



Good Times Continue to Roll for Warehouse Logistics Providers

It's easy to see why the investment community places such a high multiple on most third-party warehouse logistics providers. The industry's impressive growth remains close to double figures, far outstripping U.S. economic growth. Even better, that growth shows no signs of slowing.

Already coming off a highly successful 2005, members of the International Warehouse Logistics Association predict another banner year in 2006. In fact, results from the association's recent Business Outlook survey say that nearly nine in 10 respondents expect revenues to grow this year. That's even better than 2005, when 80 percent of IWLA members reported increased sales, including just over one-third who were fortunate enough to see business expand by 10 percent or better.

This year, another 31 percent expect to see revenue gains of 10 percent or greater. Just five percent predict a sales shortfall from 2005

numbers, while eight percent believe sales will be flat in 2006.

"Business is very strong across the board," said Bruce Abels, president at Saddle Creek Corp., a third-party provider based in Lakeland, FL. "Right now we're feeling pretty good about the business. And when I talk to other folks, they are bullish about the business right now."

Growth hasn't been limited solely to revenues. In order to keep up with burgeoning expansion, IWLA members dramatically increased staff, square footage and their temporary work force payrolls in 2005. After a modest 36 percent of respondents expanded space in 2004, 46 percent report doing so last year, with 19 percent adding 10 percent or more square footage. The trend looks to continue in 2006, with 55 percent adding warehouse space – including 23 percent who plan to increase capacity by 10 percent or more.

Of course, a primary indicator of any industry's health is employee growth, and the "help wanted" signs remain posted at many warehouse logistics providers. In fact, growth in the employee sector dramatically parallels that of warehouse square footage. After 46 percent reported adding to the payroll in 2004, 56 percent of members increased headcount last year, while nearly two-thirds expect to add jobs in 2006. Temporary staffing levels are expected to show similar gains.

So what's driving this incredible growth? A good amount of it is apparently coming from current customers who are expanding their needs for third-party warehouse logistics providers. But customers that are new to outsourcing continue to fuel the marketplace as they choose to focus on core competencies and leave the logistical functions to the experts. Sixty-four percent of domestic *Fortune* 500 companies now outsource their logistics and supply chain functions, according to Armstrong & Associates' research report, "Trends in 3PL/Customer Relationships."

Then again, there is always the good old flavor of competition, as 13 percent of survey respondents claim that up to half of their new business comes from other warehouse logistics providers.

It comes as no surprise that an industry growing two or three times faster than the rate of the economy would attract both strategic buyers, like UPS, and investors from the private equity and venture capital community. Acquisitions continue to dot the landscape. A number of mega-deals have unfolded, with Exel being acquired by Deutsche Post World Net, Brinks unloading BAX Global and now TNT Logistics up for sale.

Although most IWLA members fall in the mid-size category, they are not immune to the consolidation spreading across the industry. In fact, 55 per-

cent of IWLA members report being approached about a merger in 2005. In 2006, just over one-quarter say they are more likely to pursue a range of strategic options for their business this year compared to last year.

Ben Gordon, managing director of BG Strategic Advisors, says that three factors are driving the continuing consolidation in the market:

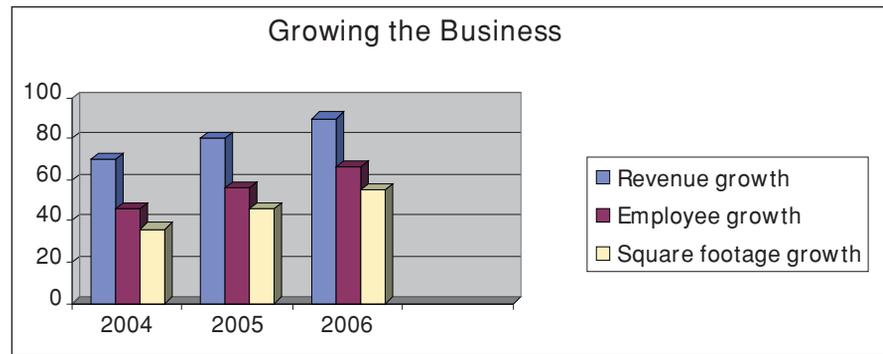
- *Fortune 500* companies that want to deal with fewer providers,
- the growing importance of technology and
- the flood of money available to scoop up players at high multiples.

“Things are very hot. The M&A market in logistics right now is at an all time high,” says Gordon, whose firm provides supply chain companies with CEO-level advisory services in the areas of strategy, technology and finance. “There is just a tremendous level of activity when it comes to high-quality, mid-sized logistics companies, and as a result prices are getting bid up to record high levels.”

Adds Scott McWilliams, CEO of Ozburn-Hessey Logistics: “There are so many companies chasing other companies right now, and the money the private equity world brings in is just crazy.” Ozburn-Hessey itself is an active acquirer backed by private equity funds. McWilliams says that some of the companies OHL has pursued report receiving several calls a week from potential buyers. “We expect that to continue,” McWilliams says.

It may continue for the short term, but sellers may not receive the heady valuations they’ve become used to during much of the past several years. Gordon says that rising interest rates among other factors will eventually slow activity and lessen valuations somewhat.

“We’ve had historically low interest rates that have made it cheap for companies to borrow money,” says Gordon. “That will change because



as rates go up in the coming year it will make it more expensive to explore these acquisitions, and the M&A market will cool off and valuations will drop. Right now is an ideal time for smart companies to explore a sale because certain factors are working to their advantage that won’t be there in the future.”

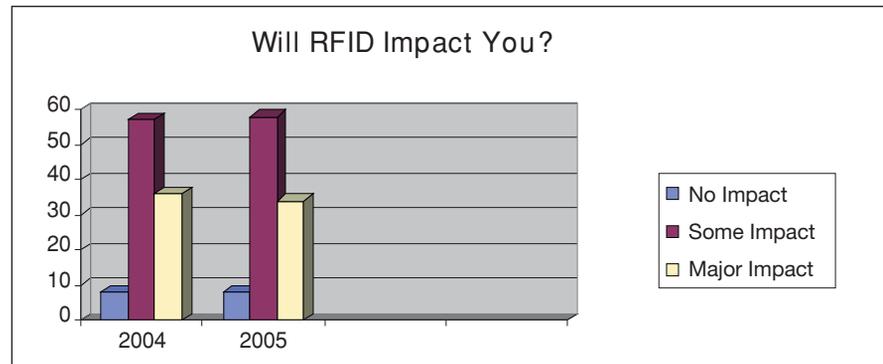
Other Trends

Obviously, the third-party warehouse-based logistics sector is not immune to the business challenges that their often larger *Fortune 500* customers face. For example, 93 percent of the study’s respondents expect fuel costs to increase, with 58 percent expecting spikes of 6 percent or more. Similar hikes for health insurance,

one-third anticipating that RFID will have a major impact on operations. Another 58 percent expect some impact, while 8 percent believe it will have no impact.

As for those who do believe the technology will have an impact, most see the technology’s primary benefits as allowing them to retain current customers, gain new customers and improve internal efficiencies.

The survey also served to red flag some major issues that third-party warehouse-based logistics executives will keep an eye on in 2006 and beyond. Most notable in that group is the ever-increasing list of customer demands. Survey respondents listed increased customer demand for services, visibility, speed and accuracy



utilities and, to a lesser degree, security, somewhat temper the highly optimistic sales picture for this year.

As RFID technology continues to gain steam in the supply chain sector, third-party warehouse logistics providers haven’t changed their opinions about the role the technology will play in their industry. This year’s survey numbers were nearly unchanged from a year ago, with

as the top four areas likely to have a major impact on their business this year. Not surprisingly, another customer concern – downward pressure on pricing – was next on the list. Congestion at our nation’s ports and on our railroads is also on the radar screen of most providers. ★

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