



REFRIGERATED WAREHOUSING AN INDUSTRY STUDY

Things you will learn from this whitepaper:

1. How do industry standards make refrigerated warehousing more efficient?
2. What other industries have a significant impact on the refrigerated warehousing industry?
3. How has consolidation affected the industry's landscape?
4. What strategies are necessary to increase revenues?

This whitepaper will have special interest to:

1. Attorneys consulting with refrigerated warehouse owners considering mergers or acquisitions.
2. Judges presiding over business disputes & corporate litigation cases.
3. Business mediators & arbitrators.
4. Financial & income tax advisors.
5. Those concerned with the valuation of refrigerated warehouse facilities.

Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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Industry Overview

The United States refrigerated and frozen food industry boasts annual revenues of \$2.5 billion. The industry is typically divided into two main segments: public refrigerated warehouse space and private refrigerated warehouse space. These segments are expected to maintain a composite annual growth rate of 12 percent through 2008.

Total refrigerated storage capacity currently totals approximately 3.21 billion gross cubic feet. Public refrigerated warehouse space totals 2.44 billion gross cubic feet, and accounts for 76 percent of total industry capacity (and over 80 percent of total freezer capacity). In the ten years from 1995 to 2005, public refrigerated warehouse space increased by 40 percent. Private refrigerated warehouse space totals 772 million gross cubic feet, or 24 percent of total industry capacity. States with the largest total refrigerated capacity are:

- California
- Florida
- Washington
- Wisconsin
- Texas

Currently, a total of 607 firms operate 942 refrigerated warehousing and storage establishments. These firms retain 28,231 employees, comprising a total payroll of \$853.7 million. By revenue, industry leaders include: AmeriCold Logistics, LLC; Burriss Refrigerated Logistics; Cold Storage, Inc.; and Hal's Warehouse Corporation. Combined, these four firms boast \$1.12 billion in annual revenues.

Operations

Refrigerated warehouse facilities operate in different fashions, depending upon whether they offer public or private refrigerated space. Public general storage facilities typically store food for clients at a stated unit rate. Private general storage facilities exist to facilitate an operator's role- often that of a producer, processor or manufacturer of refrigerated food products. Semi-private facilities store an operator's products in addition to offering storage space to outside clients. All facilities attempt to turn product over quickly, aiming for "just-in-time" delivery.

Most refrigerated warehouse facilities have loading docks, and nearly all have interiors divided into cooler space and freezer space. Cooler space temperatures may range from 0 to 50 degrees Fahrenheit, while freezer space temperatures range from -5 degrees Fahrenheit to -30 degrees Fahrenheit. Among all operators, freezer space occupies 78 percent of total warehouse area; cooler space fills the remaining 22 percent.

Today, as in the past, the role of refrigerated warehouses is to hold product stored by manufacturers before it is transferred to grocers and other frozen food retailers. In addition to offering storage space, many warehouses have greatly expanded revenues by offering distribution services, for both domestic and international clientele. A second strategy for boosting revenues sees warehouses hiring consultants, to advise on issues as diverse as: energy management, productivity, accounting, information technology, personnel rating, utilities, loss control and international operations.



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Refrigerated storage warehouses often are found at seaports, which see the greatest traffic of perishable food items. Warehouses with distribution facilities are strategically located to connect with appropriate modes of transportation. This gives warehouses the flexibility to serve a broad base of customers, while minimizing transportation expenses and turning over inventory rapidly.

Most warehouse facilities employ a cadre of highly-trained professionals, specializing in protection of warehouse inventory. Warehouses employ low-level workers as well, who fill orders, attend to routine sanitation procedures and stock shelves. Since most facilities are basic in structure, and located in low-rent areas, operators can generally avoid undue capital investment related to the construction and maintenance of facilities. Capital is invested, rather, in: research and development, marketing, engaging consultants, etc. Most refrigerated storage warehouses carry legal liability insurance.

As many warehouses have moved into distribution, computer and telecommunications capability have become vital to the industry. Keeping inventory, tracking orders, networking with customers and analyzing transaction data are all daily exercises for most modern warehouses. The automating of many tasks has saved on overhead and salary expenses for most firms throughout the industry. A full 87.7 percent of U.S. refrigerated warehouses have Internet websites.

Industry Standards

Aside from general safety and sanitation standards, there is no specific government legislation for refrigerated warehouse facilities. Some commercial organizations offer shipment and storage protocol, such as Germanischer Lloyd, with its “Cool Chain Quality Indicator” (CCGI). This organization, noting that approximately 116 million metric tons of temperature-sensitive goods are transported around the world annually, issues standards for the packaging and maintenance of goods for various transportation agents, as well as for warehouse facilities.

Industry Opportunities

Conscientious Consumers — As consumers become more conscientious about the use of artificial preservatives in food, refrigerated and frozen food demand has been on the rise. This trend, incipient in the late 1970s, has escalated considerably since the turn of the 21st century. The rise of organic supermarkets and natural foods in general should continue to fuel this trend.

Increase In Popularity of Frozen Foods — Sales of frozen foods have grown at a steady annual rate of 3 to 5 percent since the turn of the 21st century. In addition to the aforementioned health concerns over preservatives, this is attributable to several factors, including:

- Convenience of preparation
- Expansion of frozen food choices
- Increased quality of frozen foods
- Strong value of frozen food products



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Frozen foods also provide consumers with eating options that may be out of season at a given time. The steady expansion of freezer and microwave ownership has created an increase in the popularity of frozen foods, as well.

Supermarket Support — Refrigerated and frozen food “meal-solution” items are offered in 93 percent of U.S. supermarkets. One of the fastest-growing components of supermarket revenues, sales of meal-solution items expanded at an annual rate of 13 percent through the first five years of the 21st century. Frozen food departments in supermarkets have grown commensurately, and supermarkets have experienced great success in marketing frozen foods as meal solutions. The fastest growing categories are packaged dinners, consisting of: frozen pizza, poultry, meat and seafood.

Support of Food Service Operations — The food service industry at large continues to turn to refrigerated and frozen foods for solutions to:

- Product consistency
- Labor costs
- Portion control
- Food quality
- Ease of storage
- Food Safety

It is estimated that 98 percent of all food service operations utilize refrigerated and frozen foods. According to Frozen Food Age Magazine and the American Frozen Food Institute Report, the current and future success of the frozen food industry requires meeting consumer demands for high quality and convenient meal solutions.

Changing Family Dynamics — Steady job growth, coupled with a continuously increasing number of women in the work force, has propelled sales of frozen meal solutions. Households with incomes in the range of \$45,000 to \$74,000, and with four or more members, are most likely to buy frozen products. Breakfast items, juice, vegetables and pizza have proven especially popular with such families.

Streamlined Client Operations — Rather than deal with multiple clients, many refrigerated warehouses companies have begun working toward limited client operations, securing exclusive, long-term contracts with buyers. Contracts may run anywhere from five to 20 years. With streamlined operations, margins can be greater than in multi-client scenarios. Medium-sized and independent companies have performed particularly well in this vein.

Industry Challenges

Lack of Uniform Technology Standards — According to some industry analysts, one of the greatest challenges in the refrigerated warehouse industry is the lack of uniform electronic and bar code standards. International standards vary widely, and domestic standards are almost as disparate, creating unnecessary paperwork and profit-eating delays. Because the food industry has no real stake in normalizing standards, many feel that the push toward normalization will come from companies like Sam’s Club, which have invested heavily in refrigerated warehouses over the past decade.



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Consolidation — Consolidation rippled through the refrigerated warehouse industry in the 1990s, forcing operators to streamline operating costs and consider the implementation of new technologies. The trend toward consolidation sprung from the growing tendency for warehouses to act as shipping venues, as well as the entry into the market by warehouse-holders such as Berkshire Hathaway, Inc. Though consolidation spurred overall industry growth, smaller warehouses have struggled to compete with larger industry players.

Industry Outlook

Although the refrigerated warehouse industry experienced its period of consolidation from mergers led by real estate activity over the past fifteen years, expansion of cold storage facilities is ongoing. Increased demand for frozen food should carry the industry into the next decade, and improving storage and distribution techniques should amplify margins significantly. Evolving business models, especially with clients, will lead to more profitable contracts. Overall, slow and steady growth is expected, especially as technology standards continue to improve.



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