SLOW ASSET-LIGHT 3PL M&A ACTIVITY, BUT EMERGING SIGNS OF IMPROVEMENT IN 2024

ASSET-LIGHT 3PL SECTOR UPDATE | APRIL 2024

CAPSTONE PARTNERS

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Asset-Light 3PL

Slow Asset-Light 3PL M&A Activity, But Emerging Signs of Improvement in 2024

KEY SECTOR TAKEAWAYS

Capstone Partners' Transportation & Logistics Group is pleased to share its Asset-Light Third-Party Logistics (3PL) report. Negative macroeconomic pressures and excess capacity weighed on 3PLs throughout 2023, slowing sector growth and merger and acquisition (M&A) activity. However, structural growth drivers such as continued logistics outsourcing, e-commerce proliferation, and the implementation of advanced technologies and automation continue to underpin strong long-term growth. Freight conditions are expected to improve as 2024 progresses, leading to healthier sector growth and a more favorable M&A environment later in the year. Several key takeaways from the report are outlined below.

1. M&A deal volume fell 26.2% year-over-year (YOY) from 61 transactions announced or completed in 2022 to 45 in 2023. Activity so far in 2024 remains muted.

2. Macroeconomic factors dampened freight volumes throughout 2023 and combined with substantial excess capacity, led to industry-wide strains including reduced freight rates and declining revenue for many sector participants.

3. Despite economic and freight headwinds, underlying secular trends will support a renewed pace of transaction activity when business conditions improve.

4. Elevated returns, costs, and logistics complexity, coupled with elevated e-commerce demand and increasing retailer focus on margins, is fueling growth and investment in reverse logistics. The trend is expected to continue for the foreseeable future

5. Strategic buyers are poised to accelerate M&A activity in the second half of 2024 as sector financial performance improves and buyers look towards inorganic growth to capture market share, increase customer volume, and invest in operational and technological capabilities.

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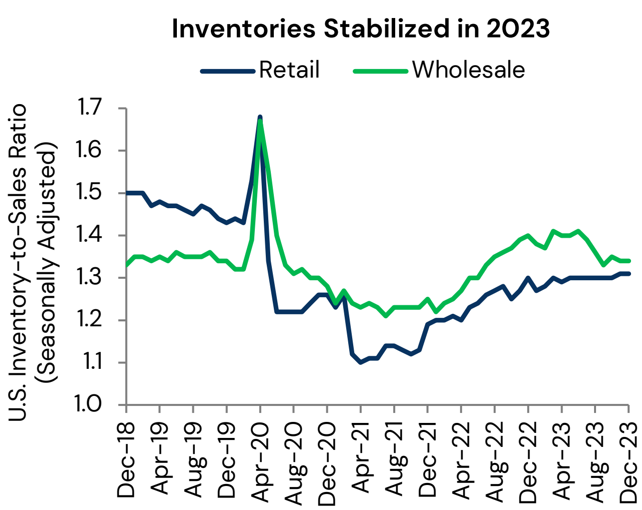
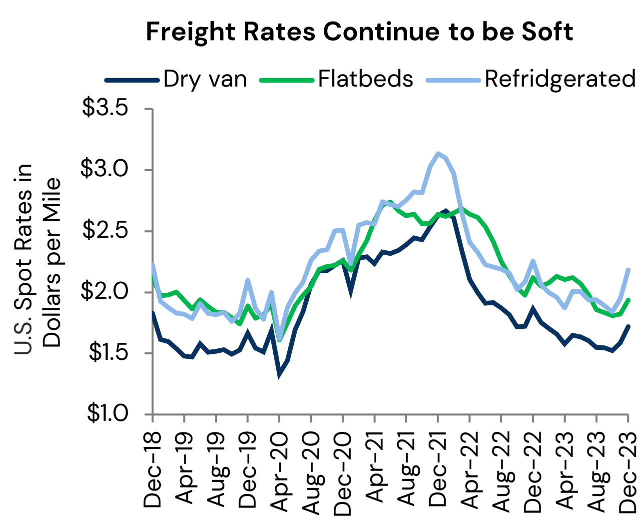
CHALLENGING ENVIRONMENT, BUT POSITIVE SECULAR TRENDS INTACT

Asset-Light 3PL operators have had to adapt to a rapidly changing and increasingly complex environment as the COVID-19 pandemic sparked major shifts in global supply chains and accelerated e-commerce demand. Supply chains over the past few decades have shifted from linear to more complex models alongside rising demand and cross-border trade. However, the pandemic and recent trade tensions illuminated the fragility of the global supply chain. As a result, manufacturers have accelerated nearshoring, onshoring, and friend-shoring to try to avoid future supply-chain disruptions. Additionally, the rapid growth of e-commerce has also added complexity to the global supply chain and how goods are delivered to end-customers. Previously linear distribution and fulfillment networks have become more complex, distributed and closer to the end-customer, as the fulfillment experience has become central to the customer experience. All of these factors have and will contribute to strong growth and investment to service evolving logistics needs.

The later half of 2022 marked the beginning of what is still today a difficult period for most logistics sector participants. A shift in consumer demand from a relatively high goods-heavy mix during the pandemic and back to a more service-heavy mix in the second half of 2022 and full-year 2023 resulted in depressed shipping demand, which exacerbated excess freight capacity and led to lower sector pricing. Revenue declines for public Asset-Light 3PLs with exposure to the broader freight markets were down more than 20% on average in 2023, according to Capstone's Asset-Light 3PL index. Particularly hard hit were freight brokers with significant spot rate exposure and freight forwarders with major cross-border cargo volumes down, evidenced by U.S. container import volume down 12% YOY from 2022, according to a Descartes report.[1]

The general Freight market and much of the Logistics Services market has been bumping along a market bottom since summer 2023, and signs of a cyclical demand driven recovery have remained elusive with most industry analysts not expecting materially improved freight demand until the second half of 2024. Despite current growth challenges, e-commerce proliferation, technology and automation, and outsourcing trends have provided Asset-Light 3PL operators with opportunities to grow their operations and capture market share. As e-commerce sales continue to rise, retailers and shippers have been increasingly looking towards Asset-Light 3PL operators to outsource costly logistics services. Notably, 80% of shippers stated that 3PLs contributed to overall logistics cost reductions and 62% indicated that they increased their use of 3PLs for outsourced operations in 2023, a 14.8% increase YOY, according to a recent Penske Logistics and NTT Data Third-Party Logistics Study.[2] Furthermore, GXO Logistics' (NYSE:GXO) CEO Malcom Wilson noted that in Q3 2023 nearly half of its new sales wins stemmed from companies outsourcing their operations, according to its Q3 2023 earnings transcript.[3] The company intends to capitalize on automation, outsourcing, and e-commerce to drive growth across its business.





Source: U.S. Department of Transportation – Bureau of Transportation Statistics, U.S. Census Bureau, and Capstone Partners

SECTOR SEGMENTS HAVE UNIQUE OPPORTUNITIES AND CHALLENGES

Freight Brokerage

Freight brokers have had a difficult 2H22 and 2023, alongside other logistics ecosystem segments. C.H. Robinson (Nasdaq:CHRW) full-year revenue, for example, was down 28.7% YOY, with volumes down 5.3% YOY and North America truckload price per mile down 20.1% YOY, according to its latest earnings release.[4] Brokers with exposure to niche industries with healthy volumes, such as Automotive, faired relatively well, but were more the exception than the rule.

Freight brokers' revenue peaked during the pandemic, as shippers clamored to find capacity and spot rates skyrocketed. The market weakened substantially in mid-2022 and has remained a "shippers' market" into 2024, with a higher proportion of freight going direct to carrier. Despite market weakness, freight brokers will continue to be an important part of the ecosystem as shippers aim to lock-in the best rates and available service. However, current market weakness is expected to act as a long-term gain for more scale and technologically-sophisticated brokers that can provide differentiated services. M&A is expected to remain muted until the market recovers. Strategic acquirors with healthy balance sheets have been eager to add to their portfolios at the right price, prioritizing incremental capabilities more than incremental customers, but there have been few sellers at current low rates of profitability. Since 2022, cross border freight between the U.S. and Mexico has been a strong area of growth and investment and is expected to remain so for the foreseeable future. For the first time in twenty years, Mexico surpassed China in 2023 U.S. trade imports, according to the U.S. Census.[5]

Freight Forwarding

Freight forwarders have faced a similar magnitude of topline challenges as freight brokers. Expeditors International (NYSE:EXPD) Q4 2023 revenue, for example, fell 34% YOY, according to a press release.[6] Expeditors' also saw a 3% and 10% YOY decline in airfreight tonnage and ocean container volumes, respectively. However, volatility has been the norm for the sector and participants have been well positioned to operate through inevitable down cycles. Despite nearshoring trends, global trade and services to facilitate trade remain growth markets. As automation technology catches up to a very complex and inefficient ecosystem, scale players with large IT budgets are best positioned for the long-term. Until then, strategic acquirors and private equity (PE) buyers have seen value in building robust platforms and growing through bolt-on M&A to gain access to customers and attractive trade routes.

Warehousing & Fulfillment

The Warehousing & Fulfillment sector has experienced the most e-Commerce driven transformation within the logistics ecosystem. Linear networks have transformed into distributed multi-way networks with fulfillment centers closer and closer to end-customers. The sector underwent a wave of deal activity in 2021 and early 2022. Nascent, tech-enabled platforms such as Shipmonk, ShipBob and Stord raised capital at more than a billion-dollar valuations. Large logistics integrators such as Maersk (OTCMKTS:AMKBY) and Ryder (NYSE:R) have made multiple acquisitions as they build a more comprehensive direct-to-consumer (D2C) offering for customers for which they had traditionally only provided business-to-business (B2B) services.

E-commerce and fulfillment growth moderated in 2022 and 2023. 2024 is expected to be a year of mixed financial performance and muted M&A activity. In the longer-term, sector consolidation is expected to be an important strategic trend as sector leaders optimize strategically placed nationwide (and sometimes international) networks and leverage scale benefits to implement technologies across their networks. Fulfillment providers servicing niche sectors with unique handling and environmental needs, have received the highest strategic M&A interest, and are areas where smaller players can continue to thrive by providing high-touch customer service.

E-COMMERCE SPURS REVERSE LOGISTICS GROWTH AND INVESTMENT

17.6% **OF ONLINE RETAIL SALES WERE RETURNED ONLINE IN 2023**

In 2023, the U.S. Retail industry generated $5.1 trillion in sales, $1.4 trillion of which stemmed from online sales, according to the National Retail Federation (NRF).[7] As e-commerce sales have risen, so have online returns. In 2023, online returns accounted for one-third of the $743 billion in total retail returns, according to the NRF.

The Reverse Logistics segment has greatly benefitted from elevated e-commerce sales and associated returns. However, the high costs associated with returns and complex supply-chain operations have continued to challenge segment participants. More than 20 vendors, including carriers and warehouses, may touch the product within its reverse logistics journey, according to the Reverse Logistics Association (RLA).[8] Furthermore, warehouse costs and the number of short-haul and last-mile shipments have increased alongside rising e-commerce sales, according to the U.S. Department of Transportation.[9] In 2023, retailers lost more than $100 billion to fraudulent or abusive returns and indicated that severe reverse logistics issues rose over 2,000% YOY, according to a goTRG report.[10]

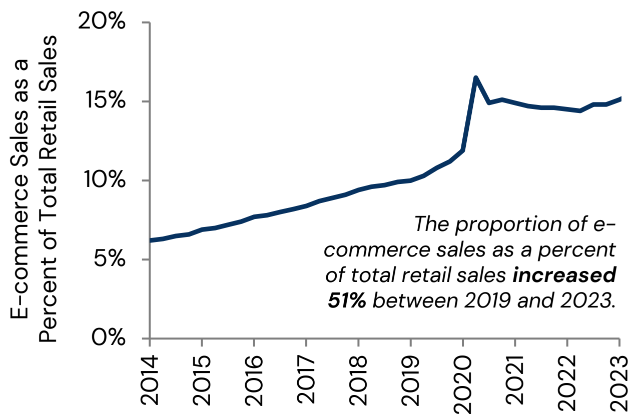
Technology investments, such as data collection, standardization, and transparency among reverse logistics providers lag that of traditional 3PL and fulfilment providers. As the Reverse Logistics segment matures, advanced technological capabilities, more sophisticated business models, and larger businesses serving the market are fueling segment growth.

In 2023, 88% of retailers that invested in their reverse logistics operations indicated they invested between one and more than five million dollars into their processes, according to the RLA and goTRG reports. This suggests increased demand for more sophisticated reverse logistics operations among retailers. Larger companies with advanced technologies, strong existing relationships, and large-scale geographic reach have been well-positioned to succeed. UPS' (NYSE:UPS) purchase of Happy Returns in October 2023, further detailed on page nine, exemplifies opportunistic M&A transactions led by public

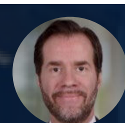
82% **OF RETAILERS RANK THE RETURNS PROCESS AS IMPORTANT**

strategics looking to complement offerings and strengthen reverse logistics capabilities alongside increasing demand for online returns. Capstone expects the Reverse Logistics segment to see historically high levels of investment and M&A activity in 2024 and 2025 as retailers increase investment and sector participants grow and mature.

E-Commerce Proliferation



Source: U.S. Census Bureau and Capstone Partners



Gordon Mackay
Managing Director

"The reverse logistics space is in a period of rapid transformation.

E-commerce returns are central to the customer experience. Current models are nascent and evolving quickly, with big dollars at stake.

Retail reverse logistics had been an after thought, facilitated through a patch work of small service providers and liquidators. Sophisticated, value enhancing service providers are emerging and will become leaders of scale. Strategic forward logistics providers would do well to add complementary reverse logistics capabilities."

SOFT M&A VOLUME AS FREIGHT RECESSION CONTINUES

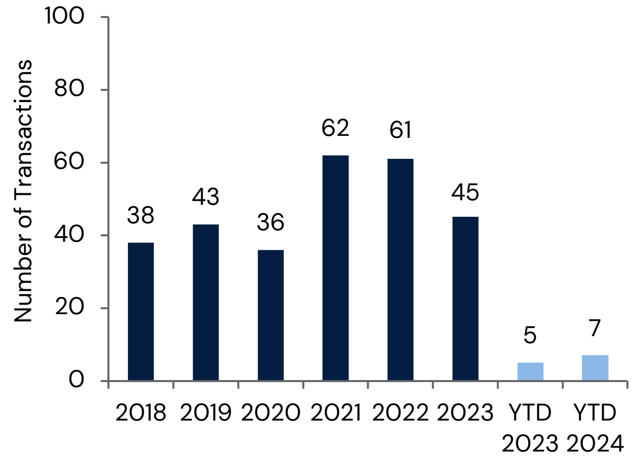
M&A volume in the Asset-Light 3PL sector fell to pre-pandemic levels in 2023, with 45 transactions announced or completed, marking a YOY decline of 26.2%. Acquired companies in the 3PL segment comprised the largest portion of transactions (37.8%) as acquirers looked to capitalize on the segment's rapid growth. Freight Forwarding and Brokerage followed, making up 24.4% and 15.6% of sector deals in 2023 respectively, despite a markedly bad year characterized by operator volume and price reductions. Overall, M&A activity was dampened in 2023 as the ongoing freight recession negatively impacted profitability of 3PLs, brokers, and other operators throughout the year.

Deal volume in the Asset-Light 3PL sector is expected to rise in 2024 with anticipated Federal Reserve easing and pressures from the freight recession subsiding. Notably, select public strategic buyers have begun to prepare for improved deal conditions. "We believe our (patience) and discipline will be rewarded as market conditions become more conducive to our acquisition strategy. And we have ample dry powder to become more active on the acquisition front should the opportunity present itself," noted CEO Bohn H. Crain in Radiant Logistics' (NYSEAM:RLGT) Q1 2024 earnings call.[11]

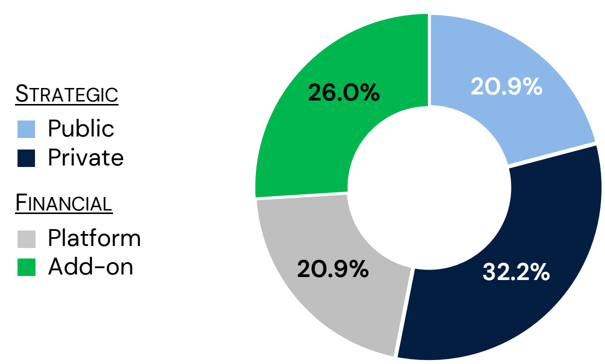
Since 2018, deal activity has been split nearly in half between strategic (53.1%) and financial buyers (46.9%). Strategic buyer activity declined 10.7% YOY, whereas financial acquirer deal volume registered a deeper decline of 57.6% YOY as an elevated interest rate environment hindered acquisition financing in 2023. Strategic and financial deal activity is expected to increase in 2024 alongside improved market conditions, as buyers broaden customer access and attractive trade routes through M&A to stimulate growth.

Through YTD, the majority of transactions with disclosed valuations have been middle market deals between \$10 and \$500 million. Notably, middle market deals have largely focused on 3PL, Freight Forwarding and Brokerage segments. In 2023, public companies leveraged M&A strategies to either bolster vertical strength and cost synergies, much like Forward Air's (Nasdaq:FWRD), acquisition of Omni logistics (page 9), or to diversify geographic market share and service offerings, as noted by Hub Group (Nasdaq:HUBG), in its Q4 earnings call.[12]

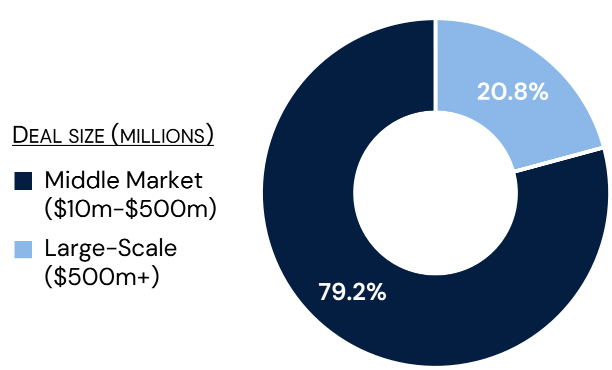
Macroeconomic and Freight Market Pressures Dampen Deal Activity in 2023



Near-Even Split Between Financial and Strategic Buyers through YTD



YTD, Middle Market Transactions Dominate Sector Valuations



Year-to-date (YTD) ended March 11
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

NOTABLE TRANSACTIONS

Acquires

UPS acquired Happy Returns in October 2023 from PayPal (Nasdaq:PYPL) for $465 million. Happy Returns is a software and reverse logistics provider with more than 10,000 retail locations, offering consumers and merchants including Everlane and Fabletics, with no-box, no-label returns. Happy Returns will operate as a new independent division within UPS alongside teams from Delivery Solutions, Roadie, Ware2Go and UPS Capital. Happy Returns aims to leverage UPS' scale and reach to grow its operations, according to a press release.[13]

"By combining Happy Returns' easy digital experience and established drop-off points with UPS' small package network and footprint of close to 5,200 The UPS Store locations, box-free, label-free returns will soon be available at more than 12,000 convenient locations in the U.S.," said UPS CEO Carol B. Tomé in a press release.[14] UPS is headquartered in the U.S. and provides parcel services, air and ocean freight forwarding, truckload brokering, and contract logistics solutions, shipping over 6.2 billion packages a year in over 200 countries.

Acquires

Forward Air, in August agreed to acquire Omni Logistics for an enterprise value of $3.2 billion, or 1.9x EV/Revenue and 17.7x EV/EBITDA in a stock for stock deal. The deal received investor pushback around both high valuation concerns and strategic rationale. After legal disputes and later attempts by Forward Air to exit the merger, the deal closed in January at an estimated enterprise value of $2.1 billion, according to *The Wall Street Journal*.[15] The acquisition will leverage expanded offerings and locations to become a leader in expedited Less-than-Truckload (LTL) freight. The merger enables Forward to expand its customer base and target the $15 billion High-Value Freight market, according to a press release.[16]

Forward shareholders initially opposed the deal citing concerns over the high valuation, $1.4 billion inherited debt load, and a transfer of control to Omni's shareholders, according to Freightwaves.[17] Forward executives heeded investor criticism and attempted to exit the deal with claims that Omni misrepresented financial projections and did not provide timely disclosures. At closing, Omni's equity value fell from its initial $1.8 billion to $743 million. Omni's shareholders received four board seats, $20 million in cash instead of $150 million, and an equity stake of 35% instead of 38%. In February, Forward indicated that several Omni executives, including Omni CEO JJ Schickel, as well as Forward Air CEO Tom Schmitt, would not continue as executives following the revised merger.[18]

At closing, Forward's net debt to adjusted EBITDA was 5.2x, including $75 million in cost synergies, which the company aims to lower to 4.5x by Q4 2025 by divesting non-core units to deleverage its balance sheet. In December, Forward Air divested its Last-Mile delivery unit to Hub Group for $260 million.

Acquires

GXO Logistics completed the acquisition of PFSweb in October 2023 for $179.6 million, or 0.9x EV/Revenue and 10.8x EV/EBITDA. PFSweb provides global 3PL e-commerce fulfilment and reverse logistics solutions for Direct-to-Consumer (D2C) and Business-to-Business (B2B) retail customers, such as Kendra Scott and L'Oréal USA (OTCMKTS: LRLCY). PFSweb joined GXO's Americas and Asia Pacific region operating as its own division.

The acquisition bolstered GXO's presence in health, beauty, fashion and apparel, jewelry, luxury goods, and consumer packaged goods verticals, according to a press release.[19] The transaction also strengthens GXO's distribution center network with the complementary addition of PFSweb's 11 distribution centers across the U.S., U.K. and Belgium. PSFweb generated $82 million in revenues in 2023, according to GXO's Q4 earnings release.[20]

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)
03/09/24	Metroland Parcel Services	Ziing Final Mile	Provides overnight small-parcel delivery and final mile distribution services.	-
02/01/24	Cardinal Logistics	Ryder System (NYSE:R)	Offers 3PL contract carrier and freight brokerage services in the U.S. and Canada.	$290.0
11/28/23	Farrow Group	Kuehne + Nagel Intl. (SWX:KNIN)	Provides customs compliance and logistics solutions for importers and exporters.	-
10/25/23	Happy Returns	United Parcel Service (NYSE:UPS)	Provides in-person returns for online shoppers.	$465.0
10/02/23	Daleray	Radiant Logistics (NYSEAM:RLGT)	Offers domestic and international freight forwarding services.	-
09/28/23	MNX Global Logistics	United Parcel Service (NYSE:UPS)	Provides expedited, temperature, and security-sensitive transportation and logistics services.	-
09/14/23	Brokerage operations of BNSF Logistics	J.B. Hunt Transport (Nasdaq:JBHT)	Offers transportation execution services, including customs house brokerage services.	$85.0
09/14/23	PFSweb	GXO Logistics (NYSE:GXO)	Provides global 3PL e-commerce fulfilment and reverse logistics solutions.	$179.6
08/22/23	Ascent Global Logistics	H.I.G. Capital	Offers brokerage and managed transportation and forwarding services.	-
08/10/23	Omni Logistics	Forward Air Corp. (Nasdaq:FWRD)	Provides bulk transportation logistics and trucking services intended for the medical and retail sectors.	$2,100.0*
07/10/23	Barnhart Transportation	SMG Industries (OTCPK:SMGI)	Provides transportation freight service and distribution solutions.	$47.7
06/19/23	BBA Logistics	Grupo Traxion (BMV:TRAXION A)	Offers door-to-door and cross-border freight brokerage and transportation services.	$10.0
06/07/23	Cargo Logistics Group	Magnate Worldwide	Provides logistics services intended for international and domestic mission-critical supply chains.	-
06/01/23	Best Dedicated Solutions	Stg Logistics	Delivers logistics services and solutions such as expedited delivery, dry van, and flatbed.	-
05/09/23	Rapid Response Delivery	Capstone Logistics	Provides transportation and delivery services for distributor, retailer, medical, and automotive sectors.	-
04/10/23	Locher Evers International	EFL Global	Offers logistics services, including air freight, ocean freight, and customs brokerage.	$66.5
03/21/23	Global Diversity Logistics	DSV A/S (CPSE:DSV)	Provides last mile delivery, supply chain management and control tower services.	-
02/28/23	Assets of Veritiv	Fitzmark	Provides B2B logistics solutions.	$18.0
02/27/23	Trans American	EFL Global	Operates as an air freight and logistics company.	$42.5
01/12/23	SSM Holdings	RGF Capital	Provides repairing and remarketing of mobile devices and accessories	-

**Revised Enterprise Value estimate sourced from The Wall Street Journal*
Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the Transportation & Logistics industry, particularly those that have completed notable Asset-Light 3PL transactions. Our industry knowledge and network provides us with unique insights into this buyer universe and industry and growth drivers for the companies within it.

Select Asset Light 3PL Strategic Buyers

ArcBest, AIT Worldwide Logistics, C.H. Robinson, Echo, Estes, FitzMark, Geodis, GXO, Hub Group, Kenco, Kuehne+Nagel, Maersk, Mode Global, NFI, PLS Logistics Services, RXO, Ryder Ever better., SEKO, STG Logistics Our People Are the Difference, Transportation Insight, Uber Freight, UPS, Werner

Select Financial Buyers

abry partners, AEA, Angeles Equity Partners, Architect Equity, Argosy, Branford Castle Partners, Clarendon Capital, CID Capital, Comvest Partners, Gladstone Capital, Great Hill Partners, Greenbriar Equity Group, L.P., H.I.G. Capital, Hidden Harbor Capital Partners, LLR Partners, LVC LongueVue Capital, Nautic, NewSpring, Periphas Capital, PNC Riverarch Capital, Quad-C, Red Arts Capital, Ridgemont Equity Partners, Saybrook, ShoreView, Southfield, Sumeru, Tailwind, TJC The Jordan Company, TPG, Tritium Partners, TRP Capital Partners, Warburg Pincus

Source: Capstone Partners

Q&A WITH FREIGHTPLUS CEO, STEPHEN ABORN

Stephen Aborn, CEO of FreightPlus

Capstone Partners spoke with Stephen Aborn, CEO of FreightPlus, to discuss the company's evolution, current strategic initiatives, and the sector-specific and technological trends critical to 3PL and managed transportation providers in the aftermath of a difficult freight environment. After graduating from Harvard in 2012, Stephen Aborn joined Amazon's (NASDAQ:AMZN) inventory and supply chain management division. In the Summer of 2020, Mr. Aborn became CEO of FreightPlus, where he helped pivot its business model to match the complex needs of today's transportation environment.

FREIGHTPLUS

FreightPlus, is a managed transportation service provider. The company's logistics and technology experts help growing middle market companies elevate their logistics programs by offering customized and fully managed transportation. Based in Massachusetts, FreightPlus has negotiated billions of dollars in client freight spend and enabled transportation efficiencies through technology-driven innovations for more than 200 companies, including Fortune 500 shippers Sony (NYSE:SONY), US Foods (NYSE:USFD), and Jordan's Furniture. *To learn more about FreightPlus visit* ***www.freightplus.io.***

What is your background and professional experience that led you to join FreightPlus? My first job out of school was in Amazon's retail undergraduate program. What I liked about Amazon was its emphasis on case-based and team-based approaches. How do you sell more? How do you save more? How do you think about business? I found this approach great, and ultimately, it influenced my decision to work there. I was promoted to run supply chain management for the Bakeware & Cutlery category. This involved managing the buying network, modeling customer in-stock rates, essentially acting like a financial manager—monitoring metrics, ensuring profitable movement of goods, appropriate stocking levels, and ensuring effective turnover.

At the same time, my uncle had a management consulting company that started in LTL and grew to truckload, and eventually to intermodal. Two of their first clients, who are still with us today, were furniture clients and were among the first to engage in outsourcing. The company then expanded into a management consulting business with a variety of capabilities in terms of analyzing modes, preparing freight, and studying order patterns. Consequently, the company's client base grew to include large multinationals such as Sony. My uncle and his business partner, Jill Clifford, who is our President today, sold a portion of that company. After, Jill wanted to grow the business' profitability. That Christmas they took me to lunch, and I joined FreightPlus eight months later.

How did FreightPlus evolve after you joined and since you've taken over as CEO? Jill and I operated as a team of three. We handled sales, operations, analysis, client management, and billing—a true entrepreneurial endeavor. In short, we transitioned from Jill's expertise in management consulting to incorporating my background from Amazon—emphasizing scalable systems and data-driven decision-making. The challenge became integrating these strengths and finding a balance between them. How could we effectively merge our skill sets and go-to-market? How could we educate and talk to others on software integration, data utilization for decision-making, and ensuring comprehension of KPIs and their inputs throughout operations? How could we navigate freight negotiation, preparation, carrier engagement, and bidding processes? The way we conceptualized it, there were three segments: 1. Acting as advisors for clients' go-to-market strategy and transportation modes. 2. Developing a TMS [transportation management system] including requirements documentation, sourcing, and selection. 3. Optimizing data collection and analysis for our more mature clients. We noticed considerable interest in improving various aspects of these segments, but companies struggled to execute. Therefore, instead of continuing with go-to-market consulting, which we were heavily involved in, and technology resale, we decided to merge the two businesses and present ourselves in the market as managed transportation providers.

Q&A WITH FREIGHTPLUS CEO, STEPHEN ABORN (CONTINUED)

The new business, FreightPlus, was launched in January 2020 and quickly gained momentum. It became evident that this was a solid business model, and we would need to establish some structure within the company. With the rapid growth and increased scale, it became evident that we could no longer operate as a small-scale venture. Our employees now demanded elevated levels of support. That is when I took on the role of CEO in the summer of 2020.

What differentiates FreightPlus from other 3PLs and managed transportation providers? The more I've talked with various managed transportation providers, many of whom are larger than us and cater to a diverse range of companies in terms of size, stage, and model, our focus is driven towards the middle market. We're trying to be specific and prescriptive about what we look for and replicate successful strategies, with some degree of customization, to address similar challenges across our client base. This approach enables us to scale solutions learned from one client to benefit others effectively.

Customer intimacy is a core focus for us. Our aim is to foster lasting relationships spanning 25+ years with our carriers, team members, and clients. I think the cool thing about this business, because it's been around so long, is that we have a history—we have a client that has been with us for 36 years. Jill still negotiates with some of the same folks from 25-30 years ago in LTL. Our success in the long run hinges on our commitment to customization and our passion for fostering strong customer relationships.

In the aftermath of a difficult freight environment, what trends do you anticipate will be critical for the space in 2024? What we see from our clients is that logistics is being challenged to do more and to do it quickly. The companies that come out of this need to be more dynamic in their ability to react to customer demands. Before, no one really talked or cared about supply chains or logistics. But now, it is an opportunity. Specifically, the integration of services, transit, and data has presented significant opportunities. Our ability as an industry and as a company to react to these shifting priorities is going to be crucial. The ability to blend technology and people is critically important. We introduced a new leadership principle last year to convey this to our team. In this business, people matter most. Our technology is built to support people so that we can continue to foster these relationships. Navigating this environment can be chaotic, necessitating a foundation of trust. It's imperative to seamlessly integrate people and technology while emphasizing that individuals are the driving force behind businesses, working collaboratively.

What value do your clients receive from FreightPlus' data analytic capabilities? As one of our core product offerings, we have invested heavily in back-end data analytics capabilities. If you go back to the history and how we set this up, we're consultants. So, part of what we do in our sales process is we'll talk to sales and marketing and a lot of this we try to do on-site. We'll talk to the people in warehouse operations. We'll talk to the shipping managers, the logistics managers, the finance people. They're critically important.

I've lost count of how many times we've gone on-site, and we see people managing paperwork and spreadsheets without a clear understanding of why. It consumes countless hours of their day. So, we ask, "Can we leverage technology to automate these tasks, or provide you with enhanced tools for quicker execution?" Our clients are receptive because they recognize the challenges prevalent in the labor market.

What technology trends will be the most critical to FreightPlus' success going forward? Capacity has always been thought of as incredibly complex. On the truckload side, there's a million different providers. With LTL pricing, billing, auditing, and the potential chaos with orders and audits add to the complexity.

Previously, you relied on a Transportation Management System (TMS) with workflows for processing information, often requiring EDI or manual input to obtain desired data.

Now, there's around 50 software companies offering solutions for various needs. The key lies in seamlessly integrating these technologies to capture, report, and drive continuous improvement through audits. This capability will differentiate businesses in the future.

FREIGHT RECESSION STALLS PUBLIC COMPANY REVENUE GROWTH

Ticker: Nasdaq:JBHT
Headquarters: Lowell, Arkansas
Market Capitalization: $20.8 Billion

J.B. Hunt Transportation Services reported YOY revenue declines for both Q4 (-9%) and fiscal year 2023 (-13.4%), according to its Q4 2023 earnings call.[21] J.B. Hunt attributed YOY and quarterly losses to a strained Freight market with low freight volumes and inflationary cost pressures. J.B. Hunt's brokerage unit was heavily impacted and saw a 25% YOY drop in Q4 revenue due to competitive volume and rate pressures despite its acquisition of BNSF's brokerage assets. To combat market pressures, J.B Hunt has focused on scaling people, technology, and capacity investments as well as aligning the cost structure with current demand.

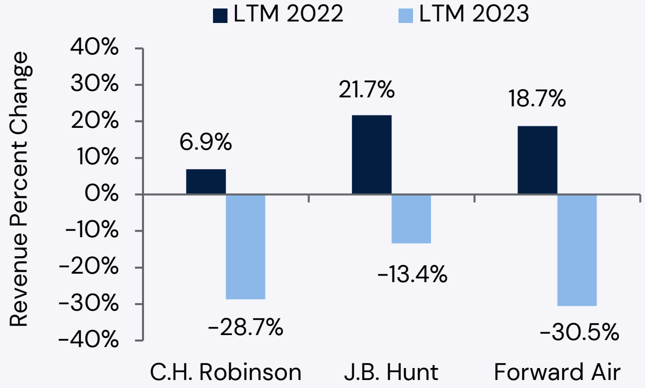
Ticker: Nasdaq:FWRD
Headquarters: Greenville, Tennessee
Market Capitalization: $1.4 Billion

Forward Air reported an 30.5% YOY decline in 2023 revenue, according to its Q4 earnings release.[22] Forward attributed revenue losses to softened freight demand. In Q3, revenue from its Expedited Freight segment fell 11.2% YOY and Intermodal revenue decreased 45.7% YOY due to a 23.2% decrease in drayage shipments and a 31.6% drop in revenue per drayage shipment. To combat freight pressures, Forward's Grow Forward strategy aims to capture a larger customer and revenue base by targeting the $15 billion high-value Freight market through M&A, including the acquisition of Omni Logistics (January, estimated $2.1 billion).

Ticker: Nasdaq:CHRW
Headquarters: Eden Prairie, Minnesota
Market Capitalization: $9.8 Billion

C.H. Robinson reported YOY revenue declines for both Q4 (-16.7%) and fiscal year 2023 (-28.7%), according to its latest 8-K report filing.[23] C.H Robinson attributed revenue losses to lower pricing in its truckload and ocean services, which saw an oversupply of capacity compared to soft freight demand. In Q4, revenue in its North American Surface Transportation segment declined 15.8% YOY and its Global Forwarding segment revenue fell 30% YOY. To offset market pressures, C.H. Robinson has invested in technology to create operating leverage and improve productivity, expanding services for LTL, truckload, ocean, and air to reclaim market share and drive volume growth. The company has also leveraged M&A, in contrast to many competitors that have focused on cost mitigation.

Public Company YOY LTM Revenue Growth



Freight Recession Strains Public Companies' Revenue Growth in 2023

Many public companies saw revenue declines throughout 2023 as macro-inflationary pressures dampened freight demand and subsequently reduced shipping volume during the period. Reduced shipping volumes increased excess freight capacity causing industry-wide increased competition for fewer freight contracts. Reduced contract volumes and increased competition lead to widespread freight rate reductions and revenue declines as customers benefitted from pricing power in 2023.

Source: Capital IQ and Capstone Partners as of March 5, 2024

PUBLIC COMPANY DATA: ASSET-LIGHT 3PL

Asset-Light 3PLs

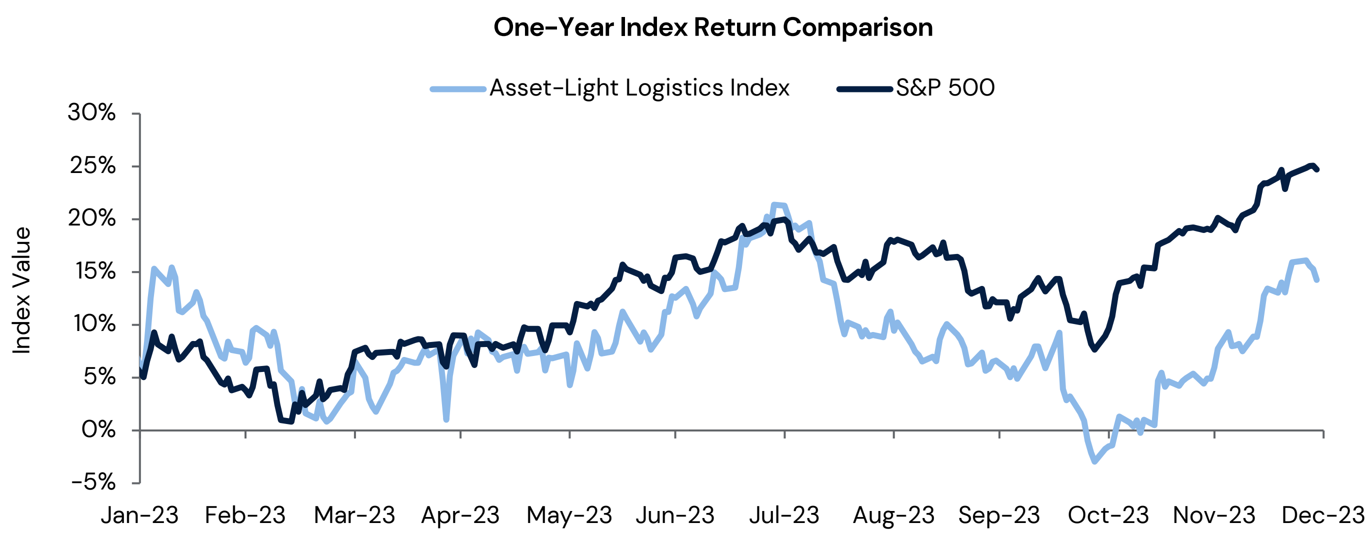
Company	Price 01/29/24	% 52 Wk High	Market Cap	Enterprise Value	NTM Revenue	NTM EBITDA	NTM Margin	EV/NTM Revenue	EV/NTM EBITDA
CH Robinson	$85.84	79.4%	$10,013.3	$11,790.7	$17,660.0	$671.2	3.8%	0.7x	17.6x
Expeditors International	$128.19	97.7%	$18,637.5	$17,519.2	$9,012.6	$925.7	10.3%	1.9x	18.9x
GXO Logistics	$56.71	83.9%	$6,745.9	$10,313.9	$10,269.7	$774.8	7.5%	1.0x	13.3x
RXO Inc.	$22.24	91.4%	$2,602.1	$3,127.1	$4,060.2	$127.1	3.1%	0.8x	24.6x
Radiant Logistics	$6.43	82.9%	$301.6	$330.2	$895.9	$38.9	4.3%	0.4x	8.5x

Asset-Light Transportation*

Company	Price 01/29/24	% 52 Wk High	Market Cap	Enterprise Value	NTM Revenue	NTM EBITDA	NTM Margin	EV/NTM Revenue	EV/NTM EBITDA
Universal Logistics Holdings, Inc.	$29.76	66.1%	$782.2	$1,241.1	$1,712.3	$247.7	14.5%	0.7x	5.0x
Hub Group, Inc.	$45.58	87.1%	$2,895.9	$3,049.8	$4,626.4	$364.1	7.9%	0.7x	8.4x
J.B. Hunt Transportation Services	$205.88	98.4%	$21,235.0	$23,150.5	$13,475.2	$1,900.6	14.1%	1.7x	12.2x
Landstar System, Inc.	$196.94	94.4%	$7,079.3	$6,707.8	$5,048.4	$366.6	7.3%	1.3x	18.3x
Forward Air Corporation	$46.68	38.5%	$1,197.9	$1,475.8	$3,429.9	$317.5	9.3%	0.4x	4.6x

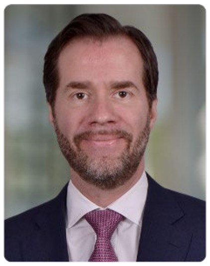
	Margin	EV/NTM Revenue	EV/NTM EBITDA
Mean	**8.2%**	**1.0x**	**13.1x**
Median	**7.7%**	**0.7x**	**12.7x**
Harmonic Mean	**6.4%**	**0.7x**	**9.9x**

*Refers to non-3PL segments including Freight Brokers, Freight Forwarders, Managed Transportation, 4PL, Parcel Services, and Reverse Logistics.
EV = enterprise value; NTM = next twelve months
$ in millions, except per share data
NM = Not Meaningful



Asset-Light 3PL Index includes: CHRW, EXPD, GXO, RXO, RLGT, ULH, HUBG, JBHT, LSTR, FWRD
Source: Capital IQ and Capstone Partners as of December 29 2023

REPORT CONTRIBUTORS



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Gordon brings more than 15 years of investment banking experience to Capstone's Transportation & Logistics group. Based in New York, NY, Gordon has spent most of his investment banking career advising companies that aim to integrate the analog and digital realms, providing guidance on raising capital and strategic M&A.

Prior to Capstone, Gordon led the M&A advisory practice at BG Strategic Advisors, a leading investment bank to the Logistics and Supply Chain sectors. He began his investment banking career at JPMorgan and subsequently held positions at UBS and Citigroup. Throughout his career, Gordon has advised on more than $30 billion of M&A and capital raising transactions. Prior to his career in investment banking, he was a corporate economist at Eaton Corporation.

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Jonathan is a Managing Director in Capstone's Transportation & Logistics group with over 30 years of experience in both investment banking advisory and executive operational roles. In addition to his executive roles serving as CEO of two major Supply Chain companies, he has gained expertise in capital raising, M&A, and financial restructuring advisory services, having advising some of the worlds' leading supply chain companies and investors on over 40 M&A, fundraising, and restructuring transactions with an aggregate value exceeding $5 billion. Jonathan has a strong track record of leading successful transactions and fulfilling turnaround management roles, combined with an extensive network of senior-level relationships in the industry.

Prior to Capstone, Jonathan was Head of Transportation & Logistics at Deloitte Corporate Finance, Sterne Agee & Leach, and Houlihan Lokey. He also served as turnaround CEO of Sea Containers and iShared Transportation.

Jonathan also holds dual nationality in the U.S. and U.K. and has served as a Solicitor of the Supreme Court of England & Wales.

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Izzy serves as a Market Intelligence Associate at Capstone Partners covering the Transportation & Logistics, Building Products & Construction Services, and Agriculture industries. Prior to joining Capstone, Izzy was a Research and Insights Associate for the PR Agency Racepoint Global, where she conducted ad-hoc and secondary research to help guide brand communication strategies for clients in industries such as Consumer Technology and Semiconductors. Izzy graduated with a Bachelor of Arts degree in Business from Southwestern University.

FIRM TRACK RECORD

Capstone's Transportation and Logistics Investment Banking Group has represented numerous businesses in the Asset-Light 3PL sector. The Transportation & Logistics Group's highly skilled transaction execution team leverages their extensive buyer and investor relationships and in-depth sector knowledge to provide a favorable outcome on behalf of their clients. Sample recent engagements are outlined below.

A&M Cold Storage & Trailer Leasing
HAS BEEN ACQUIRED BY
WILLSCOT mobile mini

Qualanex
HAS BEEN ACQUIRED BY
INMAR intelligence

EVEREST TRANSPORTATION SYSTEMS
HAS RECAPITALIZED WITH
CAMBRIDGE CAPITAL

AVENGER LOGISTICS
HAS BEEN ACQUIRED BY
MODE TRANSPORTATION
A PORTFOLIO COMPANY OF
YORK CAPITAL MANAGEMENT

QUICKBOX FULFILLMENT
HAS BEEN ACQUIRED BY
PSCP PINE STREET CAPITAL PARTNERS

SCR your transportation partner
HAS BEEN ACQUIRED BY
NFI

"The entire Capstone team was a pleasure to deal with. From beginning to end, the guidance and expertise was top notch. We're very grateful for such a smooth transaction."

Jeremy Shavers
President, AAT Carriers

AATCarriers
HAS BEEN ACQUIRED BY
COVENANT TRANSPORT

CAPSTONE'S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone's 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion's share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of corporate finance solutions to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

Top Financial Services Required by Business Owners in 2024

- **31.5%** Instituting a growth strategy
- **28.5%** Accounting & audit support
- **25.7%** Accessing relevant industry research
- **20.0%** Raising equity capital
- **17.0%** Corporate restructuring
- **15.6%** Interim management

Question: Have you ever had, or do you anticipate having, a need for any of the following services?
Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 435

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Common Goals. Uncommon Results.

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Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ partners across 41 countries.

242
M&A transactions completed in 2022

$26B
aggregate transaction value

26%
of our deals are cross-border

8th
globally ranked for deals under $500m

450+
team of IMAP partners worldwide

15
industry verticals with global expertise

2,200
historical completed transactions

United States

~200 professionals
8 offices

Boston · Chicago · Dallas · Denver · Detroit · Irvine · New York · Tampa

International

450+ partners
60+ offices in 41 countries

Asia: China · India · Japan · Thailand
Africa: Congo · Egypt · Ghana · Ivory Coast · Mauritius · Morocco · Nigeria · Senegal · South Africa
Americas: Toronto · Vancouver · Argentina · Brazil · Chile · Colombia · Mexico · Panama & Central America · Peru
Europe: Belgium · Bosnia & Herzegovina · Croatia · Czech Republic · Finland · France · Germany · Hungary · Ireland
Italy · Netherlands · Poland · Portugal · Russia · Serbia · Slovakia · Slovenia · Spain · Sweden · United Kingdom