



## BBH Capital Partners

### Select Investment Thesis: E-Commerce Logistics and Last-Mile Delivery

BBH Capital Partners (BBHCP) provides highly customized capital solutions to lower middle-market companies. Our flexible investment mandate gives us the ability to act as a control or non-control investor and to structure our investments as a combination of equity and subordinated debt securities as needed. We are currently investing through BBH Capital Partners VI, L.P. (CP VI) and CP Opportunities Fund, L.P. (CP Opportunities).

**BBHCP has been actively targeting the e-commerce logistics and last mile delivery space for potential investment opportunities.**

#### COVID-19 BEHAVIORAL IMPACT ON BUSINESSES AND CONSUMERS

 <b>SOCIAL DISTANCING</b>	 <b>REMOTE WORKFORCE</b>	 <b>SERVICE DELIVERY MODEL</b>
<p><i>Behavior will become the new normal</i></p> <p>Business travel reductions and work from home will have a large impact on service providers as many adopt virtual practices</p>	<p><i>Partial/full remote work will be preferred</i></p> <p>COVID-19 has accelerated the trend of remote work; traditional office design will need to change to address this shift</p>	<p><i>Shift away from in-person services and goods procurement</i></p> <p>Reliance on e-commerce, home delivery and remote communication will escalate as people limit public interactions</p>

 <b>GOVERNMENT INFLUENCE</b>	 <b>STRATEGIC MANUFACTURING</b>	 <b>PRIVACY</b>
<p><i>More government regulation and oversight is ahead</i></p> <p>The government's role in directing recovery efforts will lead to increased influence over day-to-day business and consumer activity</p>	<p><i>On-shoring &amp; expansion of manufacturing capacity for strategic goods</i></p> <p>COVID-19 exposed vulnerabilities in the U.S. supply chain; reserves will now be required, and businesses will fill gaps from large manufacturers</p>	<p><i>Reorientation of expectations and protections for privacy</i></p> <p>Personal data-sharing with third parties will become required, and the government and/or companies may require screening for customers and staff</p>

#### Flexible Mandate

The flexibility of our investment mandate is a key differentiator for management teams and co-investors. We evaluate both control and non-control transactions and can invest in a range of securities, including equity, subordinated debt or some combination of the two. Unlike many other funds, there is no set formula for the equity-debt split, which gives us the ability to customize a capital structure that we believe is appropriate for each investment.

#### Deal Types

BBHCP provides capital to facilitate the following deal types:

- Management or leveraged buyouts
- Growth equity
- Minority or majority recapitalizations (including dividend recaps)
- Ownership transitions and generational transfers
- Buy-and-build strategies
- Acquisitions or industry consolidations

#### CP VI

- **Fund Size:** \$1.215 billion
- **Investment Size:** \$40 million to \$150 million (substantially larger investments with co-investments and limited partners)
- **Enterprise Value:** Up to \$750 million

#### CP Opportunities

- **Fund Size:** \$250 million
- **Initial Investment Size:** Up to \$30 million (additional funds available for subsequent investment)
- **Enterprise Value:** Up to \$100 million

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## WINNERS AND LOSERS IN A POST-COVID-19 WORLD

- ✓ **Companies using or providing sophisticated logistics software** have the ability to efficiently plan routes, track drivers and relay delivery information to end customers. Logistics software will be essential to drive success/high margin, as its centralized nature will help deliver timely performance.
- ✓ **Companies that have sticky contracts**, which either guarantee volume or exclusive distribution/geographic rights to drive revenue; these contracts ensure that companies utilize their drivers and can forecast need for more trucks or capacity.
- ✓ **Companies with established industry and local expertise** will be able to understand customer mix, concentration and route planning needs that will factor into the kinds of deliveries a provider can make. Last-mile companies will need to be versed in moving large, bulky parcels and perishables as well as ensure vehicles are properly and safely loaded and deliveries are made within the appropriate windows.
- ✓ **Companies with contracts delivering essential goods** are well-positioned to experience steady-state delivery volumes unaffected by market trends.
- ✗ **Companies with stagnant or inefficient delivery models** will fall to the wayside. In the developing post-COVID-19 world, last-mile delivery companies relying on models with regularly scheduled routes will not be able to compete. Additionally, models requiring drivers to both pick products and deliver will face challenges competing and profitably scaling.
- ✗ Companies with a poor driver experience will be **unable to maintain their fleet and end up losing customers** to better-positioned competitors. Drivers are the backbone of the last-mile delivery model, and companies that ensure their retention through a positive experience (regular demand, consistent scheduling, competitive pay) will ultimately win out in a supply-constrained driver environment.
- ✗ **Companies without tech-enabled tracking capabilities** will face issues winning new business and providing adequate service to end customers. Real-time tracking is becoming table stakes as retailers strive to increase transparency to their consumers – last-mile delivery companies that cannot provide this service will lose out.

## BBHCP EXAMPLE AREAS OF FOCUS

### Companies handling delivery of packages from retailers' warehouses to end users

- Companies in this area focus on connecting end users with goods ordered from e-retailers; companies pick up and distribute
- As a result of COVID-19, same day delivery has expanded to include both essential and non-essential goods such as prescriptions, medical supplies and general merchandise, in addition to groceries
- These deliveries require companies to have a strong capacity to plan routes that factor in shelf-life and tight turnaround times
- **Companies delivering essential goods will exhibit strong demand as preferences shift to extended forms of social distancing**
- **Essential supplies will continue to be delivered and do not exhibit cyclical tendencies related to consumer preferences**

### Companies providing SaaS-based logistical software to other companies

- Successful operators utilize this software to effectively plan routes, integrate customer information within their ecosystem, communicate with drivers and track packages
- Given the subscription nature of SaaS products, companies providing this will generate recurring revenue
- Nearly 71% of businesses use a SaaS provider for their operations
- **SaaS products provide recurring revenue and sticky customer contracts**
- **This provides a predictable source of revenue in a SaaS market valued at \$157 billion**

### Companies providing deliveries to rural/remote areas

- Last-mile delivery expands access of goods to rural areas
- Operators in this space can connect with a wider range of consumers, specifically those who live in hard-to-reach areas
- Successful operators will be able to implement a regional pricing model with their contract providers that offset the high costs associated with rural delivery
- **High barriers to entry exist in this delivery model, as operators must exhibit strong knowledge of the region and minimize costs**
- **This provides an essential service to those populations living in rural areas**

## SELECTED TRANSACTIONS



Provider of last mile delivery and logistics solutions to enterprise customers



Provider of in-the-box custom packaging solutions



Provider of liquid bulk chemical transportation and logistics services



Provider of CRDC services for commercial airports in the U.S.



Operator of transloading terminals across the U.S.

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