proving ground for a lot of those sectors that really benefited from hockey stick rates,” he said.

Another factor impacting the M&A market is what Stefanovich called “cross-pollination,” in which one branch of the logistics sector steps in and buys something that puts the acquiring company into a new field. He cited the example of German 3PL DB Schenker acquiring publicly traded truckload carrier USA Truck in June for $485 million.

Reaching back into a late 2021 deal, Tenney said his company was involved in another transaction that falls into that cross-pollination category, the purchase of trucking assets from Wilson Logistics by furniture retailer Ashley Furniture.

Given the decline in rates as 2022 bids farewell and the prospect of them being lower or not much higher in the early days of 2023, that market environment could mean, according to Clarendon’s Rafla, that “2023 could be a tale of two halves also.”

“As we go to look at underwriting deals, we’re trying to look at what is that sustainable earnings number,” Rafla said.

And once the deal gets done, then the hard part starts. That was the message of the closing panel at the Benesch conference on integration and unification.

Lentz, the managing director of Logisyn, said that was driven home to him when he was brought in to run a company that had just gone through a merger and found that the company had five different groups of employees all pitching their services to Walmart (NYSE: WMT), with no coordination or integration of the sales effort.

And in what might be considered heresy about putting the employees first, Lentz said a company trying to integrate an acquisition should not “build the boxes around the people. Build the boxes first and have the people in there.”

That acquisition with the multiple sales groups pitching Walmart ended up seeing about 8,000 worldwide “RIFs,” the shorthand for a reduction in force or, more colloquially, a firing. “But we got to learn who were the keepers and who weren't," Lentz said.

"It took six months to get everybody on the same page," Lentz said. Ultimately, the focus turned to three things: ensuring the company had the right people, the right processes and then "technology that worked."

"It was a success but it was not an easy thing to do," Lentz said.

But Richard Piontek, CEO of Direct Connect Logistix, said retention of personnel at an acquired company is a key consideration.

"The problem you run into in a major change event is that you could lose 10% to 20% of your top people and you could do this in a few months," he said. "You're looking for ways to solve that.

"You need an integration plan up front before you do the deal," Piontek said. "Integration planning starts long before you get there."

The key to finding a solution is communication. "A lack of transparency undermines what you're trying to do," Piontek said. Without it, the staff "won't be understanding why you did the deal."

Piontek said he got an education on that when he realized that his monthly communication with employees "should have been weekly."

To which Lentz later said on the panel, "I don't even know that weekly is enough sometimes."

Piontek added, "You've got to resell the people on reengaging and committing to this new organization, because it's different and it will never be the same."

Lentz said one step on the road to a failed deal is 50-50 ownership, regardless of who are the equal parties. "Somebody needs to be 51% and take control."

There were several references over the course of the day regarding the fact that many companies created in the wake of trucking deregulation more than 40 years ago are now being sold by their founders who aren't handing them down to a next-generation family member. While that is only one part of the offerings of companies seeking a new buyer, Piontek joked that he is working on a book called "Managing Multimillionaires."

"You are buying somebody's life work, and if you think you're going to replace that person, you're not," Piontek said. "You have to be really thoughtful about how you manage."

Human feelings are an important factor in the integration. Piontek said a "loss of status" may be felt by employees in the company that is being acquired "and that can contribute to people's dissatisfaction."

"Look at people as the ultimate variable," Piontek added. "It's hard to predict what they will do."

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John has an almost 40-year career covering commodities, most of the time at S&P Global Platts. He created the Dated Brent benchmark, now the world's most important crude oil marker. He was Director of Oil, Director of News, the editor in chief of Platts Oilgram News and the "talking head" for Platts on numerous media outlets, including CNBC, Fox Business and Canada's BNN. He covered metals before joining Platts and then spent a year running Platts' metals business as well. He was awarded the International Association of Energy Economics Award for Excellence in Written Journalism in 2015. In 2010, he won two Corporate Achievement Awards from McGraw-Hill, an extremely rare accomplishment, one for steering coverage of the BP Deepwater Horizon disaster and the other for the launch of a public affairs television show, Platts Energy Week.