

Intersections

Fourth-quarter 2011 transportation and logistics industry mergers and acquisitions analysis

Special report:
*Using divestitures and
spin-offs to best position
an organization for growth*



Kenneth H. Evans

To our Transportation & Logistics Industry readers:

Welcome to the latest edition of *Intersections*, PwC's analysis of mergers and acquisitions in the global transportation and logistics industry. In this report, you'll find an overview of M&A in the sector during the fourth quarter of 2011 and our expectations for deal activity in the near future. Our report also includes a special section on divestitures and spin-offs, increasingly viewed as essential strategies for helping companies better position themselves for growth opportunities.

PwC analysts point to several trends affecting the values and locations of deals in the transportation and logistics (T&L) sector:

- **Logistics and trucking M&A** has had the greatest positive correlation with global economic output of all transportation modes. Consequently, expectations of a continued global economic expansion suggest increased deal activity in logistics and trucking.
- **Shipping and infrastructure deals**, largely driven by horizontal consolidation resulting from ongoing capacity issues, are best positioned to lead the market in 2012. Transportation infrastructure activity is expected to increase, stemming from factors that vary significantly by region.
- **Rail value**, boosted by the \$4.2 billion divestiture of Russia's Freight One, the largest transaction in the fourth quarter, led all modes in T&L. Over the next two years, more large transportation deals are expected for Russia, resulting from the government's plan to privatize the country's largest domestic railway and shipping companies, among other state-owned operations.



Klaus-Dieter Ruske

PwC analysts are anticipating a brisk pace for T&L deal announcements in 2012, with great potential for strength in shipping and infrastructure deals despite concerns over macroeconomic risks. If the United States experiences a recovery that is stronger than expected, then M&A activity in the sector could be even more robust.

We're pleased to present the fourth-quarter 2011 edition of *Intersections* as a part of our ongoing commitment to providing a better understanding of M&A trends and prospects in the industry.

Kenneth H. Evans,
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Special report:

Using divestitures and spin-offs to best position an organization for growth opportunities

Global merger and acquisition activity has risen significantly in recent years, increasing to \$2.54 trillion in 2011, a 7.6% jump over 2010.¹ US M&A activity is expected to continue at the current pace through 2012, according to PwC analysts, and could accelerate if access to capital increases.² M&A activity has shown a rise in the number and value of divestitures and spin-offs. US divestiture deal volume as a percentage of M&A volume increased to 36% in 2011 from 35% in 2010, according to PwC.³

While divestiture activity has increased recently, these transactions often are taking longer to close than in previous years, with some companies being forced to go to market several times before successfully striking deals with buyers. Also slowing such deals:

- Tighter lending standards for a smaller pool of buyers
- Investors made skittish by volatile stock markets
- Sovereign debt crisis in Europe and concern over government spending levels in the United States
- An uncertain economic forecast
- Shrinking government spend

More diligence is often required by third-party lenders and other constituents, and, overall, buyers have become more cautious. In the mid-size market, corporate buyers have been prepared to pay stronger multiples for the highest-quality industrial products (IP) businesses. Processes are also being structured to better benefit trade buyers, as vendors are able to provide them with more access to management and more time, although they expect to be paid for their synergies.

In light of difficult economic conditions over the past few years, buyers have been more aggressive in seeking a price below the value sought by sellers. Many sellers, however,

are holding fast to their value expectations in anticipation of renewed economic growth, and they continue to view divestitures and spin-offs as effective strategies for shedding non-core businesses, rightsizing their organizations, and providing a platform for growth.

Spin-offs were on the rise in 2011 as an attractive way for companies to separate high-growth or low-growth components of the business from more traditional pieces of the organization. Some of these high-profile transactions included ITT's split into three publicly traded companies, Motorola's spin-off of its mobile-phone division, McGraw-Hill's spin-off of its educational unit, L-3's announced spin-off of several government services businesses, and Sara Lee's spin-off of its international beverage business.

With 170 deals reaching a disclosed value greater than \$50 million and a total deal value of \$51.3 billion during 2011, as compared with 186 such deals and a total \$107.9 billion deal value in 2010, the transportation and logistics sector is enjoying a period of steady M&A activity.

A general uptick in T&L deal activity through the first half of 2011 was followed by a period during which several transactions were initiated but failed to proceed, in part due to questions regarding the impact of turmoil in the US and foreign markets during the second half of the year. As eyes turn to a potential slowdown of growth in Asia, principally China, buyers will continue to rigorously stress test valuation models to determine how global economic conditions could influence deals in developed markets, including the United States.

One significant deal in the sector, American Airlines' planned spin-off of its American Eagle regional unit, stalled due to labor issues and complications from parent company AMR Corporation's bankruptcy. The spin-off, an effort by the parent company to diversify regional service and cut operating costs, has been placed on hold pending the outcome of AMR Corporation's bankruptcy proceedings.

1. "On Wall Street, Renewed Optimism for Deal-Making," by Evelyn M. Rusli, The New York Times, Jan. 2, 2012

2. " 'Hunt for Growth to drive 2012 US Mergers & Acquisitions,' says PwC US," PwC, 2012

3. *ibid*

Driving spin-offs and divestitures

Spin-offs, often the best way to dispose of a business while preserving shareholder value, are a sound strategy for businesses with significant appreciated value, as a sale can trigger a large taxable gain. A spin-off is generally a tax-free transaction that allows shareholders to maintain their appreciated value without generating a substantial profit. Thus, shareholders are allowed to preserve capital gains treatment and control the timing of the realization of the gain. Following the repeal of the General Utilities Doctrine, tax-free Section 355 spin-offs may be the only remaining means by which a corporation can extract appreciated assets without paying corporate-level tax.

Selling a long-standing unit of a company can be a difficult, and often controversial, decision for an organization, particularly if members of the management team have ties to the unit being divested. But by selling a business unit that is no longer on strategy—because it may be poorly performing, in a contracting market, or simply no longer a priority—a company can raise capital to invest in its strategic priorities and allow that business unit to do the same, thereby enhancing overall shareholder value.

By taking such an approach, an organization can gain the financial resources to inject additional funding into its core business, thereby enabling it to refocus on essential aspects of the business that help define the organization and launch projects that may have been delayed. These initiatives can allow the company to improve its overall performance. The infusion of cash can also help a company shed its debt.

Additionally, certain sellers are interested in acquiring capital as companies look to restructure their balance sheets by building up cash reserves or paying down debt. Selling a high-performing or high-value business unit at a desirable price can go a long way toward helping a company achieve that goal.

Navigating a challenging process

Corporate sellers often delay making divestiture decisions, thanks to the financial and logistical challenges of timing, valuation, and potential pushback from management teams running targeted business units. Participants in a PwC roundtable on divestiture strategies and solutions noted that failing to adequately consider these factors can contribute to a portfolio review that is poorly planned, in turn driving unhealthy or conflicting incentives across an organization. That dynamic can lead to institutional resistance to identifying divestiture candidates and can ultimately hamper or derail divestiture efforts. Timing, price, and ease are priorities that must be balanced when evaluating candidates for divestiture. Once moving forward with a divestiture, leadership and investors should consider focusing on the future of the core business and on expediting the divestiture to limit executive and investor distractions.⁴

The road to closing, too, can be long and complex, with global economic uncertainty increasingly leading buyers to expect and demand more detailed data about a target company. More intensive and extensive due diligence is prolonging the divestiture process. More than half of respondents in the same survey said recent divestitures had taken at least 20% longer to complete than in previous years.

For a corporate entity, divestitures typically are far less common than acquisitions. Consequently, there are great challenges when it comes to effectively managing the process and drawing on their team's experience. Significant value in any acquisition can be captured from acquiring the appropriate target and achieving planned synergies and effective integration to meet the prescribed business case. Many of these activities can be viewed as core capabilities of a management team accustomed to serial acquisitions. However, they are not as relevant to a divestiture.

Companies in recent years have become aware of gaps in their approach to divestitures: Nearly half of the C-suite executives and corporate development directors responding to a PwC survey reported their acquisition process was better defined than their divestiture process.⁵

4. "Divestiture strategies and solutions," PwC, 2009

5. "Divestitures in difficult times," PwC, 2009

The list of targets that a company would seek to acquire at the appropriate time and price is refined over the years, with management paying close attention to each target, some of which may be competitors. Identifying a complete list of buyers can be more challenging to management teams—for example, when suitable buyers may not be directly involved in the same industry but instead may be seeking to enter it.

Consequently, sellers are paying closer attention to how they manage the divestiture process, from start to finish. They frequently assemble a team dedicated to managing and executing the deal and the operational separation simultaneously.

To close deals and improve the value of their assets, sellers are striving to gain a better, more comprehensive understanding of the complexities of the divestiture market. They are gauging the full scope of buyer concerns and responding to the global economic crises that have changed the rules of the game, requiring a tweak in strategies.

The overriding goal is to evaluate the business from a buyer's perspective and appropriately position it for sale. Reducing or avoiding delays altogether can be essential to maintaining the desired value of the sale, as the longer a transaction takes, the more opportunity there is for value erosion.

Also critical is to prepare for separating the operations of the unit and the parent company as early as when deal preparations begin. Looking out for the unexpected, including dual-track transactions (sale or spin-off), can also be essential to ensuring successful deals.

Asking relevant questions up-front

When planning a divestiture, an organization can enhance its chance of a successful transaction by asking and answering questions in specific areas:

- Who is the anticipated buyer? Public or private? Corporate? Domestic or foreign? Management? Financial buyers?
- How will the transaction team managing the divestiture be motivated or rewarded along with the executives who will be leaving the parent company to commence working for the acquirer?
- How complex is the anticipated divestiture, and the attendant separation of financial systems, people, and operations?
- What will a buyer request in regard to data and additional information?
- What are the risks, and has a plan been developed to minimize risks and surprises?
- What are the anticipated buyers' audit and financial reporting requirements?
- How will the process be managed, and what is the time line for the transaction?
- Who will manage the process, and does the company have adequate internal resources/knowledge?
- What ongoing transactions are to be expected with the divested operations, and how will those be handled?⁶
- What are the tax or other regulatory requirements that could result in potential additional costs or restrictions on how the divestiture is effectuated?

6. "Generating Value from Corporate Divestitures in 2011," PwC, 2011

While divestitures and spin-offs in the transportation & logistics sector are not complicated by intellectual property concerns and technology or materials that are cross-licensed—factors significant in other sectors—deal value is subject to variables such as fluctuations in fuel prices, traditionally the largest and most troublesome costs for companies in the sector, and labor costs.

Also presenting significant risk to deal values in the sector are contracts with vendors and human capital issues related to pensions and other benefits. In the airline and railroad industries, legacy benefits and pensions historically have been generous. Consequently, sellers involved in deals are negotiating with buyers whose concerns will focus, in part, on the economic impact of those benefits over the next 25 years.

In the case of railroads, there can be additional concerns around the large contingent of aging workers facing retirement in coming years: Who will replace those employees, and how much will it cost to replace them? There are also concerns related to union contracts: Which contracts are expiring in the near future, and what are the costs associated with renewing those contracts?

A seller looking to optimize the success of any given divestiture or spin-off will proactively prepare on a number of fronts:

Repositioning to seize opportunities

By employing a well-defined and regular portfolio process, a company can leverage significant opportunities for improvement in business and product portfolio optimization. Forward-thinking companies identify appropriate divestiture candidates based on financial, operating, and commercial parameters such as a business maturing or becoming ripe for sale due to restructuring or market factors; a business requiring a capital infusion or specialized knowledge that resides in the capacity of the portfolio company or company's management; or the business is part of a larger acquisition and does not fit with the overall strategic plan of the company or its portfolio businesses.

After settling on a business to exit, the process begins in earnest by validating the case for separation. The process can encompass resolving such issues as:

- What is the best type of exit for my investors?
Is it realistic?

- Which buyers in which markets are most likely to be willing and able to pay full price?
- Would a strategic partner add value? If so, which candidates are the best for the business to be divested?
- What scope of diligence on prospective buyers or partners is needed from both a financial and commercial perspective?
- Which deal structures strike the best balance between buyers' and sellers' needs?

Walking in the buyer's shoes

Adopt a buyer's perspective by performing due diligence of the business before buyers are involved. A full review of the unit slated for sale can be essential when sellers' and buyers' pricing expectations vary significantly. Advance diligence can also help the seller identify and promote the unit's strengths and evaluate alternative transactions and structures from an informed perspective.

Buyers often are suspicious that executing a divestiture is merely a strategy for companies to rid themselves of a problem asset. To defuse that issue, sellers should be equipped to answer critical questions:

- Why is the asset for sale?
- Why has it been underperforming?
- Why is it expected to do well outside the company?
- How will the forecast be prepared?

Determining separation issues early during the process

Human resources, intellectual property, information technology systems, employee benefit plans, and other systems and processes that took years to create must be disentangled during a divestiture. The process includes the development of transition service agreements (TSAs), which provide for services between the seller and the buyer post-closing. Buyers will want not only to outline all of the issues and time lines involved but also to incorporate all TSA and post-TSA costs into their initial valuations.

Presenting the business in the most favorable light

Historical financial results often may need to be revised to accurately reflect the unit as a standalone unit and exclusive of nonrecurring items. Those results should be clearly and convincingly described in a business plan that links in the forecasts and actions to drive profits.

For the most challenging divestitures to be successful, the vendor may consider developing a detailed business plan that can be presented to prospective purchasers. The plan could include a detailed analysis of the recurring historical figures and move to describe the forecasts and actions that need to be implemented. A vendor can make a divestiture more attractive to potential purchasers by using strategies such as providing them with contracts for a pre-determined time. Such incentives could be considered when preparing the business plan.

Sellers also should consider all of the various tax and accounting structures available to them and choose the one that works best from a deal perspective.

Moving quickly to minimize value deterioration

Divestiture transactions, as with acquisitions, can be lengthy processes. Depending on whether a carve-out audit was required and other buyer financing and regulatory requirements, a divestiture typically can take six months to a year, according to a group of corporate development executives surveyed by PwC. The long transaction period can be driven by the complexities of developing an accurate financial understanding of the business unit or carve-out, and disentangling its employees and operations from the larger corporate parent—the latter process can last another six months and tie up resources long after the transaction closes.

A long, cautious preparation period can be critical to a successful sell transaction. The journey to getting the asset marketed and ultimately off the company's balance sheet begins once a business unit is chosen for divestiture. While planning can extend the time spent on a divestiture, it can save time and costs overall, as the process is likely to be more efficient once the seller goes to market.

Avoiding pitfalls

The divestiture process can be long, labor-intensive, and complex. Business development executives recently surveyed by PwC agreed on the need to avoid nine common pitfalls. Among the areas that can damage or derail a deal:

- Failing to understand your anticipated buyer profile
- Failing to address critical pension issues
- Failing to address critical financial reporting issues
- Lack of detailed credible support for the business plan
- Data reconciliation issues while going to market before vetting the numbers, requiring significant bridging from the confidential information memorandum (CIM) to the data room information
- Stranded cost identification
- Lack of risk identification and response
- Lack of a clear transition services plan as well as a vision for post-TSA period
- Lengthy divestiture process due to lack of structure or data preparedness

The critical factor shared by companies achieving their goals for successful divestitures and spin-offs: extensive preparation. Unpreparedness can be costly. Sellers in some industries that found themselves startled by the speed and scope of the economic crisis discovered little bargaining power against buyers that could cherry-pick attractive assets and operations.

In many cases, negotiations moved too quickly to let sellers effectively argue the value of their assets, and having prepared too late, they had no alternative except to take what they were offered or scramble to survive during an extended process. Preparing early and effectively lets sellers act when necessary, retain negotiating power, and, most importantly, realize the greatest value from their divestiture.

Perspectives:

Thoughts on deal activity in the fourth quarter of 2011

Welcome to *Intersections*, our quarterly analysis of M&A in the transportation and logistics sector. In this edition, we have included a special focus on logistics and trucking acquisitions. Our analysis of deals since 2000 finds that logistics and trucking M&A has had the highest positive correlation with global economic output of all transportation modes. Expectations for a continued global economic expansion are positive for activity in this category.

In our last update, we shared that overall deal flow remained robust despite rising anxiety about global economic conditions. We assumed that this could be due to timing, with decisions to enter into many third-quarter deals occurring before concern heightened. In light of fourth quarter totals, it does appear that there was a delayed reaction, especially regarding smaller deals.

The contribution of US deals to the overall market also declined during the fourth quarter. A stronger US dollar seems to have been one culprit; however, the aforementioned worry over the endurance of the economic expansion may also have loomed in the minds of potential acquirers. The health of the US economy should spur more transportation and logistics deals in 2012. The pending increase in US capital gains tax could also motivate some domestic sellers this year.

Rail value led all modes, supported by the \$4.2 billion divestiture of Russia's Freight One, which was the largest transaction in the fourth quarter. Russia seems likely to be a source of more large transportation deals over the next two years. The genesis of these announcements could be auctions resulting from the government's current plan to privatize state-owned entities, including the largest domestic railway and shipping companies.

Although rail was active this past quarter, shipping and infrastructure deals seem best-positioned to lead the market in 2012. The primary motivation for horizontal consolidation in shipping is the ongoing capacity issues across much of this mode. We are also optimistic on transportation infrastructure activity and note that the rationale for these deals can vary significantly by nation. In developed markets, asset sales can help governments address ongoing budget pressures. In emerging markets, port, airport, and road investments can be used to support economic growth. Both are highly supportive of future infrastructure M&A.

Infrastructure deals will also be important to watch this year because they are influencing the broader market in several more subtle ways. For example, more than half of deals for targets in emerging and developing markets this past year were for infrastructure assets. In addition, our analysis of historical valuations by category indicates that infrastructure deals have commanded a valuation premium relative to other transportation targets. So growth in transportation infrastructure M&A has contributed to more emerging market deals as well as pushed overall valuations higher.

We are optimistic that this will be a strong year for transportation and logistics announcements. While macroeconomic risks remain, the potential for strength in shipping and infrastructure deals outweighs this concern. In addition, a stronger-than-expected recovery in the United States could also provide additional upside. These factors lead to our positive outlook for transportation and logistics M&A in 2012.

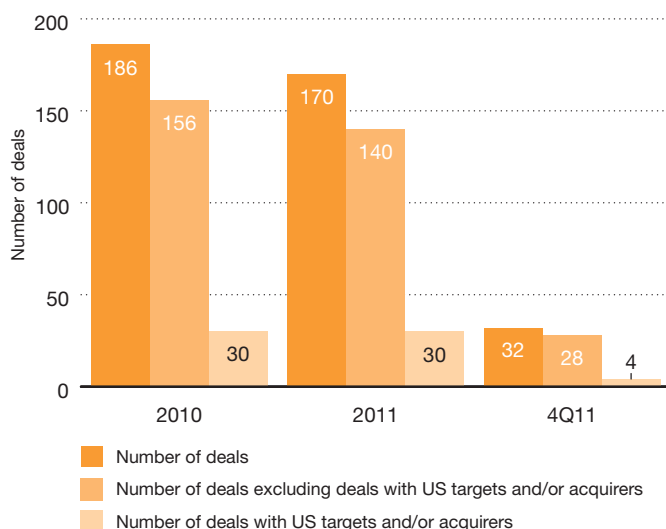
Quarterly T&L deal activity

Measured by number and value of deals worth \$50 million or more (1Q09–4Q11)

	2009				2010				2011			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of deals	26	19	30	44	40	41	44	61	46	46	46	32
Total deal value (\$ bil)	6.2	5.2	10.4	56.2	19.3	18.9	21.3	48.5	10.9	13.4	14.2	12.8
Average deal value (\$ bil)	0.2	0.3	0.3	1.3	0.5	0.5	0.5	0.8	0.2	0.3	0.3	0.4

Deal activity by number of deals

Measured by number of deals worth \$50 million or more (2010, 2011, 4Q11)

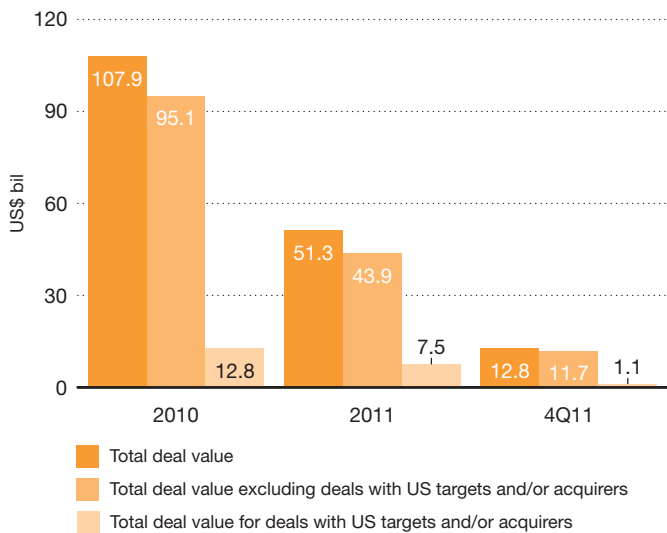


The robust pace of activity described in the last *Intersections* update was qualified by the assumption that at least some of the decisions to move forward with acquisitions were made prior to the second half of 2011, when the level of anxiety about the global economy climbed. These concerns included new recessions in several Western economies, sovereign debt issues in Europe, and the potential for a hard landing in large emerging market economies. It appears that these risks did influence the market in the fourth quarter, especially regarding smaller deals. However, larger deals for transportation and logistics targets continue to be announced. This trend is demonstrated by the decline in fourth quarter deal volume coupled with the relatively stable pace of total deal value, which led to an increase in average deal size.

US entities were a primary contributor to this slowdown in smaller deals, as non-US parties announced the largest deals of the quarter. The decline in US participation has come primarily in the form of fewer deals for US targets. It seems premature to conclude that economic concerns in the United States are taking precedence over other global macro issues. For example, factors such as recent strength in the US dollar could be playing a more significant role in the short term. However, the health of the US economy bears watching in 2012 as a major factor that could drive overall M&A totals higher.

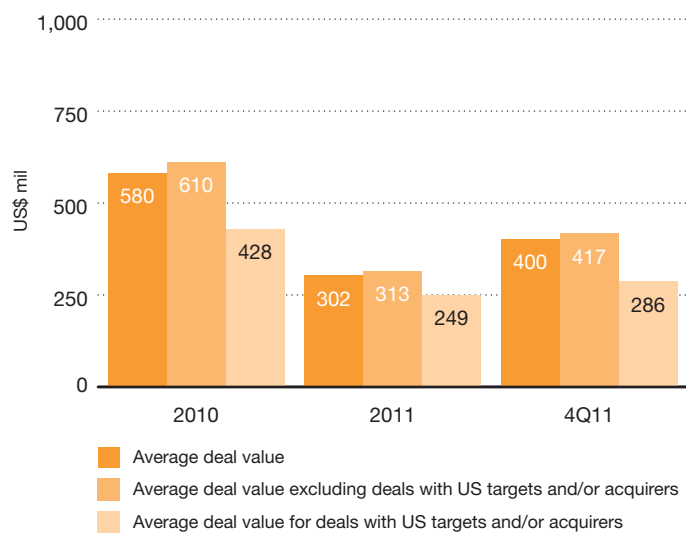
Deal activity by total deal value

Measured by value of deals worth \$50 million or more (2010, 2011, 4Q11)



Deal activity by average deal value

Measured by value of deals worth \$50 million or more (2010, 2011, 4Q11)



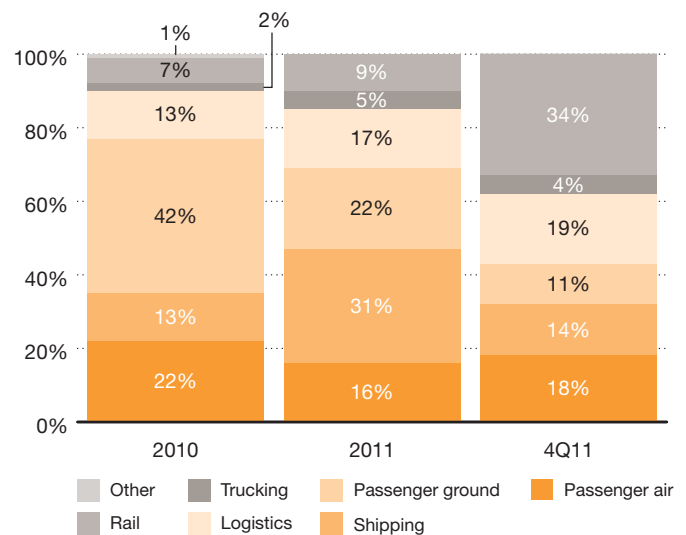
The rail mode led fourth quarter activity as measured by value due to Universal Cargo Logistics' \$4.2 billion stake in the largest rail cargo operator in Russia. Deals for rail targets have been the largest transportation and logistics transactions in several of the most recent years. Among the largest are the \$4.2 billion UCL/Freight One announcement in 2011 and the \$36.7 billion Berkshire Hathaway/Burlington Northern deal in 2009. Despite these notable deals, rail M&A has not historically been a particularly significant driver of overall transaction value in the transportation and logistics sector. An analysis of deal activity by mode over the past 10 years indicates that passenger air has contributed the greatest volume, and shipping the greatest value, to overall activity.

Of these two modes, shipping seems more likely to contribute substantially to deal flow in 2012. Overcapacity and the attendant impact on pricing are critical issues that could lead to more consolidation. The global airline industry remains challenged from a profitability standpoint and would also likely benefit from additional M&A, but antitrust concerns and foreign ownership rules are limiting factors to achieving this consolidation.

Just as 2010 represented a historical high for transportation infrastructure deals, they remained popular in 2011 as well, with the second-highest level of volume since 2000. In addition, four of 10 mega-deals announced in 2011 were for infrastructure targets. In keeping with historical norms, transportation infrastructure deal flow in 2011 was generally split evenly between transactions for airport, port, and road targets.

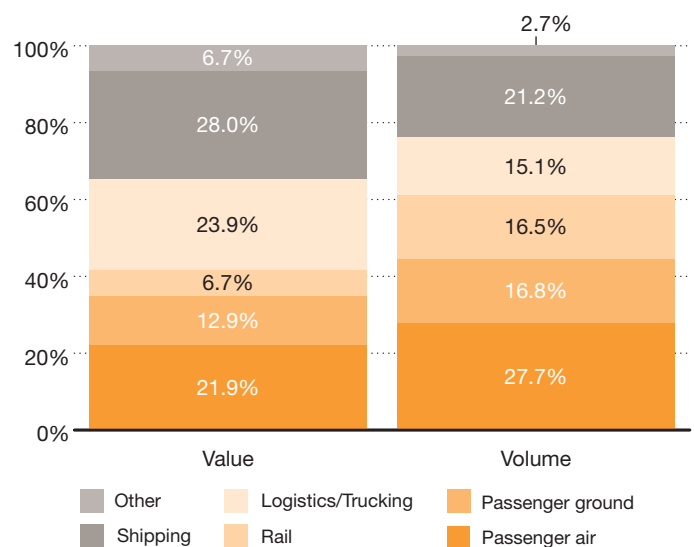
Deals by transportation & logistics mode

Measured by value of deals worth \$50 million or more (2010, 2011, 4Q11)

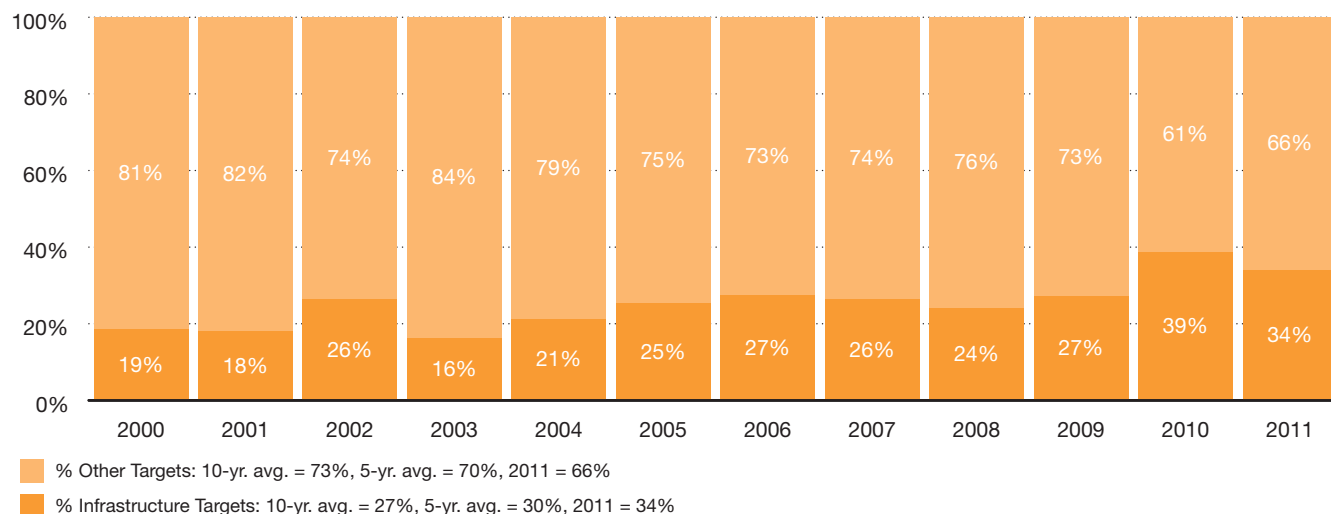


Historical relative deal activity by mode

Measured by number and value of deals worth \$50 million or more (2002-2011)



Historical relative deal volume for transportation infrastructure
Measured by volume of deals worth \$50 million or more (2000–2011)

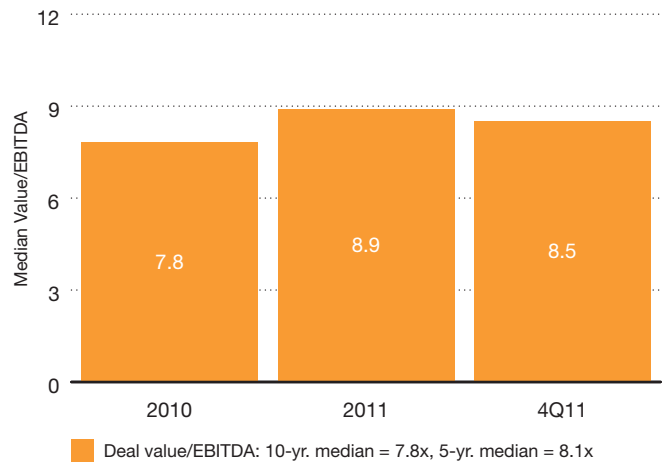


While infrastructure deals in advanced economies have garnered a lot of attention, the importance of these targets to deal flow in emerging and developing countries is startling. Half of all transportation deals involving emerging and developing economy targets in 2011 were for infrastructure assets. The comparable amount in 2000 was roughly one-third of announcements. Looking forward, the rationale for these deals in both advanced and emerging economies remains strong, with a combination of fiscal pressures and the benefits of relatively stable cash flows providing the impetus for new transactions. This could lead to more activity in passenger air and ground modes due to potential airport privatizations and road concessions, as well as port deals in the shipping mode.

Deal multiples have receded slightly but remain above long-term norms. An increase in controlling stake purchases has contributed to this trend; however, a breakdown of historical multiples by category belies that infrastructure deals have tended to earn premium multiples. The increasing popularity of infrastructure deals is one factor that has pushed the median valuation upward across the transportation and logistics sector. It stands to reason that if the high level of interest in these deals continues, then value/EBITDA could remain high as well.

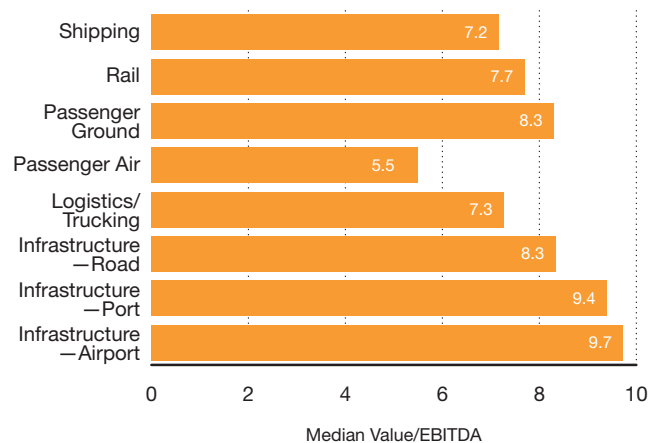
Deal valuation by median Value/EBITDA

Measured by Value/EBITDA for deals worth \$50 million or more (2010, 2011, 4Q11)



Historical multiples by target (2002–2011)

Measured by value/EBITDA for deals worth \$50 million or more



Mega-deals in 2010 (deals with a disclosed value of at least \$1 billion)							
Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Dec	Plus Expressways Bhd	Malaysia	Jelas Ulung Sdn Bhd	Malaysia	Withdrawn	8.30	Passenger ground
Jan	Japan Airlines Corp	Japan	Enterprise Turnaround Initiative Corp of Japan{ETIC}	Japan	Completed	8.17	Passenger air
Oct	Plus Expressways Bhd	Malaysia	Investor Group	Malaysia	Intended	7.46	Passenger ground
Dec	TNT Express NV	Netherlands	Shareholders	Netherlands	Completed	7.24	Logistics
May	Continental Airlines Inc	United States	UAL Corp	United States	Completed	3.69	Passenger air
Jul	Abertis Infraestructuras SA	Spain	Trebol Holdings Sarl	Spain	Completed	3.68	Passenger ground
May	Transurban Group	Australia	Investor Group	Canada	Withdrawn	3.68	Passenger ground
Aug	TAM SA	Brazil	LAN Airlines SA	Chile	Pending	3.43	Passenger air
Nov	Eversholt Rail Group	United Kingdom	Eversholt Investment Group	United Kingdom	Completed	3.42	Rail
Nov	HS1 Ltd	United Kingdom	Investor Group	Canada	Completed	3.40	Rail
Nov	Queensland Motorways Ltd	Australia	QIC Ltd	Australia	Completed	3.35	Passenger ground
Mar	Arriva PLC	United Kingdom	Deutsche Bahn AG	Germany	Completed	2.43	Passenger ground
Sep	Primorsky Commercial Port LLC	Russian Fed	Novorossiysk Commercial Sea Port Group	Russian Fed	Completed	2.15	Shipping
Oct	La Poste SA	France	Groupe Caisse des Depots & Consignations{CDC}	France	Completed	2.11	Logistics
Dec	DP World Australia Ltd	Australia	Citi Infrastructure Investors	United States	Completed	1.48	Shipping
Sep	Odebrecht Transport Participacoes SA	Brazil	Fundo de Garantia do Tempo de Servico	Brazil	Completed	1.11	Passenger ground
Mar	Corredor Norte Toll Road Project	Panama	Republica de Panama	Panama	Pending	1.07	Passenger ground
Jun	Societe des Autoroutes Paris-Rhin-Rhone SA	France	Eiffarie SAS	France	Completed	1.05	Passenger ground
Sep	AirTran Holdings Inc	United States	Southwest Airlines Co	United States	Completed	1.04	Passenger air

Mega-deals in 2011 (deals with a disclosed value of at least \$1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Oct	Freight One	Russian Fed	UCL Holding BV	Russian Fed	Completed	4.22	Rail
May	Abbot Point Coal Terminal	Australia	Mundra Port & Special Economic Zone Ltd {MPSEZ}	India	Completed	1.95	Shipping
Jun	Brussels Airport Co SA	Belgium	Ontario Teachers Pension Plan {OTPP}	Canada	Completed	1.75	Passenger air
Jul	Korea Express Co Ltd	South Korea	Investor Group	South Korea	Completed	1.65	Logistics
Dec	Lasalle Investment Management KK-Property Portfolio	Japan	Investor Group	China	Pending	1.57	Logistics
Jul	ConnectEast Group	Australia	Horizon Roads Pty Ltd	Australia	Completed	1.53	Passenger ground
Oct	Maersk LNG A/S	Denmark	Undisclosed Joint Venture	Denmark	Pending	1.40	Shipping
May	Daxinhua Airlines Co Ltd	China	Chongqing Shenyin Longsheng Investment Co Ltd	China	Pending	1.23	Passenger air
Sep	Puerto Rico Public-Private Partnership Authority {PPPA}- PR 22	Puerto Rico	Investor Group	United States	Completed	1.14	Passenger ground
Aug	GE SeaCo Ltd	Barbados	Investor Group	China	Pending	1.05	Shipping
Aug	Diamond S Shipping LLC	United States	Investor Group	United States	Pending	1.00	Shipping

There were three mega-deals announced during the fourth quarter and 11 during all of 2011. This is below the level of 2010, when 19 mega-deals were announced. There wasn't a common theme that linked all the mega-deal announcements in the fourth quarter; however, it is interesting that the targets of two mega-deals (Lasalle's logistics facilities and Maersk LNG vessels) were influenced by the 2011 Japanese earthquake and tsunami.

The largest deal during the fourth quarter and the full year was the \$4.2 billion acquisition of Freight One from state-owned Russian Railways (RZD) by Universal Cargo Logistics. This is part of a broad cross-sector privatization plan from the Russian government, which should raise a significant amount of capital and could influence competitive dynamics in several sectors.

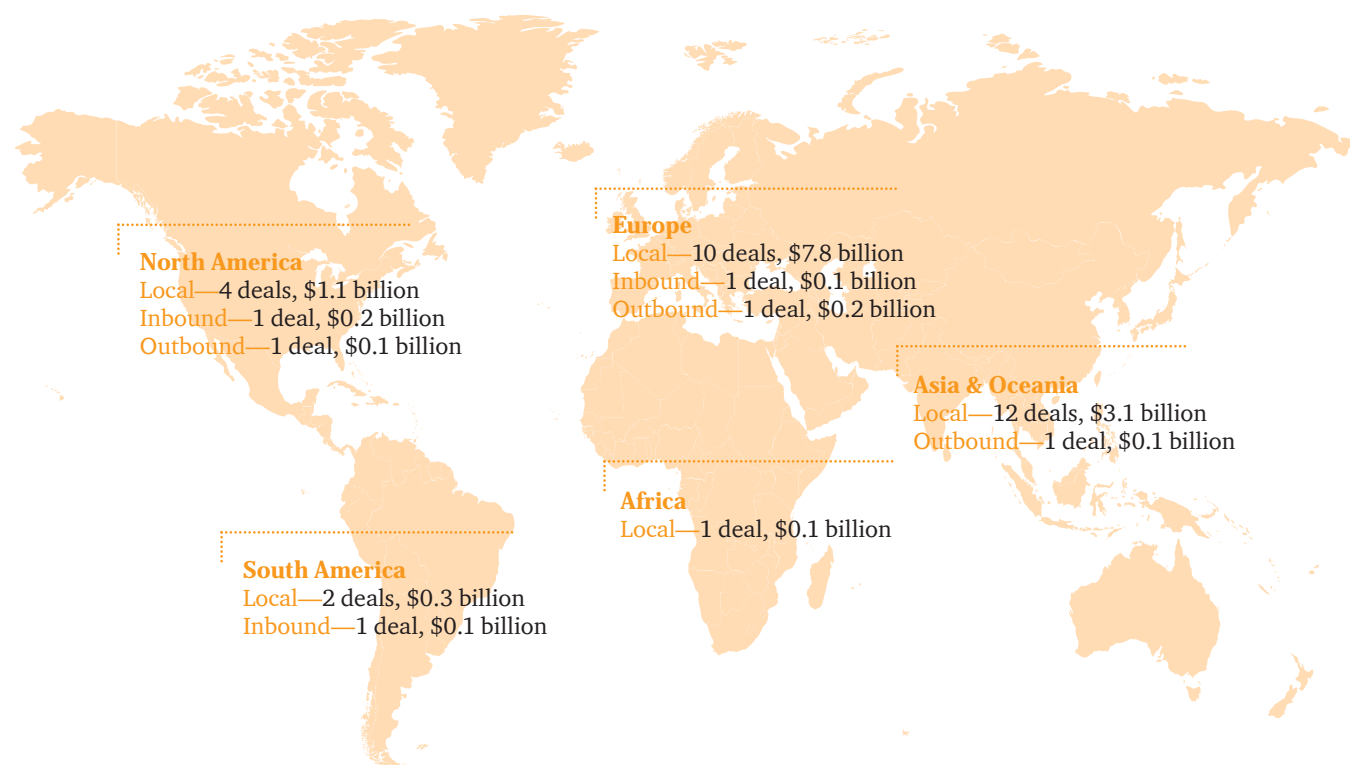
The second-largest transaction in the fourth quarter was the \$1.6 billion acquisition of Japanese logistics facilities from LaSalle Investment Management by a joint venture between China and Singapore sovereign wealth funds. These assets, which are mainly near the Tokyo and Osaka areas, are expected to benefit from the recovery of Japanese

manufacturing and additional supply chain investment following the earthquake and tsunami in March 2011.

The final mega-deal of the quarter was the \$1.4 billion purchase of liquefied natural gas (LNG) vessels by Teekay Partners and Marubeni Corp. from Maersk and an AP Moller-Maersk joint venture. The divestiture was motivated by AP Moller-Maersk's lack of scale in this market; however, it is noteworthy that global LNG shipping rates have been relatively strong due to factors such as Japan's need to replace nuclear power capacity lost during the disasters of the past year.

While the rationale for mega-deals announced during the fourth quarter varied, shipping and infrastructure targets were clearly popular over the course of the year. Shipping seems likely to remain a source of larger deals in 2012 due to weak fundamentals across much of this mode, which increases the rationale for consolidation. In addition, infrastructure mega-deals are likely to remain common due to the aforementioned motivations as well as the large deal values typically associated with these targets.

Global transportation and logistics M&A activity in 4Q11
Measured by number and value of deals worth \$50 million or more



Emerging market activity, which slowed in the third quarter, expanded somewhat in the fourth quarter. Emerging market deals were led by BRIC activity, with China accounting for the majority of Asia & Oceania deals. In addition, deals involving targets in Russia were a significant contributor to totals for Europe. This led to Asia and Europe being the most active regions during the fourth quarter.

China's activity this quarter was driven by local-market passenger air deals. Hainan Airlines was particularly acquisitive, taking stakes in several domestic airlines and their subsidiaries. In addition, deals in Russia were also up sharply during 2011. Russia may continue to contribute a significant amount of large deal flow as the government plans to privatize numerous large state-owned entities between 2011 and 2013. According to Russia's privatization plan for 2011—2013, these divestitures are expected to

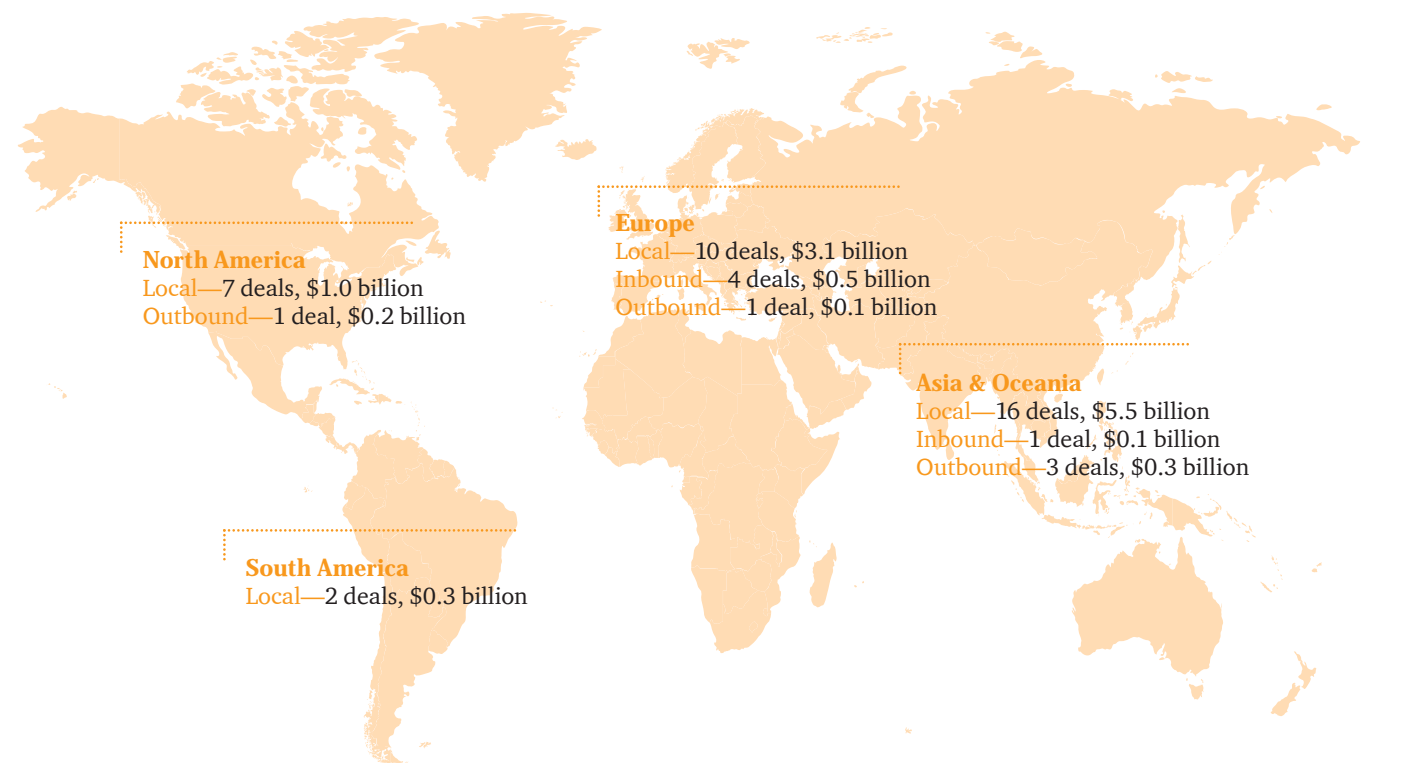
bring in approximately \$33 billion. While these auctions are expected to span many sectors, the plan does include efforts to sell stakes in the largest railroad, Russian Railways, and the largest shipping company, Sovcomflot. One qualification to this outlook is that reports also indicate that some of these transportation auctions could be postponed due to market conditions.

Local-market (within country) and deals that are local to the region (both the target and acquirer(s) come from the same region) continue to drive the market. When this preference for local deals is considered alongside the prevalence of emerging market deals, it seems reasonable that the relative fragmentation of emerging market transportation and logistics industries means that acquirers are focusing M&A efforts on the consolidation of their own domestic markets.

Logistics & trucking deals in 2011

Global logistics & trucking M&A activity

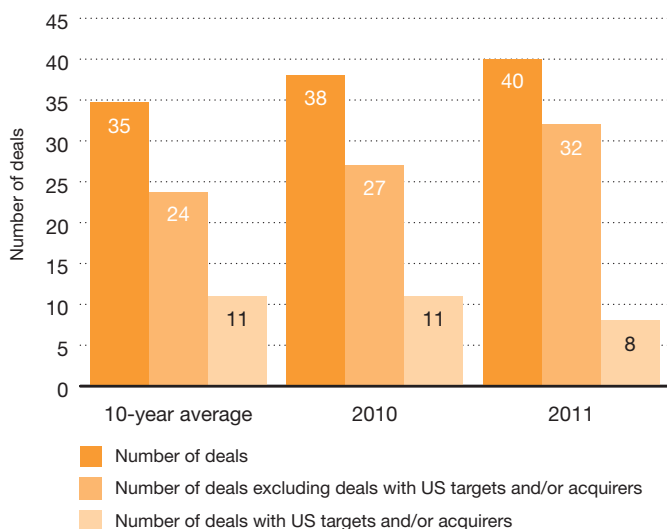
Measured by number and value of deals worth \$50 million or more (2011)



Top 5 Logistics/Trucking deals in 2011

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.
Jul	Korea Express Co Ltd	South Korea	Investor Group	South Korea	Completed	1,65
Dec	Lasalle Investment Management KK-Property Portfolio	Japan	Investor Group	China	Pending	1,57
Mar	Vantec Corp	Japan	Hitachi Transport System Ltd	Japan	Completed	0,59
Mar	Arcapita Bank BSC-Undisclosed Joint Ventures (2)	Belgium	Shurgard Europe SPRL	Belgium	Completed	0,59
Apr	Nezavisimaya Transportnaya Komaniya	Russian Fed	UCL Rail BV	Netherlands	Completed	0,56

Deal activity by number of deals (logistics/trucking modal focus)
Measured by number of deals worth \$50 million or more
(2010, 2011, 4Q11)



Deals for logistics and trucking targets have increased. Similar to the overall trend in deal activity, this is mainly due to growth in transactions outside the United States. Asian and European dealmakers in particular are featured prominently in the largest deals announced over this past year.

The top logistics and trucking announcement was the \$1.7 billion acquisition of the largest logistics firm in Korea, Korea Express, by a local investment consortium, CJ Group. This deal is part of a restructuring of Korea Express' parent, Kumho Asiana Group, and it is expected to improve CJ Group's competitiveness in the logistics industry.

The second-largest logistics deal during the past year was the aforementioned \$1.6 billion acquisition of Lasalle Investment Management's logistics facilities in Japan by sovereign wealth funds from China and Singapore.

In March, Hitachi Transport System acquired Vantec Corp. Hitachi Transport is a large Japanese logistics firm, and the Vantec deal marries Hitachi's strength in appliances and consumer staples with Vantec's automotive parts network.

Also in March, Arcapita Bank sold a majority stake in two joint ventures of 72 self-storage facilities to minority owner Shurgard Europe. This transaction followed several other property-related exits by Arcapita Bank after the global financial crisis.

The fifth-largest deal for a logistics target during 2011 was the \$0.6 billion acquisition of NLMK's logistics business by UCL Rail BV, a subsidiary of Universal Cargo Logistics Holding BV. This deal was motivated by NLMK's strategy to divest non-core assets.

The expanding global economy has led to a higher deal volume for logistics and trucking targets. While global transportation & logistics announcements are highly correlated with the business cycle, the GDP relationship is particularly strong as it pertains to logistics and trucking M&A. An analysis of deals since 2000 indicates that this category has had the highest positive correlation ($r = 0.79$) with real GDP of all transportation and logistics modes and categories. This bodes well for future logistics and trucking announcements, assuming that the expansion continues unabated.

PwC spotlight

In an uncertain global economy, liquidity issues and stakeholder pressures for improved performance have led to an increased focus on divestiture activities in the short term. The need to divest may be an inevitable reality. But a smaller pool of likely buyers and greater scrutiny from banks have resulted in increased levels of buyer due diligence, often extending the sales process and sometimes eroding sale prices.

Readying a company for more rigorous buyer due diligence can be critical to preserving the value of a divestiture for the seller. Also important: preparations for mitigating other areas of frequent value loss, including ineffective terms and pricing of TSAs and insufficient infrastructure planning for stranded costs.

How PwC can help

While market conditions have fluctuated dramatically in recent years, extracting top value remains the overriding goal of the divestiture process. The divestiture specialists with PwC's Transaction Services (TS) support clients by enabling them to accelerate the speed to market/close, and helping ready companies for the sale in order to gain the full value of the business in the offering price. Our divestiture professionals, part of a TS team of about 1,200 deal professionals in 16 US cities, and more than 9,500 deal professionals in more than 90 countries, can address carve-out financials, standalone audit requirements, identification of potential buyer deal issues, transition service agreements, data room assistance, and structural alternatives designed to help maintain the value of the divestiture.

Divestiture management support: PwC has put together a winning approach to launching and managing divestitures. We bring a time-tested divestiture and separation methodology and an expansive set of processes, tools, templates, and guides to support the overall divestiture.

Functional divestiture assistance: PwC is equipped with core competencies in the fundamental infrastructure areas that form the building blocks for capturing (and preserving) value in a divestiture. Our experienced divestiture professionals leverage their subject matter and process experience and expertise to help clients position the business for sale and optimize overall results from transition to transformation.

PwC helps clients ready themselves for rigorous buyer due diligence. We can deliver support, methodology, tools, and templates from start to finish of the divestiture process, assisting with areas including:

- Divestiture strategy
- Candidate acquirer screening
- Sell-side commercial due diligence
- Sell-side financial due diligence
- Financial and tax structuring
- Financial statements and reporting
- Carve-out statements and regulatory filings for regulatory compliance
- People and HR matters, employee benefits
- Operational carve-out analysis
- Insurance risk

- Contract transition
- Divestiture management and separation

PwC deploys a team tailored to each engagement to advise clients. In addition to supporting a speedy, more efficient go-to-market process and close, rigorous divestiture management and due diligence helps clients:

- Execute a smooth transaction, close, and post-close transition
- Minimize risks, avoid costly surprises, and enhance overall control over the process
- Address operation separation issues early, including TSAs and potential stranded costs
- Avoid value deterioration throughout the process and post-close
- Minimize disruptions to both the target and remaining businesses
- Mitigate regulatory, financial reporting, and operational risks
- Optimize transaction value for the seller

Our tailored approach gives clients the appropriate balance of transaction, functional, and industry expertise across the value chain. We start with a client's transaction viewpoint and investment thesis, and then guide a company through assessments and evaluations of divestiture considerations; exclusive or auction situation; planned capital structure and financing sources; timing and deliverables; critical deal and valuation issues; and integration challenges and solutions.

Case study

T&L company divests several business operations

Issue	A global transportation company sought opportunities to divest several business operations that were not central to the organization's core mission. The company urgently needed cash to pay down a loan and was required to efficiently conduct a series of divestiture transactions.
Action	PwC performed sell-side due diligence on the divested entities, analyzing earnings trends, working capital issues and potential separation concerns. We helped management gain an accurate view of normalized earnings and working capital, and helped prepare the company for buyer diligence by identifying areas of value leakage. PwC also helped the company establish a central divestiture management office and achieve its operational separation goals, including transition service agreements and tactical IT and people separation.
Impact	<p>PwC's involvement helped the company's management and its bankers prepare for the deal negotiations. With the first few weeks of PwC's field deployment, the company:</p> <ul style="list-style-type: none">• Established its divestiture management office• Developed operational and functional Day One separation plans• Conducted separation activities with transition teams <p>The company successfully closed the transactions by the debt call date, raising enough cash to restructure its debt.</p>

PwC experience

Deep transportation and logistics experience

PwC provides advisory, assurance, and tax services for more than 93% of the transportation and logistics companies listed on the Fortune 500. Our transportation and logistics practice is composed of a global network of approximately 4,900 industry professionals who service nearly 300 public and private companies around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues and our commitment to delivering economic value through specialized resources and international leading practices. Our experienced team encourages dialogue regarding complex business issues through active participation in industry conferences and associations, such as the Air Transport Association, American Trucking Association, American Railroad Association, and European Logistics Association.

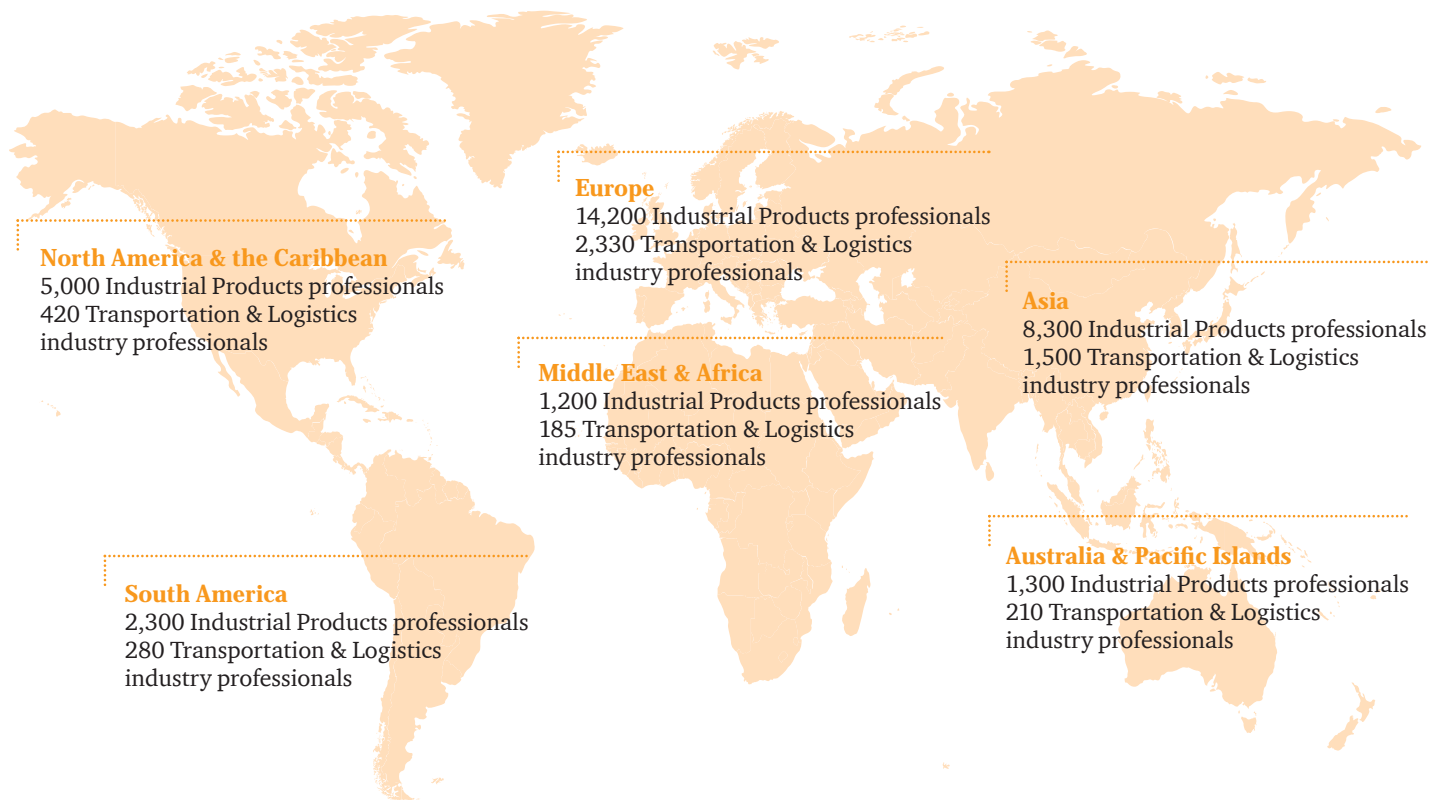
Quality M&A deal professionals

PwC's Transaction Services practice consists of more than 6,500 dedicated deal professionals worldwide. The depth of their industry and functional experience enables them

to advise clients regarding factors that could affect a transaction across the deal continuum. From initial due diligence and evaluation to preparation for Day One and post-close merger integration, our teams are committed to capturing value throughout the deal process and achieving our clients' objectives. These functional areas include, but are not limited to, sales and marketing, financial accounting, tax, human resources, information technology, risk management, and supply chain. Teamed with our transportation and logistics industry practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as industry point of view.

Local coverage, global connection

In addition to global transportation and logistics resources, our team is part of a large Industrial Products group that consists of more than 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and knowledge in the most effective and timely way.



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Methodology

Intersections is an analysis of mergers and acquisitions in the global transportation and logistics industry. Information was sourced from Thomson Reuters and includes deals for which targets have primary NAICS codes that fall into one of the following NAICS industry groups, NAICS industries, or national industries: scheduled air transportation; nonscheduled air transportation; rail transportation; deep-sea, coastal, and Great Lakes water transportation; inland water transportation; general freight trucking; specialized freight trucking; urban transit systems; interurban and rural bus transportation; taxi and limousine service; school and employee bus transportation; charter bus industry; other transit and ground passenger transportation; support activities for air transportation; support activities for rail transportation; support activities for water transportation; other support activities for road transportation; freight transportation arrangement; other support activities for transportation; postal service; local messengers and local delivery; general warehousing and storage; refrigerated warehousing and storage; other warehousing and storage; and process, physical distribution, and logistics consulting.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between

January 1, 2009, and December 31, 2011, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), withdrawn, seeking buyer, or seeking buyer withdrawn. The term *deal*, when referenced herein, refers to transactions with a disclosed value of at least \$50 million unless otherwise noted.

Regional categories used in this report approximate United Nations (UN) regional groups as determined by the UN Statistics Division, with the exception of the North America region (includes North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom, plus Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong. International Monetary Fund classifications were used to categorize economies as advanced or developing and emerging.

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