

# Flexstone Buys Stake in US Logistics Servicing Business

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Flexstone Partners, the private equity co-investment specialist, has taken a stake in a logistics servicing company with a dominant position in the US Mid-West.

The main services of ITI Intermodal include storing, maintaining and repairing transport containers, typically at intermodal points such as freight train stations.

“When food and beverages companies move large volumes across the US, the trailers and containers need to be serviced so the produce does not spoil,” explains **David Marcus, managing director of Flexstone, an affiliate of Natixis Investment Managers.**

“ITI Intermodal carries out repairs, refuelling and all the services necessary to make sure the produce does not spoil. For food producers, the cost of that servicing is significantly less than taking the risk that the refrigeration fails and the food spoils.”

The ticket size for Flexstone’s investment was \$7.5m, and this may double as ITI Intermodal seeks acquisitions for expansion, requiring further capital. The CEO of ITI Intermodal knows the logistics servicing sector well, having worked for other similar businesses and has a strong network and pipeline of potential acquisitions.

ITI Intermodal has a large market share where it operates and close to total customer retention. High barriers to entry to logistics servicing mean it is well placed to defend market share and grow in new geographical areas. Its EBITDA has been growing consistently since 2016 through the acquisition of new clients and geographical expansion.

The co-investment was made alongside lead sponsor Calera, a private equity house with which Flexstone has invested previously, notably buying a stake last year in Fitzmark, an Indianapolis-based logistics provider.

“The ITI Intermodal deal was another great opportunity to invest alongside an experienced GP in a middle market logistics company that sits squarely within the GP’s sweet spot,” said Marcus.

Flexstone sees ITI Intermodal as having important defensive properties at a time of rising inflation and economic uncertainty. First, it is a non-cyclical business due to its focus on the food and beverage end-market. In the teeth of the pandemic, in 2020, it still managed to increase both revenues and EBITDA.

In addition, as a provider of mission critical services, representing a small percentage of the overall costs of transportation, it has considerable pricing power to offset inflation. Its pricing power is further enhanced by being one of the few logistics services providers to have obtained an OEM certification from all four major container companies. This allows ITI Intermodal to carry out authorised repairs, which is a high-margin business and a differentiating factor compared with its peers.

“Actually, we don’t see a lot of input price increases, the costs are mainly labour,” notes Marcus. These costs should be manageable given the company’s high staff retention rates and near absence of unionisation in the US Mid-West.

Another differentiating factor is that ITI Intermodal owns physical real estate around a number of railyards. This creates additional revenue streams, such as

storage of intermodal containers when they are not in use. This revenue stream could be beneficial if economic activity declines and storage demand rises. “Storage is a particularly high-margin business – it involves a storage fee and a gate fee and is highly cash flow generative,” says Marcus.

Flexstone was also attracted to the relatively-low carbon footprint of ITI Intermodal, given its focus on train transportation, and to its strong people-focused culture – which includes above-market compensation for employees – enabling high-retention rates.

### **For further reading:**

- Flexstone Buys Stakes in Wealth Management and Tech Businesses
- Flexstone Exits Investments in US Companies FGP and Velocity
- Flexstone Investors Reap Returns from Deal Exits

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