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INDUSTRY NEWSLETTER

WAREHOUSE/COLD STORAGE

MOHR PARTNERS

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OVERVIEW

Companies in this industry operate facilities to store goods and may provide related logistics services. Major companies, all of which operate internationally, include CEVA Logistics (based in the UK); Deutsche Post's DHL (Germany); GENCO, part of logistics giant FedEx (U.S.); Mitsubishi Logistics (Japan); and UPS Supply Chain Solutions (U.S.).

The global market for third party logistics, including warehousing, scheduling, and distribution services, exceeded $750 billion in 2014, according to Armstrong & Associates. Asia is a top region for growth, due to increased trade in both developed and emerging economies. Growth of merchandise exports from India is set to outpace that of China by 2050, according to HSBC.

The U.S. warehousing and storage industry includes about 14,000 establishments (single-location companies and units of multi-location companies) with a combined annual revenue of about $29 billion.

UPDATES

Demand for storage space in China continues to grow, spurring private equity firms such as Carlyle Group, Canada Pension Plan Investment Board, and Warburg Pincus to invest millions in the country's warehouse sector, according to a recent account from Reuters. For example, Carlyle-backed China Logistics Property Holdings, which earlier this year went public in Hong Kong in a $459 million IPO, is spending 2.1 billion yuan to add new warehousing space to its portfolio through 2017. Although China's overall economic growth is showing signs of a slowdown, the country's burgeoning middle class and the nation's corresponding shift from a manufacturing-based to a consumer-based economy is contributing to the need for more space to store goods. Meanwhile, e-commerce, a warehousing and storage industry growth driver, remains one of the fastest growing sectors in China.

Warehousing companies may see opportunity to expand in to China as private equity firms invest in the market. Growth is being driven by the nation's booming e-commerce industry, which requires more storage space to hold retail goods.

TRENDS

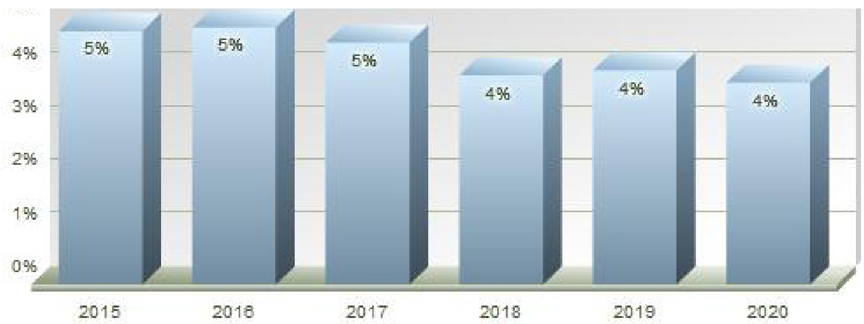
Total U.S. manufacturers' shipments, an indicator of demand for warehousing and storage facilities and services, fell 2.8% year-to-date in June 2016 compared to the same period in 2015.

The spot price of crude oil, which affects energy costs for warehousing and storage, fell 0.2% in the week ending August 12, 2016, compared to the same week in 2015.

Total U.S. revenue for warehousing and storage rose 2.1% in the first quarter of 2016 compared to the previous year.

Warehousing is evolving from an industry that passively owns and operates storage space to one that offers a

Industry Output Forecast



Revenue (in current dollars) for U.S. warehousing and storage services is forecasted to grow at an annual compounded rate of 4% between 2016 and 2020.

variety of logistics services, providing customers with the ability to identify, track, and expedite individual items through the supply chain. Warehouse facilities may benefit from being located near different types of transportation hubs, such as seaports, airports, and major highway interchanges.

As more warehousing and logistics companies specialize, they require more customized material handling equipment. More site-specific, comfortable, and safe products are especially in demand. Many special requests, such as side restraints to protect drivers if a lift truck tips could eventually become standard.

CHALLENGES

Cold storage and temperature-controlled facilities have high energy requirements, contributing significantly to operating costs. In times of rising costs, facility managers investigate new, more affordable technologies to reduce consumption. Electricity costs can make up a significant portion of a cold storage building's ongoing operating costs.

Economic slowdowns greatly impact the industry, as many business customers use public and contract warehousing mainly to handle peak demand. Industrial production, import volume, and office vacancy rates are indicators of demand for warehousing. Some warehouses serve only one large customer or one specific industry, specializing their equipment and distribution system for particular needs. Specialization can lead to longer-term contracts and higher profits. However, greater customer exposure exists for these warehouses if the customer or the industry suffers a downturn. Diversification across several markets and customers might be important to mitigate this risk.

Some manufacturers and distributors operate their own warehouses to maintain tighter control over service. Consolidation among companies in the US.. has created larger entities that may choose to operate their own warehouses rather than rent space from warehouse companies. However, some large companies choose to outsource warehouse functions, however.

OPPORTUNITIES

Recognizing the importance of efficient storage and distribution functions, more companies are outsourcing to logistics specialists, known as third-party logistics providers, or 3PLs. In addition to greater efficiency, companies can lower their capital investment and the risk of being stuck with poorly sited facilities. Outside logistics firms are more likely to use public warehousing to fulfill local distribution needs.

Some record storage firms are expanding their capabilities from paper documents to electronic records by building computer server farms in secure locations. By providing

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secure online storage offsite for customers' critical computer applications, storage companies are gradually transforming their business from paper to electronic storage.

The industry is developing better systems for tracking and shipping products. The Price Look-Up (PLU) code has been used in the U.S. for a decade or so for product identification.

Robots have historically been too expensive and not mobile enough to do the tasks found in distribution centers, but advances in computing power, vision systems, and sensors are making robots more feasible for warehousing, according to DC Velocity. As prices come down and the machines become more human-like, the use of robotic automation for warehouses is increasing. Applications include automated forklifts that do not require a driver, mechanical systems equipped with computers and arms that locate and lift items, and robotized shuttles that bring goods to workers. Despite significant investment upfront, robotics can pay off through improved productivity, reduced labor and operational costs, improved order accuracy, and fewer warehouse accidents.

Data for this newsletter was sourced from First Research® Industry Profile, 09-15-2016. First Research forecasts are based on INFORUM forecasts that are licensed from the Inter-industry Economic Research Fund, Inc.