

Sector Insight

Freight Forwarding



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FREIGHT FORWARDING

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Market statistics

MARKET SIZE



£19.4 Billion Freight Forwarding and Customs Agents Market Size

GROWTH



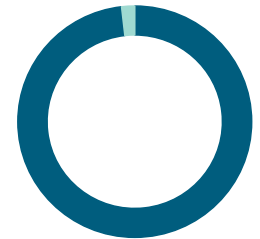
Expected to grow at 2.2% CAGR over next 5 years

UK LANDSCAPE



5,560 Freight Forwarders and Custom Agents in the UK, of which nearly 80% have less than 15 employees

SME ENTERPRISES



195,525 Logistics Enterprises in the UK of which 192,000 are SME's

Source: IBISWorld Freight Forwarding & Customs Agents in the UK January 2019, ONS, and FTA Logistics Report

Market outlook

The Freight Forwarding sector is expected to rise at a Compound Annual Growth Rate of 2.2% through to 2023 despite some expected short-term contraction in the industry. This is partly due to higher prices and increased demand for UK exports as a result of a weakening pound.

Current political issues surrounding international trade are likely to impact revenues in the sector. The main issue being that the EU accounts for approximately half of all UK imports and exports. With uncertainty reducing business confidence, a key driver of demand for freight forwarders, IBISWorld anticipate that the industry should contract 3.2% this year

Once the political issues ease, we would expect business confidence and the value of sterling to improve. Additionally, processes around the new customs legislation will become more efficient. These are likely to result in increased demand for imports.

Prices are also expected to increase as a result of compliance costs associated with the IMO 2020 regulation coming into force. Short supply of low sulphur

fuel is likely to hike fuel prices and be passed down to forwarders through higher purchasing costs. Maersk line estimates its total annual fuel costs will exceed \$2 Billion as a result.

Despite this, profitability of the freight forwarding industry should not be as volatile as others as most costs can be passed on to consumers. However, some large freight forwarders may look to gain market share by absorbing some of the costs and charging lower prices than smaller rivals.

Looking forward, labour shortages across the logistics sector will be a key driver for innovation within the industry. Companies that adopt new technology and systems will obtain a competitive advantage over their rivals as they can offer lower prices through a more labour efficient solution. Automation may also lead to companies being able to handle higher volumes of freight. Technologies such as the Internet of Things (IoT) and Artificial Intelligence (AI) can improve resource allocation and reduce holding times, allowing forwarders to process more orders.



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M&A assessment

The Freight Forwarding sector remains highly fragmented with c.65% of all businesses in the sector having less than 5 employees and only 5% having over 100 employees. This fragmentation makes M&A highly attractive as owners seek to exit and purchasers seek to buy long standing client relationships.

M&A has remained strong despite global uncertainty. Large firms like Kuehne & Nagel and DSV have continued their growth by acquisition strategies, expanding their global coverage and increasing their product offering. Whilst megadeals such as DSV's recent acquisition of Panalpina for \$4.6 Billion are rare, the SME space shows large appetite for M&A to negate the effects of Brexit and new technologies.

New technologies such as Blockchain have allowed ocean carriers to disrupt the traditional model of freight forwarding, causing a downward pressure on profit margins. Smaller firms should look to consolidate with other firms to secure their profits. Trade consolidation increases purchasing power against carriers which in turn reduces the largest cost associated with forwarding which is purchasing.

On the other hand, companies can also look to specialise, creating value by offering specialised transport. Due to the large up-front costs needed to offer specialised forwarding services, acquisitions are a cost-efficient solution to enter new product markets.

Growth by acquisition also offers a lot of opportunities to small owner-managers within the sector. As technology improves and margins are squeezed, extra finance that a corporate group offers may allow smaller firms to invest in technologies that may have been out of reach previously. This will allow these forwarders to maximise efficiency and secure the future of their workforce.

Additionally, customers are now seeking end-to-end support on transport and logistics. With many Freight Forwarders being SMEs, they do not have the international presence to provide this. As such a number of overseas businesses have sought to acquire UK Freight Forwarders.

As a result of the above we expect M&A in the sector to remain strong with both UK and overseas purchasers being active.



TERMINAL BURCHARDKAI

HHLA

HH LITEL-118

Hapag-Lloyd

HOUSTON EXPRESS
HAMBURG
IMO 920408

Sector transaction:



Smith Cooper Corporate Finance advised on the sale of KMB Shipping Group, an award winning, Midlands based freight forwarding business.

Established in 1987, KMB Shipping Group transports freight all around the world, with particular specialisms in Sea and Air Freight Shipping, European Logistics, Bulk Haulage and UK and Domestic Transport Services.

Keith and Carolyn Balmer, KMB's founders and sellers decided to sell the business. KMB has ambitious plans to accelerate its growth and maximise its value, taking advantage of the opportunities available in the marketplace at present.

Smith Cooper Corporate Finance provided sell-side advisory services, and the deal team was led by Corporate Finance Partner, Darren Hodson. Our role involved valuing the business, designing an innovative deal structure and project managing the deal to completion.

Keith Balmer, former owner comments "Smith Cooper Corporate Finance provided astute advice to Carolyn and I that was tenacious, intuitive and commercially strong, all whilst keeping our best interests at heart and protecting our positions. The team worked tirelessly to get the deal done."



Our Corporate Finance team



Darren Hodson
Partner

† 0121 236 6789
e darren.hodson@smithcooper.co.uk



Tom Joy
Assistant Manager

† 0121 236 6789
e tom.joy@smithcooper.co.uk



Dan Bowtell
Partner

† 0115 945 4300
e dan.bowtell@smithcooper.co.uk



James Bagley
Managing Partner

† 0115 945 4300
e james.bagley@smithcooper.co.uk



James Ward
Senior Manager

† 0115 945 4300
e james.ward@smithcooper.co.uk



Alex Thompson
Assistant Manager

† 0115 945 4300
e alex.thompson@smithcooper.co.uk



John Farnsworth
Partner

† 01332 374419
e john.farnsworth@smithcooper.co.uk



David Nelson
Senior Partner

† 01332 374419
e david.nelson@smithcooper.co.uk



David Crump
Senior Manager

† 01332 374419
e david.crump@smithcooper.co.uk



A: 158 Edmund Street
Birmingham
B3 2HB



A: 2 Lace Market Square
Nottingham
NG1 1PB



A: St Helen's House
King Street
Derby
DE1 3EE

At Smith Cooper Corporate Finance, we start by thoroughly understanding your objectives and business issues before creating highly flexible, innovative solutions that fit your needs.

We deliver practical, commercially-viable advice with positivity, and tenacity. We strive to deliver exceptional service quality, irrespective of the size of the deal, by building close relationships with clients, keeping them well-informed and providing a proactive service to guide them every inch of the way.

The corporate finance team regularly features as one of the most active dealmakers whilst consistently delivering the highest quality service; this has been recognised by many industry awards, and is evidenced repeatedly in client testimonials.

Sector Insights is a condensed summary of activity provided as a service by Smith Cooper Corporate Finance. Professional advice should always be taken when making any investment decisions.