

# ***Intersections***

## Second-quarter 2011 transportation and logistics industry mergers and acquisitions analysis

**Special report:**

*Does your company's  
M&A strategy mitigate  
corruption-related  
risk and cost?*

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Welcome to the second-quarter 2011 edition of *Intersections*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global transportation and logistics (T&L) industry. In addition to a detailed summary of M&A activity in the second quarter, this edition features a special report on the challenges companies are facing as they expand into regions around the world where corruption is pervasive. The T&L industry continues to view bribery as a major concern, and with the uptick in deal activities, companies are looking to mitigate the related risks. Meanwhile, anticorruption initiatives are intensifying as governmental bodies and regulatory agencies prioritize the issue. However, through focused anticorruption efforts, companies have the opportunity to balance compliance and growth to produce the best results.

## Special report

# Does your company's M&A strategy mitigate corruption-related risk and cost?

Multinationals continue to expand globally with mergers and acquisitions, pursuing deal activity at an ever-increasing pace, to fuel faster growth and gain competitive advantage. Yet organizations face intensified risks in regions where corruption is pervasive and corrupt practices are long-standing—at times, even accepted as status quo. Globally, calls for increased anticorruption initiatives are intensifying as governmental bodies in the United States, United Kingdom, India, Japan, and elsewhere ask their regulatory agencies to take a stronger stance.

In the United States, the Securities and Exchange Commission (SEC) and Department of Justice (DOJ) are stepping up enforcement actions mandated by the Foreign Corrupt Practices Act (FCPA), along with their investigations of backlogged cases and criminal prosecutions. C-suite executives face personal FCPA exposure and, for some offenders, even imprisonment. Growing dramatically, too, are penalties, profit disgorgements, and costs associated with monitoring for corruption risks.

The collateral financial damage is significant and climbing rapidly. FCPA enforcement actions increased 85% in 2010, with the DOJ and SEC bringing a combined 74 actions,

nearly doubling the tally of 40 enforcement proceedings in 2009. In addition, eight of the largest FCPA-related monetary settlements in history—ranging from \$56.2 million to \$400 million—occurred in 2010.<sup>1</sup> More than \$1 trillion is paid in bribes annually, and the cost of doing business globally increases 10% a year on average as a result of corruption, according to the World Economic Forum.<sup>2</sup>

One major risk is successor liability, under which the purchaser assumes the liability for past actions of the acquired company. Because of the ramifications, companies are enhancing their corruption due diligence programs to understand the risks of acquiring certain targets, determine whether red flags exist, and analyze what compliance actions they must take after the acquisitions. Corruption due diligence, a regulatory expectation, may result in purchase price adjustments. But organizations that fail to address these concerns before closing a deal face the potential of great financial loss and reputational risk. By embracing the compliance challenges, companies can realize new opportunities for entry into markets they may have previously avoided.

### Top 10 FCPA settlements<sup>3</sup>

	Company	Country	Year of penalty	US\$ mil.
1	Siemens	Germany	2008	800
2	KBR/Halliburton	US	2009	579
3	BAE	UK	2010	400
4	Snamprogetti Netherlands B.V./ENI S.p.A	Holland/Italy	2010	365
5	Technip S.A.	France	2010	338
6	JGC Corporation	Japan	2011	218.8
7	Daimler AG	Germany	2010	185
8	Alcatel-Lucent	France	2010	137
9	Panalpina	Switzerland	2010	81.8
10	Johnson & Johnson	US	2011	70

<sup>1</sup> "2010 FCPA Enforcement Shatters Records," Melissa Aguilar, *Compliance Week*, January 4, 2011.

<sup>2</sup> "Partnering Against Corruption Initiative," World Economic Forum, [www.weforum.org](http://www.weforum.org), 2011.

<sup>3</sup> Top 10 FCPA settlements, [www.fcpablog.com/blog/2011/4/8/jj-joins-new-top-ten.html](http://www.fcpablog.com/blog/2011/4/8/jj-joins-new-top-ten.html), April 8, 2011.

The transportation and logistics (T&L) industry continues to view corruption as a significant concern, an issue particularly heightened during a robust period of M&A activity. Of the 60 T&L executives in 30 countries surveyed for PwC's 14th Annual Global CEO Survey, 27% viewed M&A as the primary opportunity for growing their business in 2011, and 40% said they planned to complete a merger or an acquisition this year.

The uptick in deal activities presents opportunities as well as challenges. Nearly 8% of known international bribery enforcement activity between 1977 and 2010 involved companies in the transportation or communications industry, the most recent Trace International Global Enforcement Report found. According to the fourth biennial Global Economic Crime Survey, which examined data from 191 T&L companies in 35 countries, bribery and other forms of corruption are of particular concern to T&L activities such as major building projects, procurement (e.g. airports), appropriate use of rebates and other customer loyalty schemes, and fleet maintenance. Some companies have even viewed the threat of incidents as so dangerous that they have abandoned markets rather than tolerating unacceptable risk exposure.

The threat of corruption and bribery can be particularly great for T&L companies conducting business in E7 countries (Brazil, China, India, Indonesia, Mexico, Russia, and Turkey), potentially diminishing deal value. While 22% of T&L companies operating in the E7 reported an incident of economic crime, 20% of respondents to the Global Economic Crime Survey reported that their company had been asked to pay a bribe. Additionally, 31% of T&L companies said that their business was hurt because of corruption by E7 competitors. Because of resulting competitive pressures, the incentive to accede to such requests may increase in the future.

The industry has seen a decline in corruption and bribery in recent years: Only 9% of T&L companies reported incidents in 2007, compared with 13% in 2005, according to the Global Economic Crime Survey. Across all industries, 13% reported incidents in 2007.

In the wake of a landmark year for anticorruption enforcement, companies across multiple industries are concerned about several trends in the near term:

- The Dodd-Frank Act requirement to disclose all payments to foreign governments (applicable only to SEC registrants) could result in even greater scrutiny of anticorruption issues.
- Foreign governmental bodies are amplifying anticorruption steps, with the United Kingdom, Denmark, and Italy implementing and actively enforcing antigraft legislation in 2010.<sup>4</sup>
- Also affecting corruption is that a number of countries have signed on to the Organization for Economic Cooperation and Development (OECD) Antibribery Convention and the United Nations Convention Against Corruption (UNCAC).
- International harmonization of antifraud and anticorruption regulation will increase parallel investigations, likely resulting in more penalties.
- The number of FCPA cases and severity of penalties are expected to grow because the DOJ and the SEC will devote more resources to pursue a backlog of investigations.
- With anticorruption compliance becoming a top corporate governance issue, companies will be burdened with the onus and expense of devoting greater resources to anticorruption initiatives.
- Corruption investigations will likely trigger shareholder litigation, tax investigations, money-laundering probes, and other adverse actions.
- Individuals will face increased scrutiny when regulators investigate potential violations of the FCPA and other anticorruption legislation around the globe.

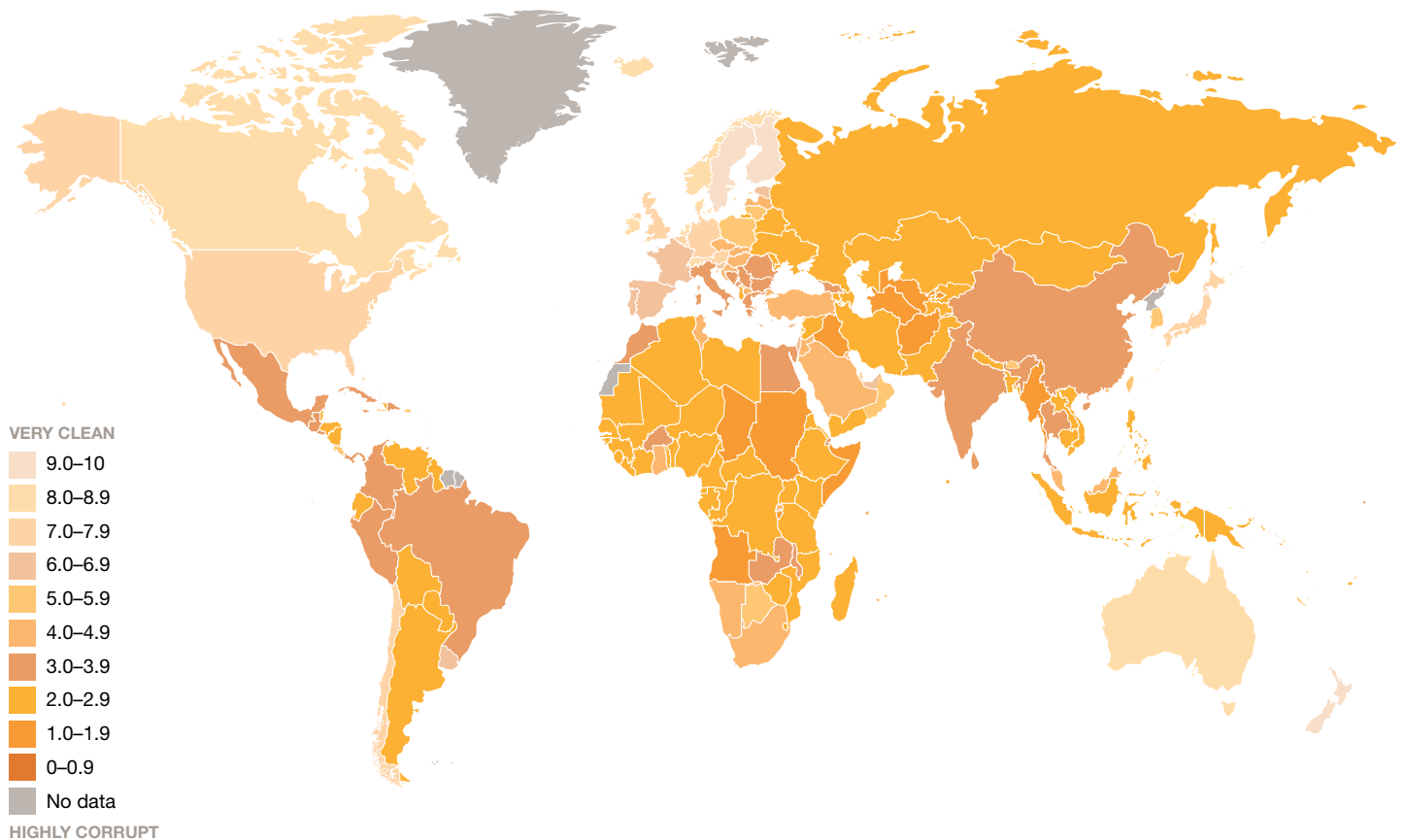
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<sup>4</sup> "2010 FCPA Enforcement Shatters Records," Melissa Aguilar, *Compliance Week*, January 4, 2011.

## Vetting third parties

Relationships with third parties, such as distributors, intermediaries, sales agents, dealers, and consultants, bring a high degree of risk for companies expanding globally, and consequently are subject to greater scrutiny. Particularly when organizations pursue deal activity in the BRIC countries (Brazil, Russia, India and China) and the Middle East, it is often impossible to drive business without establishing relationships with other individuals or commercial entities. In fact, the BRIC countries received unfavorable ratings—from Russia with a score of 2.1 to Brazil with a score of 3.7—on Transparency International's 2010 Corruption Perceptions Index, measured on a scale from 0 (highly corrupt) to 10 (highly clean).<sup>5</sup>

## Corruption Perceptions Index 2010



<sup>5</sup> Transparency International, [www.transparency.org](http://www.transparency.org).

A high percentage of the civil and criminal enforcement actions have stemmed from the activities of third parties, those new to the acquirer as well as those that have long-standing relationships with the acquirer. Heightening the potential for risk are third parties that may be adequately vetted but in turn use other third parties whose activities may not have been thoroughly scrutinized. Corruption issues often stem from third parties making direct or indirect payments that violate bribery and corruption laws or statutes. These payments, in some countries viewed by locals as the cost of doing business, typically are recorded as professional, consulting, commission, service, or selling expenses.

Companies that successfully mitigate corruption risks begin by gaining a thorough understanding of the third parties they are engaging and the business model of these organizations. Further, they include compliance clauses in contracts and maintain their third-party contracts in a central location. Additionally, the organizations implement robust processes to periodically assess key business partners, monitor activities and transactions associated with such relationships, and provide third parties with training on compliance policies.

### ***Determining the appropriate level of due diligence***

Companies pursuing corruption due diligence activities during mergers typically rate targets and their affiliated third parties on the potential risk based on a variety of factors, including local regulation, the focus of regulators from an industry standpoint, and the size of the transactions with which they have been involved or will be involved.

In addition to the complexities inherent in the activities are challenges regarding the depth and intensity of due diligence proceedings supporting any particular transaction. Organizations are carefully evaluating how many resources should be devoted to a single case, in terms of labor and financial commitment. What if bribery or other corrupt practices are discovered after the deal closes? How can a company protect itself from enforcement actions then? How much due diligence is enough?

### ***Strategizing to mitigate corruption risks***

Companies achieving success in anticorruption efforts take a focused approach to the task. They strategize to balance their compliance and growth goals and allocate resources to the efforts that will produce the best results. The companies take these steps:

- Center near-term compliance efforts on FCPA regulations, which represent the core international criminalization and enforcement standards. By strictly adhering to FCPA guidelines, organizations can more easily come into compliance with other regulations, such as export laws, and be better prepared for upcoming global compliance initiatives.
- Build proactive, more transparent information sharing among their risk, operations, finance, and corporate development functions.
- Carefully monitor and test accounts to discover financial discrepancies and determine whether to voluntarily disclose them to regulators.
- Educate employees on international anticorruption standards, develop robust training programs, and routinely field-test company compliance rules.
- Perform forensic due diligence on potential third parties—including suppliers, joint venture partners, agents, and local representatives—to inform business strategy with respect to new and potentially risky opportunities.
- Collaborate with anticorruption bodies and nongovernmental organizations to identify potential opportunities in untapped markets, share anticorruption practices, and foster international cooperation across the public and private sectors.

Some observers have painted ongoing, robust international anticorruption efforts as a series of obstacles that has created an uneven and costly global field for US companies, thereby reinforcing the barriers to entry in potentially lucrative markets. But observers widely view the initiatives as having a positive global influence. During this era of dramatically increased enforcement and heightened awareness about the pitfalls and collateral damage associated with corruption, other countries around the world are starting to follow suit, committing to global anticorruption standards and taking action.

## Perspective

# Thoughts on deal activity in the second quarter of 2011

Welcome to *Intersections*, our analysis of global transportation and logistics deals. M&A activity remained strong during the second quarter of 2011, which featured one of the highest volumes of deal announcements since 2008. Pertaining to deal value, the market continued to trend toward middle-market and smaller deals, though we also note the resumption of mega-deal announcements during the quarter.

All three second-quarter mega deals involved shipping or passenger air targets. It was surprising that passenger air had such robust activity given that several leading Western airlines have been focusing on the integration of recent acquisitions. However, we note that one of the two passenger air mega deals was for an emerging market airline, Grand China Airline, while the other consisted of a swap of stakes in several airports (Brussels, Copenhagen, and Sydney) and cash consideration.

Transportation infrastructure continued to be a theme in the market. Infrastructure deals included the airport swap mega deal and the largest deal of the quarter, the \$1.95 billion acquisition of Australia's Abbot Point Coal Terminal. Infrastructure announcements should continue at a robust pace in developed markets because of budget issues and the relative stability of these countries. In contrast, emerging

market activity is likely to be more diversified across modes because of the generally high fragmentation of transportation and logistics sectors in these nations.

Deal multiples have expanded to nearly a 10-year high. There may not be room for much further upside, but the ongoing recovery and a relative paucity of distressed targets should provide support for valuations to stay near the high end of their historical range. In regard to the financing environment, acquirers are favoring cash and debt more to pay for new transactions. Our survey of large global transportation and logistics companies indicates that both financial leverage and liquidity continue to increase. Accordingly, we believe that the market will likely see more cash deals in the future, with highly liquid strategic acquirers best positioned to drive incremental activity.

Concerns over a potential economic slowdown have increased since our last update. These fears include a further weakness in the US housing market, overhang from European sovereign debt problems, and the risk of overheating in several BRIC countries. We acknowledge these risks but believe that the majority of factors influencing deal activity, including the attractiveness of investment in many parts of the sector and the availability of financing, are positive and warrant our outlook for a gradual recovery in deal totals.

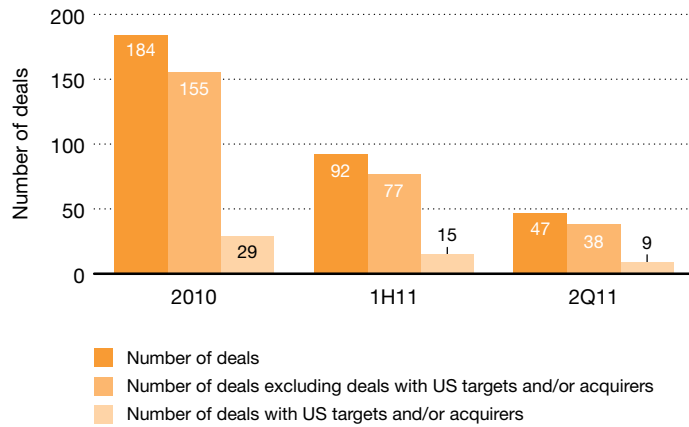
### Quarterly T&L deal activity

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

	2008		2009				2010				2011	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
<b>Number of deals</b>	53	58	26	19	30	44	41	41	43	59	45	47
<b>Total deal value (\$ billions)</b>	19.7	34.7	6.2	5.2	10.2	56.2	19.4	18.4	21.2	48.2	10.4	13.5
<b>Average deal value (\$ billions)</b>	0.4	0.6	0.2	0.3	0.3	1.3	0.5	0.4	0.5	0.8	0.2	0.3

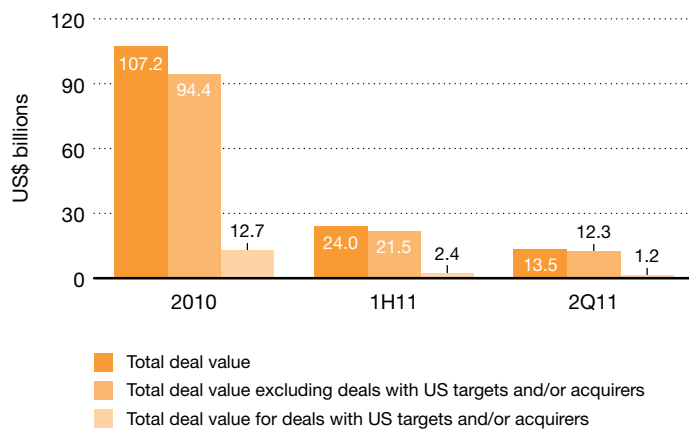
### Deal activity by number of deals

Measured by number of announced deals worth \$50 million or more



### Deal activity by total deal value

Measured by value of announced deals worth \$50 million or more



### Activity gains momentum with greater M&A value

Deal activity picked up slightly during the second quarter of 2011 as compared with the first. The most significant measurement of the increase is deal value because of the return of mega deals this quarter. (Mega deals are defined as announcements with a disclosed value exceeding \$1 billion.) While US entities accounted for a greater proportion of the number of deals announced this quarter, US parties were not involved in any mega deals and instead preferred to focus on smaller transactions.

Deal activity should continue its recovery in line with global economic growth. The longer a moderate recovery continues, the more likely it is that strategic acquirers will feel pressure from investors to use their relatively ample liquidity positions to find ways to supplement organic growth. This trend should provide for incremental gains in total volume and value for deals announced during the second half of 2011, with an environment more conducive to larger deals contributing to gains in average deal value.

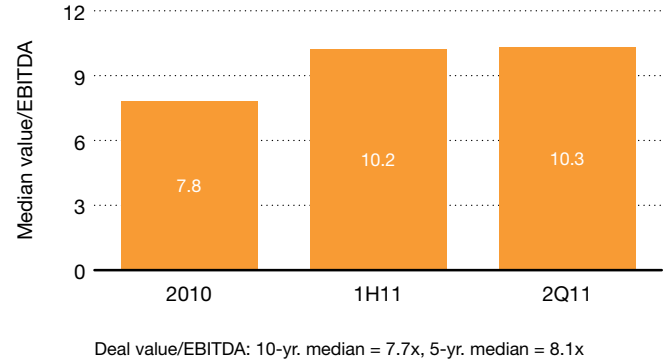
## Median valuations of deals buck historical norms for T&L companies

Transportation and logistics deal valuations have increased during 2011 as compared with the previous year and remain above long-term norms. This matches an expectation shared in previous editions of *Intersections* that was based on the historical association between multiples and the business cycle. The increase in controlling interest stakes and coinciding decline in minority stakes are also helping to fuel higher valuations because acquirers typically pay premiums to gain majority ownership.

Acquirers are demonstrating greater interest in and ability to engage in new deals during 2011, which should support the relatively high multiples for targets in the sector. However, there do not seem to be any new factors that should drive overall valuation substantially above historical norms.

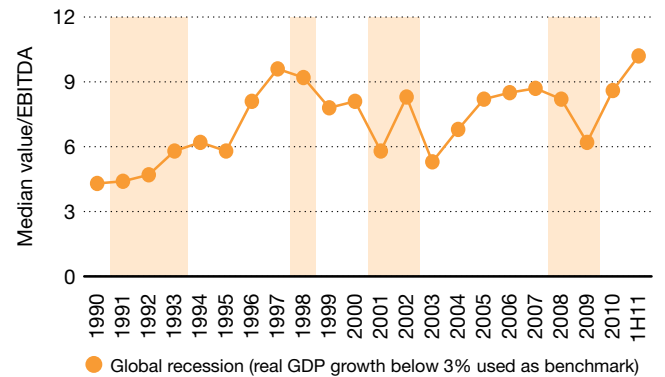
### Deal valuation by median value/EBITDA

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



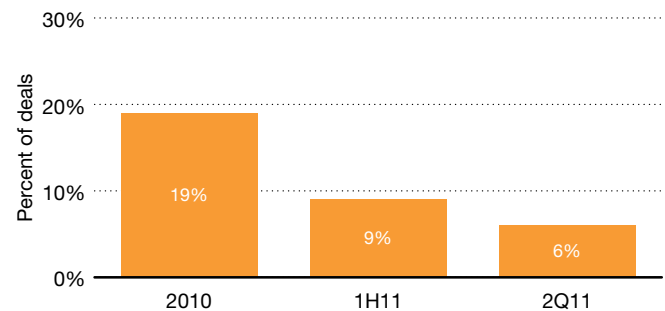
### Historical deal valuation by median value/EBITDA

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



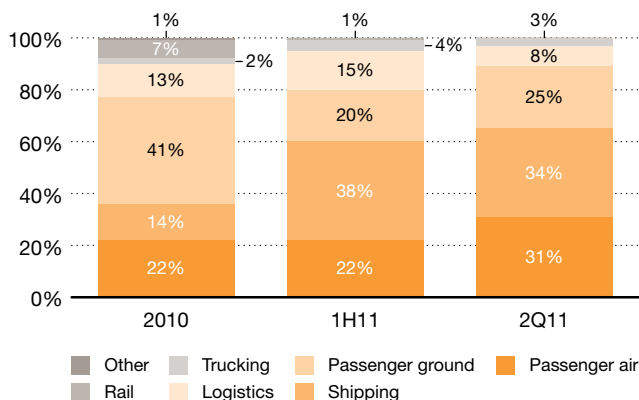
### Minority stake purchases

Measured by percentage of deals worth \$50 million or more for less than 50% ownership



### Deals by transportation and logistics mode

Measured by value of deals worth \$50 million or more



### Terminal privatization puts shipping atop T&L sector

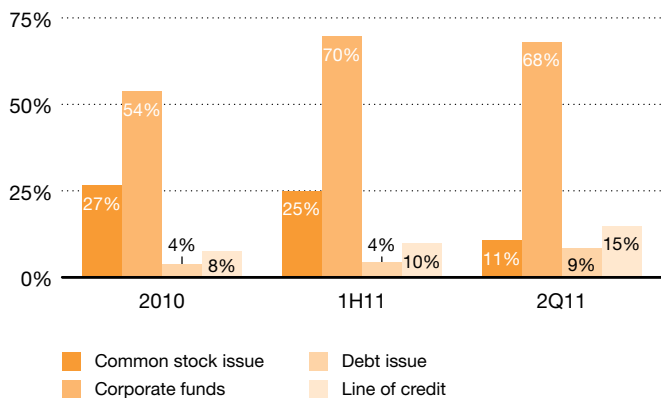
Shipping was the most active mode as measured by deal value this quarter. The privatization of the Abbot Point Coal Terminal in Australia accounted for roughly half of announced shipping value.

The increase in passenger air deals this quarter was unexpected because many Western airlines have been focusing on integration in the wake of announced mergers in recent years. We still expect that the post-merger shift in focus among many larger airlines will keep this mode from playing as significant a role in future deal totals.

Passenger ground deal value remains below the 2010 level. But it seems more likely to increase in the future, all else being equal, because of interest in infrastructure deals that include highway concessions.

### Source of funds

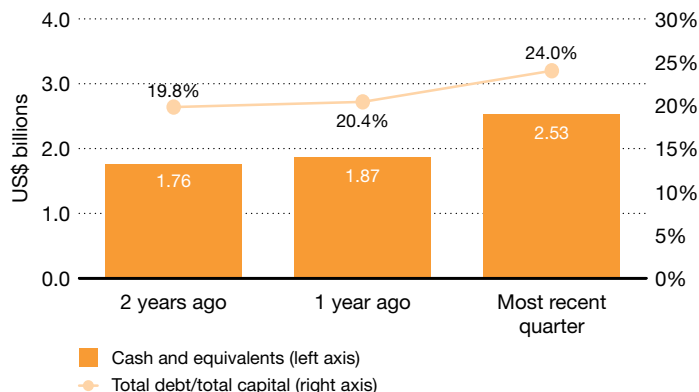
Measured by percentage of deals worth \$50 million or more



An analysis of funding sources for transactions indicates that the use of new common stock issues has declined in favor of internal financing (corporate funds) and credit (new debt issues and lines of credit). Strategic investor cash positions have continued to improve; thus, internal financing is likely to remain a source for future deals. In addition, credit has been used more often to fund recent M&A transactions despite increases in financial leverage and corporate bond yields. If the leverage and yield trends hold, this would eventually support a shift toward even more cash deals. In this type of environment, strategic investors with liquidity could have an advantage in competing for desirable targets against financial investors that may need to rely more heavily on credit.

### Financial leverage and liquidity

Measured by average of top 50 global public competitors



Source: Company reports

**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 S.A.	Spain	Trebol Holdings Sarl	Spain	Completed	3.68	Passenger ground
May	Transurban Group	Australia	Investor Group	Canada	Withdrawn	3.68	Passenger ground
Aug	TAM S.A.	Brazil	LAN Airlines S.A.	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	OOO "Primorskiy torgovyi port"	Russian Fed	OOO "Novorossiyskiy Morskoy Torgovyi Port"	Russian Fed	Completed	2.15	Shipping
Oct	La Poste S.A.	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 S.A.	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 S.A.	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 1H11 (deals with a disclosed value of at least \$1 billion)**

<b>Month announced</b>	<b>Target name</b>	<b>Target nation</b>	<b>Acquirer name</b>	<b>Acquirer nation</b>	<b>Status</b>	<b>Value of transaction in US\$ bil.</b>	<b>Category</b>
May	Abbot Point Coal Terminal	Australia	Mundra Port & Special Economic Zone Ltd (MPSEZ)	India	Completed	1.95	Shipping
Jun	Brussels Airport Co. S.A.	Belgium	Ontario Teachers Pension Plan (OTPP)	Canada	Pending	1.75	Passenger air
May	Grand China Airline Co. Ltd.	China	Chongqing Shenyin Longsheng Investment	China	Pending	1.23	Passenger air

## **Mega deals resume in second quarter with air, shipping targets**

Previous reports have indicated the expectation that infrastructure would provide a fertile source for mega deals. This was the case in the second quarter as two of the three mega deals were announced for these targets.

The largest deal this quarter was the long-term lease of Australia's Abbot Point Coal Terminal by a business unit of India's Adani Enterprises. Adani is expected to increase the coal export capacity of Abbot Point significantly to meet greater demand from a higher number of coal-fired power plants in India. This deal shows the financial power that emerging market entities are able to wield in the global deal market, as well as some of the implications for the T&L sector of increased resource demand from these countries. Expectations are that this terminal will be used for transporting new coal production at Adani-owned mines in Australia.

The second-largest deal this quarter was the Ontario Teachers' Pension Plan (OTPP) acquisition of undisclosed minority stakes in Brussels and Copenhagen airports from MAp Airports (a former unit of Macquarie Group) in exchange for approximately \$900 million in cash and OTPP's 11% stake in Sydney Airport. If this deal closes, MAp Group would increase its interest in Sydney Airport, which is considered to be one of its most attractive investments. Future deals from these parties seem likely; for example, MAp Group could attempt to buy out the remaining

minority investors in Sydney Airport. In addition, OTPP has historically been an active investor in transportation infrastructure.

The final mega deal announced this quarter is an exception to the infrastructure theme. China's Chongqing Shenyin Longsheng Investment, a private equity fund targeting Chinese state-owned companies, took a minority position in Grand China Airlines for \$1.2 billion. The capital injection will help Grand China Airlines purchase new aircraft, pay off short-term debt, and complete an initial public offering in Hong Kong. This IPO had been previously delayed because of the financial crisis.

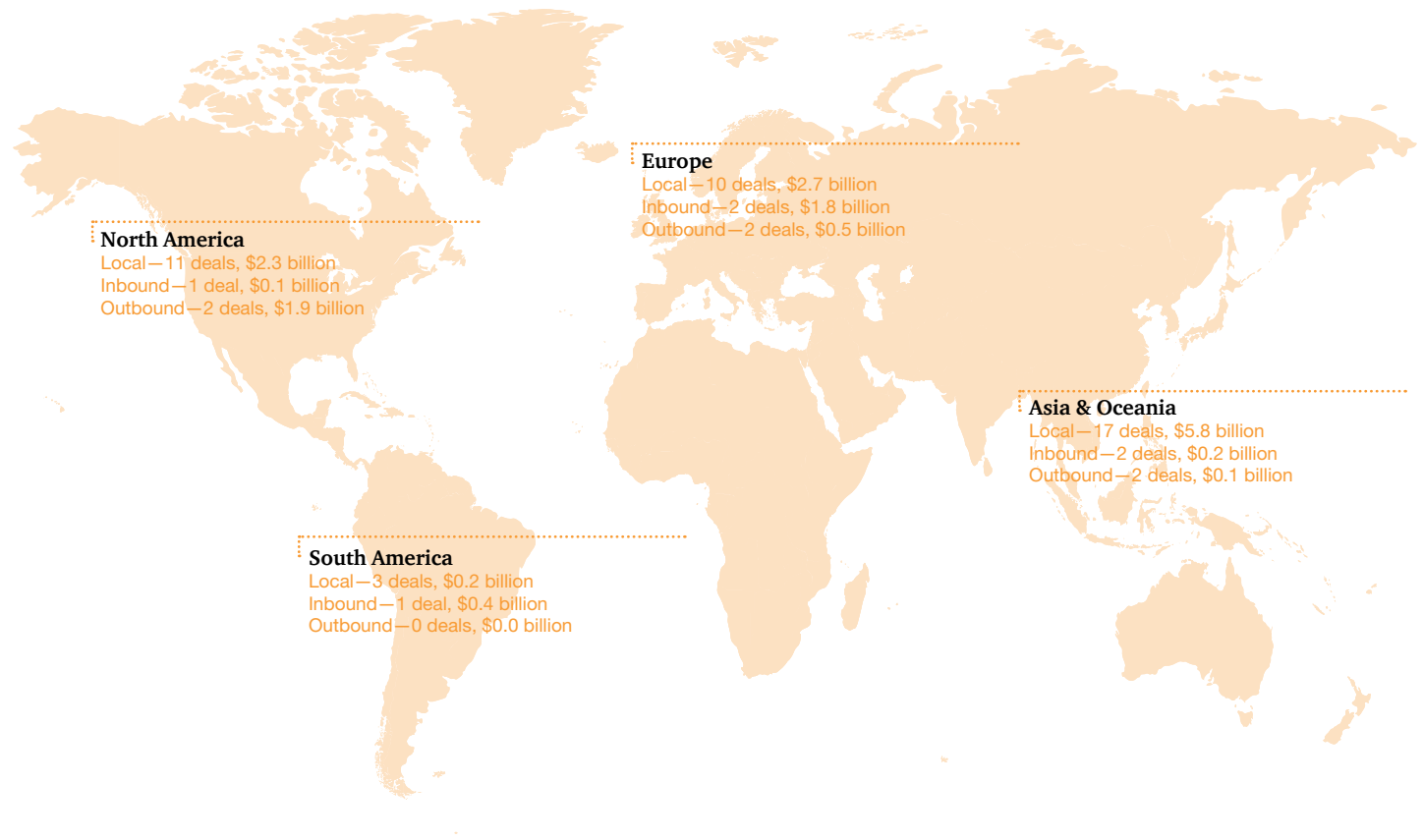
Mega deals involving US entities remain below the pre-leverage bubble levels. The slow recovery is partially the reason, but we also note that several domestic transportation modes are already consolidated, face high regulatory barriers (airlines and railroads), or have low barriers to entry (trucking), which could make M&A a less attractive strategic option. Accordingly, future US mega deals seem most likely to be announced in the infrastructure space.

Infrastructure deal making should also drive new mega deals in other countries over the second half of the year. Some of this activity will come from primary transactions such as the initial privatization of ports, airports, and roads to improve government finances. However, secondary transactions, such as the OTPP-MAp Group deal, will also fuel activity as investors actively manage their exposures in this asset class.

## Regional analysis

### Global transportation and logistics M&A activity

Measured by number and value of deals worth \$50 million or more (2Q11)



### Asia and Oceania still leads as domestic deals dominate globally

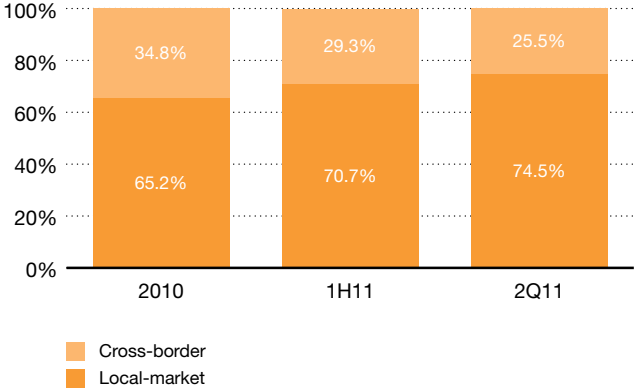
Our M&A map indicates the Asia and Oceania region continues to lead deal totals. An analysis of the trend in cross-border deal making also shows that acquirers have increasingly favored targets within their domestic markets. This trend is somewhat surprising given that, during a recovery, companies might be expected to be more willing to take on the challenges of cross-border transactions.

However, considering the importance of Asia and Oceania entities to the overall M&A market and the prevalence of higher-growth emerging markets in this region, it seems most plausible that these parties are simply finding better return opportunities on deals in their local markets than they are in foreign countries. In addition, the relative fragmentation of the transportation and logistics sector in the emerging markets would support a focus by many competitors on building domestic scale before seeking international growth opportunities. These factors are likely to persist, which would augur for continued high involvement by Asia in M&A as well as a focus on local-market deals.

On the other hand, as strategic and financial investors from advanced economies feel more pressure to boost growth and returns, it is likely that cross-border activity will also increase, though perhaps to a lesser degree.

**Local-market versus cross-border deals (all nations)**

Measured by number of deals worth \$50 million or more



## PwC spotlight

With ever-increasing global M&A activity comes an uptick in reputational and business risks, as more and more business takes place in emerging and expanding markets. Adding to the challenge organizations face in their global business operations is a dramatic rise in US and international regulatory enforcement actions—in some cases, including multimillion-dollar and billion-dollar fines and settlements and even imprisonment for executives.

Consequently, corruption due diligence has become a high priority, an essential area of emphasis for organizations seeking to achieve the desired results of M&A transactions and maintain business continuity. By effectively understanding, addressing, and resolving important concerns about corruption, companies can develop a strong anticorruption program that embraces the demands of both compliance and growth. The viability of conducting business in any given region can hinge on how effectively companies prepare for anticorruption compliance and geopolitical risks.

### How PwC can help

PwC's network of seasoned professionals has the experience, knowledge, and global reach to help clients navigate and integrate the various phases of regulatory compliance. The goal is to help organizations design, implement, evaluate, and monitor the effectiveness of their anticorruption programs. PwC helps companies:

- understand the breadth of international anticorruption frameworks, monitor the extent to which emerging policies are being implemented and enforced around the world, and assess their potential effects on business strategy
  - gain a better understanding of corruption to compete more effectively, make better decisions, and enter new markets
  - issue clear company policy on what constitutes unacceptable behavior and enforce the prescribed consequences
  - perform a risk assessment of operations to support compliance and monitoring programs
  - mitigate bribery concerns by maintaining transparent, well-tested systems and policies
- streamline payment systems and controls so the organizations can easily view where, why, and how much money is being spent and eliminate unexplained, insufficiently detailed, or falsely characterized payments
  - regularly test payment systems and controls over accounting for expenditures
  - perform ongoing due diligence on the business partners, personnel, and contracts involved in a new-market expansion, thereby mitigating business, reputational, and regulatory risks
  - thoroughly and annually train employees to address the effects of international anticorruption standards
  - perform frequent field tests to determine whether employees understand compliance policy.

With a global presence in more than 150 countries, PwC has local perspective and depth, in addition to professionals highly qualified in due diligence, forensics, and analytics to help mitigate risk in business transactions. PwC offers:

- a thorough understanding of local and regional culture, language, and financial and regulatory systems
- an international network of partners and staff members who offer a unilateral advantage in assessing issues that extend across borders and the ability to provide our clients with true global reach in a coordinated and expedited manner
- an international network of individuals experienced in performing computer forensics
- the knowledge of qualified investigators who have held senior positions with or have extensive experience in working with major prosecutorial and law enforcement agencies in the United States, Canada, the United Kingdom, Europe, South Africa, and Asia.

A majority of companies have anticorruption programs. Yet only 22% of executives recently surveyed by PwC said they were confident they could effectively identify and mitigate corruption risk. More than half reported that a stronger understanding of corruption would help them compete more effectively and enter new markets.

## *T&L company case study*

# A transportation and logistics (T&L) company uses due diligence to reduce its risk exposure during global expansion

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<b><i>Issue</i></b>	<p>A major logistics company was deciding whether to acquire a target with operations in nearly a dozen nations, including the BRIC countries (Brazil, Russia, India, and China), Ecuador, and Israel. The company, a longtime PwC client, requested that due diligence around anticorruption and the Foreign Corrupt Practices Act (FCPA) be performed on the target company's operations around the globe.</p>
<b><i>Action</i></b>	<p>PwC conducted a risk assessment and performed onsite anticorruption and FCPA due diligence at high-risk locations in Brazil, India, China, and Israel. The process included analysis of information about revenue, growth, interaction with local government officials, location, and other factors. PwC also surveyed sites, such as Ecuador, that were not considered high risk.</p> <p>The due diligence process included interviews with relevant personnel in management, compliance, sales, marketing, human resources, legal, and accounting and finance. The team also examined and evaluated the code of conduct, policies and procedures, and the books and records of each operation, looking for transaction and compliance issues related to several specific areas, including business promotions, commissions, gifts, travel, miscellaneous expenses, and donations.</p> <p>PwC additionally performed an in-depth examination of the operations' practices related to government interactions and tax authorities. The team identified risks and potential FCPA violations at several of the operations. These included inappropriate payments made to tax authorities, government officials, and customs agents.</p>
<b><i>Impact</i></b>	<p>PwC's anticorruption and FCPA due diligence helped the company access the insight necessary to make a thoroughly informed decision about the acquisition and its potential risks. The company used the information to address the identified problems, reducing the risk involved in acquiring the target operations.</p> <p>Prior to the anticorruption and FCPA due diligence, the company already had identified several concerns about the India operation, and these new findings led the company to eliminate the India operation from the rest of the acquisition. PwC's insight allowed the company to reduce its exposure to risk while expanding into new markets.</p>

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## *PwC experience*

### *Deep transportation and logistics experience*

PwC provides advisory, assurance, or 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 located 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 highly skilled 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 know-how 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, 2007, and June 30, 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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