

Financial analysis of the transport and logistics industry

Executive summary



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FORTIS

Introduction

The transport and logistics industry is a leading sector in Belgium, both from an economic and a social perspective. The sector is the ninth biggest employer, with 91,941 workers as of mid 2012 (see *Appendix 1*). Belgium benefits from a favourable geographical situation and a skilled workforce. However, today the sector suffers from increasingly strong competition coming from other countries; as a consequence, the number of players has reduced in a process of industry consolidation.

This study, carried out in partnership with BNP Paribas Fortis, conducts a financial analysis of 20 major players in the Belgian transport and logistics industry, which have been selected on the basis of value-added criterion. This report focuses on road transport, since this represents more than 70 per cent of goods transport, based on tonne-kilometres (*Appendix 2*). Ratios and financial indicators are analysed for the period 2011–2015. In addition two interviews were conducted, with the UPTR (*Union Professionnelle du Transport et de la Logistique*), and with a major player in the transport industry, pseudonymously named “DeltaTrans”. With these we aim to add qualitative insights to the quantitative results. The report is organised as follows: we begin by briefly presenting the economic conditions during the timeframe investigated, and give a broad description of the sector in Belgium; the second section presents methodology and results; and a conclusion summarises the key messages from the empirical study. This shorter version of the report follows the same structure.

A modal split based on the volume transported rather than on the weight would further highlight the significance of road transport.

UPTR (interview, January 12, 2017)

Economics of the transport and logistics industry

Thanks to more space availability, Wallonia should benefit from an increase of its logistics activity in the coming years.

UPTR (interview, January 12, 2017)

The period 2011–2015 is characterised by phases of economic growth and slowdown, which had a significant impact on the transport and logistics industry in Belgium. After a difficult year in 2010 the first half of 2011 showed signs of recovery for the economy, but these weakened in the second half of 2011 as the financial markets and debt positions of the EU Member States deteriorated. In addition, some companies active in transport suffered from excessive labour costs, and the

whole industry was concerned about rising fuel prices (ITLB, 2017). In 2012, transport activity at the international level was particularly weak due to fierce foreign competition. In 2013, excise duties on diesel increased, although their effect on the sector was limited. In the second half of 2013, the activity of the transport and logistics industry again reduced; the reason for this was excess supply and significant labour costs for companies (ITLB, 2017). In 2014, the transport sector benefitted from growth recovery with an increase in Belgian GDP and falling oil prices.

Date	Blue collar	White collar	Total
2001	55,594	20,603	76,197
2002	56,297	21,632	77,929
2003	58,021	22,922	80,943
2004	58,991	24,194	83,185
2005	59,494	25,332	84,826
2006	59,132	26,622	85,754
2007	61,010	27,449	88,459
2008	63,641	29,344	92,985
2009	60,707	28,474	89,181
2010	60,504	28,203	88,707
2011	61,129	28,435	89,564
2012	59,987	28,931	88,918
2013	58,519	*	58,519
2014	58,796	28,464	87,260
2015	60,280	30,374 ¹	90,654

Table 1. Employment changes (midyears) in the transport and logistics industry (sources: FSTL Logos; ITLB, 2017)

* not available

Generally, job creation in the sector (see Table 1 above)² did not closely follow employment numbers in the wider economy. According to DeltaTrans, the industry suffers from a constant deficit in qualified workers. Several reasons might explain these workforce shortages, including poor work–life balance, fierce international competition for foreign workers, and tightening regulations and requirements for those in the occupation of road transport operator.

Consolidation and demise of medium-sized players

The Belgian road transport market consolidated at the end of the twentieth century. Indeed, the number of companies (represented by the

¹ As of December 31 2014

² The number of blue collar workers is relatively stable but, according to the UPTR, this figure includes 'driving' and 'non-driving' (eg service) personnel. The former are in fact decreasing while the latter are increasing and this tends to neutralise global growth in blue collar workers.

number of valid transport licences) decreased from 13,674 in 1965 to 8,926 in 2000 (*Appendix 3*), a decline of 35 per cent over this 36-year period. In addition, during the same period the number of motor vehicles increased from 20,487 in 1965 to 64,873 in 2000, a rise of 217 per cent. Consequently, the average number of vehicles per company increased from 1.5 to 7.3 over this period, a significant increase in the average size of companies in the transport and logistics industry. We observe a stabilisation of the consolidation process after 2000 although it slightly reversed from 2015 to 2017 (*Appendix 4*).

A recent development taking place in the market is an 'Uberisation', with the arrival of many "micro" foreign players (UPTR interview, January 12, 2017) that are set up to avoid the Belgian 'kilometre tax' (eg only one vehicle with a payload of less than 500 kg), this tax being reserved only for heavy commercial vehicles covered by the Belgian law of July 15th, 2013.

Indeed, although the biggest players in the industry own over 50 vehicles each (see *Figure 1* below), the vast majority own fewer than five. According to UPTR, this disappearance in medium-sized players in the transport sector is due to the fact that hiring additional workers is associated with significant incremental labour costs, which small enterprises cannot bear without significantly increasing their truck fleet (eg to double its size).

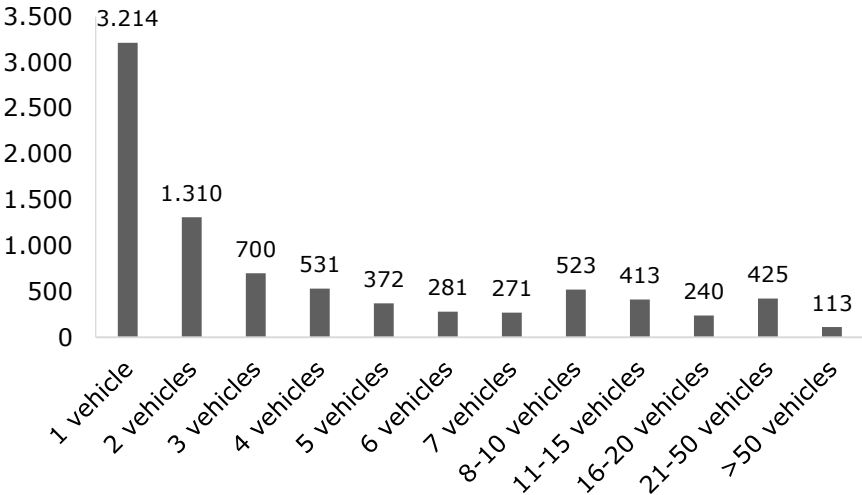


Figure 1. Number of companies (road transport) by number of vehicles, as of January 1 2016 (sources: Service Public Fédéral Mobilité & Transports; FEBETRA, 2016)

Main findings of the report

Aggregate turnover growth of our sample of 20 representative players in the transport and logistics industry declined from 2012 to 2013. This decline can be explained by an economic slowdown observed during the same period (see *Figure 2* below). From 2013 to 2014, an increase in industry turnover follows GDP increases. *Figure 2* however shows that the growth in turnover of our sample is highly sensitive to changes in GDP. The transport and logistics sector is strongly affected by the economic environment and acts as an economic cycle 'amplifier'.

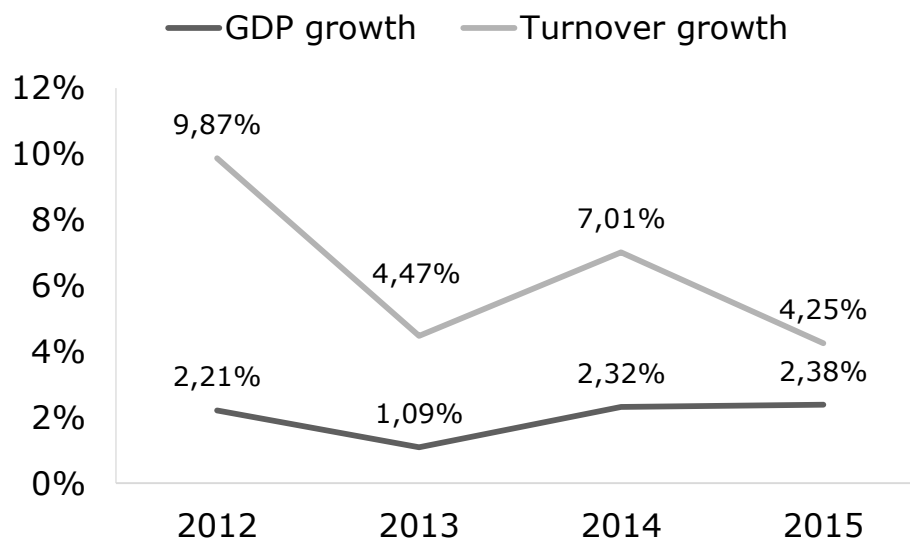


Figure 2. Belgian GDP growth vs turnover growth

Over the observed period, working capital needs (WCN) were negative for the majority of players in our sample. Where this was the case, short term needs were entirely financed by short term resources coming from the operating cycle. Most of the time net cash was positive (see *Table 2* below) and WCN was clearly more volatile than working capital (WC). In general, our results show that average days payables outstanding is higher than average days sales outstanding (see *Figure 3* below).

	2010	2011	2012	2013	2014	2015
WC	3,652.79	729.30	392.20	1,197.25	1,972.25	-5,188.37
WCN	-1,923.32	-109.05	-1,201.50	-4,872.90	3,382.35	-8,011.26
Net cash	5,576.11	838.35	1,593.70	6,070.15	-1,410.10	2,822.89

Table 2. Comparison between WCN, WC, and net cash (in €000s)

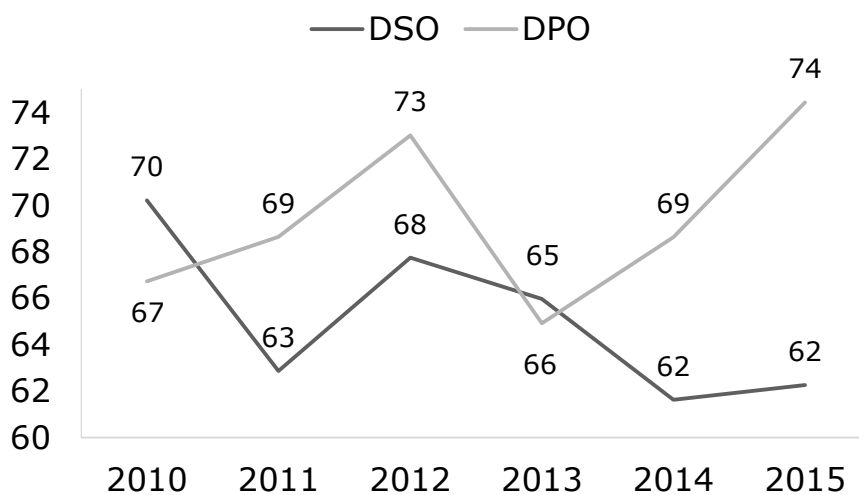


Figure 3. Days sales outstanding (DSO) vs days payables outstanding (DPO)

The average EBITDA¹ of our sample declined from 2011 to 2014, with a small recovery in 2015. The usual cost structure of a Belgian transporter is mainly represented by 'driving' personnel and fuel (see *Figure 4* below) and, as highlighted by the UPTR, 'kilometre tax' represents about 8 per cent of the cost price.

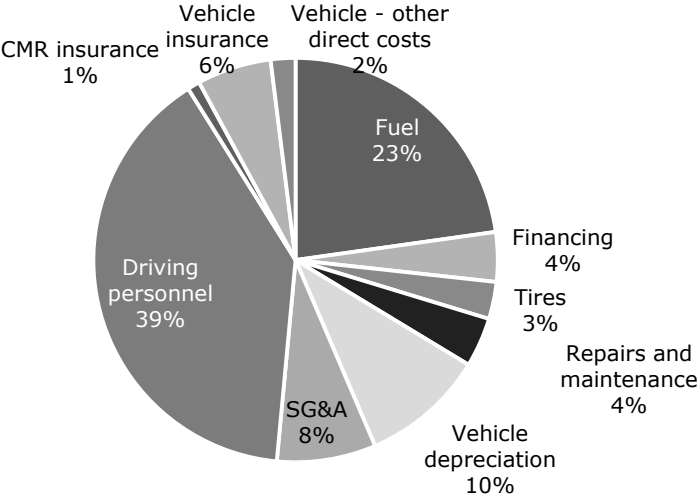


Figure 4. Cost structure of a Belgian transport company (source: UPTR, cahier de revendications)

Capital expenditures (CAPEX), expressed as a percentage of the turnover, decreased progressively from 2011 to 2014 and then reversed in 2015. More specifically, 2014 was associated with a significant drop in the industry’s aggregate investment amount. Among other factors, this can be explained by the Ukraine crisis which negatively impacted the secondary commercial vehicle market; transport companies reduced their CAPEX and the average holding period of a vehicle fleet therefore increased.

Finally, economic returns for the industry players analysed (ie return on assets, or ROA) closely followed the evolution of the EBITDA margin, with a downward trend from 2011 to 2014. The evolution of aggregated financial returns (ie return on equity, ROE) of the sample is magnified by financial leverage (total assets/equity) and is thus more than proportionally affected by the drivers of the ROA.

¹ Earnings Before Interest, Taxes, Deprecation and Amortization.

Concluding remarks

The transport industry in Belgium is tightly correlated with economic cycles and acts as an economic amplifier. Logistics is expected to be less sensitive to GDP than transport, and could thus be used to reduce risk by transport companies. Industry turnover is also cyclical in nature, but can be smoothed by major players thanks to good diversification of their customer portfolio. Sector consolidation is expected to continue over the coming years and, essentially, 'kilometre tax' will negatively impact small industry players. From 2011 to 2014, margins as well as capital expenditures declined, and the average holding period for a vehicle fleet increased as a consequence; a small recovery is observed for 2015. Perspectives for 2016 and 2017 are uncertain due to the unknown effects of increases in oil prices, and the effect of the 'kilometre tax' on companies' working capital needs. *Table 3* below summarises the sensitivity of the industry to major economic indicators: GDP, inflation, and Belgium's unemployment rate.

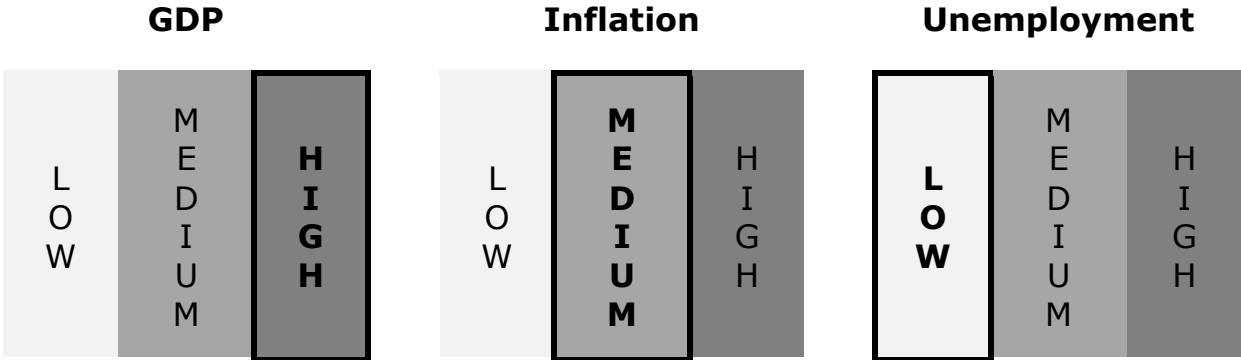


Table 3. Industry sensitivity to economic indicators

Firstly, based on our sample and interviews, the industry's turnover seems to move in the same direction as GDP, but with an amplification effect (see *Figure 2*). Secondly, the use of index-based contracts (eg ITLB) mitigates the impact of inflation and oil prices on the cost structure of major players. Third, the transport and logistics industry experiences shortages in its workforce and is continuously looking for workers.

Table 4 summarises the trends for the main indicators and financial ratios analysed in the report.






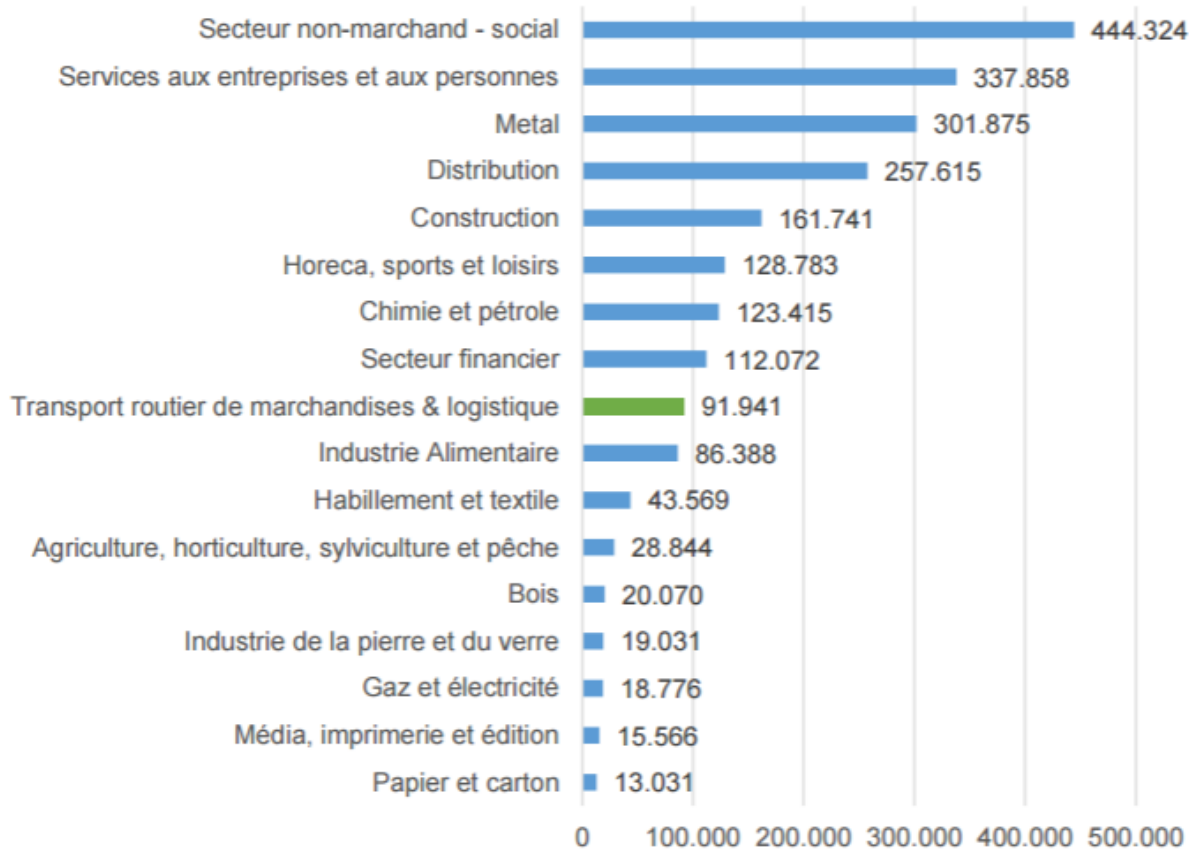
	2011	2012	2013	2014	2015	Trend
Turnover growth	38.6%	9.9%	4.5%	7%	4.1%	
EBITDA margin	9.3%	8.1%	8.5%	7.8%	8.8%	
Solvency	30.6%	30.4%	29.7%	27.9%	26.7%	
CAPEX/CA	8.7%	7.7%	7.7%	5.1%	9.0%	 

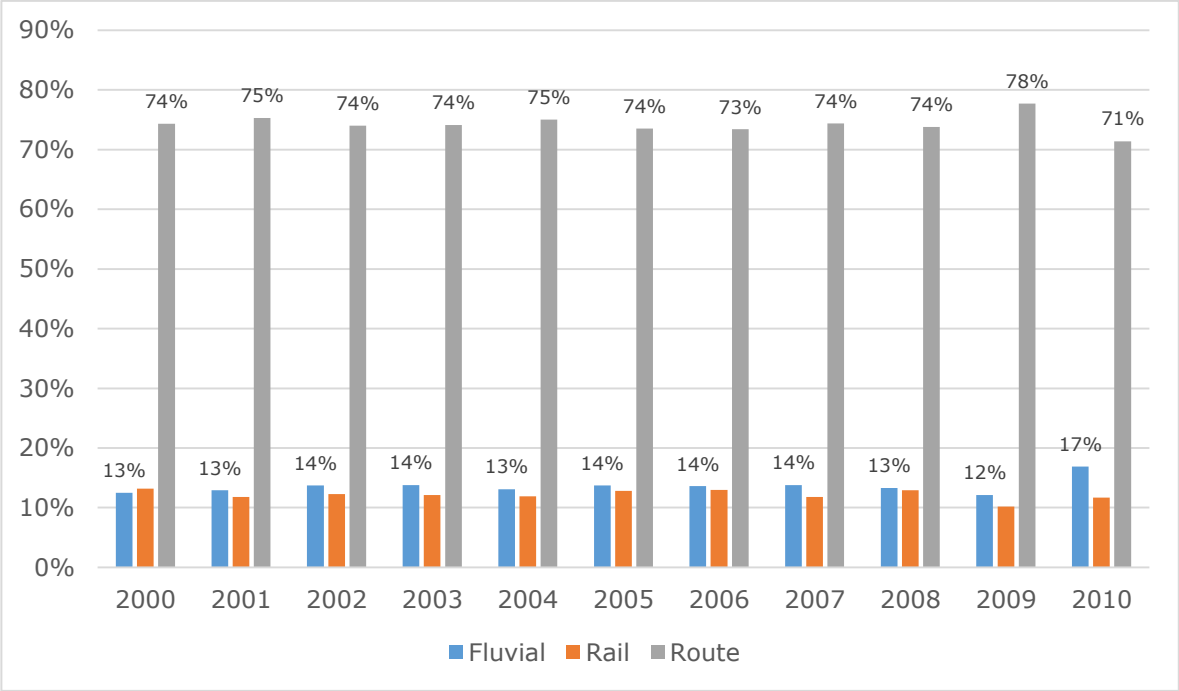
Table 4. Main trends in the T&L industry

Appendices

Appendix 1: Employment in the T&L industry versus other sectors as of June 30 2012 (sources: O.N.S.S.; FEBETRA, 2012)



Appendix 2: Evolution of the modal repartition in Belgium: expressed in percentage and measured in tons/km (sources: SPF Economie, Direction Générale Statistique; SNCB & FEBETRA, 2010)



Appendix 3: Trends in number of enterprises (1965–2000) and number of motor vehicles in the professional road freight transport sector (sources: Service Public Fédéral Mobilité et Transports; ITLB, 2017)

Date	Entreprises	Vehicles
1965	13,674	20,487
1970	11,579	25,088
1975	11,021	32,687
1980	8,719	33,256
1985	8,000	34,404
1990	7,961	42,720
1995	7,863	45,707
2000	8,926	64,873

Appendix 4: Trends in number of enterprises (2000–2017) and number of motor vehicles in the professional road freight transport sector (sources: Service Public Fédéral Mobilité et Transports; ITLB, 2017)

Date	Entreprises	Vehicles
2000	8,926	64,873
2001	9,080	69,843
2002	9,225	71,451
2003	9,247	50,788
2004	8,861	53,362
2005	8,972	54,395
2006	8,823	53,642
2007	8,760	53,651
2008	8,873	55,674
2009	8,920	59,643
2010	8,733	57,157
2011	8,693	55,489
2012	8,615	54,841
2013	8,548	54,004
2014	8,336	53,631
2015	8,347	54,354
2016	8,421	56,472
2017	8,600	59,320