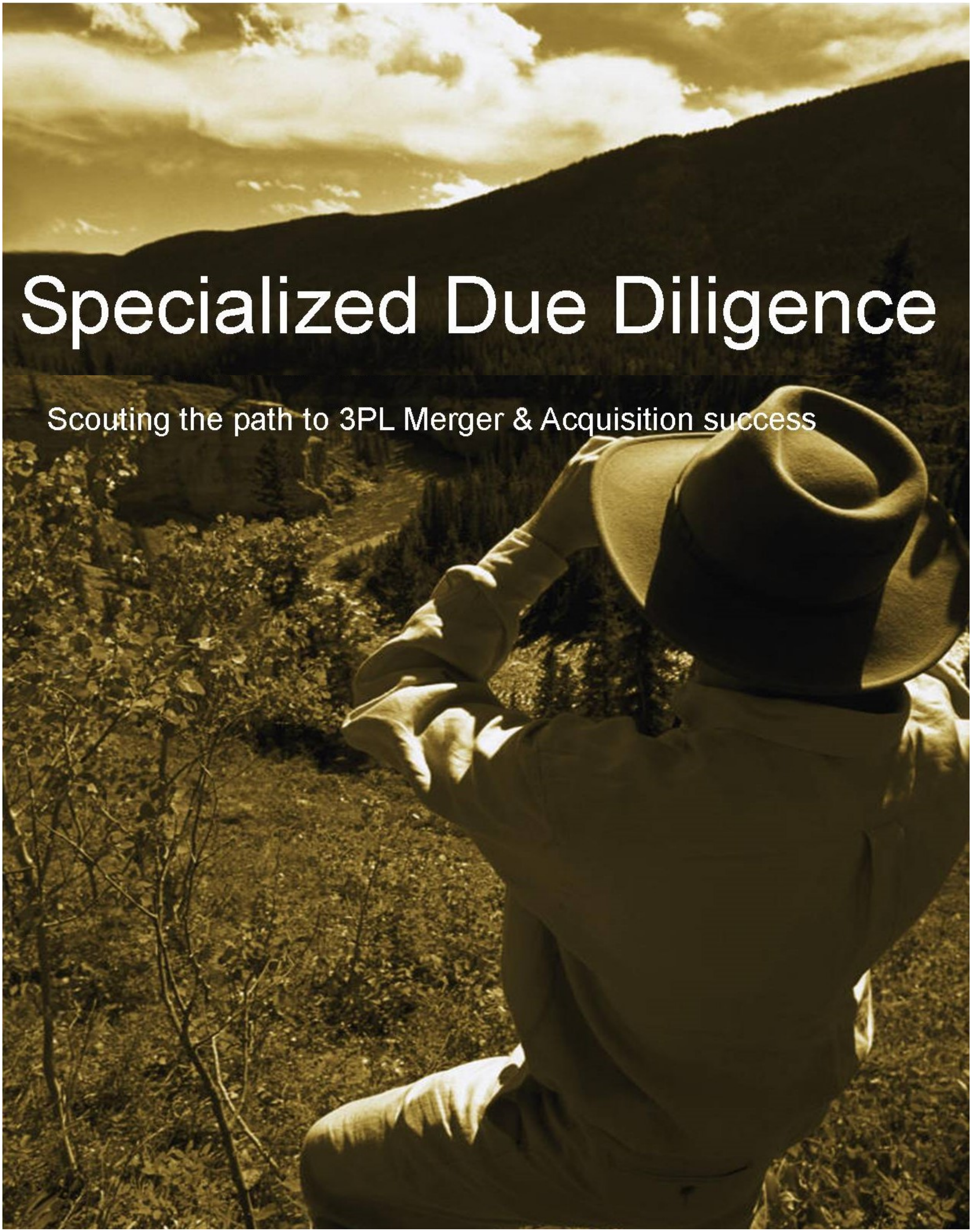
Specialized Due Diligence

Scouting the path to 3PL Merger & Acquisition success



Merger & Acquisition Growth

Worldwide, it was announced Mergers & Acquisitions (M&A) amounted to over $3.8 trillion dollars last year, comprising a record number of 49,448 deals.[1] A significant portion of these occurred among the world's leading 3PLs. M&A among 3PLs remain attractive for several reasons, including:

- Expansion of market share and access to new markets
- Expansion of product or service offerings, including e-commerce
- Increased economies of scale
- Higher than average growth and return on investment

High profile 3PLs which have merged or been acquired in recent years include:

- XPO Logistics acquisition of Con-Way and Pacer
- UPS acquisition of Coyote Logistics
- FedEx acquisition of TNT Express
- DSV acquisition of UTi
- Kintetsu acquisition of NOL Logistics
- Japan Post acquisition of Toll Group
- Merger of Swift and Knight Transportation

The majority of 3PL M&A are performed among competitors or companies operating in the logistics industry. However, an increasing amount is also performed by private investment firms as well.

This 3PL M&A trend is not expected to change, as the conditions that make 3PLs attractive targets continue. XPO Logistics has earmarked up to $8 billion for acquisitions and planning to nearly double its hubs in its last-mile delivery network, according to the company's CEO.[2]

Potential Pitfalls

M&A are not without pitfalls, however. Most surveys conclude that the majority of major M&A fail to meet the expectations of the acquiring company's Board of Directors, including growth, market share, and shareholder value.[3]

The reasons for these failures are many, including:

- underestimation of costs
- unrealized benefits
- lack of proper integration
- lack of proper transition planning

M&A Due Diligence

The risks inherent in M&A can be significantly reduced with a proper due diligence effort. Due diligence is the process of investigating companies involved in M&A to assure appropriate information, including value and risk, is available to decision makers. This is usually performed very early in the process, prior to deal negotiation, but may continue throughout the negotiating period as well as after the acquisition (e.g., to investigate subsequent causes of concern and assist in their resolution).

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Proper Due Diligence helps quantify the risks and benefits of a deal, which is often driven by the emotions of some of the parties involved. It helps prevent the overpayment for a company or a disastrous combination from proceeding, which could result in wasted time and money and a negative impact on the workforces involved. On the contrary, it can also bring to light unrecognized benefits and synergies. It also provides information for the formation of a successful post-deal integration strategy and plan, which is crucial for long term success of any deal.

WCL Consulting works with 3PLs and Investment Firms to perform due diligence investigations in order to identify potential synergies, potential problems and hidden costs and to assist the parties to arrive at an appropriate purchase price, determine compatibility, and plan for a smooth transition and the achievement of M&A objectives.

Due diligence is usually performed by a group of specialized Teams, including Accounting Firms, Law Firms, specialized Consulting Firms, as well as the companies themselves.

It usually begins with an agreement (e.g., letter of intent) to share relevant information on a confidential basis for a limited period of time (e.g., several months).

The Due Diligence teams collect and review relevant documents, interview personnel, observe practice, inspect equipment, products and facilities and perform discreet information searches from both public and private sources in order to provide a complete picture. Quite often the process uncovers areas of concern, known or unknown to company management, which will need to be addressed. Sometimes these are significant enough (e.g., hidden costs and liabilities) to affect the purchase price or break the deal altogether. Due Diligence is usually paid for by the acquiring company and is usually worth many times the potential costs saved down the road.

Among the areas reviewed by due diligence specialists are:

- Corporate Background
- Financial Status, Controls and Forecasts
- Products and Services
- Strategic Partners and Suppliers
- Property, Facilities and Equipment
- Intellectual Property
- Marketing
- Technology
- Management Culture
- Employees
- Insurance
- Regulatory Compliance
- Legal Obligations and Proceedings

Specialized Due Diligence

WCL specializes in due diligence of 3PL Operations, Marketing, Information Technology, Facilities, Human Resources and Organizational matters. Having many years experience in the industry, their Consultants have come to know the important areas, potential pitfalls and best practices that can be achieved.

They verify company claims and representations and look beyond financial statements and projections to assess company capabilities and potential.

WCL Consulting tailors its systematic 3PL due diligence process to the needs of the client and the unique circumstances of each proposed deal and may include an analysis of company:

- Mission and Business Strategy
- Organizational strengths, weakness, opportunities and threats (SWOT)
- Market Position and Marketing Plans
- Company Capabilities and Capacity
- Technology
- Organizational Culture
- Key Personnel and Succession Plans

WCL supplements financial and legal due diligence by assessing company operational performance against industry and cross-industry best practices, mapping processes, defining organizational responsibilities, identifying opportunities for improvement, developing recommendations, and assisting in the formation of transition plans and risk mitigation strategies.

In a recent 3PL project, WCL identified significant issues related to facility capacity which negatively impacted the target company's growth and profitability projections. This led to adjustments to projected earnings calculations and a subsequent adjustment in the tender offer to a more realistic value. In another project, WCL identified Information System deficiencies requiring significant future investment requirements, again affecting purchase price, and the formulation of an appropriate mitigation plan.

WCL Consulting is a management consulting firm providing due diligence, logistics, supply chain management and warehousing and distribution advisory services to investors, major manufacturers, importers, distributors, third-party logistics providers, industrial real estate companies and the public sector.

More information can be found at www.wclconsulting.com or we can be reached at 562-435-2600.

References:

[1] Thomson Reuters
[2] Wall Street Journal, 8/17
[3] Refer to studies by Deloitte, A.T. Kearney, KPMG, etc.

"Utilizing specialized consulting firms with relevant industry expertise early in the M&A due diligence process can reduce the inherent risks of 3PL M&A and improve the probability of achieving a successful outcome for all the parties involved."