SHAW & CO

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ANNUAL SHAW REPORT: *Automotive, Transport & Logistics*

AN INDUSTRY BENCHMARKING REPORT FOR OWNERS TO COMPARE PERFORMANCE, DEBT CAPACITY AND M&A ACTIVITY

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Shawcorporatefinance.com

FOREWORD.

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Welcome to our second annual ‘Shaw Report’ into the Automotive, Transport & Logistics (ATL) industry which provides SME business leaders with a powerful benchmarking tool to aid their decision making.

In this report we have segmented 2,033 ATL businesses with earnings of over £1m by size and sub-sector to track their performance, debt levels and M&A activity. To analyse the trends, we have compared their performance in the latest published financials to those of the prior year.

Larger blue-chip corporates have regular access to this type of analysis from investment banking advisers. However, it is our mission to provide SME business leaders with free access to the same market intelligence in a clear, concise and easy-to-use way.

This report will help you benchmark your business relative to others in your industry. It will also provide you with valuable insight regarding your relative creditworthiness and attractiveness from a M&A point of view.

I hope you find this a useful tool. If there are any emerging themes that resonate with you, please feel free to get in touch.

Colin Burns
Director, Shaw & Co

AT A GLANCE.

Data Sources

- Companies House.
- Zephyr.

Businesses Analysed

- 2,033 UK SMEs with earnings (Ebitda) of £1m+.

Data Points

- Last available financials as filed up to 31 August 2022.

SCALE IS KING

6% of the 2,033 companies analysed account for 66% of total turnover. Achieving scale opens more options to borrow, grow and win market share.

£5m EBITDA TIPPING POINT

It is easier to borrow higher multiples of debt once Ebitda hits £5m. As with many sectors, larger businesses are offered more lender support which opens more options for growth.

108 M&A DEALS

Growth through PE-investor backed acquisitions are likely to be a major driver of deals in the UK logistics market over the coming 12 months.

72% UK BUYERS

72% of the 108 M&A deals over the last 12 months were completed by UK buyers suggesting market knowledge is an advantage when looking to scale quickly. This number was slightly less for the logistics sub-sector which saw around 40% of buyers being based abroad.

HOW DOES MY BUSINESS PERFORMANCE COMPARE TO THE INDUSTRY?

TURNOVER BY SIZE OF BUSINESS.

What is the data showing?

This chart shows average sales across the industry based on company size measured by earnings (last reported Ebitda). 83% of the 2,033 companies analysed have an average Ebitda between £1-£10m and account for just 12% of total turnover in the industry. Conversely, 6% of companies achieve an Ebitda over £30m and account for 66% of total turnover. The broad turnover picture looks flat over the last 12 months, but companies in the £30m+ Ebitda bracket typically saw a slight decrease in earnings.

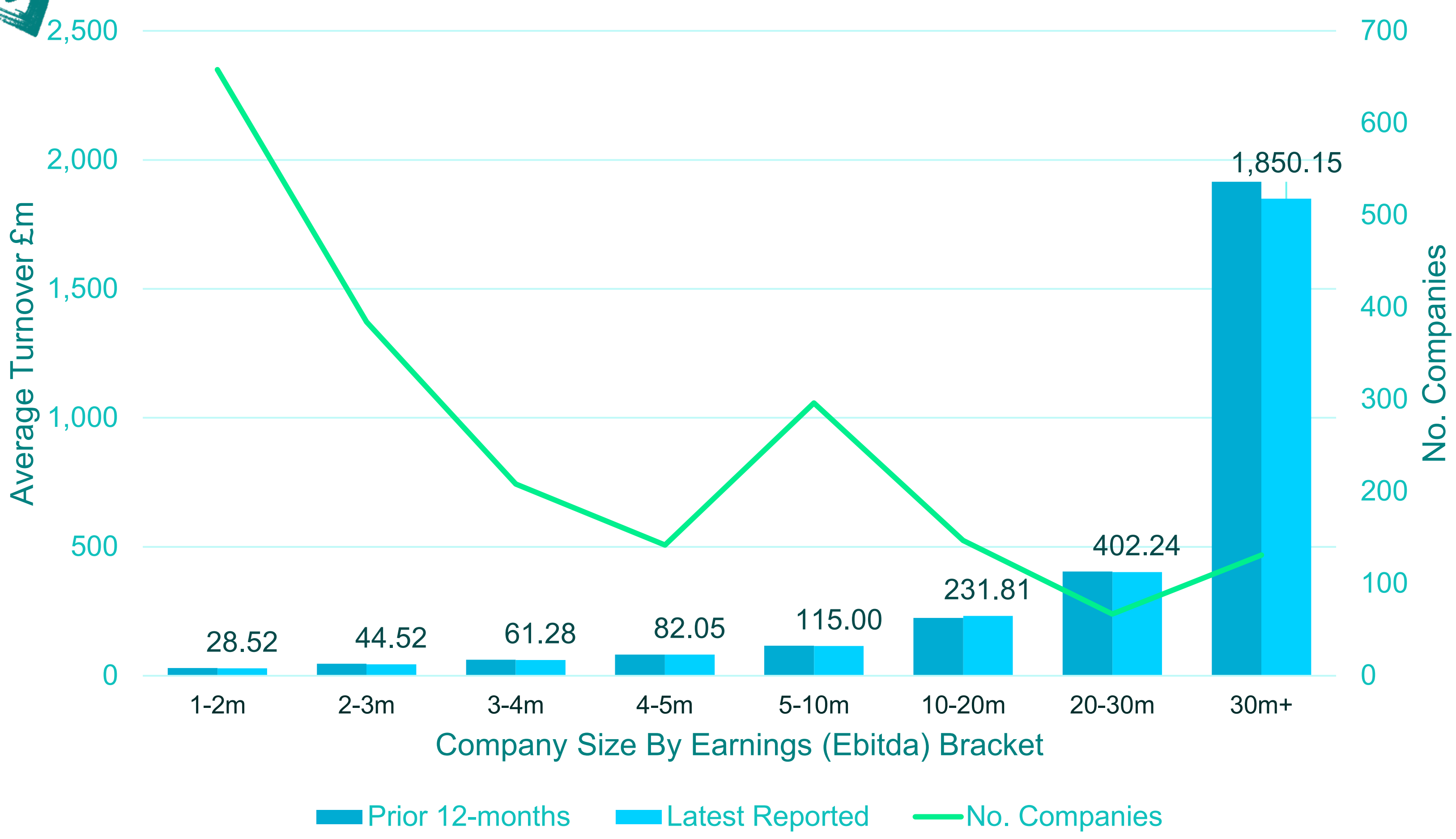
What does this mean for me?

An environment of acute inflation rewards product and delivery innovation. It makes it easier to break into a market as customers are receptive to product substitution to find cheaper alternatives to premium products or services.

With widespread supply chain interruptions, having stock on hand can be an advantage over your interrupted competitors. You should review your available cash and working capital, because paying for goods upfront or being able to offer extended terms to customers could secure supplier/customer preference for your business.

What are my options?

If you can grow revenue - generating capacity either organically or by acquisition and fund such growth - you'll win in the current environment. Organic revenue growth through product innovation, better online presence or just having stock by shoring up working capital are all fundable options. You could also consider funding an acquisition of a competitor or key supplier or seek to 'on-shore' elements of the supply chain potentially impacted by geo-political events.



TURNOVER BY SUB-SECTOR.

What is the data showing?

The data suggests that average turnover has remained broadly flat across the ATL industry over the 12-month period with some sub-sector marginal increases evident in Marine and Transportation & Logistics.

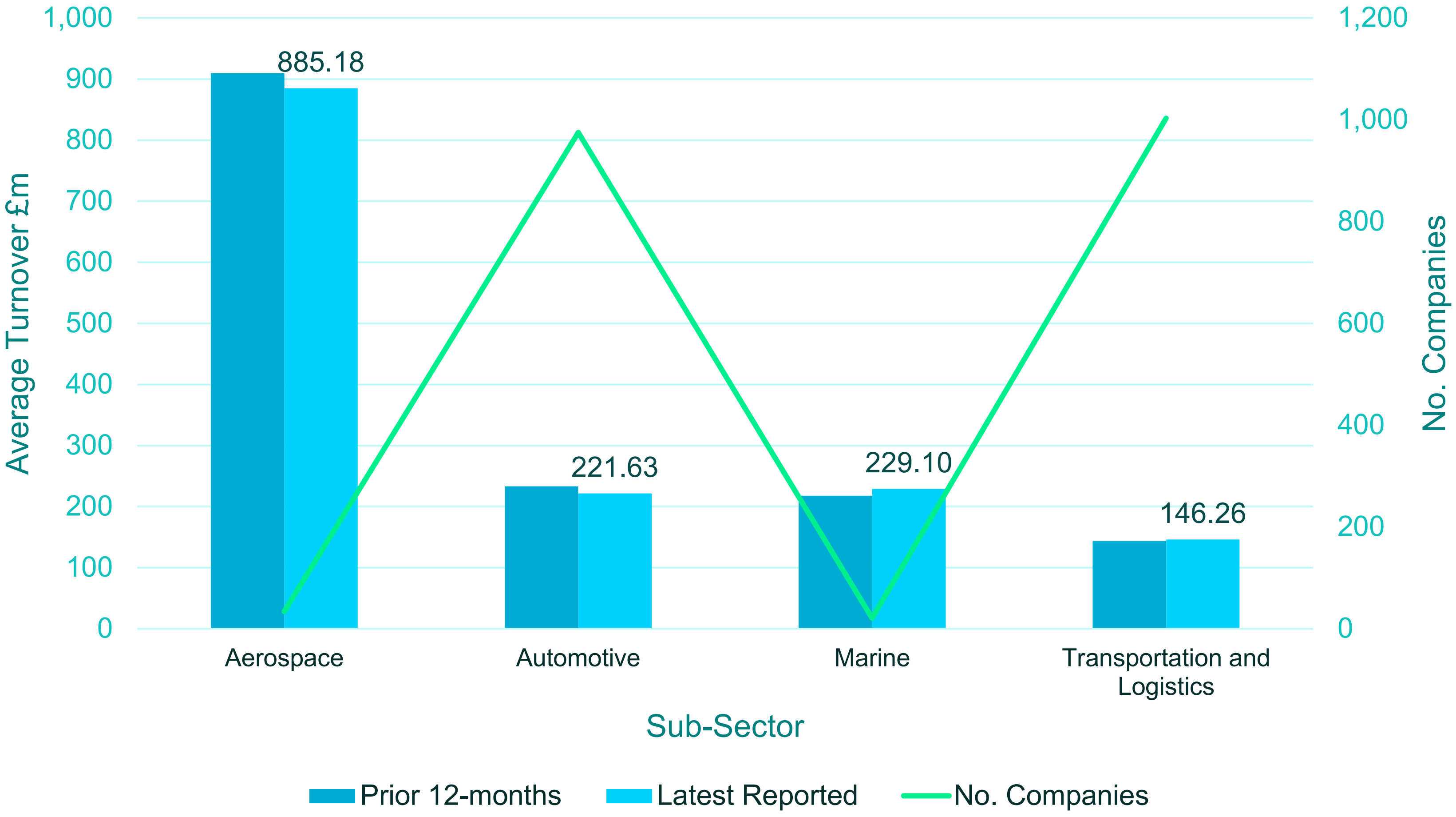
What does this mean for me?

When benchmarking your performance with this data, it is important to remember that the figures contain major companies. If you are a smaller business with good performance, you may consider an acquisition strategy to take advantage of economies of scale for this industry, or you could be an acquisition target for one of the larger industry players.

What are my options?

If you're looking to scale through organic growth or by acquisition, your appeal to potential funders will be driven by the strength of your strategy and value proposition to the customer.

The rise in the cost-of-living favours products of need and established routes to market rather than discretionary products and speculative plans.



BENCHMARKING AVERAGE GROSS PROFIT MARGIN.

What is the data showing?

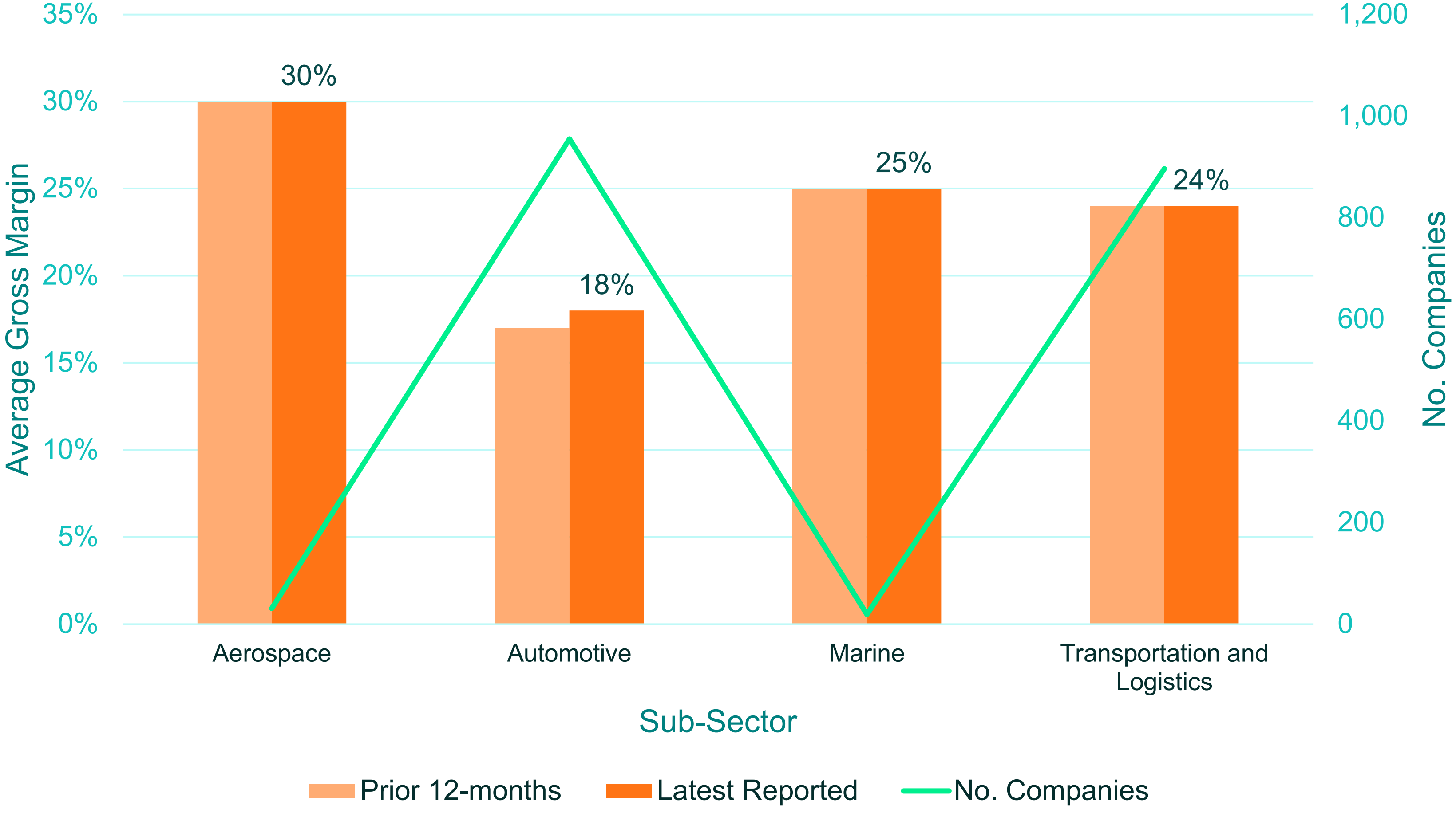
Gross profit margins remained healthy across all sub-sectors within the ATL industry with most remaining flat or seeing a marginal increase. However, the data for the period considered does not yet capture gross margin pressure due to rising energy and raw material costs, as well as interruptions in the supply chain.

What does this mean for me?

If your gross margin is notably higher than your sub-sector average, or your product is seen as premium, you are better positioned to deal with margin pressure or to pass on input price increases to your customers. If your gross margin is significantly lower that the sub-sector average, you need to consider how to improve pricing or entice customers to switch to your product as a cost saving alternative to pricier competitors which should be a convincing argument in the face of broad inflationary pressure.

What are my options?

If your business is performing well, any growth initiative will be of interest to funders, or you could potentially be an acquisition target for a larger market player. If you're underperforming, a comprehensive analysis could help identify where margin is being lost and whether your corporate priorities need to change.



AVERAGE GROSS MARGIN & SCALE.

What is the data showing?

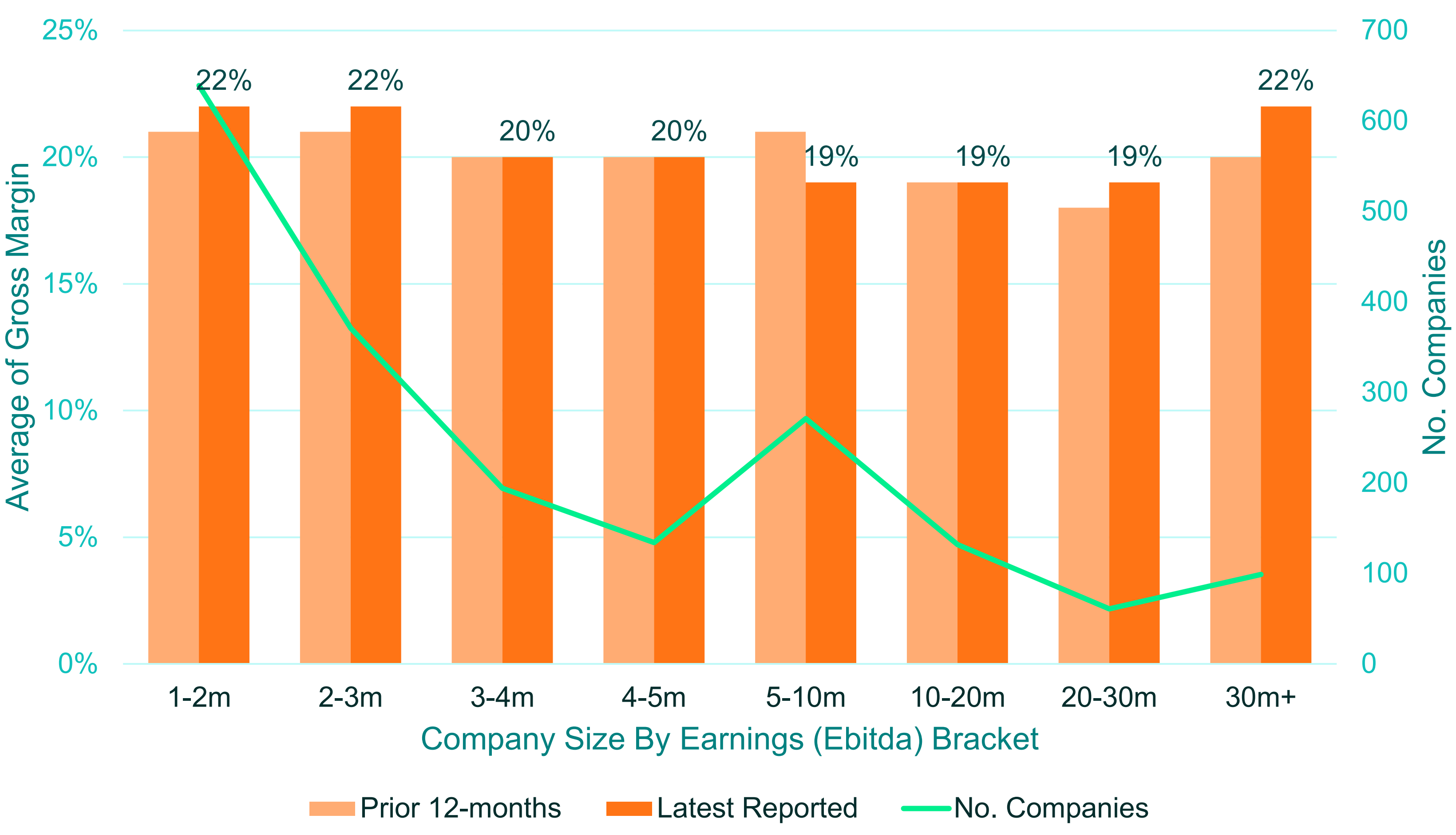
Regardless of company size by earnings, owners operating in the ATL sector should be looking to achieve between 19%-22% average gross margin. Performance has been healthy over the last 12 months which we expect will help the industry cope with inflationary shocks, not least energy prices, now evident.

What does this mean for me?

The numbers show that scale does not necessarily bring healthier gross margin in the ATL industry. However, this masks the bargaining power of larger players with their suppliers, which then enables them to compete more aggressively on price versus smaller players.

What are my options?

If your gross margin is below the industry average, you will need to evaluate your business model, pricing and cost structure. Supply chain issues and commodity input price inflation will be an important consideration in the year ahead. If your gross margin performance is significantly above the industry average, you may want to consider lowering your price to sell more units or develop more projects to achieve scale. However, consideration must be given to both supply chain issues, which could delay projects, and input price inflation.



PROFITABILITY & GROWTH.

What is the data showing?

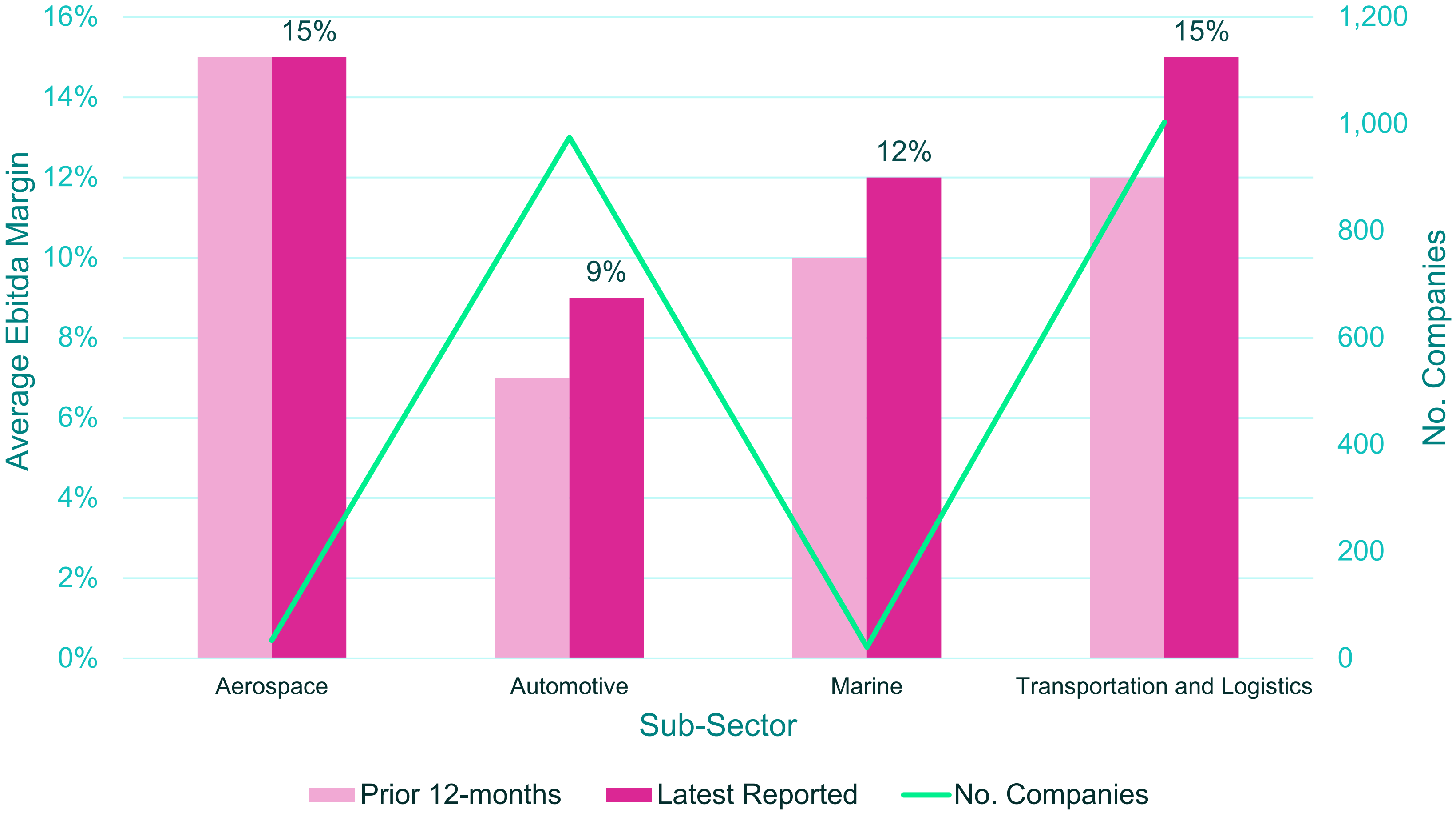
Companies across all industry sub-sectors have seen an increase in average Ebitda margins over the last 12 months which vary between 1% to 3%. These statistics have yet to factor in recent inflationary pressure on input costs, not least energy, so this trend may reverse in the months ahead.

What does this mean for me?

You are likely to be leaner as a business than you were pre-pandemic. If your profitability (Ebitda) margin is higher than sub-sector average, you may be carrying a leaner cost structure or achieving a higher sales price. You may want to consider reinvesting your profits to scale your business or consider an exit. A strong Ebitda margin could also be masking an artificially low-cost structure that could jeopardise your future growth. Labour and skills shortages will be an important consideration in the time ahead.

What are my options?

Your growth strategy should be focused on at least retaining the Ebitda margin performance and efficiency achieved in the last year. Further improvements may be achieved through operational efficiencies, scaling up organically, or by acquisition.



ECONOMIES OF SCALE.

What is the data showing?

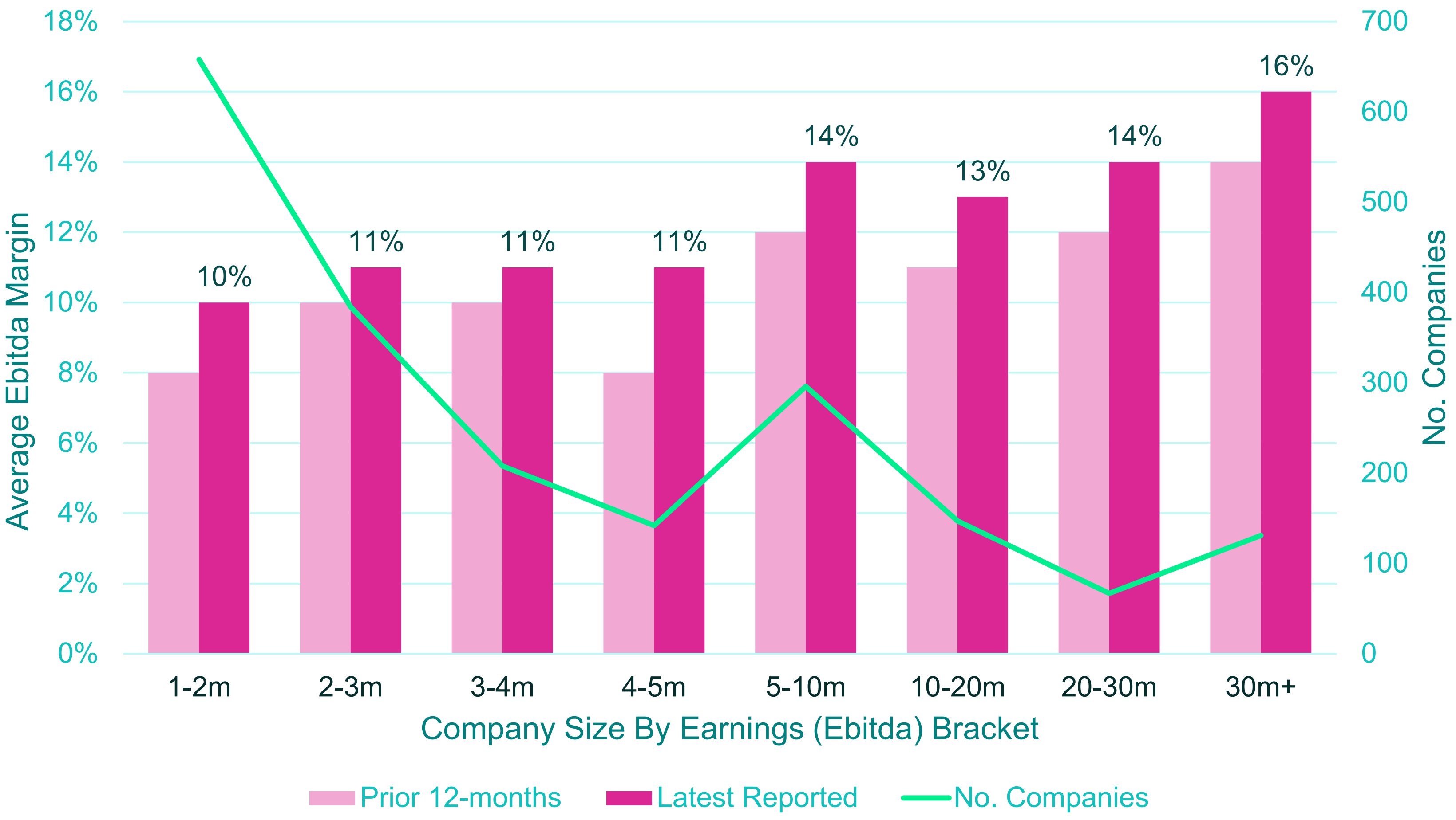
This graph shows average Ebitda margin by size of company and suggests that generally large scale brings greater profitability. However, profitability of companies with earnings greater than £5m see marginally improved gains, highlighting efficiency differentials between smaller players and larger competitors.

What does this mean for me?

Reported numbers are showing the industry profitability recovering well post-lockdown but does not yet reflect inflation effects which can be volatile, (energy in particular). Passing on cost inflation through price increases can't really be avoided, but any initiatives to expand your revenues at fixed cost must be considered.

What are my options?

Funding remains available despite worries about inflation and supply chains. Could you shore up working capital to become a preferred customer to your suppliers by buying in bulk or paying upfront? Could you acquire a competitor to add revenue (exposed to inflation), whilst funding the deal with fixed rate debt (eroded by inflation)? With healthy valuations, could this be your time to exit?



INDUSTRY PERFORMANCE SUMMARY.

KEY POINTS & PREDICTIONS

- The industry is concentrated, with just 6% of firms accounting for 66% of turnover. However, with the largest firms' sales marginally behind, the data shows how effective smaller businesses have been at competing with the giants and preserving their own market share.
- This shows at gross margin level and bottom-line profitability being largely comparable between firms with Ebitda of £3m and those with up to £30m. Most likely, this also implies that whatever scale advantages larger players generate, are passed on to consumers in more aggressive pricing from larger players.
- The sector has generally recovered well from the pandemic but is facing supply chain interruption and acute energy commodity inflation issues, which are not yet reflected in the reported performance numbers.
- But with good performance, the industry is well positioned to outgrow inflation through organic expansion or by acquisition, if entrepreneurs can recognise opportunities in the midst of uncertainty.

WHAT IS THE LEVEL OF BORROWING IN THE INDUSTRY?

INDUSTRY DEBT BY SUB-SECTOR.

What is the data showing?

Over the last 12 months, with the exception of Transportation & Logistics, debt levels have marginally increased across most sub-sectors. Nearly 50% of the total industry debt is carried by the Transportation & Logistics sub-sectors.

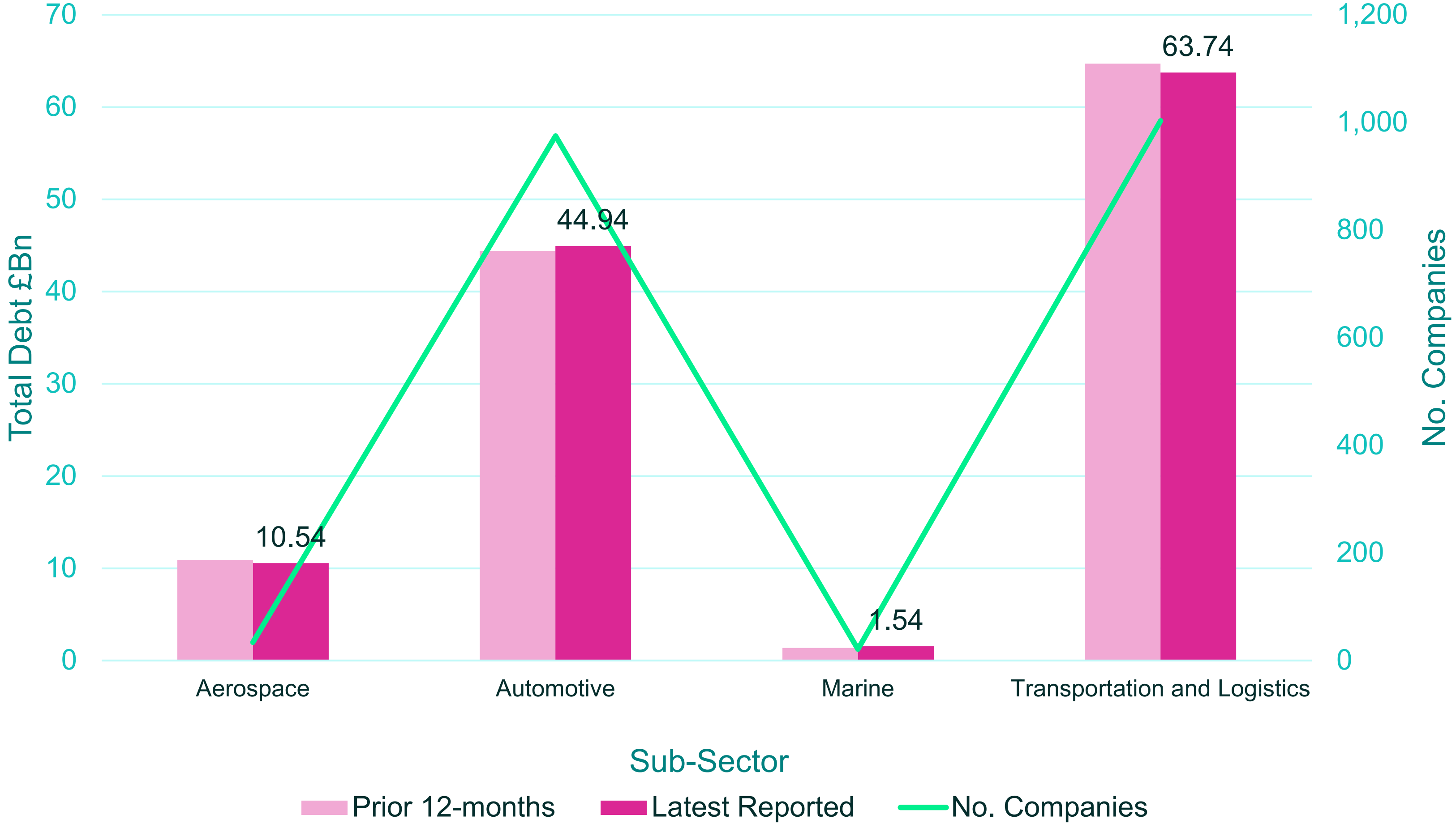
What does this mean for me?

Value of debt within a business, especially fixed rate debt, is a naturally positive feature in an inflationary environment. With funding markets remaining accommodating, owner-managers should not be so cowed by the economic uncertainty as to miss opportunities for organic or acquisitive growth.

What are my options?

If you’re a profitable and well-managed business with growth aspirations, you could consider the alternative lending market to fund growth projects or scale-driven acquisitions of competitors, key suppliers or distributors.

Underperforming businesses will be more pressured by macroeconomic forces and should focus on reviewing pricing and product innovation strategies, as well as cash and capital sufficiency.



SHORT-TERM BORROWING.

What is the data showing?

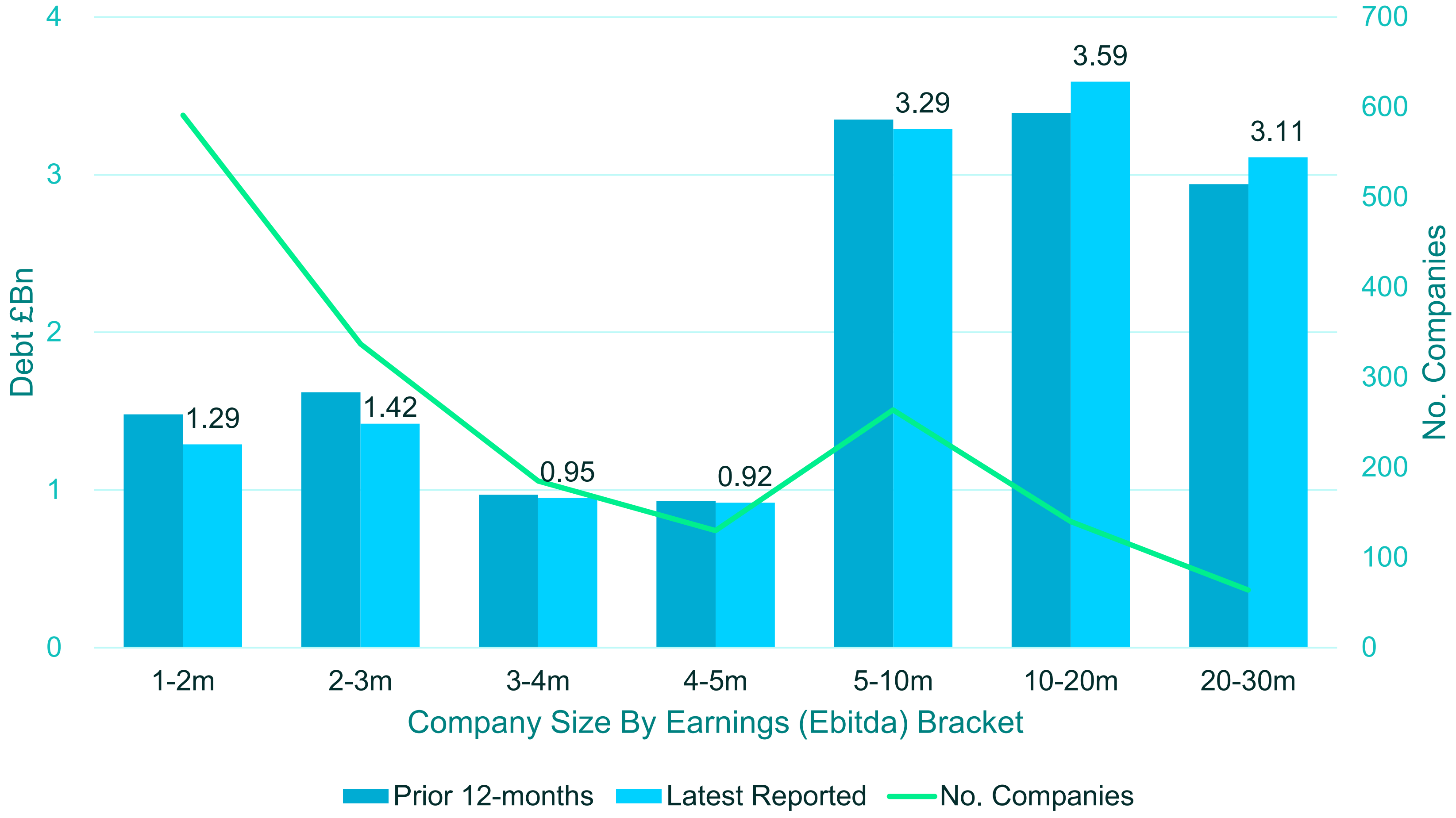
Most companies are carrying similar levels of short-term debt compared to 12-months ago albeit there is a gradual switch to longer term products, particularly by the larger companies, which can help to shore up investor confidence. Companies with Ebitda of £10m to £20m are carrying 2-3.5x the short-term debt carried by the smaller companies. This mirrors the long-term debt trend.

What does this mean for me?

For smaller businesses, high street bank lending for working capital may be constrained or even unavailable. We see plenty of examples of businesses restricting their growth or 'over-trading' based on capital shortage. Both are unadvisable and ultimately dangerous.

What are my options?

Consider alternative market funding options to fund short-term working capital needs.



LONG-TERM BORROWING.

What is the data showing?

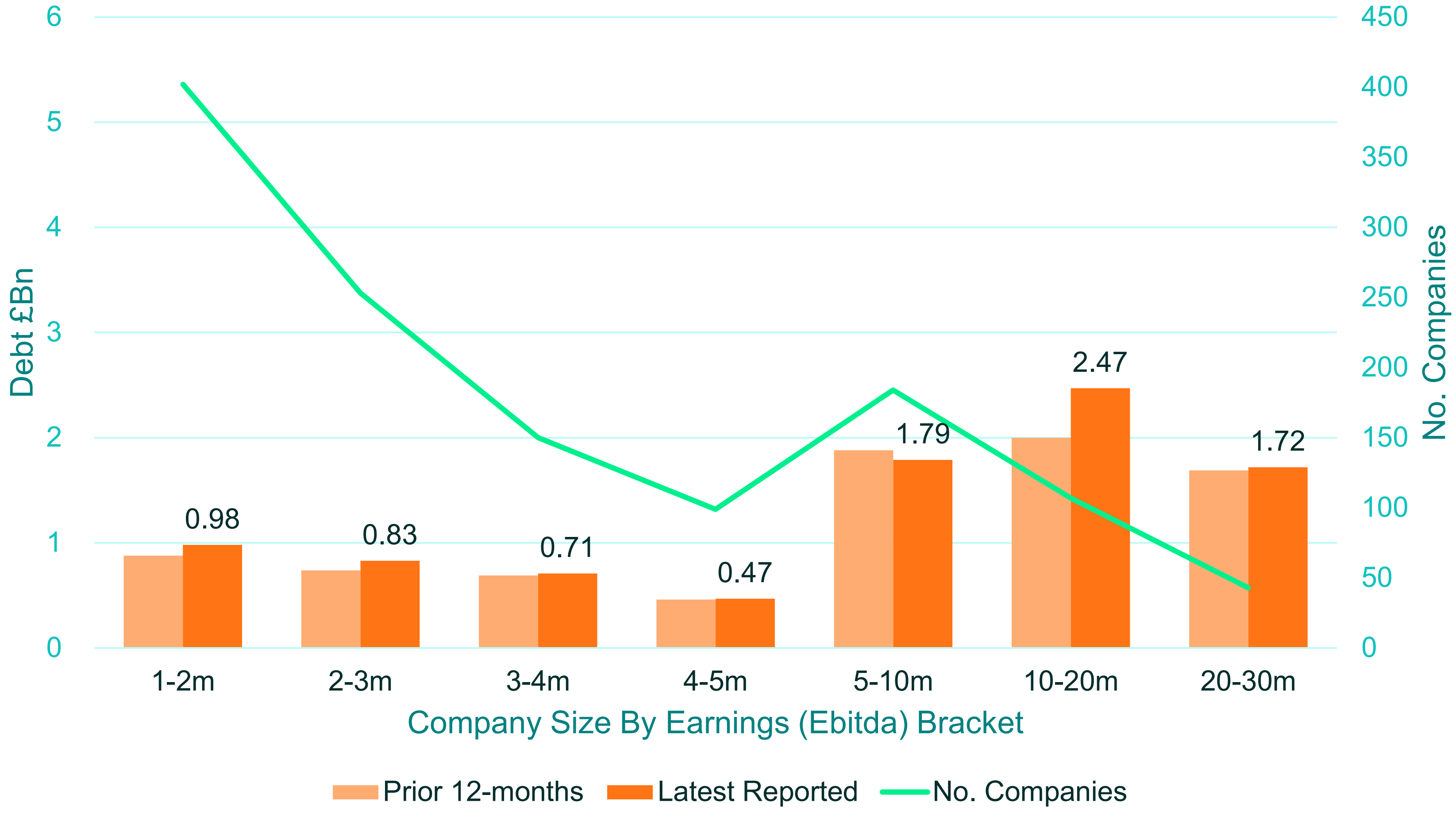
Companies of most sizes are carrying slightly higher amounts of long-term debt compared to 12 months ago. This is more pronounced with companies towards larger scale Ebitda range.

What does this mean for me?

Smaller businesses tend to explore their long-term funding capacity only with traditional banks or, often, just with their incumbent bank. Few will explore the many viable funding options from alternative lenders, despite the substantial advantages a well-structured funding can bring when trying to outgrow competitors.

What are my options?

If you're a profitable and well-managed business, don't be disheartened by a 'no' from your bank. There are many well suited and affordable alternative funding options and advice is readily available, including from ourselves.



WHAT IS MY BORROWING CAPACITY?

BORROWING CAPACITY BY SUB-SECTOR.

What is the data showing?

Over the last 12 months, the ATL industry sub-sectors have seen differing changes in leverage. While broadly the industry as a whole is deleveraging, the small sample size in both Aerospace and Marine have created a slight anomaly which is not representative across the entire sample range of 2,033 companies.

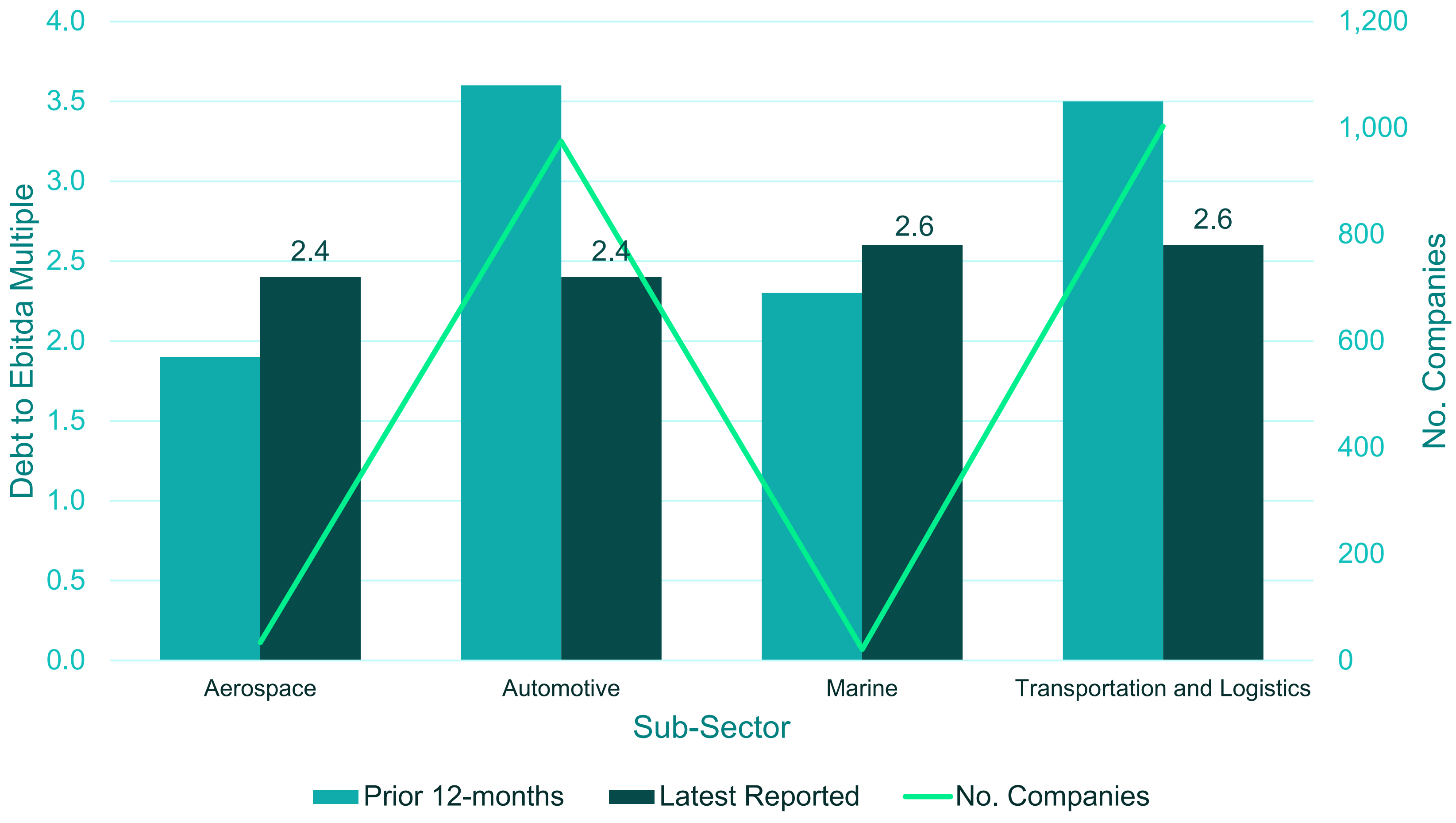
What does this mean for me?

Regardless of sub-sector, you should be able to raise around 3-4x your Ebitda level in debt for a well-thought-out growth initiative or an acquisition.

You can use your funding capacity as a highly effective tool against less agile competitors or to outgrow inflation.

What are my options?

Review your borrowing capacity with alternative as well as high street lenders. You may find alternative products, whilst pricier, being more suited to your cashflow plan and ultimately lead to higher growth. We recommend using an experienced adviser to conduct a confidential health-check of your business. Remember to seek additional capital before you desperately need it, especially in the currently turbulent environment.



BORROWING CAPACITY BY SIZE.

What is the data showing?

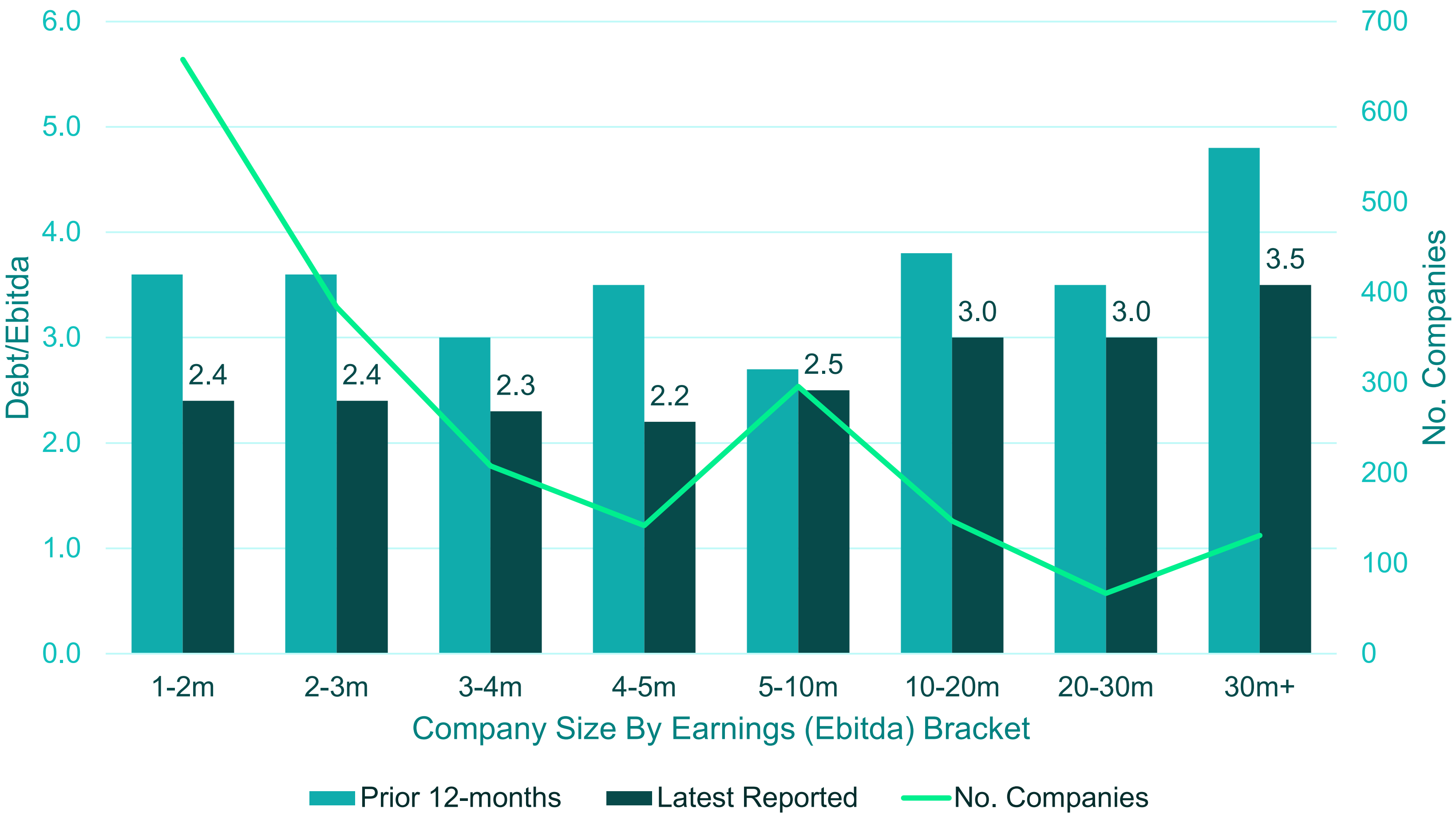
Over the last 12 months, companies across the ATL industry have deleveraged. Regardless of size, leverage has been brought down to a very manageable levels of between 2x and 3x earnings. Given slight growth in absolute borrowing amounts, this effect is largely a result of earnings recovery.

What does this mean for me?

For a well-performing business borrowing less than 3-4x earnings suggests available borrowing capacity. This ought to be explored if you see opportunities to grow your revenues either organically or through acquisition(s). Having a good track record with your lender is advantageous through turbulent times. Prior debt repayment or good covenant compliance generally win favour with banks and alternative lenders.

What are my options?

During turbulent times, it pays to be continuously aware of your funding options and capacity, not only with high street banks, but also with the alternative lenders. Always seek advice from experienced debt advisors. Secure additional facilities well in advance of having a desperate need, bearing in mind that lending appetites and interest rates can change rapidly.



INDUSTRY BORROWING SUMMARY.

KEY POINTS & PREDICTIONS

- Whilst the sector borrowing has increased slightly, the recovery in industry earnings has helped to broadly deleverage ATL businesses.
- This positions the industry well post-pandemic, but with the onslaught of energy price inflation and continuing supply chain interruptions, we can expect volatility in sector performance in the coming period.
- A well-structured capital and funding strategy could bring substantial advantages to ATL businesses over immediate competitors. You should consider both traditional high street and alternative funding options; or a blend of both.
- Smaller businesses, or those rejected by banks, should seek expert advice on approaching alternative lending market to fund growth or consider an acquisition or a merger to add scale.

M&A ACTIVITY - ARE BUSINESSES LIKE MINE IN DEMAND?

HOW MANY M&A DEALS HAVE COMPLETED IN MY INDUSTRY?

How attractive is my industry to buyers?

There has been a lot of M&A activity in the last year in the ATL Industry. This is driven by a rebound following the pandemic, when deal activity was subdued. However, this strong demand has since slowed following a production and supply chain disruption and surging commodity prices, both caused by the Russian invasion of Ukraine.

Companies in the ATL industry are in demand from domestic and overseas buyers and even businesses of relatively small scale can trade at attractive levels.

How does this compare to other industries?

As with M&A activity in the other industries we are tracking, deal flow was strong in the first half of the period and then dropped off from March 2022. The drop in other industries, like TMT or Business Services, was less significant as they are less dependent on raw materials and energy.

What should I be thinking?

Although there was positive activity in the first half of the covered period, the return of rising inflation and geopolitical uncertainties have put coping with uncertainty at the top of many businesses' lists. However, if your business is performing well, now may be a good time to look for an acquisition as a way of outgrowing inflation, especially as funding markets remain accommodating.

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M&A DEALS

WHEN ARE THE M&A DEALS HAPPENING?

What is the data showing?

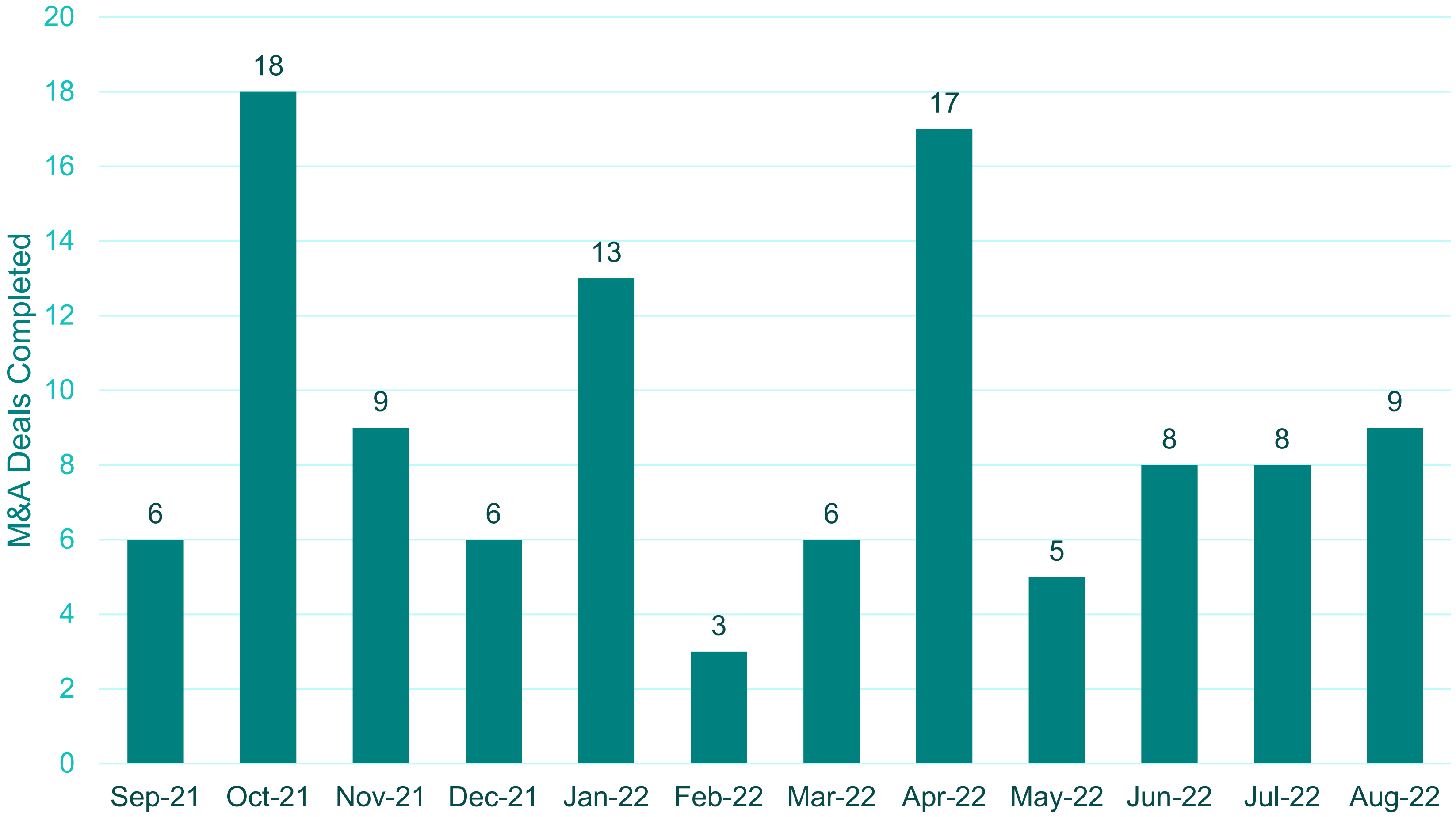
There was a strong appetite for deals at the start of this period, helped by the bounce back from Covid-19. However, since the Russian invasion of Ukraine and the return of inflation, businesses have started to focus on simply coping instead of expansion through acquisition. As an exception, interest in acquiring technologies has been maintained.

What does this mean for me?

If your business is performing well then this could be a good time for an acquisition to take advantage of the reduced number of bidders in the market.

What are my options?

Planning an exit or acquisition early is important, as is awareness of your funding capacity, potential acquirers and targets. Engaging an advisor is key to ensure value is maximised.



WHERE ARE THE BUYERS LOCATED?

What is the data showing?

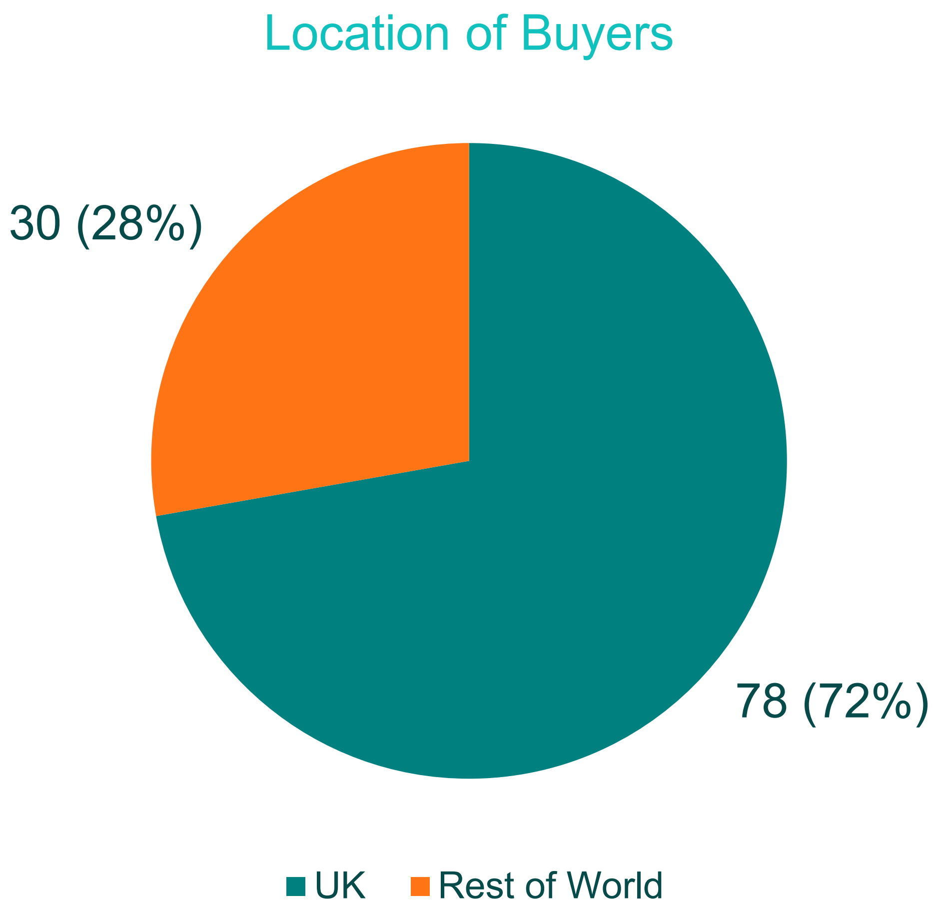
UK buyers – or at least companies with an existing UK presence – make the most acquisitions of UK companies in this industry. This is particularly true for smaller deals. Outside the UK, US and Canadian buyers are the most prominent.

What does this mean for me?

In many cases you will already know the companies that are most likely to acquire your business as they will already be key players in your market.

What are my options?

Starting to prepare early and engaging with a corporate finance adviser will allow you to identify potential buyers both in the UK and internationally. If not already on their radar, it is often advisable to direct your PR and marketing efforts to raise your profile with potential buyers or acquisition targets.



COMPANIES ACQUIRED BY LOCATION.

Where are the M&A deals happening?

The highest volume of deals was in the South East of England which is unsurprising. The North of England also had a high volume of deals relative to other regions.

What are the M&A trends in my industry?

What has been notable is the sub-sector with the most activity was Transportation & Logistics. Within this sub-sector it is interesting to see many deals featured private equity houses, which took particular interest in companies in e-commerce fulfillment whereby companies widen their logistics and distribution networks through either increasing market share or digital and technology capabilities.

Another trend in the ATL industry was the nonessential assets optimisation. Companies decided to retrench and invest instead in new technologies related to e-mobility development.

What does this mean for me?

If your firm is in the e-commerce sub-sector and has seen a boost in trading, then it is likely to be of interest to bigger players in the space. M&A activity is being heavily influenced by a desire among companies to improve supply chain resilience and reduce expose to skills shortages and wage inflation.

The global shocks caused by the 'triple cocktail' of Covid, war in Ukraine, and inflation has caused companies to revaluate the benefits of a globally dispersed supply chain and just-in-time delivery model. Choosing to adopt resilience over efficiency and 'nearshore' operations to reduce the risk of disruption will continue to drive this trend over the coming years.

EXAMPLES OF M&A DEALS IN THIS INDUSTRY.

What companies are making the acquisitions?

Growth through PE-investor backed acquisitions likely to be a major driver of deals in the UK logistics market over the coming 12 months with more than 1/3 of all deals in this sector being PE-backed.

What price is being paid?

Aside from the exceptionally sized takeovers of Clipper Logistics Plc (£965m), and Falko Regional Aircraft Ltd (£684m), the average deal size was £45m. This is the level which is affordable for a buyer whilst also offering significant strategic gains.

What's the typical Ebitda multiple?

Average disclosed Ebitda multiples was 11x adjusted for anomalies.

ACQUIROR	TARGET NAME	BUSINESS	DEAL TYPE	DEAL VALUE £m	TARGET EBITDA £m
GXO Logistics Inc.	Clipper Logistics Plc	Freight transportation arrangement and supply chain management services provider	Acquisition 100%	965	(6.7)
MBO Team - UK	Logik Logistics International Ltd	Scheduled transport logistic services	Management buy-out 100%	6	N/A
Park's of Hamilton Holdings Ltd	Borders Automobile Company Ltd	Car dealership operator	Acquisition 100%	N/A	(1.5)
Rotala Plc	Midland Classic Ltd	Bus services operator	Acquisition 100%	3.477	N/A
CCL Industries Inc.	McGavigan Holding Ltd	Automotive interiors components manufacturer	Acquisition 100%	78	(8.7)
Shanghai Tiancheng Aviation Technology Co., Ltd	Acro Holdings Ltd	Aircraft seats manufacturing holding company	Acquisition 100%	60	N/A

(This table provides a hand-picked selection of the deals that took place during the reported period.)

M&A SUMMARY.

KEY POINTS & PREDICTIONS

- Deal activity was buoyant at the start of the period but tailed off following the cost-of-living crisis and a surge in inflation.
- Confidence is key to deal making, so if your business is well placed to ride out the financial and geopolitical storms, then now may be a good time to seek an acquisition.
- If an exit is desired and your business is performing well there is still an appetite for deals. Early planning is essential if all value is to be extracted from the business.
- Ongoing shift to an ‘Omnichannel fulfilment’ model ie third-party logistics (3PL) warehouses through the use of interconnectivity, automation, inventory management and real-time data is a significant factor driving M&A activity in this sector.
- With wage inflation, skills shortages and increased stakeholder focus on ESG issues, greater focus is being placed on the people aspect which becomes an ever more important aspect of dealmakers’ due diligence process as the success of any deal is highly dependent on having access to the right talent.

OUR CREDENTIALS.

OUR INDUSTRY EXPERTS.

COLIN BURNS

Director

Colin is funding specialist in our Business Funding team and is a fully qualified Chartered Banker and Green Finance Certificate holder.

He provides funding advice to UK SME clients across a range of sectors including manufacturing & engineering, automotive and logistics, TMT and leisure, tourism and sport.

His typical mandates include all types of growth funding, acquisition, MBI or MBO financing with facilities ranging from £2m to £100m.

HARRY COOK

Executive

Harry is a mergers and acquisitions executive in our M&A team. He joined Shaw & Co in June 2022 having trained and qualified as a Chartered Accountant with Blick Rothenberg and most recently at UHY Hacker Young. Harry brings 5-years' experience of advising and auditing SME clients across a range of sectors.

At Shaw & Co Harry's corporate finance support focuses on business valuations, exit planning, buying or selling a business, mergers, MBIs and MBOs. Harry provides wider M&A support through the preparation of investment papers, reviewing and building accompanying financial models and conducting market research to identify buyers, sellers and comparable transactions.

SUCCESS STORY – ENSILICA UK.

HELPING A MICROCHIP DESIGNER FUND BUSINESS GROWTH

SITUATION

EnSilica UK is a leading fabless designer of application specific integrated circuits (ASIC) supplying multiple markets. Find out why EnSilica came to us to help raise funding for its strategic growth projects.

CHALLENGE

EnSilica was looking to reposition part of its business as part of a long-term strategy but did not have the appropriate capital structure to fund the project.

RESULT

With our support, EnSilica secured an eight-year fixed rate loan facility through Caple, which is totally unsecured and does not require any equity dilution. This provided optimal capital support for EnSilica’s business strategy which includes developing new products and to continue with its recruitment plans.

"

The process to initiate and complete this funding was managed effectively by Shaw & Co. They showed particular expertise in rapidly understanding the nature of our business model and demonstrated their commercial experience. Their track record of working with Caple was of advantage in ensuring we completed the process promptly.

Mark Hodgkins (right)
Chairman, EnSilica UK

ACCESSIBLE NATIONAL REACH.

FIVE CITY LOCATIONS

We help the business leaders of UK privately-owned SMEs to achieve their greatest ambitions.

We are easily accessible to support clients from across the UK and you can find us in these locations:

BIRMINGHAM	20 Colmore Circus, Birmingham B4 6AT	**0121 314 9410**
BRISTOL	22-24 Queen Square, Bristol BS1 4ND	**0117 325 8510**
GLASGOW	9 George Square, Glasgow G2 1QQ	**0141 280 0410**
LONDON	33 St James' Square, London SW1Y 4JS	**0207 183 5010**
MANCHESTER	3 Hardman Square, Manchester M3 3EB	**0161 505 2010**

ICAEW CHARTERED ACCOUNTANTS

CYBER ESSENTIALS CERTIFIED

CCSA | CYBSAFE CERTIFICATION in SECURITY AWARENESS

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