# Flexport’s ascent raises valuation and volume questions

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Tech startup Flexport’s rockstar status in the international logistics sector means it's under the microscope concerning volume, whether it can produce a profitable business model or achieve a profitable exit for its investors, and what it actually does that represents a fundamental break in the forwarding industry. Photo credit: Shutterstock.com.

In an international logistics sector awash in start-up technology providers, San Francisco-based forwarder Flexport (https://www.joc.com/technology/flexport-asset-push-pits-it-against-top-3pls_20170818.html) is the undisputed rockstar.

Looking at one specific metric — venture capital raised — Flexport is in a category by itself, having raised $304 million since its founding in 2013, according to Crunchbase, a technology funding database. That’s nearly triple the amount raised by any other single logistics tech startup as of mid-September and many times the amount raised by other so-called digital forwarders such as Barcelona-based iContainers ($8.3 million) and Berlin-based FreightHub ($23 million).

Flexport is investing the funds in a rapid expansion, with new offices in the next five years planned in Singapore, Shanghai, Sydney, Mumbai, São Paulo, among other cities, the company announced recently.

Yet all that investment has raised the stakes for Flexport to produce a profitable business model or achieve a profitable exit for its investors, which, given the multiples expected of venture capital investors, would be a sizable sum. It has also heightened the freight industry's level of skepticism regarding basic questions such as how much volume the company actually handles and, ultimately, what Flexport — which has styled itself as an industry disruptor — actually does that represents a fundamental break from a forwarding industry that has plied its trade uninterrupted for centuries.

Flexport is reportedly now valued between $1 billion and $1.5 billion, up to six times its 2017 gross revenue of $226 million (a figure the company disclosed on a LinkedIn thread in late April).

Typically, forwarders are valued at one times gross revenue; what makes Flexport that much more valuable? Do the normal rules of valuation not apply to a company barely five years old that claims to have invested as much in technology as any other part of its business?

Graham Parker, CEO of the logistics software provider Kontainers, (https://www.joc.com/technology/kontainers-powers-maersk-booking-platform_20180629.html) noted in a January blog that Apex Maritime, a trans-Pacific non-vessel operating common carrier (NVOCC) was valued at $175 million in 2015 when Hong Kong-based Kerry Logistics acquired a 51 percent stake.

Apex’s Asia import volume in 2017 was 324,673 TEU, making it the No. 2 NVOCC in the trade, according to PIERS, a sister product of JOC.com. That volume was more than three times that of Flexport’s stated 2017 volume, yet it garnered a valuation less than one-eighth that of Flexport’s today.

## Flexport’s volume

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Valuation is just one area where Flexport’s meteoric rise has been met with skepticism. On the subject of its volume, there are questions as to whether Flexport is moving the amount of volume it claims to be moving, given that it acted to conceal its volumes from the US Automated Manifest System (AMS) data, which forwarders aren’t allowed to do.

Added to that is a perception that the company has swaggered its way into relevance more on the strength of clever marketing and an ability to attract blue-chip venture capital investment than any significant differentiation or above-average performance.

The skepticism has drawn founder and CEO Ryan Petersen into online skirmishes with critics who vocally question Flexport on LinkedIn. For many industry stalwarts, the question comes down to what, if anything, makes Flexport so fundamentally different from international forwarding incumbents, such as Kuehne + Nagel (K+N), DSV, Panalpina, or others, that explains its huge cache of investment? In other words, while Flexport is clearly on the road to building a new global forwarder, is it building anything fundamentally new or different?

Certainly, building a global forwarding organization requires significant capital, and Flexport has that in spades.

"I strongly believe you need to raise lots of capital to gain market share [buy into larger clients]; build a global logistics technology network [warehouses, local offices, etc.]; and build a cutting-edge technology platform [the cost of engineers]," Michael Wax, chief commercial officer and co-founder of Freighthub, told JOC.com in an email.

Part of the answer is tied to Petersen’s original aims. In various public statements, he said he set out to create a logistics company built purely on modern software and unburdened by legacy systems and expectations. Early on, Petersen said his goal was to build another Expeditors International of Seattle, Washington, one of the world’s most historically successful forwarders, only with a blank technology slate.

Later, he sought to compare K+N (https://www.joc.com/international-logistics/logistics-providers/kuehne-nagel) unfavorably to Flexport, and received a letter from K+N’s lawyers as a result. As he is fond of saying, all of the world’s largest forwarders were built prior to the advent of the internet, and Petersen argues they are thus dependent to varying degrees on software that doesn’t mesh with the way modern commerce operates.

He’s certainly not alone in seeing a big opportunity in leveraging state-of-the-art technology in forwarding.

“The digital forwarders have figured out that during the life of an international shipment the same information is used over and over again, and that this information cannot only be automated, but reused for different purposes,” Dan Gardner, vice president of supply chain for Lakeshore Learning Materials, wrote in a 2017 commentary for JOC. “Whereas less sophisticated forwarders rekey information for quotes, bookings, bills of lading, importer security filings, et al., the digital forwarders have written code that repurposes the same information for each phase of a shipment. In the end, this feature, along with tracking and tracing capabilities, is the essence of the international digital freight forwarding model.”

In going down this road, Flexport has become much more than just a tech flavor of the month. It is the most recognizable face of a huge wave of investment in logistics technology while also becoming the go-to reference point for almost every other startup in freight, logistics, and shipping.

How successful the company proves to be is essentially a barometer for all logistics startups.

“We really would like to see them pull this off and get acquired because it will lift all boats, so to speak,” the CEO of a forwarding technology startup told JOC.com.

Multiple other startups voiced similar sentiments to JOC.com, suggesting that Flexport’s ability to raise sizable sums bodes well for their ventures, even if they are perceived as competitors, because it gives their own capital-raising efforts a boost.

But while Flexport may be a darling of Silicon Valley, with Petersen holding himself out as a guru of global trade and a mentor to other startups, a very different theme in the emergence of Flexport is how it has been received by the legacy logistics market, with many freight veterans openly skeptical to the idea that Flexport’s model is unique or even that its stated volume is for real.

“A lot of companies have been digital for years,” said Alan Baer, president of the NVOCC OL USA. “People have been entering data in systems for a long, long time, and there are market participants that have integrated systems so they’re looking at the same data, so I don’t know if there’s anything earth-shattering about that.

“You can hype it, but sooner or later, the market realizes real value. We’re watching the 2000 to 2006 housing market play out in logistics technology,” Baer said.

“From what I can see, Flexport has been fantastic with its marketing to investors, and I get why the investment community got behind them,” said Mark White, chief commercial officer of the freight forwarder SEKO Logistics.

But, he said, “Flexport, unlike SEKO, has nowhere near this type of history or foundation arising from 40-plus years of investment — a layer that has stabilized our global reach and expansion in facilities, infrastructure, systems, and people.”

Other more technology-oriented forwarders are impressed with Flexport’s ability to raise money and quickly make a name for itself in a fragmented market.

“They are doing all of us an enormous service by elevating the perceived value of advanced technology,” said Jon Slangerup, CEO of the third-party logistics provider (3PL) American Global Logistics. “They’ve created this heightened sense of urgency about tech, which is great for us because it’s making shippers think through their supply chains and come to us.”

Slangerup said he appreciates that Flexport has taken an avant garde approach to building a logistics company.

“I’ve seen both the venture capital and private equity sides and see the challenge they have,” he said. “They’ve done it in a typical venture capital environment. Most companies in this industry are private equity-owned. I don’t think people in this industry understand the venture capital model. They’re probably saying to themselves, ‘How does this company get this valuation when we’ve been doing it this way for so long and we don’t have anywhere near this valuation.”

“But I’ll never be critical of these guys because I know the challenge. If they do it, God bless them, it would be a tremendous achievement of leadership if they cross that chasm.”

White, too, gave credit to Flexport for opening investor coffers, but like others raises the point about how unique it is.

“It’s brought the freight industry into the investment community’s focus,” White said. “That benefits the whole industry. But from what I have seen, Flexport is not so novel or unique in the industry from the types of services clients expect and the level of engagement required from a typical freight forwarder. The industry knows the industry.”

Petersen told JOC.com his sole focus is ensuring shippers and carriers take Flexport seriously, and that he’s not worried about how competitors or other critics perceive his company. Among those customers are Georgia-Pacific, Sonos, and roughly 2,000 merchants that sell to Amazon, (https://www.joc.com/special-topics/amazon) Petersen said in an Aug. 30 podcast with the technology investor and accelerator Y Combinator (of which Flexport was a 2014 participant).

### Venture capital groups as investors

Venture capital groups and angel investors, entities with cash but lacking experience in freight forwarding, are apparently convinced of Flexport’s disruptive power. Investors — including famed Silicon Valley titans such as Google Ventures, Peter Thiel’s Founder’s Fund, and the actor Ashton Kutcher — have sunk more than $200 million into Flexport. They seem long on disruptive intent but short on actual experience moving freight.

A list of nearly 80 Flexport investors on Crunchbase includes Bloomberg, Wells Fargo, Ashton Kutcher, and the Winklevoss brothers, who are best known for suing Mark Zuckerburg, claiming he stole their idea for Facebook. Its sole freight transportation investor, and its most recent, is Chinese parcel group SF Express, (which raised Flexport’s total outside investment to $304 million as of April by ponying up $100 million). SF Express’ core business is package delivery within mainland China.

“Most of the hype from ‘disruptors’ are geared toward investors, not the logistics industry,” Andrew Nutting, former director of international logistics at Bob’s Discount Furniture, noted in a July 23 LinkedIn thread.

In a contentious LinkedIn thread in the spring, coming on the heels of the SF Express investment announced on April 27, Petersen addressed what he called a “real disconnect as always between the freight world and the venture capital world. What I've told our employees after every fund raise is that we are not worth $1B [billion], but rather that investors think there is a 10 percent chance we are worth $10B and a 90 percent chance we're worth a lot less (maybe zero).”

Flexport’s $1.5 billion estimated valuation did more than anything else to raise questions about the viability of its model within a highly fragmented and fiercely competitive market. Although there are hundreds of thousands of forwarders globally, roughly 400 of them operating in the United States and 1,900 globally, have “good capabilities with an established global agent network,” according to the logistics-focused market research firm Armstrong & Associates.

“The smart partner is a forwarder/broker who operates entirely on money they have already invoiced and collected,” Jonathan Menges, director of sales at US customs brokerage and forwarder Alba Wheels Up, said in the late April LinkedIn thread, where he suggested that Flexport was “not fiscally self-sufficient.”

The criticism leveled at Flexport has compelled Petersen to show a humbler side at times.

“None of us is under the impression that we've solved the world's problems with technology overnight,” Petersen wrote in the LinkedIn thread. “We do see how technology creates real value for customers, and we work incredibly hard every day to take great care of those companies. It seems to be working, as we get mostly awesome feedback from our customers, and they keep spending more with us over time. But we are definitely not declaring victory, and probably never will.”

Separately Petersen told JOC.com that Flexport’s backend systems are nowhere near fulfilling the company’s transformative promise. “We’re 5 percent of where it needs to be, of what it can be.”

### What’s in a number?

The three company names that pop up endlessly in any discussion of logistics industry disruption over the past few years are Amazon, Uber, and Flexport — Amazon for seeking to gain control over its supply chain by taking over certain logistics functions, Uber for its foray into trucking via Uber Freight, and Flexport.

Considering the market cap of the first two exceeds a combined $900 billion as of the first half of 2018, that may seem like an odd comparison.

But it's hard to overstate the outsized impact Flexport has had in the logistics world over the last five years. For established forwarders, large and small, Flexport represents a gauntlet thrown down: adopt technology fast or perish. It has pushed incumbents such as K+N, DB Schenker, and others to accelerate their embrace of digital technologies. It's forced small and medium forwarders to gravitate toward white label digital platforms such as Kontainers that attempt to mimic the ease of use of Flexport's customer interface.

Flexport's image has been forged by a savvy, two-pronged marketing approach. It has sold itself to investors as the key to unlocking the kingdom of global trade, a multitrillion-dollar global industry not unreasonably described as prehistoric in its technology adoption, and thus by definition an intriguing pitch for investors in disruption-obsessed Silicon Valley.

In a 2017 interview, Petersen said, "what we're providing is the software that connects everything, it coordinates everybody." Flexport in 2015 said it's one of "those rare startups that will not merely satisfy its market, but grow it. There will be more international trade because of Flexport, and international trade is a very big thing for there to be more of."

Meanwhile, it sells itself to the logistics industry as a traditional forwarder, just one unburdened by legacy technology and able to deliver a higher order of user experience.

Petersen himself unquestionably has a flair for PR, garnering large amounts of free, or "earned" media for himself and Flexport. He rightfully gets credit for breaking the news (https://www.flexport.com/blog/amazon-ocean-freight-forwarder/) on a Flexport blog of Amazon entering the ocean container business by acquiring an NVOCC license in 2016, scooping all industry and general business media. Soon after Tesla announced plans last year to build an autonomous truck, he took to Twitter to announce that he had put down a deposit on one.

In 2008, prior to founding Flexport, he used advanced manifest information to predict Apple's release of the iPhone 3G.

"People are open to trying new things if we can just get in front of them. But I'm not trying to piss anybody off — it's more just, how can I get customers to know who we are," Petersen said.

Straddling that line has been a key strategy behind Flexport's rise in prominence. For every 20-something engineer or product developer the company hires from outside the industry, there's been investment in senior-level talent like Neel Shah (the head of air freight and a veteran of United Cargo and Delta Cargo), and Nerijus Poskus (the global head of ocean freight and an alumnus of K+N) and in encouraging staff to become licensed customs brokers.

Alongside its post-modern Market Street headquarters in downtown San Francisco, a flashy address in the heart of Silicon Valley, the company has invested in traditional logistics assets, such as two warehouses (in Los Angeles and Hong Kong) and a chartered 747 freighter, with plans for a global rollout of new office locations in the coming years.

### Size matters

How much volume Flexport actually moves is a source of significant debate and is a question that gets to the heart of its legitimacy as a new kid on the block.

Flexport estimated to JOC.com in April that it would handle 108,000 TEU of container volume in 2018, based on an extrapolation of the roughly 9,000 TEU the company handled in April. But Petersen suggested his company was on track to move far more than 108,000 TEU based on its growth rate (the company was recently named the eighth-fastest-growing company in the United States, according to *Inc.* magazine.)

But there are questions about whether Flexport moves as much volume as it says it does. And volume matters; the perceived wisdom in freight forwarding is that volume is a measure of a forwarder's significance, as that allows the forwarder to negotiate the lowest rates from carriers. If Flexport is to make good on its disruptive promise, it must have enough volume for the industry to take it seriously.

"To reach a level where its size is meaningful, it would have to handle, in two growing markets, over 600,000 TEU and at least 250,000 tons (of air freight) annually," the financial analyst Alessandro Pasetti, wrote in The Loadstar (https://theloadstar.co.uk/market-insight-flexport-focuses-market-share-can-hit-targets/) in June. "Only then would it likely be included in the rankings for the top 20 forwarders globally."

Although there are no concrete numbers for the breakdown of Flexport's ocean freight by trade lane, most analysts believe the bulk of its volume moves in the trans-Pacific. One confidential estimate from a shipping line of Flexport's volume by trade lane has pegged the company's trans-Pacific volume at 70 percent of its total volume. Using that 108,000 TEU figure as a benchmark, and assuming that around 70 percent, or 70,000 to 75,000 TEU, of Flexport's volume, is concentrated in the trans-Pacific eastbound trade lane, that would put its 2018 trans-Pacific volume in roughly the same orbit as the NVOCCs of Panalpina, which moved 72,301 TEU in 2017, and FedEx, at 62,820 TEU.

### Where's the volume?

But unlike those forwarders, whose volumes reliably appear in PIERS and the data of other AMS data providers, Flexport's numbers in PIERS don't come close to resembling the ocean volume the company publicly says it's handling. Flexport's volume in PIERS was 944 TEU for all of 2017. In the first seven months of 2018, that volume rose to a total of 4,888 TEU.

JOC.com compared those numbers with those of Datamyne, another trade data provider that sources information from US Customs and Border Protection (CBP), and found similar results. (According to Datamyne, Flexport moved 4,218 TEU in the the first seven months of 2018 and 951 TEU for the whole of 2017).

Petersen told JOC.com there's a simple reason for the variance: it had its name redacted from the AMS data that CBP requires of all exporters and importers. Indeed, research by JOC.com has found that Flexport applied to CBP to redact its name from the manifest data. Petersen confirmed to JOC.com that "we file for confidentiality on all our manifests … so our competitors can't see who our customers are."

But here's the problem: NVOCCs (such as Flexport) are not entitled to the same confidentiality rights as BCOs. CBP acknowledged it mistakenly granted Flexport confidentiality on its manifest data until January, the agency confirmed after an inquiry by JOC.com.

"CBP regulations only provide that a shipper or consignee may request limited confidentiality from the manifest disclosure rules — NVOCCs (https://www.joc.com/maritime-news/container-lines/trans-pac-nvoccs-continue-gain-asia-import-share_20170921.html), by definition, are not legally able to obtain confidentiality," said Ashley Craig, a Washington, DC-based trade attorney with Venable who represents IHS Markit. CBP advised IHS Markit, parent company of JOC.com, that the agency has since informed Flexport that it was correcting the situation and would, henceforth, release Flexport-related manifest information under the Tariff Act of 1930.

Craig said the issue of preventing ocean transportation intermediaries and ocean carriers from shielding manifest data was essentially decided in 2003, when CBP was determining the parameters of what information those companies needed to provide to comply with the 24-hour advance manifest rule implemented following the September 11 terrorist attacks. Craig, however, reiterated that NVOCCs do not have the legal right to do so, whether they are an NVOCC shipping directly with a carrier or co-loading with another NVOCC.

While Flexport's volume ramped up noticeably month to month throughout 2017 and in early 2018 in PIERS, it still falls short of the volume the company says it is moving. Also of note is that PIERS shows zero volume for Flexport prior to 2017.

It can be presumed that Petersen knows the confidentiality rules well; prior to starting Flexport, Petersen founded Import Genius, a provider of data from the AMS.

He told JOC.com that Flexport has continued to apply for confidentiality. "On master bills, Flexport appears as the consignee, so we have filed for confidentiality on those," he said in July, referring to scenarios where Flexport co-loads with other NVOCCs.

Craig, however, reiterated that Flexport (like other NVOCCs) does not have the legal right to do so, whether they are an NVOCC shipping directly with a carrier or co-loading with another NVOCC.

"The entire issue surrounding advance manifest data involves obtaining ultimate shipper and consignee information — that's on the NVOCC's [house bill of lading] — not the [vessel operator's master bill of lading]," unless the BCO is shipping directly with the carrier, Craig said.

Petersen suggested that what the outside world knows about Flexport's volume isn't important; what is important is what carriers know about it. "The carriers know what we move, because we move it with them. That's what really matters, how much you move with a given carrier, because that's how you unlock discounts because you get better pricing," he said. "I don't care if our competition thinks that we're frauds, per se, but I do care that our customers don't."

The issue with this approach, however, is that volume moving via co-loaders is not visible to carriers. So if Flexport is relying on co-loaders, also called neutral NVOCCs, for the bulk of their volume, which makes it hard for Flexport to unlock those discounts to which Petersen referred.

Sanne Manders, Flexport's chief operating officer, suggested in August that Flexport's use of less-than-containerload (LCL) is part of a strategy that's enabled by its technology.

"Why do people use so much full containerloads?" he said on a podcast hosted by Radu Palamariu, managing director of Morgan Philips Executive Search. "Because they don't trust [LCLs]. Well, [LCL] is actually a better product because you can reduce working capital. You get much more equal flow in your supply chain. If you have better processes, much better visibility, if customs holds are under control, LCL all of a sudden becomes a much better option."

### Doubts about volume

The issue is further clouded by persistent questions among industry veterans as to what Flexport's true volumes are. Some believe that Flexport can't be as big as it says it is if it relies so much on co-loaders, among them the large LCL NVOCC Shipco, which means it doesn't have enough volume to contract directly with carriers on its own.

"Flexport uses a lot of co-loaders to do their physical cargo handling," Jens Lund, chief financial officer of the global forwarder DSV, said in a May interview with Copenhagen-based online media Shipping Watch (https://shippingwatch.com/Services/article10563369.ece). "They're outsourcing a significant part of their production."

Others agree Flexport isn't likely generating sufficient volumes to contract directly with carriers.

"The reality is you only co-load when you do not have enough to sign your own contracts directly. Anyone with 100,000 TEU would be a top 20 player [in the trans-Pacific] and would for sure have their own contracts," said the president of an NVOCC operating in the trans-Pacific (https://www.joc.com/maritime-news/trade-lanes/trans-pacific), speaking with JOC.com on condition of anonymity. "In speaking to several [vessel operators], they all confirmed that no such volume exists," i.e., an amount that would allow Flexport to appear among a list of the largest trans-Pacific NVOCCs.

Four of the world's biggest container lines told JOC.com on background that Flexport doesn't move substantial volumes directly with them.

Manders interestingly said on the August podcast that Flexport is currently the 18th-largest forwarder by volume in the trans-Pacific. "We think we will be growing close to No. 10 within, say, the next six to nine months [within that lane]." Again, the data don't back this up.

The discrepancy between the volume in the AMS data and what Flexport says it handles is important from a couple of perspectives. For one, despite Flexport's investment premise that it has a disruptive business model based on freedom from legacy technology and the ability to provide higher quality service at a lower cost, volumes remain the key metric by which its growth in the forwarding industry is measured.

Second, Flexport's true volume, whatever that may be, is relevant to its progress and its ultimate ability to deliver for its investors.

If, in fact, Flexport is moving only 9 percent of the volume it claims, the volume as reported in the AMS data year to date through July, that means its valuation is based largely on the potential of its technology, not its book of business or existing physical network.

If, however, the company is moving the volume it has publicly said it is, its valuation might still be inflated based on the way other forwarders in the industry are valued.

If the true number is low but accepted by the industry as accurate because it is complying with filing rules, it might suggest that Flexport is seeking to conceal its actual size. As it stands, Petersen admits that his volumes have not yet grown to the point where he is competitive on price.

"Today, we have a great user experience, but we don't have a cost advantage, and we're less efficient than some of our competition, and they're bigger so they purchase freight cheaper. So we don't compete on price, really. We're a value provider. We compete on total cost, because we're going to save your team. We're going to make your operation better, but not necessarily every single TEU is going to cost less," Petersen said in a video interview at the EyeForTransport 3PL Summit in 2017.

The industry is watching to see if this venture capital-backed adventure works out for Petersen.

"The struggle with venture capital is the transition to an IPO [initial public offering] or a sale to a strategic," Slangerup said. "There are only two ways to get a return on your investment. It's rarely the case you create a model that has so much profit generation. So if you strip everything away, the real deal here is the exit."

Slangerup said a tech company would expect an exit of 20 to 25 times earnings, while pure play logistics providers would hope for eight to 12 times earnings. It's important to remember that Flexport isn't currently profitable, nor does it or its investors have a desire to be.

"This will be the challenge to Flexport or anybody," Slangerup said. "Logistics companies are lean, they watch every dime every day. Our customers will move for a dollar if they can get a lower price. As [Flexport] grows up, they will have to compete in the same world that AGL plays in. Very profit-driven, very cost-driven, very price-sensitive. We're already used to that rough and tumble world of keeping our costs down and retaining customers."

Pasetti, in his analysis, mapped out three scenarios for Flexport's valuation, based on the limited data available. In the bull scenario, Flexport is worth "several times" its current $1 billion to $1.5 billion valuation, based on a presumption of 200 percent compound annual growth to 2020, ending in annual revenue of $6 billion. But in Pasetti's bear scenario, Flexport's value would be around $369 million, lower than the debt it would presumably need to raise if investors bail on its transformative potential.

A founder in the logistics start-up world told JOC.com that a quick and dirty calculation method for Flexport's exit target is to multiply the amount of funding it has received by 10. In other words, at existing funding levels, it would need to be acquired or IPO at $3 billion.

Those seemingly are the stakes.

"We're called cocky, but we're often very humble in acknowledging that we're new to this, and don't know that much and are working really hard to figure out something that's really complex and hard," Petersen said. "But we're happy to point out that some of the way things are done now are really stupid. Doesn't mean I think the people involved in the industry are stupid, but it can get misinterpreted. It's fair, it's good feedback."



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