



M&A Sector Briefing

Cold Storage

Introduction

The Strategic Corporate Finance (SCF) team at Price Bailey provides lead advisory support to help SME business owners to negotiate acquisitions and disposals (M&A), management buy-outs (MBOs) and debt or equity fundraising assignments, undertake Valuations & Financial Due Diligence, and provide strategic advice.

We offer a significant depth of cross-sector knowledge, and with our range of skills and experience, we're ideally placed to support clients with a broad range of corporate finance advisory requirements.

We have put together a series of Sector Briefings on the sectors that we have particular interest in, in order to go beyond the theory of M&A in these sectors and provide commentary to either buyers or sellers on the following:

- Current M&A dynamics and trends,
- Valuation metrics and key value drivers,
- Insights from experienced operators in the sector,
- Our experience of advising on transactions in this sector,
- Our advice for sellers considering their exit opportunities.

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An attractive sector

Over the past decade, the cold storage industry has transformed with a mixture of traditional cold storage operations, together with more modern highly-automated facilities, increasingly situated in more rural areas in close proximity to major transport links.

From the early stages of the COVID-19 pandemic, the UK's Cold Chain industry has grown in importance and showed that it is a resilient market. The growth in demand during the pandemic, combined with the significant shortage in cold storage facilities globally, has resulted in significant attraction from investors across the world.

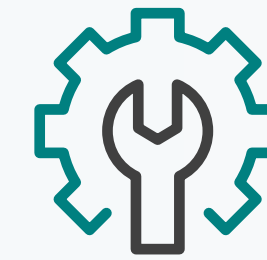
Whilst much of the UK economy was suspended during lock downs, the UK Cold Chain operators kept the food industry functioning, providing storage for supermarkets whose own cold storage facilities became full, and assisted pharmaceutical companies to distribute vaccines required to be stored at ultra-low temperatures. Additional attraction is also arising from the growing demand for frozen goods, along with increasing UK exports which have helped drive growth.

As a result, investment in the construction and development of new cold store facilities has grown substantially, with the Cold Chain Federation stating that the storage capacity of their members increased by 10% in their 2022 annual report, through a mixture of new-build and expansion of existing facilities.

The strong fundamentals that the sector offers is further impacting upon the M&A activity in the sector, with increasing acquisitions of UK-based cold storage businesses by both domestic and international acquirers, often backed by significant Private Equity funding.

Sources: Pitchbook, CBRE, Cold Chain Federation, JLL

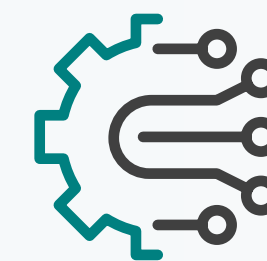
Motivations for an acquisition



Consolidation

With a market in Europe that has historically been fragmented, consolidators are looking to the UK to make acquisitions to expand and strengthen their position within the sector, often backed by significant Private Equity.

This inorganic growth through acquisition is being used both as an alternative and in complement to organic growth strategies, such as new premises expansion, to bolster providers' storage capabilities and in reaching new customers.



Integration and Diversification

Rationale in a number of recent transactions shows the growth of standard haulage and storage businesses looking to add additional capabilities to their current services, through acquisitions within the sector.

Further, our research has identified many deals in which both upstream and downstream firms have acquired cold storage facilities in the UK, with businesses looking to create and strengthen their own integrated supply chain and gain operational efficiencies.



Cold Storage as a Real Estate Investment

Cold Storage facilities in themselves present an attractive proposition to Real Estate investors, with a number of publicly traded REITs acquiring facilities in the UK.

These investors look for long-term, contractual relationships with their customers, providing a secure and steady income from high quality customers over a long period of time, thus the cold storage sector offers attractive returns in a resilient market.

The role of geography

What is evident is the key role that geography has to play in the motivation for acquisitions in the sector.

The essential nature of the sector highlighted during challenges throughout the COVID-19 pandemic, as well as the UK's exit from the EU, has led to many corporates looking to expand their geographical footprint and presence within the UK, as well as domestic investors looking to use acquisitions to expand across the country and reinforce their domestic market position.

Within Europe, Constellation Cold Logistics (CCL) have acquired 5 businesses in the sector since 2020, including that of HSH in the UK, noting the acquisition established a strategic presence in the UK, whilst adding HSH's refrigerated transport fleet to their service offering. Through HSH, CCL has further acquired ACS&T Logistics in 2022, citing expansion and strengthening of their footprint and service offering as their rationale for the acquisition.

Additionally, Danish shipping and logistics company DFDSA/S, has acquired 2 UK based cold storage logistics businesses, and since 2015, Dutch business AGRO Merchants Group acquired 2 UK, and 5 European businesses providing chilled storage and distribution services.

But interest in the continent is also coming from much further afield. AGRO Merchants Group themselves were acquired by US-based Real Estate Trust, Americold, in 2020, which utilised this acquisition as a platform from which to establish their presence in Europe, exemplified by their additional acquisition in the UK market of the 23,500 pallet capacity Bowman Stores in 2021.

Lineage Logistics, the largest operator of cold storage warehouses globally, has made numerous acquisitions in Europe. Lineage has presence in the UK through the acquisition of Harry Yearsley in 2018, but has continued its European expansion with multiple acquisitions in each of Spain, Netherlands, Italy and Denmark since 2021, noting the strategy to expand its network and reach through market entry, and service further customers throughout Europe.

Whilst cross-border transactions are commonplace in the sector, the rationale for acquisition certainly applies to domestic transactions also. The Ice Co Storage and Logistics, headquartered in West Yorkshire, cited geographic expansion as the motivation for its acquisition of Savage Haulage, one of the largest temperature-controlled storage and logistics business in the East of England region.



Sources: Pitchbook, CBRE, Cold Chain Federation

Looking to Sell?

Price Bailey's SCF team can ensure you maximise the value of sale opportunities and position your business in the best light for prospective buyers.

We understand that within the growing cold storage industry there will be a number of firms on the look-out for prospective acquisition & investment opportunities. We can support you in fully investigating any interest received or in approaching suitable buyers to ensure the best outcome for all through offering:

- Transaction and advisory experience in Cold Chain services,
- Project management throughout the sale process with a dedicated, supportive and approachable team of advisers,
- Access to experienced due diligence experts who will support both preparation for and navigation through the due diligence and disclosures process,
- Harness new and existing relationships with potential buyers and Private Equity to identify the most appropriate list of potential acquirers, and approaching them at the right time, in the right way.

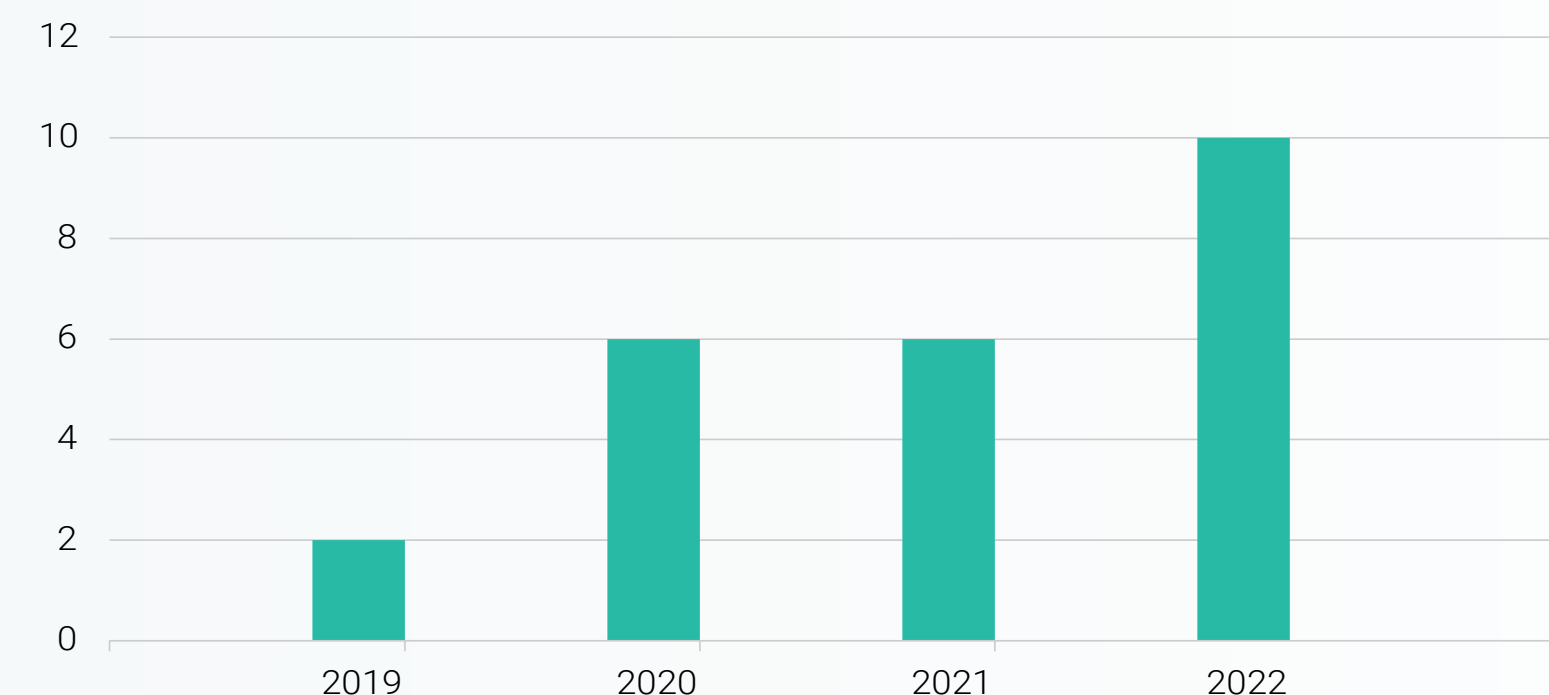
Looking to Grow?

Whether you are looking to expand your cold storage sites by geographic reach, consolidate your brand in a local area, expand your current site capacity, or even diversify your business - our team of experts can support with that too.

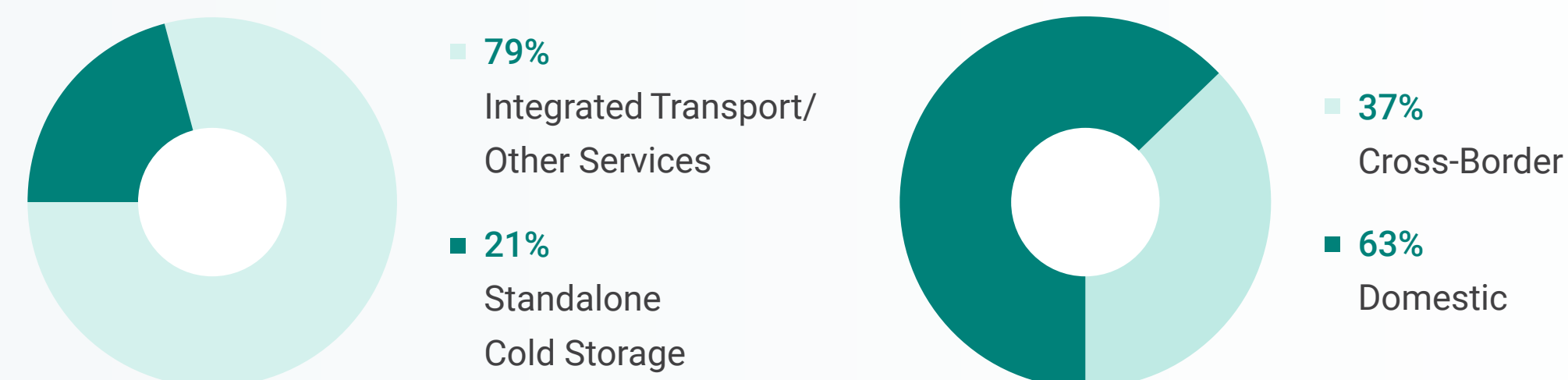
- **Strategic growth planning** – we can support in your development of a data-led, commercially viable growth plan built upon the key growth drivers in the industry
- **Private equity funding** – where external capital investment is required, our experienced team can support in profiling, targeting and project managing the equity fundraising process
- **Target profiling** – if you're seeking to grow via acquisition, our team of buy-side experts can support in identifying potential targets and help manage the entire M&A process

Key M&A Highlights

UK Transaction Volume 2019-2022



Based upon disclosed transactions of UK businesses in the sector between 2019 and 2022, deal activity is growing, with a majority of transactions involving integrated or diversified businesses, with a growing number of cross-border transactions.



Sources: Pitchbook, Market IQ, MarktoMarket

savage HAULAGE LTD

Case Study

Price Bailey's SCF team recently advised the owners of Savage Haulage Limited, a specialist refrigerated logistics and cold storage business, on their sale to The Ice Co. Storage & Logistics Holdings Limited ("Ice Co.").

Savage, based out of March and Thetford in the East of England, has been a family-run business for 60 years – with brothers Martyn and John Savage leading operations.

With two strategically located sites, the business has a strong network in the region, close to key customers and with the opportunity to serve customers across the UK.

With the Company operating both a cold storage facility and temperature-controlled haulage element of the business, the synergies between the services attracted a number of common customers.

With the surging growth and demand in the sector, the Company grew from strength to strength, often turning customers away due to being at full capacity. Continued investment in the cold storage facilities, high service quality and introduction of additional, value-add services including blast freezing, all contributed to continued success of the business.

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The sale of our family business to a company like Ice Co. is a fantastic opportunity for our existing business and theirs in expanding that geographical scope.

Having worked with Price Bailey for a number of years now, we knew we were in good hands when it came to exiting our business. Our thanks go to Stephen and the teams across Price Bailey in supporting us in this final stage of our business.

Martyn Savage

former Owner of
Savage Haulage Limited

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Case Study

During late 2021, Price Bailey's SCF team was engaged to provide lead advisory services on the sale of the company.

We were able to establish confidential dialogue with a number of seriously interested bidders and received a range of competitive offers, but chose to enter into exclusive negotiations with Ice Co., a temperature controlled storage and distribution company located across several sites in the North of England with the ambition of expanding geographically to other sites across the UK.

With forecasting and management accounting support from our Business Compliance team, the SCF team project managed the entire process, working with Savage's other advisors and those of the buyer to support the completion of financial and legal due diligence, agreement of final valuation, heads of terms negotiations and subsequent legal agreements through to completion.

The sale of Savage Haulage to Ice Co. provides the buyer with greater geographic reach and capacity, in the face of current and ongoing transportation cost increases.

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We are very pleased to have completed the acquisition of Savage Haulage Ltd.

Their fantastic reputation in the sector is a great addition to our expanding business. Thank you to the team at Price Bailey in helping guide the entire process through to fruition.

Paul Martin

MD of The Ice Co. Storage & Logistics Holdings Limited

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Key Value Drivers

- ✔ A strong proportion of storage facilities are **strategically located** near major roads, ports and airports, which is crucial for streamlined distribution and integration into existing operations. Many investors cite geographic expansion as part of their rationale, with several stating the proximity to key transport hubs such as ports being a key factor.

Clearly, a facility with significant **storage capacity**, and space to expand, will also attract a higher valuation, and global transaction research shows that larger capacity facilities have been in the spotlight.

- ✔ **Value-Add Services** provide the opportunity to offer a more rounded offering to customers, and add value to a cold storage business. A majority of transactions involve businesses with diversified offerings, and several investors mentioned **diversification and integration of supply chain logistics** as part of the rationale behind their acquisitions.

The more advanced companies in the market have begun focusing on streamlining operations and operational efficiency, providing not only storage facilities but also starting to incorporate services within the whole supply chain, such as transport and inventory management.

- ✔ **Memberships and Accreditations** from organisations such as the Cold Chain Federation, and certifications with the British Retail Consortium Global Standards, allow operators to both diversify the range of goods they can store, but also signals the high standards and service quality offered to customers.

- ✔ A key element of an investor's due diligence will be the analysis of your **customer contracts**, in terms of the rates achieved, period of contract, pallet storage requirements and the length of relationships with your customers, all of which provide future revenue visibility.

- ✔ Particularly for an exiting owner-manager, the **strength of your second-tier management team** is vital to an acquirer in assessing the implications of your departure on the business. Acquirers seek smooth transitions between owners, and the presence of a capable management team provides comfort to a buyer that disruption will be minimal, and the business can continue to function well and grow.

- ✔ And finally, in the face of rising energy costs and sustainability targets, **improvement to operators' energy efficiency (such as utilising renewable energies where possible)** not only provides operational efficiencies, but also provides a more attractive proposition to potential acquirers, adding significant value to the business consequently. An example includes upgrades to refrigerant gases, such as hydrofluorocarbons (HFCs), to more sustainable alternatives. Well-maintained and invested facilities also reduce the need for an incoming acquirer to fund additional capital expenditures, enhancing the underlying asset value.

By your side as you navigate the future of your business

Price Bailey acts for a number of clients in the sector supporting with a variety of services from payroll, annual accounts filing, personal tax for owners, and strategy and deal advisory services. If you are looking to sell your business, our M&A experience can support you through the process:

Positioning your business in the best light for sale

We first ensure we fully understand your business and, alongside utilising data on previous transactions, we ensure the marketing documents we curate highlight key value drivers

Lateral approaches to target acquirers

We don't rely solely on existing relationships with acquirers. Profiling target buyers is a process and we work with you to build a comprehensive list of options including both Trade buyer and Private Equity options

Ahead of the game on Due Diligence

We aim to give you early access to the information requests expected and pre-populate the data room allowing you to pre-empt and thoroughly prepare in advance

Managing negotiations and post-sale matters

Once we have negotiated an acceptable offer, unlike brokers, our support doesn't stop there. Our specialists will project manage the entire process from negotiating detailed Heads of Terms with the preferred bidder, navigating due diligence, assisting the lawyers with drafting the legal agreements, including maintaining valuation, minimising your risks under the contractual terms and liaising with other advisors where appropriate



Our advice to you

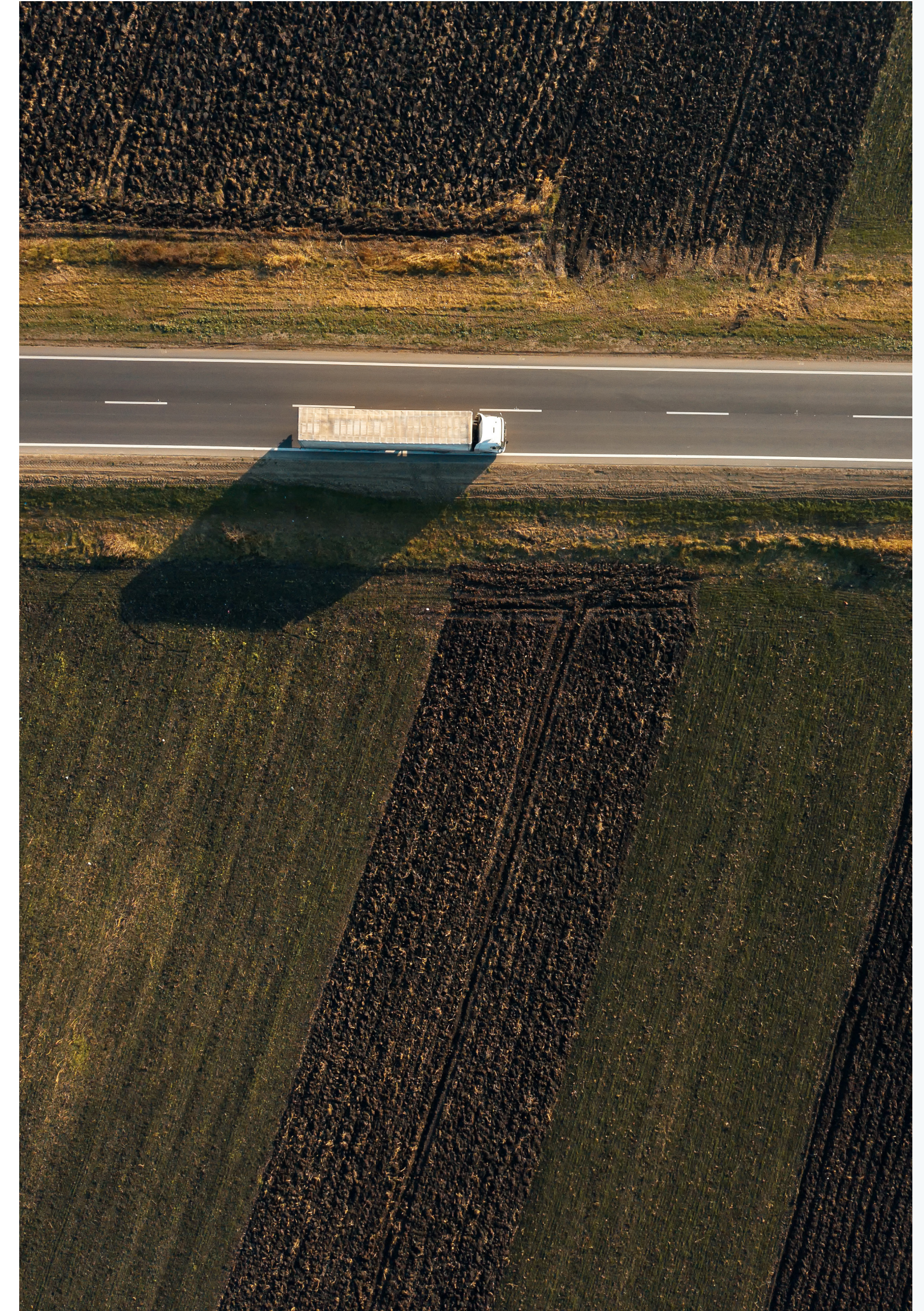
Implement **Value-Adding Services** that provide a more complete service and diversified offering to customers. An example might be offering Blast Freezing facilities to customers to broaden the range of product you can handle.

Continued investment in your facilities not only provides the opportunity to capitalise on **modern technologies**, but also assists in maintaining **industry requirements** and avoids a potential acquirer being required to undertake additional Capital Expenditure following an acquisition.

Diversify your client base by looking to get **accredited by the BRCGS** in the storage of specialist goods, and consider membership of industry organisations.

Use your knowledge of your client base to identify what systems, processes, and technology you could feasibly implement in order to maintain and enhance profitability.

Consider implementing **sustainable gases and renewable energy** sources into your plant facilities to mitigate impacts of rising energy prices and help your business meet the UK Government's sustainability goals, whilst also developing a more attractive proposition for potential investors/ acquirers.



Talk to our team today

If you are considering your future growth or exit plans, or have been approached by a potential acquirer, and would like to understand your options further – please don't hesitate to contact one of our team today.



Stephen Reed
Strategic Corporate Finance Partner

+44(0)160 370 8466

+44(0)777 849 0973

stephen.reed@pricebailey.co.uk



Nathan Young
Strategic Corporate Finance Manager

+44(0)7825 735 351

nathan.young@pricebailey.co.uk



James White
Strategic Corporate Finance
Senior Analyst

+44(0)1603 567886

james.white@pricebailey.co.uk