

### UK LOGISTICS: BUILDING RESILIENCE

Having survived the challenges of lockdown, businesses are now looking to build their resilience. They are re-engaging supply chains and looking to trade in the new economic environment. The negative impact of lockdown was significant for many but others, specifically those servicing the accelerated shift to online commerce, have benefitted. For everyone, the health and safety of our people came to the top of our agenda.

With businesses reacting to the pandemic and focussed on their own operational challenges, it is no surprise to see that Q2 saw a significant fall off in M&A activity. Nonetheless, a number of interesting deals did happen, not least, the £98m acquisition of Fowler Welch by Culina. While this

was non-core, it was arguably a deal that would not have happened had it not been for Dart needing to build its financial resilience. It needed to recover from a total shut down in its core airline and holiday operations.

As we start to exit lockdown, it is interesting to see that the core drivers for M&A remain as demonstrated in number of other deals. The acquisition of Return Loads by Mandata and of Connexus by Addesecure demonstrated the continued appetite for innovative technology and synergies through consolidation. Interestingly, both these transactions involved private equity investors, LDC and Horizon Capital respectively, and highlight the investor community's continued appetite to invest available capital, either to

support current portfolio assets or in new quality growth platforms.

Looking forward, the crisis will accelerate trends already begun and at the same time unveil new priorities. In addition, the position on Brexit is still to be finalised. Businesses will need to understand and adapt to the long-term economic and operational effects. Change creates opportunity and looking forward I do anticipate further consolidation in the market, as the financial pressures of lockdown hit home later in the year and those with a strong capital base look to grow.

**JASON WHITWORTH, M&A PARTNER**

**24 DEALS COMPLETED IN H1**

**INCREASE IN CROSS BORDER ACTIVITY TO 25% OF DEALS**

**£131m AGGREGATE DISCLOSED DEAL VALUE**



### MANDATA ACQUISITION OF RETURN LOADS

#### Transaction Value Undisclosed

LDC backed transport management software provider Mandata acquired the UK's largest online haulage and freight exchange, Returnloads.net.

This acquisition will expand the firm's customer base and breadth of digital services, as well as winning more work and driving further visibility and productivity through its own businesses and supply chains.



### SALE OF CONNEXAS BY PRIVATE EQUITY HOUSE HORIZON CAPITAL TO ADDSECURE

#### Transaction Value Undisclosed

The strategic acquisition of Connexas by AddSecure expanded the Swedish-headquartered software solution provider's diverse portfolio.

The deal highlights the continuing appetite to invest in the UK despite the uncertain times and the increasing importance of innovative technology solutions throughout the supply chain.

## CULINA GROUP ACQUISITION OF FOWLER WELCH

Enterprise Value: £98m

Fowler Welch, the provider of temperature controlled freight forwarding and supply chain management services, was sold by Dart Group PLC.

The sale will enable Dart to focus on its long term strategy of growing its Leisure Travel business. The deal represented a divestment of non-core activities to support the wider group. The alignment of market interest with Culina will allow Fowler Welch to develop in a group whose focus is very much supporting the supply chain.



## BIG GREEN PARCEL HOLDING COMP / TUFFNELLS PARCELS EXPRESS LIMITED

Aggregate Consideration: £15m

Connect Group plc, a UK based distributor, has disposed of The Big Green Parcel Holding Company Limited and its subsidiaries including Tuffnells, to a SPV backed by UK-based restructuring advisory firm, Broad Oak Support Services.

The sale was considered to maximise shareholder value and allows Connect Group to focus on its core strengths of newspaper and magazine distribution, while meeting immediate cash requirements.

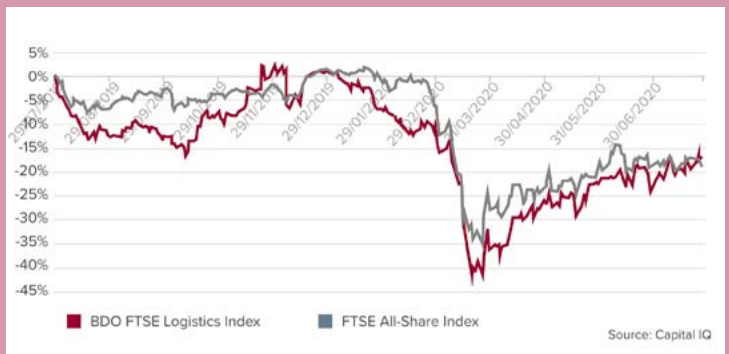


## BDO LOGISTICS FTSE INDEX VS FTSE ALL-SHARE INDEX JULY 19 - JULY 20

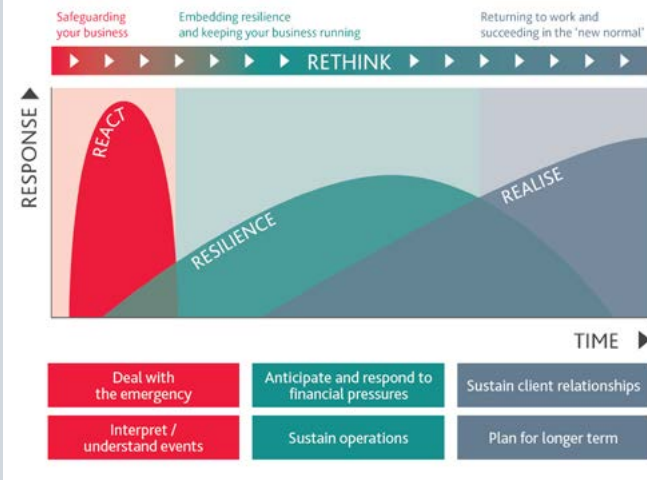
There was a significant reduction from March to May as the COVID-19 crisis hit the UK, with the BDO Logistics FTSE Index falling by over 40%. This reflected the global level of disruption to trade routes and the direct impact of this on the logistics and supply chain market as businesses adapted to the increased strain placed on the sector.

Logistics has tended to underperform the wider market historically, a trend which, apart from a rally at the end of 2019, has continued for much of the last 12 months.

However the markets appear to have rallied over the last three months as the world responds to a “new reality” with the BDO Logistics FTSE Index and FTSE All Share Index recovering at the end of July 2020 to be 17% and 19% down respectively against levels 12 months ago.



## WORKING OUR WAY THROUGH THE IMPACT OF COVID-19 – “RETHINK” IN THE LOGISTICS SECTOR



We are working with businesses to look at recovering from the COVID-19 pandemic. We have framed our thinking on recovery into three phases React, Resilience and Realise that form our Rethink model.

All businesses have had to deal with the “react” phase of dealing with the emergency and accessing Government help measures. Many are now focussed on the “Resilience” phase; sustaining operations while dealing with financial pressures and managing people, suppliers, customers and IT.

As the economy starts to emerge from lockdown and people return to work, the “realise” phase involves understanding and anticipating new sustainable business models and scenario planning to succeed in the “new reality”.

Logistics companies servicing different markets have been affected in different ways. However, all need to understand this ‘new reality’ as soon as possible and “rethink” how they will be positioned in it.

You can find useful information on government support for businesses and individuals as well as a wide range of practical advice on our [COVID hub](#).

## RECOVERING FROM A CRISIS AND BOOSTING RESILIENCE

We anticipate some of the critical challenges for logistics and supply chain businesses to overcome, framed around 7 key areas:

### REGULATION AND COMPLIANCE

- ▶ Implications of contractual obligations which have not been met, and force majeure clauses – contract review and renegotiation, or new terms of business
- ▶ Review impact of UK Global Tariff, replacing the EU's Common External Tariff from 1 Jan 2021
- ▶ Increased complexity around import/export processes and arrangements arising from any Brexit deal

### CUSTOMERS

- ▶ As businesses assess risk in their supply chains brought to the fore by the pandemic, changes in supply chain practices such as on-shoring/just in time/storage etc may affect their requirements from logistics service suppliers
- ▶ The pandemic has given online shopping a significant boost, accelerating its growth. Businesses need to continue to adapt to service this demand
- ▶ Engage with key customers and communicate about on-going service arrangements, business viability and safety measures.
- ▶ Establish demand and constraints, and priority business streams and customers
- ▶ Contract review/ renegotiation in light of knowledge of new risks eg changes in government policy, another lockdown, increased storage costs
- ▶ New customers or business streams - resource planning and modelling
- ▶ Review competitive position in the market and security of customer base in view of new practices and routes to market such as on-shoring of supply chains, accelerated move to e-commerce
- ▶ Ensure ability to onboard in a seamless manner and flexibly support the developing supply chain amid ever changing consumer habits; supporting value generation within businesses through this environment will generate long term relationships.



### SUPPLIERS

- ▶ Post-coronavirus supply chains will not be the same as before. Innovation will be essential and collaboration throughout the supply chain will ensure future business success.
- ▶ Restrictions placed on both national and international businesses means that supply chains will inevitably be disrupted
- ▶ Where products were previously sourced globally, the anticipated increase in lead times and potential product shortages are likely to be reflected in price increases
- ▶ Supports a drive for on-shoring, increasing pressures on the supply chain.
- ▶ As businesses restart production, a reassessment of risk in supply chains is likely, aimed at shortening and simplifying them. Key to this will be greater transparency as to where products and components are sourced from.
- ▶ The process of tracking the provenance and journey of products and their inputs, from the very start of the supply chain through to end-use continues to grow in importance as businesses seek to meet their corporate and social responsibilities as well as maintaining the resilience of their supply chain.

### PREMISES, INFRASTRUCTURE AND TECHNOLOGY

- ▶ Effective sanitisation and maintenance strategies for operating and re-opening sites, and a comprehensive appraisal of safety-critical processes
- ▶ The effect of social distancing on operating capacity.
- ▶ Should rent repricing be negotiated?
- ▶ Consider the need for ongoing investment in agile management platforms and automation. In particular, the continuing evolution of the supply chain which includes improving visibility, traceability, digitisation of the workforce and the need for real time data analytics.
- ▶ The effect of tech and process automation on the sector is relentless, a priority to keep investing here? Continuing evolution of the supply chain including improving visibility, traceability, digitisation of the workforce, drives for efficiency and real time data analytics are increasing the requirement for agile management platforms in the sector
- ▶ Government's significant investment into national infrastructure will need to be leveraged to support the logistic sector's growth



## FINANCIALS

- ▶ Maximising use of Government assistance where needed
- ▶ Management of cashflow to ensure ability to repay
- ▶ Understanding models and scenario-planning
- ▶ Review banking agreements for compliance, headroom and any flexibility
- ▶ What type of finance best suits current position of the business
- ▶ Assets available to leverage against i.e. fleet, warehouses or intangibles
- ▶ Renegotiation of terms with suppliers or bank



## PROTECTING WORKFORCE

- ▶ Resourcing issues in light of furlough, absence due to sickness or quarantine
- ▶ Employee legislation around eg SSP, returning from furlough, redundancy, holiday entitlement
- ▶ Flexibility of staff and management to adapt to the new way of working, as well as ensuring employee confidence, security and wellbeing
- ▶ Impact of rising unemployment and the end of free movement in the EU on availability of skilled workers
- ▶ Provision of training by alternative methods such as remotely



## MANAGING YOUR BUSINESS

Decisions management take now, as they reconfigure their operations and routes to market accordingly, will govern both how well they can adapt to the current challenges and whether their business will thrive in the future. Get it right, and they could leverage a competitive advantage for years to come.

- ▶ Scenario planning multiple options and stress test the risks, resilience and cash headroom
- ▶ Communicate your response to the crisis with a communication plan to employees, customers, suppliers and other stakeholders
- ▶ Regulatory due diligence requirements, increased investor and consumer expectations, and technological advances have all pushed the agenda of greater transparency and corporate responsibility.

TO DISCUSS ANY MATTERS ARISING FROM THIS UPDATE, PLEASE CONTACT OUR SECTOR TEAM:



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