

Intersections*

Navigating through a challenging economic climate:
A special issue on market volatility and its impact on
M&A in the global transportation and logistics industry

Fourth-quarter 2008 mergers and acquisitions analysis



Welcome to *Intersections*, PricewaterhouseCoopers' quarterly analysis of mergers and acquisitions (M&A) in the global transportation and logistics industry. As concerns over the global economy and financial markets continued into the final months of 2008, the operating environment for transportation and logistics companies grew increasingly difficult.

In this special issue, we address current business concerns, including the weak credit conditions and the potential level of economic output, as well as their impact on announced deals during the fourth quarter of 2008. Specifically in the T&L sector, the current market conditions have resulted in significant layoffs, including announcements from logistics company Deutsche Post, passenger airline United Airlines, and less-than-truckload carrier YRC Worldwide, as companies attempt to respond to the economic slump.

In addition to market conditions, we analyze the US stimulus package and its anticipated effect on the T&L sector. As with previous issues of this report, we include a detailed summary of M&A activity in the fourth quarter.

Facing high-stakes choices during volatile times

It's hard to find a statistic within any aspect of the US or wider global economy that doesn't speak of turbulence and uncertainty. What started with dubious home loans and unsound lending practices has morphed into an unusually severe global recession affecting consumer spending, business investment, housing, and exports. Those important economic engines rarely weaken so severely at one time, making this downturn more insidious and global than most in the post-World War II period.

The US economy has been in recession for more than a year, and all indications suggest the slump is deepening. Companies shed 3 million US jobs in 2008, the worst single-year performance since WWII. And that performance declined as the year went on, culminating in the staggering 1.8 million jobs lost in the fourth quarter. Job losses continued at a rapid pace in January 2009.

The National Association of Manufacturers projects that the recession will likely last through most of 2009 and that a solid recovery will not start until mid-2010.

PricewaterhouseCoopers' 12th Annual Global CEO Survey, released at the World Economic Forum in Davos, Switzerland, in January 2009, finds that this global economic slowdown is hurting every sector of the T&L industry. CEO confidence in the short-term prospects for T&L growth has dropped significantly.

The passenger air sector is experiencing falling demand from consumers and business travelers. Air cargo has also been hit hard by the decline in exports from Asia; the International Air Transport Association reports that air freight volumes dropped by 13.5 percent in November 2008 alone, the largest drop since 2001. The railway sector, which makes much of its revenue from the transportation of steel and cars, is likewise gearing up for a drop in cargo volumes.

In fact, several of the major US freight carriers announced in recent days that they will not provide earnings guidance for 2009 because of the high uncertainty of market conditions. And Deutsche Bahn recently announced that it is taking 8,000 freight cars out of service.

Container shipping has nosedived, with freight rates for dry-bulk shipping plummeting by as much as 90 percent. Traffic through the Port of Long Beach, California, the US market's busiest, dropped 11 percent in 2008 off the record traffic of 2007. The drop accelerated throughout the year, with December traffic coming in at 25 percent lower than in 2007.

In a piece of potential good news, the sudden, deep drop in fuel costs has begun to increase real wages for workers who remain employed. Coupled with low inflation, this wage growth could cushion the decline in spending. However, the continuing job losses act as a conflicting force, driving consumer confidence to historic lows, according to The Conference Board's Consumer Confidence Index—the lowest point since the index began in 1967.

This drop in confidence comes despite the relative success of cash infusions into the US financial system—encompassing nearly \$2 trillion in spending by the Federal Deposit Insurance Corporation (FDIC), Federal Reserve, and Treasury. Another plus is the improvement in some credit indicators, as reflected in the significant drop in the London Interbank Offered Rate (LIBOR), an important measure of the cost of interbank lending, and the reference rate for financial instruments such as syndicated loans and variable rate mortgages. But credit markets remain clogged, although the likelihood of financial collapse appears diminished.

Complaints are growing that banks and lending institutions are holding the money the government has provided, but closer scrutiny, backed by Federal Reserve statistics, reveals that business and household credit demand is contracting as investment and consumption appetite recedes. That leaves banks struggling to find credit-worthy borrowers.

The bottom line is this: More than a year into the American recession, few financial institutions or businesses in the global economy have shown willingness to bet that the global economic conditions have bottomed and are poised for recovery.

Most sectors face painful economic adjustments in response to a precipitous drop in demand for their products. Based on previous downturns, when credit, housing, and equity bubbles burst, spending may take years to return to its previous levels as consumers and investors strive to recover from up to \$13 trillion in lost wealth associated with the US economic crisis.

Many transportation companies are receiving a break on the cost side, as once record-high fuel costs have dropped precipitously since the spring and early summer of 2008. These fuel prices squeezed the trucking industry and airlines, while helping the competitive profile of the freight rail industry, which can carry more freight per barrel of oil than trucks.

Airlines particularly stand to benefit from lower fuel costs. A number of carriers are still paying higher costs because of hedging deals made before the decrease. But if fuel costs stay low, the industry broadly expects fuel savings to more than offset softer demand. At the same time, for the rest of the T&L industry, the sharp cut in fuel costs is driven in part by the sharp reduction in international demand, both for goods and travel, which offsets the benefits of the lower fuel costs.

As executives and other corporate managers struggle to survive the current conditions and set the stage for prosperous recovery, they face rare challenges and high-stakes business choices: How much should we cut capacity? Which operations should we idle? How will we know when the recession has reached its bottom? How do we maintain the flexibility and resources to grow when demand returns?

History shows that strategic choices such as acquisitions, capital spending, investments in research and development, and other organizational decisions made during economic downturns often define a company, or even an industry, for the next decade or more.

What opportunities does the stimulus package present?

The roughly \$790 billion US stimulus plan provides a buffet of spending and tax cuts designed for widespread economic impact.

The package includes direct health and education aid to cash-strapped state governments, household and business tax benefits, and a push to convert medical records to electronic format. It provides about \$80 billion in direct spending on public infrastructure. Some of these dollars will help pay for traditional transportation projects, such as road construction and rail and aviation enhancement. Other spending is aimed at upgrades of the nation's energy transmission and distribution systems and energy-efficient upgrades to public buildings and housing. The stimulus provides roughly \$40 billion more in incentives and programs designed to spur private investment in targeted industries, such as renewable energy production and broadband expansion.

The National Association of Manufacturers, among others, projects that even with the stimulus, the economy will likely contract through the first three quarters of 2009. However, the stimulus will start to have positive effects on the

economy in the second half of the year and into 2010. Without the stimulus, the recession was expected to extend into mid-2010.

The roughly \$120 billion dedicated to infrastructure spending and incentives represents a relatively small percentage of the total \$790 billion package. And the approximately \$50 billion in spending on transportation infrastructure is a subset of that amount. In fact, the stimulus does not exceed the typical \$60 billion yearly spending on transportation infrastructure, though any amount adopted will come on top of that typical amount. The prime economic benefits of the spending for transportation and logistics companies may come later, with increased capacity and diminished congestion. Inefficiency in the transportation system, in the form of delayed shipments, saps billions of dollars each year from the US economy.

Whatever the direct benefits of construction-related stimulus spending in the United States or abroad, transportation and logistics companies will gain more from these plans if they successfully improve the worldwide economic climate and reinvigorate well-established global shipping patterns.

M&A outlook

Because of the credit crisis and the current difficulty in assessing the value of a potential acquisition, M&A activity has slowed. Transaction activity stayed relatively high until now outside the United States, but we anticipate that deal-making will remain constrained in the next six months if financing remains unavailable and economic conditions worsen. However, we do expect a number of divestitures as companies need to sell assets to raise cash and optimize their footprint for operations. We might also see “mergers of necessity” as companies look to align with stronger players to survive. Because of the large fixed costs and footprint of major transportation companies, recessions are often a time of consolidation.

Forward-looking companies should prepare themselves to seize the opportunities that will eventually emerge. A major part of that process is identifying the optimum business structure and operations strategy. Difficult economic times cast cold scrutiny on all parts of a business, highlighting those that aren't functioning well or hold little promise. Many companies will look to divest operations that don't complement their core business functions. In the short term, there may be few buyers for those assets. But companies that identify noncore assets now—and prepare to act—will seize the initiative when economic conditions change.

Instead of traditional M&A, we may also see a shift in control situations because of emerging concepts such as “loan-to-own,” where private equity firms begin distressed investing in bankrupt or troubled companies they would previously have shunned. With the rise in bankruptcies, this could prove a lucrative—albeit risky—new area of investment for private equity.

The deal market may heat up if credit becomes available for a number of reasons, including:

- Valuation multiples are depressed and a lot of T&L companies are in play.
- Looking longer-term, many companies need to make acquisitions to better position themselves to take advantage of opportunities driven by changes in regulations and/or consumer preferences.
- Private equity specialists will be more active.
- The industry needs to rationalize, including reducing excess capacity through consolidation.

Perspective: thoughts on M&A activity in the fourth quarter of 2008

Although the operating and credit environments remain difficult, we have seen a fair amount of transportation and logistics deal activity in recent months, particularly among non-US parties. In fact, the number of mergers and acquisitions announced during the fourth quarter that involved non-US entities would, if annualized, exceed the total number of deals for non-US entities each of the years 2006, 2007, and 2008. In addition, the annualized sum of deal value announced by non-US parties during the fourth quarter would exceed the level set in 2007 or 2008.

We believe that several factors led to this bifurcation in deal activity between the US and non-US geographies. First, although the current economic challenges are global in nature, the future performance of the US market is of particular concern. Second, significant M&A activity involved parties in South America, driven by several road privatizations in Brazil announced during the period. Finally, and more generally, deal activity for transportation-related infrastructure in emerging markets remains at a relatively high level. This is evidenced by the increase in the pace of deals involving BRIC (Brazil, Russia, India, and China) targets during the fourth quarter.

Companies announced one deal in 2008 with a disclosed value exceeding \$10 billion and 21 deals with values higher than \$1 billion, but the continued anemic state of the credit markets is likely to result in fewer large deals announced during 2009. Emerging markets should continue to account for an increasing proportion of transportation and logistics deal activity, given the relatively high growth rates of these economies compared with more developed countries.

In previous reports, we noted that a pickup in the overall pace of deal activity would likely depend on a recovery in the outlook for the US market. Upon our evaluation of deal activity during the fourth quarter of 2008, as well as all of 2008, we still hold this notion. However, we acknowledge that volatile markets, which lead to more uncertainty about the valuation of deal targets, and significant increases in government borrowing, which could move interest rates higher for nongovernment entities, pose incremental risks to this outlook.

Commentary

Deal activity by number of deals

Measured by announced deals worth \$50 million or more



Deal pace slows amid increased activity outside US

During the fourth quarter of 2008, 43 deals were announced for targets within the transportation and logistics sector. Although these 43 deals mean that the pace of announcements during the quarter would, if annualized, exceed the 2006 level, the pace of activity as measured by number of deals announced during the fourth quarter of 2008 slowed when compared to the numbers of deals announced during the first three quarters of the year. The total deals announced during all of 2008 for transportation and logistics targets lag the number of deals announced in 2007.

Despite the overall slowdown in the number of announcements, the bifurcation of deal activity between US and non-US entities, a trend noted in earlier editions of *Intersections*, continued. The M&A pace announced in the fourth quarter of 2008 that did not involve US targets and/or acquirers exceeded the pace of deal activity by non-US entities announced during 2006, 2007, and all of 2008.

In addition, the number of deals announced during the fourth quarter of 2008 that involved US entities slowed to a crawl (four deals vs. 36 for all of 2008). We attribute this trend to the continuance of weak credit conditions and concerns over the potential US economic output.

Deal activity by total deal value

Measured by announced deals worth \$50 million or more



2008 deal value climbs

The trends in announced deal value support the conclusion that M&A activity remains relatively weak for US entities and relatively strong for non-US counterparts within the transportation and logistics sector. The proportion of deal value announced during the fourth quarter of 2008 that involved one or more US entities was negligible compared with deals announced in 2006, 2007, and 2008; deals that involved one or more US entities accounted for about one-third of total announced deal value during these periods.

The trend in total deal value, regardless of the target or acquirer nation, over the past three years follows the large deal activity (large deals are defined as those with a disclosed value of at least \$1 billion). Total deal value announced in 2008 exceeded the level for 2007 but lagged 2006 (though 2006 total deal value was boosted by a number of withdrawn large bids). This is roughly in line with the trend in large deal announcements, which bottomed in 2007 (16 deals) before increasing in 2008 (21 deals).

Average value of deals also increases

Average values for deals announced in the fourth quarter of 2008 and all of 2008 exceed the corresponding averages for 2007, a trend that is also driven by higher large deal activity in 2008 compared with 2007. The average value for deals announced in 2006 was skewed upward by the inclusion of three large deals with a disclosed value of more than \$10 billion (two competing bids for BAA PLC and a bid for Delta Air Lines).

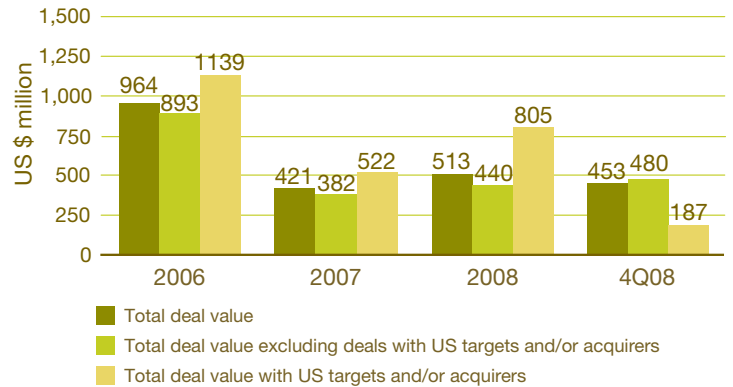
Although general weakness in the US dollar during recent years, as well as the high market values of US targets, led to a relatively high value for deals with US entities in 2008, this relationship did not hold for the four deals announced in the fourth quarter. Interest in large deals also contributed to the high value for all of 2008 relative to the fourth quarter, including US involvement in the announced Pennsylvania Turnpike deal; though subsequently withdrawn, this was the largest deal announced in 2008 and the largest-ever potential privatization of a US infrastructure asset.

Favored targets veer from air to earthbound

Interest in passenger air companies has generally declined over the past several years in favor of passenger ground and rail targets. We can attribute this to shifts in large deal targets over time. The three largest transactions announced in 2006 all involved passenger air targets (competing bids for BAA PLC and a bid for Delta, all exceeding \$15 billion), and the only deal announced in 2008 with a disclosed value higher than \$10 billion was for a passenger ground target (the withdrawn bid for the Pennsylvania Turnpike). Large deals announced in the fourth quarter of 2008 for passenger ground, shipping, and rail targets contributed to the relatively high value ascribed to these categories during the quarter.

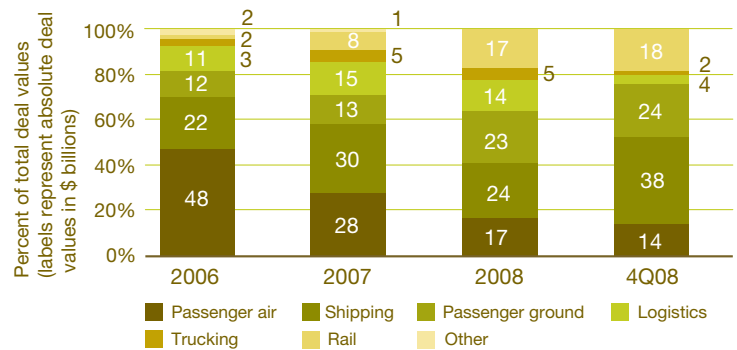
Deal activity by average deal value

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



Deals by transportation and logistics mode

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



Deal activity by investor group

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



Strategic investment outweighs financial investment

The expectation that well-capitalized strategic investors would be best positioned to engage in deals held true through the end of 2008. Deal interest by financial investors remained constrained, on a relative basis, because of the ongoing lack of access to credit, the precursor of which was the rise in subprime mortgage defaults beginning in late 2007.

Financial investors accounted for approximately 40 percent of the transactions announced during 2006 and 2007, but in 2008 and the fourth quarter of 2008, the proportion of deals announced by financial investors declined to approximately 30 percent. Shipping and logistics entities have remained the most common targets of financial investors in all periods, though passenger ground targets also were significant.

Large deals in 2006 (deals with a disclosed value of at least \$1 billion)

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Feb	BAA PLC	United Kingdom	Airport Development & Investment Ltd	Spain	Completed	21.81	Passenger air
Mar	BAA PLC	United Kingdom	Investor group	United States	Withdrawn	19.19	Passenger air
Nov	Delta Air Lines Inc	United States	US Airways Group Inc	United States	Withdrawn	17.96	Passenger air
Apr	Autostrade SpA	Italy	Abertis Infraestructuras SA	Spain	Withdrawn	16.02	Passenger ground
Dec	Qantas Airways Ltd	Australia	Airline Partners Australia	Australia	Withdrawn	8.70	Passenger air
Jan	Peninsular & Oriental Steam Navigation Co	United Kingdom	PSA Venture(UK) Ltd	United Kingdom	Withdrawn	6.14	Shipping
Dec	Toll Holdings Ltd-Transport Infrastructure Assets	Australia	Shareholders	Australia	Completed	5.75	Logistics
Mar	Associated British Ports Holdings PLC	United Kingdom	Admiral Acquisitions UK Ltd	United Kingdom	Completed	5.11	Shipping
Jun	Associated British Ports Holdings PLC	United Kingdom	Investor group	United Kingdom	Withdrawn	4.76	Shipping
Apr	Hutchison Port Holdings Ltd	Hong Kong	PSA Corp Ltd	Singapore	Completed	4.39	Shipping
Nov	Swift Transportation Co Inc	United States	Investor group	United States	Completed	2.78	Trucking
Nov	Orient Overseas(International) Ltd-US Terminals Division	United States	Ontario Teachers Pension Plan	Canada	Completed	2.41	Shipping
Apr	Hanshin Electric Railway Co Ltd	Japan	Hankyu Holdings Inc	Japan	Completed	2.22	Other
Aug	TNT NV-Logistics Division	Netherlands	Apollo Management LP	United States	Completed	1.90	Logistics
Mar	EnCana Corp-Gas Storage Business	United States	Carlyle Riverstone Global Energy & Power Fund II LP	United States	Completed	1.50	Logistics
Oct	Aer Lingus PLC	Ireland-Rep	Coinside Ltd	Ireland-Rep	Withdrawn	1.41	Passenger air
Aug	Songa Shipholding AS	Norway	Eitzen Chemical ASA	Norway	Completed	1.28	Shipping
Jun	Shanghai Port Container Co Ltd	China	Shanghai International Port (Group)Co Ltd	China	Completed	1.11	Shipping
May	Hanshin Electric Railway Co Ltd	Japan	Hankyu Holdings Inc	Japan	Completed	1.10	Other
Jun	Hong Kong Dragon Airlines Ltd	Hong Kong	Hong Kong	Hong Kong	Completed	1.02	Passenger air

Large deals in 2007 (deals with a disclosed value of at least \$1 billion)

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Nov	Iberia Lineas Aereas de Espana SA	Spain	Investor group	Spain	Intended	5.47	Passenger air
Mar	Iberia Lineas Aereas de Espana SA	Spain	Investor group	Spain	Withdrawn	4.59	Passenger air
Aug	Mexican Toll Roads	Mexico	Investor group	Mexico	Pending	4.03	Passenger ground
Feb	Laidlaw International Inc	United States	FirstGroup PLC	United Kingdom	Completed	2.82	Passenger ground
Jul	Sabiha Gokcen International Airport	Turkey	Investor group	India	Completed	2.66	Passenger air
Sep	Dakota, Minnesota & Eastern Railroad Corp	United States	Canadian Pacific Railway Ltd	Canada	Completed	2.54	Rail
Mar	EGL Inc	United States	Ceva Logistics	Netherlands	Completed	2.24	Logistics
May	Florida East Coast Industries Inc	United States	Fortress Investment Group LLC	United States	Completed	2.24	Rail
Jun	Scandlines AG	Germany	Scandlines AG Special Purpose Vehicle	Denmark	Completed	2.09	Shipping
Jan	EGL Inc	United States	Investor group	United States	Withdrawn	1.92	Logistics
Apr	OMI Corp	United States	Investor group	Bahamas	Completed	1.81	Shipping
Oct	Labroy Marine Ltd	Singapore	Dubai Drydocks World LLC	Utd Arab Em	Completed	1.60	Shipping
Jan	Guggenheim Aviation Investment Fund LP-Aircraft Assets(38)	United States	Aircastle Ltd	United States	Completed	1.60	Passenger air
Oct	UN Ro-Ro Management Inc	Turkey	Kohlberg Kravis Roberts & Co	United States	Completed	1.30	Shipping
May	Port of Izmir	Turkey	Investor group	Hong Kong	Completed	1.28	Shipping
Aug	NCL Corp Ltd	Bermuda	NCL Investment Ltd	Bermuda	Completed	1.00	Shipping

Large deals in 2008 (deals with a disclosed value of at least \$1 billion)

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
May	Pennsylvania Turnpike	United States	Investor group	Spain	Withdrawn	12.80	Passenger ground
Jun	Angel Trains Ltd	United Kingdom	Investor group	Australia	Completed	7.01	Rail
Oct	Hapag-Lloyd AG	Germany	Albert Ballin GmbH & Co KG	Germany	Pending	5.16	Shipping
Jan	Korea Express Co Ltd	South Korea	Investor group	South Korea	Completed	4.33	Logistics
Oct	Porterbrook Leasing Co Ltd	United Kingdom	Investor group	Germany	Pending	3.11	Rail
Apr	Northwest Airlines Corp	United States	Delta Air Lines Inc	United States	Completed	2.96	Passenger air
Aug	Asciano Group	Australia	Asciano Group SPV	United States	Pending	2.68	Rail
Sep	Midway International Airport	United States	Investor group	United States	Pending	2.52	Passenger air
Apr	Prosafe SE-FPSO Business	Cyprus	Shareholders	Cyprus	Completed	1.66	Shipping
Jan	Quintana Maritime Ltd	Greece	Excel Maritime Carriers Ltd	Greece	Completed	1.63	Shipping
Sep	Smit Internationale NV	Netherlands	Koninklijke Boskalis Westminster NV	Netherlands	Withdrawn	1.55	Shipping
Feb	Japan Airlines Corp	Japan	Investor group	Japan	Completed	1.48	Passenger air
Jan	Cia de Distribucion Integral Logista SA	Spain	Imperial Tobacco Group PLC	United Kingdom	Completed	1.40	Logistics
Sep	Alitalia Linee Aeree Italiane SpA-Passenger Assets	Italy	Cia Aerea Italian Srl (CAI)	Italy	Completed	1.31	Passenger air
Mar	Rodoanel Oeste	Brazil	Integracao Oeste	Brazil	Completed	1.18	Passenger ground
Jun	XB Luxembourg Holdings 1 SA	Luxembourg	DSV Air & Sea Holding A/S	Denmark	Completed	1.17	Logistics
Oct	Dom Pedro I Highway	Brazil	Integracao Dom Pedro I	Brazil	Pending	1.14	Passenger ground
Jan	LLX Logistica SA	Brazil	Shareholders	Brazil	Completed	1.12	Logistics
Dec	Los Lagos	Chile	Atlantia SpA	Italy	Pending	1.06	Passenger ground
Mar	Global Ship Lease Inc	United Kingdom	Marathon Acquisition Corp	United States	Completed	1.03	Shipping
Mar	Groupe Eurotunnel SA{GET SA}	France	Goldman Sachs Group Inc	United States	Pending	1.02	Rail

Billion-dollar deals increase

Despite the relatively weak deal environment that persisted throughout 2008, the 21 large deals announced during the year exceeded the 20 in 2006 and 16 in 2007. This trend was somewhat surprising given the lack of competing bids among the large deals announced during 2008.

In 2006, six of the 20 large deals announced were competing bids, including offers for BAA PLC, Associated British Ports Holdings, and Hanshin Electric Railway. In 2007, four of 16 large deals were competing bids, including offers for Iberia Lineas Aereas and EGL. No competing bids were among the large deals announced during 2008; however, some of these bids (for example, Pennsylvania Turnpike) were the result of an auction process. As of the end of 2008, only two large deals were withdrawn; though should the lending and operating environment remain difficult, it is possible that other large deals could be postponed or withdrawn.

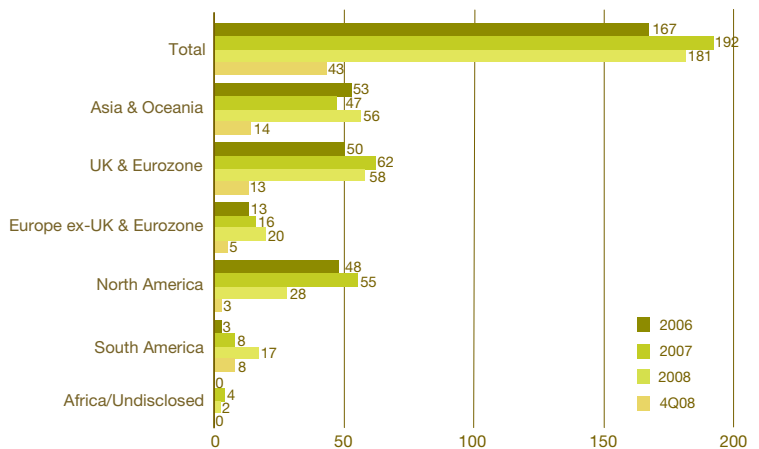
Asia, Eurozone targets attract more activity than US

The regional distribution of deals indicates that the majority announced over the past three years have involved targets in the Asia and Oceania and UK and Eurozone regions. The general decline in deals for targets in North America is the result of less interest in deals involving US entities.

Also noteworthy is the increase in the proportion of deals for targets in South America in the fourth quarter of 2008 (almost one-fifth of the deals announced), which is primarily a function of the activity in Brazil. Seven of the eight deals for South American companies during the fourth quarter of 2008 involved targets from Brazil.

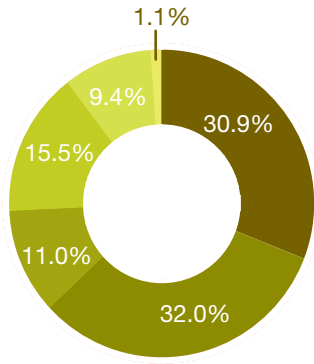
Regional distribution of all deals by target region

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



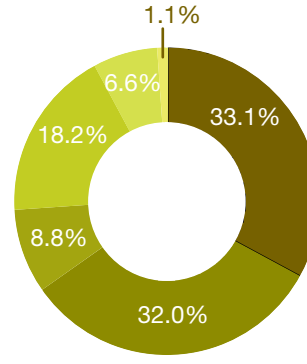
Regional distribution of deals by target region

Measured by number of deals worth \$50 million or more (2008)



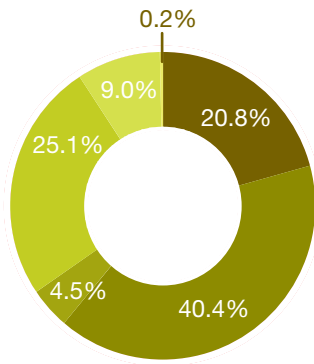
Regional distribution of deals by acquirer region

Measured by number of deals worth \$50 million or more (2008)



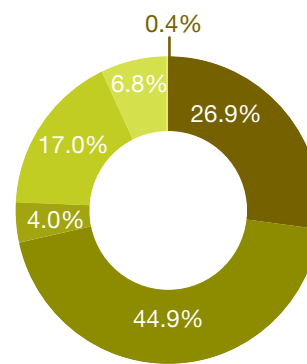
By value of deals by target region

\$92.8 billion total value



By value of deals by acquirer region

\$92.8 billion total value



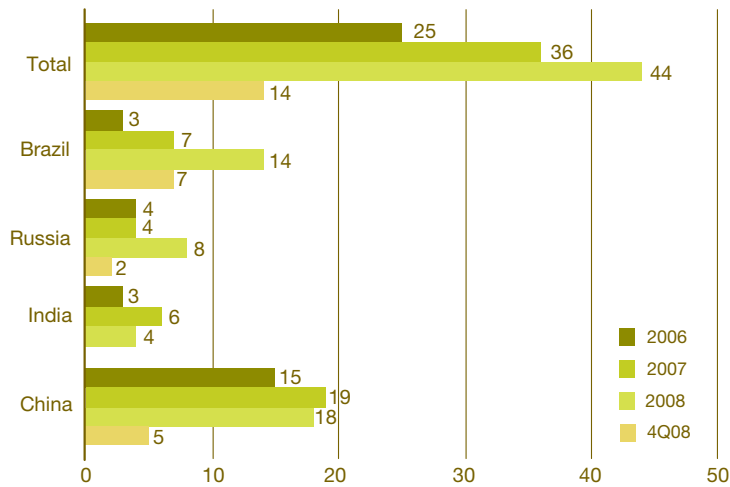
Asia & Oceania
 UK & Eurozone
 Europe ex-UK & Eurozone
 North America
 South America
 Africa/undisclosed

Eurozone, Asia lead in transactions

Interest in targets within the UK and Eurozone region, as measured by both numbers and value of deals, led all regions for transactions announced in 2008. For acquirers, while the most activity by value came from the UK and Eurozone region, acquirers in the Asia and Oceania region were the most active dealmakers measured by total deals. We can attribute this dichotomy to the generally larger size of firms in the UK and Eurozone region compared with those in Asia and Oceania.

Distribution of BRIC deals by target nation

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

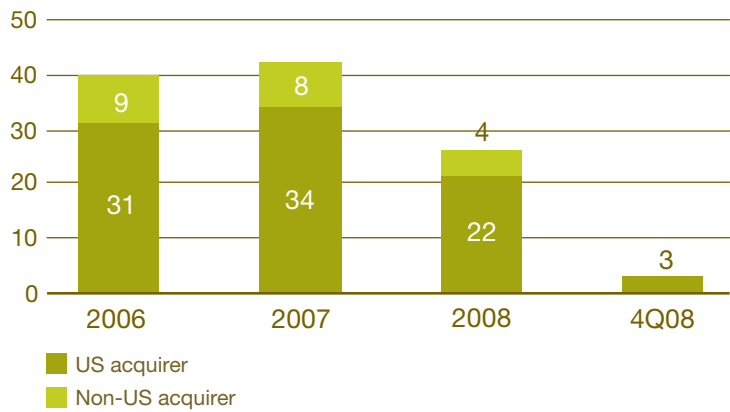


Brazil focuses on highway projects in fourth quarter

In previous reports, we noted that targets in China led BRIC deal interest. This was the case for deals announced in 2006, 2007, and 2008. However, when examining deals announced during the most recent quarter, we see that interest in targets in Brazil led all BRIC countries—accounting for half of the 14 BRIC deals announced. The propensity for other BRIC countries, such as China, to consolidate within the local market (within its borders) has been noted in previous reports. This local-market consolidation is a phenomenon that also occurred in Brazil during the fourth quarter of 2008, with all seven of the deals involving both targets and acquirers from Brazil. Five of these Brazilian targets were passenger ground deals, and all were the result of the privatization of local highways by the Brazilian government.

US vs. non-US acquirers of US targets

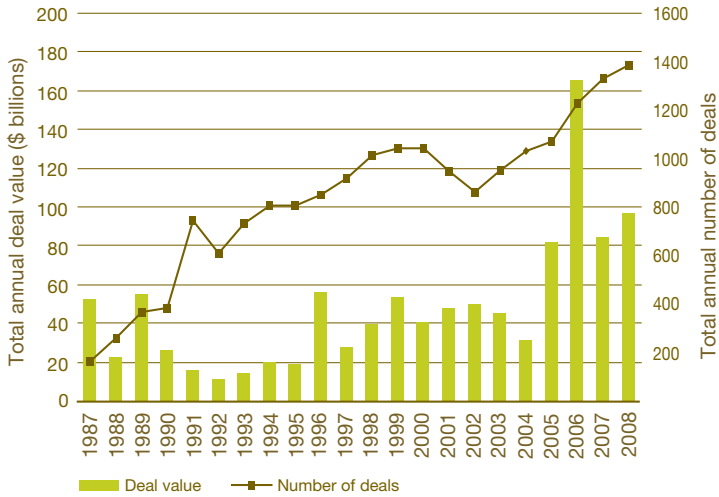
Measured by number of deals worth \$50 million or more



Interest in US targets wanes

Only three deals involving US targets were announced during the fourth quarter of 2008, and all were local-market. We have noted in earlier editions of Intersections, as well as in this report, that the weak operating environment in the United States is one factor that has reduced interest in US targets. The almost complete lack of deals announced during the fourth quarter for US targets belies the reticence on the part of investors to increase their exposure in this geography.

Historical value and volume of announced deals of all deals



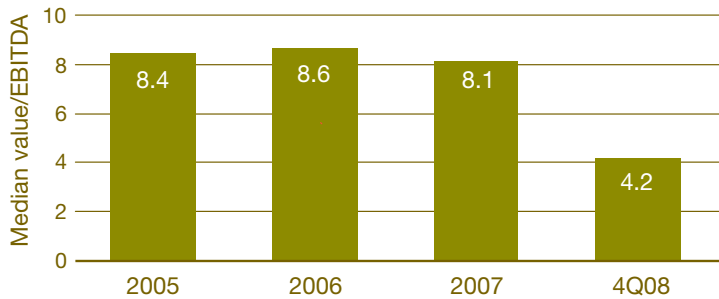
2008 sets 20-year record for number of transactions

The value for all deals announced during 2008 (\$96.4 billion) exceeds the value announced for deals in 2007 (\$84.3 billion), and it represents the second-highest annual total deal value announced in the past 20 years for transportation and logistics targets. The 1,385 deals announced in 2008 is the highest annual volume over the past 20 years. Together, these trends indicate that overall deal activity for transportation and logistics targets remains strong, though the focus shifted to smaller deals during 2008 compared with prior years.

In previous reports, we have noted that deal activity as measured by both total value and total number has declined during recessionary periods (for example, in the United States, July 1990 through March 1991, March 2001 through November 2001, and beginning in December 2008). Accordingly, it is likely that the relatively high probability of a prolonged economic contraction near-term will result in a slowdown in the pace of total activity targeting transportation and logistics.

Deal valuation by median value/EBITDA

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



Deal value ratio declines in fourth quarter

The ratio of median deal value to target earnings before interest, taxes, depreciation, and amortization (EBITDA) for deals announced during the fourth quarter of 2008 (4.2) declined significantly from the median levels of the prior three years (value/EBITDA was more than 8X in each year). This was expected, given the more limited access to capital as well as the increase in risk premiums, with the latter factor tending to lead to a lower valuation of investments such as acquisitions, all other things being equal.

The available sample of deal value/EBITDA data was limited in each period (59, 60, 53, and 14 deals in 2006, 2007, 2008, and the fourth quarter of 2008, respectively); thus, the median value was selected as a measure of central tendency to reduce the influence of outliers.

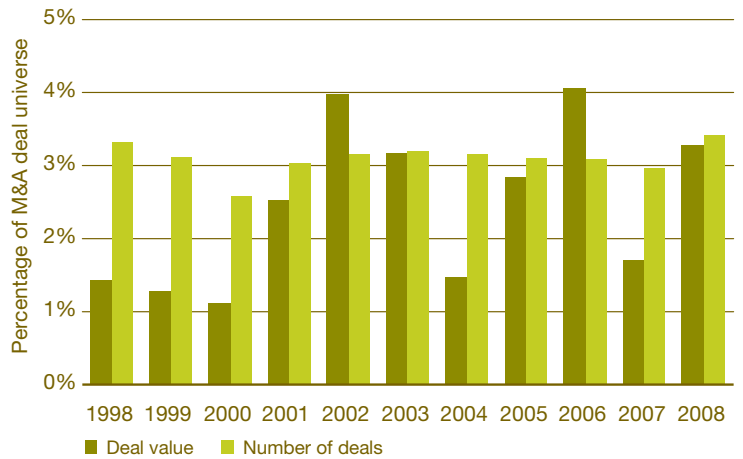
T&L takes bigger proportion of the pie

The number of deals announced for transportation and logistics targets relative to the overall number of transactions, regardless of target sector, has historically and consistently approximated 3 percent. This contrasts with the deals' value, which has varied from about 1 percent to 4 percent of the value of overall transactions, regardless of target sector.

The number of transportation and logistics deals announced in 2008, relative to all deals, is at the highest annual level of the past 10 years. During 2008, the proportion of transportation and logistics deal value to overall announced deal value was 3.3 percent; and the number of deals for transportation and logistics targets relative to the number of announced deals overall was 3.4 percent. This compares with the 10-year historical averages of 2.4 percent and 3.1 percent, respectively.

T&L deal activity relative to all announced M&A deals

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



Financial crisis: managing through the downturn

The current financial crisis and the tightening of credit have impacted M&A activity dramatically. With few new M&A deals in the pipeline, companies are turning their focus in new directions to find opportunities for growth. Some companies are reviewing past deals to drive more complete integration and further streamline business operations to extract working capital, cut costs, and drive efficiencies. Others are examining underperforming assets and planning divestitures. Finally, some farsighted managers, despite the challenging market conditions, are dusting off old strategic plans to identify potential acquisition candidates that were once viewed as too expensive. In any case, most companies have realized that the end of easy credit could spell a slowdown for debt-fueled transactions and are placing a renewed premium on organic growth, cost containment, and operational excellence.

Operational excellence, however, does not stem from an array of new business concepts. To the contrary, it is “back to basics,” a time to focus on flawless execution of business plans. Today, the mantra has become “better, faster, smarter.” At PricewaterhouseCoopers, we understand the fundamentals of business. In dealing with the critical short-term risks of liquidity and financing and preparing for an extended economic downturn, we are assisting our clients with the following:

- Developing and maintaining a robust financial forecast
- Identifying key forecast risks and developing appropriate responses
- Ensuring adequate sources of liquidity
- Driving efficiency in working capital processes
- Aggressively managing costs
- Exercising discipline in capital investments
- Assessing and monitoring credit exposures throughout the value chain

These seven steps are the key to managing risks, avoiding the pitfalls, and capitalizing on emerging opportunities inherent in times of financial and economic turmoil. Those companies that address their short- and longer-term issues in this way may achieve many benefits, including:

- Greater visibility into their cash needs and enhanced efficiency and control in decision-making
- Improved understanding and ability to manage performance variables
- Access to sufficient sources of liquidity to remain viable through an extended downturn
- Less need to finance working capital
- Increased liquidity and return on investment through disciplined capital investment, lower costs, and a culture of cost consciousness
- Reduced credit exposure in commercial transactions
- Less exposure to counterparties
- Prevention of supply chain disruptions

Although there are risks to manage and challenges to surmount, a crisis can also be an opportunity for management to address structural issues within the business that had been too difficult to confront. A crisis can unite stakeholders to face the difficult choices necessary to enhance competitiveness, including undertaking large restructurings. As credit continues to tighten across many industries, we expect to see well-capitalized players take advantage of rare opportunities to address strategic objectives through transformational transactions. We have seen early signs of this in the financial services and utility sectors, where the stronger players are beginning to subsume weaker ones, and we anticipate seeing similar consolidation in other sectors as leading players seek to leverage their relative financial strength to further their competitive advantages.

Specialty case study: managing commodity price risk

Client: global transportation company

Client issue	<p>After experiencing a rapid and substantial increase in the cost of its transportation fuels, this large, global transportation service provider began a new commodity risk management program. Subsequent declines in fuel prices caused the company to realize significant losses on its hedge program. As a result, executive management and the board questioned whether the derivative program had been designed and adopted in a sound manner.</p>
Approach	<p>At the request of management and the board, PricewaterhouseCoopers performed a high-level assessment of the company's commodity risk management program. The program was assessed against both the company's policies and recognized good practices for financial risk management. The review encompassed governance and organization; objectives; risk identification and measurement; front-, middle- and back-office processes, policies and procedures; performance management; accounting; and use of technology.</p> <p>Based on this assessment, PwC was able to identify several areas where the client could elevate the performance of its hedging program, including refinement of strategy, oversight and monitoring, risk measurement, and use of technology, among others.</p>
Impact	<p>The client was able to significantly elevate the practice of its commodity risk management program by enhancing controls and improving effectiveness and efficiency. Executive management came away with a clearer picture of the company's risk exposure and was able to develop a sustainable strategy for the company to manage risk within its defined appetite. Better reporting and oversight provided comfort to management that the hedging strategy was performing as intended. An enhanced process and technology environment allowed the company to strengthen controls and reduce processing costs.</p> <p>Finally, and perhaps most importantly, the refined risk management program allowed the company to report with confidence—internally and externally—about how changes in energy prices might impact its financial performance.</p>

PricewaterhouseCoopers' transportation and logistics experience

Deep industry experience

PwC continues to have the leading Fortune Global 500 market share in the industry. Our Transportation & Logistics practice is composed of a global network of more than 4,200 industry professionals who provide assurance, tax, and advisory services to public and private transportation and logistics companies around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues, in addition to a wealth of specialized resources and "best practices" that help in solving complex business challenges. Our highly skilled team encourages dialogue on top-of-mind trends and issues through active participation in industry conferences and associations, such as the American Trucking Association, the Air Transport Association, the American Railroad Association, and the European Logistics Association. To address your industry needs wherever they arise, our specialists are concentrated in areas where the transportation and logistics industry operates today and in the emerging markets where it will operate in the future.

Quality deal specialists

PwC's Transaction Services practice, with more than 3,800 dedicated deal specialists worldwide, has the right industry and functional experience to advise you on all factors that could affect the transaction, including market, financial accounting, tax, human resources, operating, IT, and supply chain considerations. Teamed with our Transportation & Logistics industry practice, our deal specialists can bring a unique perspective to your transaction, addressing it from a technical aspect as well as from an industry point of view.

Local coverage, global connection

In addition to having more than 4,200 professionals who serve the transportation and logistics industry, our team is part of an expansive Industrial Products group that consists of more than 28,700 professionals, including approximately 16,700 providing assurance services, 7,000 providing tax services, and 5,000 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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PwC Global Transportation & Logistics practice

PwC's Transportation & Logistics (T&L) practice provides industry-focused assurance, tax, and advisory services. Through our global network, we can draw upon the in-depth industry experience of specialists in every country your company operates in. Our people can help you deal with the challenges of today, and they understand the implications for tomorrow.

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PwC Global Transaction Services practice

PwC's Transaction Services practice offers a full range of tax, financial, business assurance, and advisory capabilities covering acquisitions, disposals, private equity, strategic M&A advice, advise on listed company transactions, financing and public/private partnerships.

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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 Financial 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, 2005, and December 31, 2008, 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), or withdrawn. The term deals, 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, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country, and China, when referenced separately, includes Hong Kong.

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