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Intersections
First-quarter 2012 transportation and logistics industry mergers and acquisitions analysis

pwc

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To our transportation and logistics readers

Welcome to the latest edition of *Intersections*, PwC's quarterly analysis of mergers and acquisitions in the global transportation and logistics sector. In this report, you'll find an overview of M&A in the sector during the first quarter of 2012, plus expectations for deal activity in the near future.

PwC analysts are looking to several trends expected to affect the values and locations of T&L deals:

- Despite global economic uncertainty, deal activity during the quarter was characterized by several major transactions, led by the United Parcel Service (UPS) $6.8 billion acquisition of TNT Express. Due to its European network and positioning in several emerging markets, the latter was viewed as an attractive target, particularly after its spinoff from parent PostNL (previously TNT NV).
- Transactions involving the concessions of Brazil's three largest airports, among the high-value infrastructure deals in emerging markets, will help the country upgrade facilities before the 2014 World Cup and 2016 Olympics. Brazil reportedly is considering further auctions for airports in Rio de Janeiro and Belo Horizonte.
- While the number of infrastructure announcements reached a historic high in the first quarter, overall valuations declined, likely because many of the infrastructure deals in our sample had undisclosed valuations. The trend should reverse, although a lack of competing bids for other, non-infrastructure deals could have an impact on overall sector multiples.
- Logistics was very active, and shipping receded in its importance to overall activity, although M&A opportunities remain high in both of these modes. Russian privatizations in the shipping, rail, and airline modes could drive new large deals.

The transportation and logistics sector continues to be highly cyclical, and European sovereign debt issues, a tepid US recovery, and a hard landing in emerging markets, among other factors, could provide macroeconomic shocks. Still, many catalysts are expected to drive deal activity over the rest of 2012.

We're pleased to present the first-quarter 2012 edition of *Intersections* as a part of our ongoing commitment to providing a better understanding of M&A trends and prospects in the industry.

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Perspectives:
Thoughts on deal activity in the first quarter of 2012

Welcome to *Intersections*, our analysis of M&A announcements in the transportation and logistics sector. In this edition we have included a look at the deal market for airlines and airports. Of the two, airports seem more likely to drive overall activity due to differences in investor sentiment as well as regulatory barriers. However there are potential airline deals that could have important implications for the positioning of global alliances.

Despite lingering concerns over the state of the global economy, investors were not dissuaded from engaging in large acquisitions this quarter. The $6.8 billion acquisition of TNT Express by United Parcel Service (UPS) led the sector deal table. TNT had been considered an attractive target, particularly after it spun off from parent PostNL (previously TNT NV), due to its European network and positioning in several emerging markets.

Among other large deals, the concessions of Brazil's three largest airports continue the theme of infrastructure deals in emerging markets that we shared in previous editions of *Intersections*. In these markets there is a need to bring in investment to support traffic growth and these specific transactions will help Brazil upgrade facilities prior to the 2014 World Cup and 2016 Olympics. More generally, the importance of infrastructure M&A to the overall deal market continues to grow. The size of these assets often means that these deals are among the largest within the sector when measured by value. In addition, it is interesting that the relative number of infrastructure announcements also reached a historic high in the first quarter.

We have previously shared that infrastructure M&A tends to carry a premium multiple compared to other T&L deals. Yet, despite the rise in infrastructure transactions, overall valuations declined this quarter. This is due, in part, to the fact that many of the infrastructure deals in our sample had undisclosed valuations, and this trend should reverse, though we do note that a lack of competing bids for other, non-infrastructure deals is a factor that could weigh somewhat on overall sector multiples.

On a modal basis logistics was very active this quarter, with the UPS/TNT deal leading the way, and shipping took a step back in its importance to overall activity. We believe that M&A opportunities are high in both of these modes. Logistics markets remain largely fragmented and these deals have one of the highest correlations with GDP of any transportation category. In addition, overcapacity remains a key issue in the shipping mode.

New large deals could also emerge from Russian privatizations in the shipping, rail, and airline modes. Finally, the significant interest shown in Brazil's airport concessions is likely to encourage governments to bring more of these assets to market. For example, reports indicate that Brazil is considering further auctions for airports in Rio de Janeiro and Belo Horizonte. So while the transportation and logistics sector is highly cyclical, and we acknowledge that factors such as European sovereign debt issues, a tepid US recovery, and a hard landing in emerging markets could provide macroeconomic shocks, we believe that there are many catalysts for deal activity over the rest of 2012.

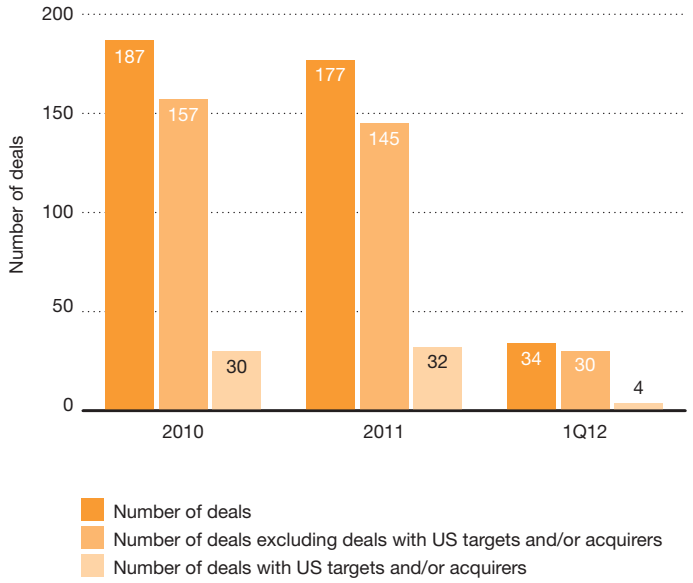
Quarterly transportation and logistics deal activity

Measured by number and value of deals worth $50 million or more (2Q09–1Q12)

	2009			2010				2011				2012
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Number of deals	19	30	44	41	42	42	62	48	46	48	35	34
Total deal value ($ bil.)	5.2	10.4	56.2	21.5	19.6	20.9	48.7	11.3	13.4	14.3	13.6	22.6
Average deal value ($ bil.)	0.3	0.3	1.3	0.5	0.5	0.5	0.8	0.2	0.3	0.3	0.4	0.7

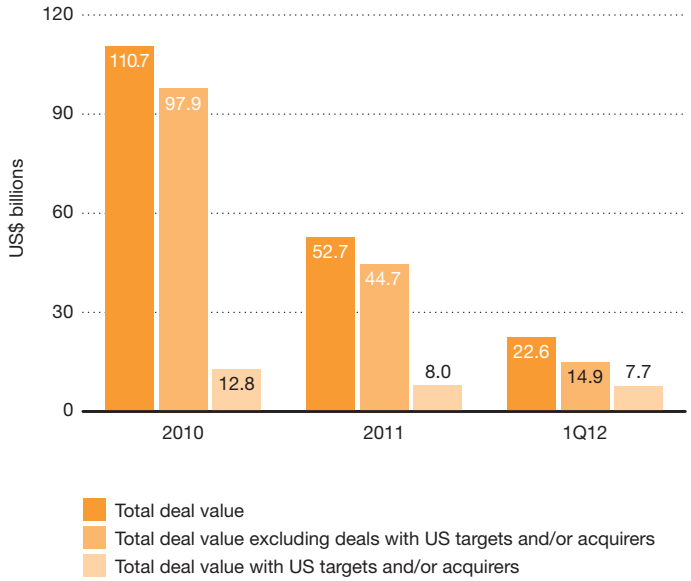
Deal activity by number of deals

Measured by number of deals worth $50 million or more

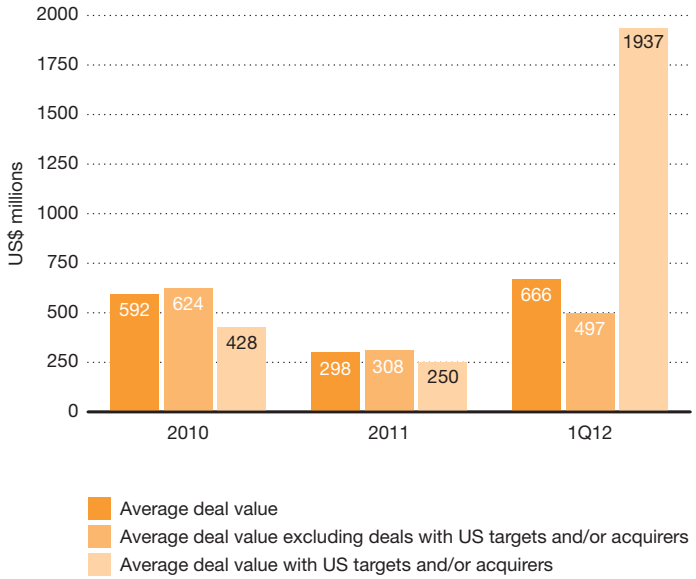


Deal activity by total deal value

Measured by value of deals worth $50 million or more



Deal activity by average deal value
Measured by value of deals worth $50 million or more

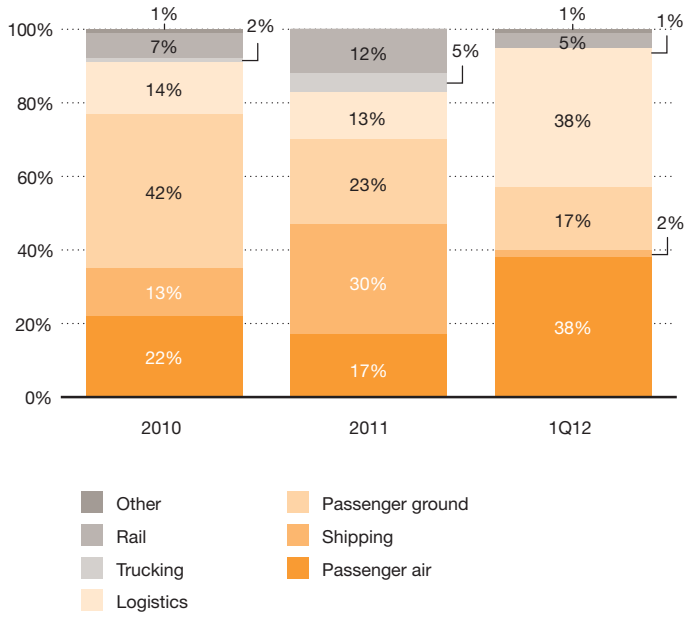


The number of deals announced during the first quarter has approximated the level from the previous quarter; however there has been a big jump in total and average deal values. This is mainly due to the furious pace of mega-deals, defined as announcements with a disclosed value of at least $1 billion. There were five of these transactions this quarter, which is easily on pace to exceed the 11 total mega-deals announced last year. In fact, the first quarter of 2012 is more characteristic of the deal environment in 2010, which was a recent peak for both mega-deals and total deal value.

The $6.8 billion UPS/TNT deal led to a spike in average deal values involving at least one US entity; however, it is interesting that the average deal size was also much bigger outside the United States. This was the result of several very large infrastructure concessions in South America and Europe.

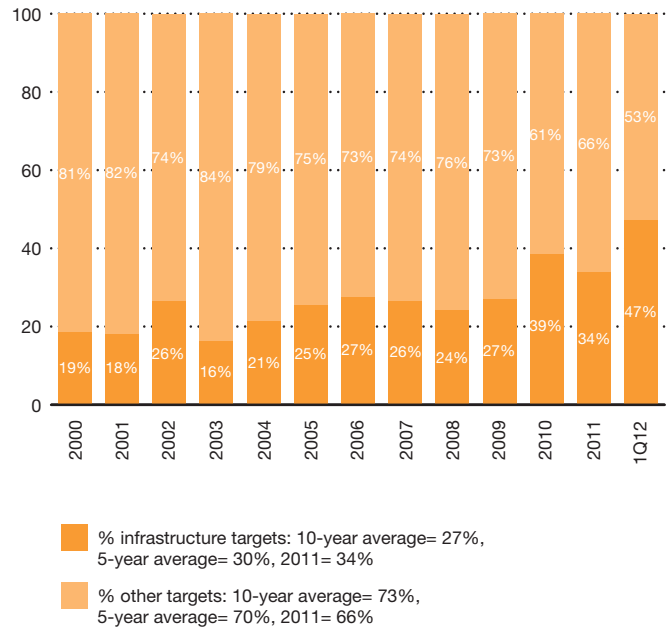
Overall transportation and logistics deal activity over the balance of 2012 seems more likely to rise than fall. Our study of the relationship between annual T&L deal volume and global real GDP growth for periods 2000 through 2011 indicates a moderately positive correlation of 0.48. This is generally supportive of a thesis that continued global economic expansion will bode well for the pace of M&A activity. In addition, the secular trend of infrastructure concessions has the potential to drive both volume and value totals higher.

Deals by transportation & logistics mode
Measured by value of deals worth $50 million or more



Note: Due to rounding, totals may not equal 100%

Historical relative deal volume for transportation infrastructure
Measured by number of deals worth $50 million or more

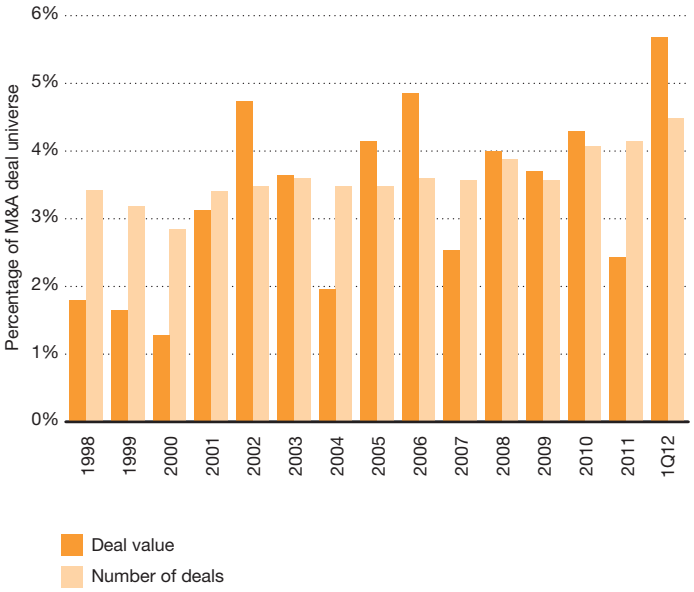


Logistics and passenger air modes led first-quarter deal value within the sector. The former was due to the UPS/TNT deal, while the latter is due to airport acquisitions that made up three of five mega-deals this quarter. Also, road concessions contributed to a high level of passenger ground deals, though this proportion was below the level of the past few years.

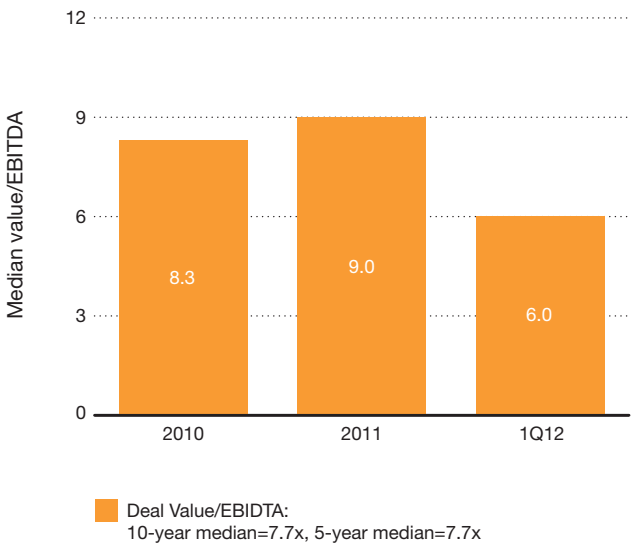
The influence of transportation infrastructure investments on the overall transportation and logistics deal market continues to gain steam. In the first quarter, the proportion of deal volume involving infrastructure targets leapt to a 12-year high. This secular trend toward more infrastructure privatizations and transactions also drove the relative increase in T&L deal value and volume as a percent of the overall M&A market during the first quarter.

Outside of infrastructure deals, shipping and logistics seem likely to contribute substantially to deal flow in 2012. Overcapacity and weak pricing have increased calls for consolidation across the shipping mode. In addition, the relative fragmentation of logistics markets as well as the particularly strong relationship between M&A in this segment and global GDP bode well for deal activity later this year.

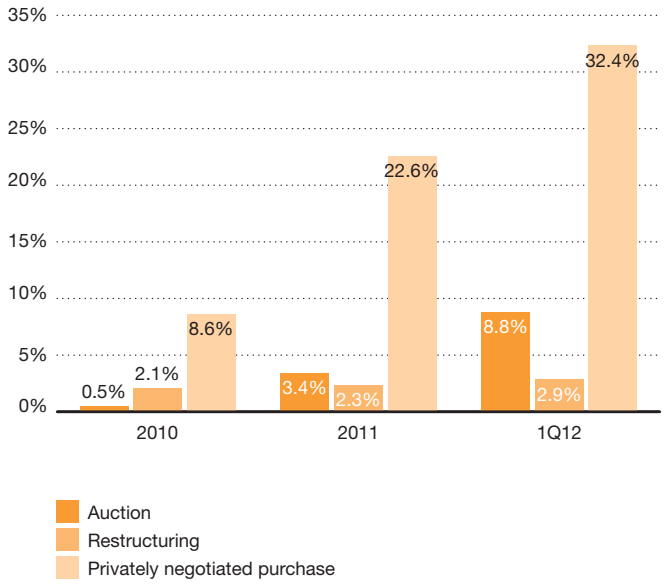
Transportation & logistics deal activity relative to all M&A deals
Measured by value and number of all deals



Deal valuation by median value/EBITDA
Measured by Value/EBITDA for deals worth $50 million or more



Acquisition techniques
Measured by percentage of deals worth $50 million or more



Deal value/EBITDA fell in the first quarter to below longer-term historical averages. The previous *Intersections* report noted that infrastructure deals have historically tended to carry high multiples, so at first glance it seems counterintuitive that valuation would decline in a period with so many headlining road and airport transactions. However, most of the deals for transportation assets this quarter did not have disclosed valuations, and this has likely influenced the regression in the median multiple for the sector overall.

Auctions were used more frequently this quarter, driven by the multiple Brazilian airport concessions, as many infrastructure privatizations are handled via auction. The major increase in privately negotiated deals, despite the concurrent increase in auctions, is also interesting. This trend of more privately negotiated deals could signal lower relative competition for, and interest in, non-infrastructure targets.

Transactions that involved a party in restructuring also edged up and it is logical that these deals would tend to contribute to a decline in sector multiples. The involvement of these more distressed targets in the overall transportation and logistics market is not a major trend yet, but it bears watching as one indicator of the health of the sector as well as for potential implications on the broader M&A market.

Overall, the theme of deal valuation and acquisition characteristics this quarter seems to be that there are two distinct segmentations of the T&L M&A market. The first segment includes deals for infrastructure assets, which tend to be associated with increased use of auctions and higher multiples. Competition for targets in the other segment, which include all non-infrastructure investments, has generally receded, leading to more privately negotiated deals and lower overall multiples.

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 Holdings 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	Completed	1.57	Logistics
Jul	ConnectEast Group	Australia	Horizon Roads Pty Ltd	Australia	Completed	1.53	Passenger ground
Oct	Maersk LNG A/S	Denmark	Malt LNG Holding ApS	Denmark	Completed	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	Completed	1.05	Shipping
Aug	Diamond S Shipping LLC	United States	Investor Group	United States	Pending	1.00	Shipping

Mega-deals in 1Q12 (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
Feb	TNT Express NV	Netherlands	United Parcel Service Inc {UPS}	United States	Pending	6.83	Logistics
Feb	Infraero-Guarulhos Airport Concession	Brazil	Undisclosed SPV	Brazil	Pending	4.79	Passenger air
Feb	Infraero-Brasilia Airport Concession	Brazil	Investor Group	Brazil	Pending	1.33	Passenger air
Feb	Infraero-Campinas Airport Concession	Brazil	Investor Group	Brazil	Pending	1.13	Passenger air
Mar	Brisa-Auto-estradas de Portugal SA	Portugal	Tagus Holdings Sarl	Luxembourg	Intended	1.07	Passenger ground

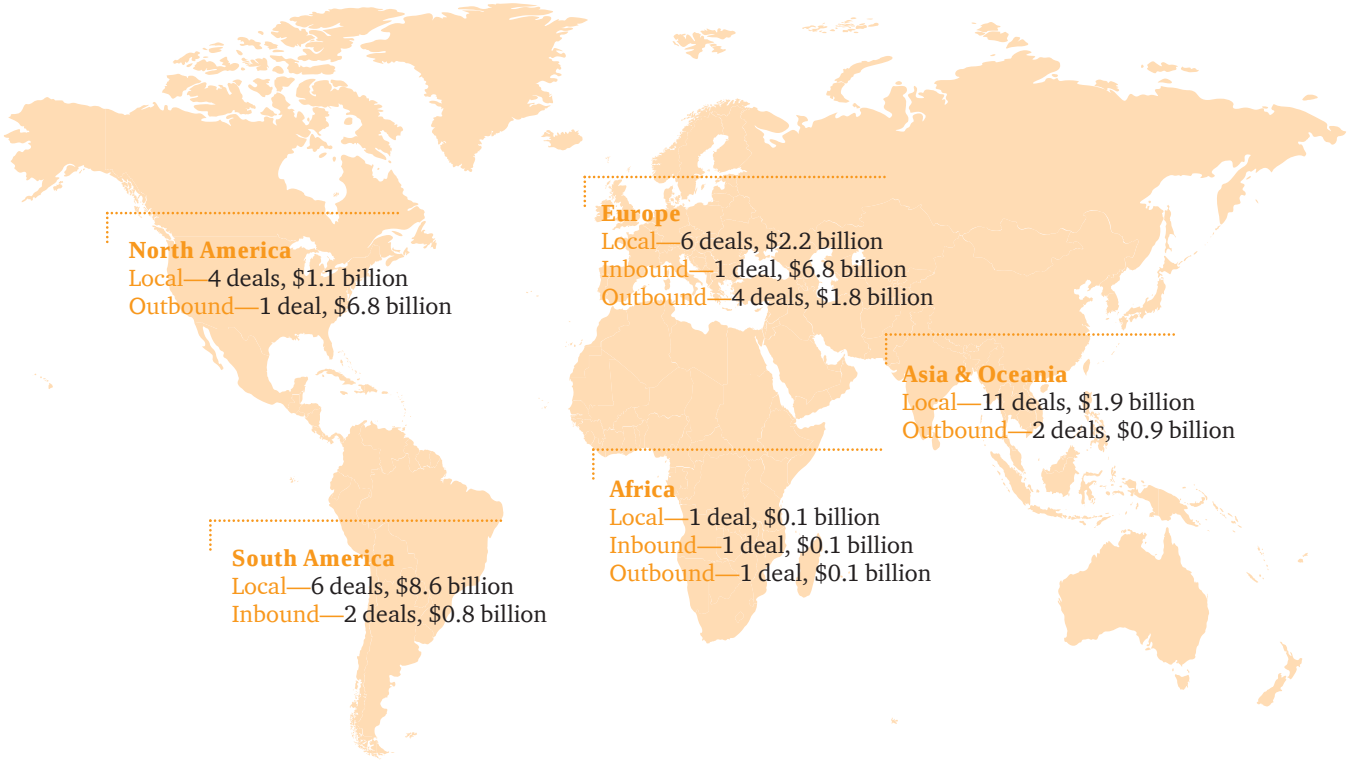
The largest deal of the quarter was UPS's $6.8 billion announcement for TNT Express. TNT Express, which is the second-largest express delivery company in Europe, split from the Dutch mail company PostNL last year and had been considered a potential acquisition target of UPS or FedEx. The deal will improve UPS's market share in Europe and allow it to offer a more homogenous service offering through the United States and Europe. In addition, it helps build UPS's position in other countries such as Brazil and Australia.

The three other mega-deals announced in February were concessions of the three largest airports in Brazil — Guarulhos (Sao Paulo), Brasilia (Federal District), and Viracopos (Campinas) — for a total of $7.2 billion. These airports account for 30% of Brazil's passenger traffic and 57% of total cargo traffic. Funds from the sale of these assets are expected to be invested in regional airports within the country.

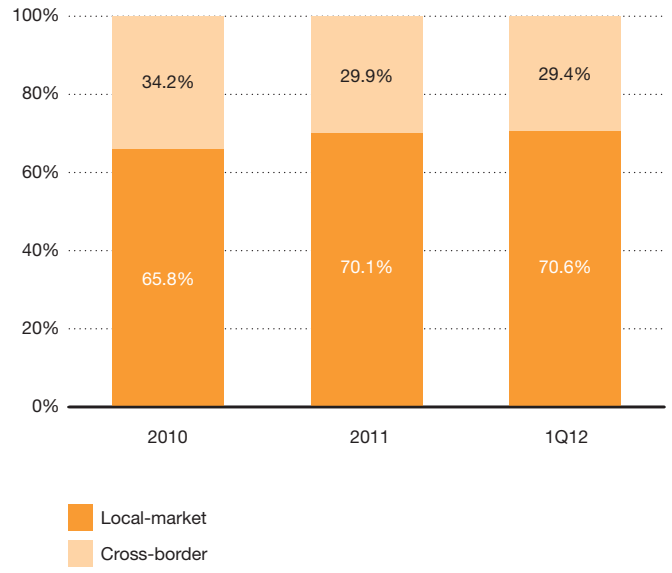
The final mega-deal of the quarter was the Tagus Holdings announcement for Portugal's largest concessionaire, Brisa-Auto-estradas de Portugal SA. Tagus is a joint venture between Arcus Infrastructure Partners, a UK-based infrastructure investor, and Jose de Mello, the largest shareholder in the target. Brisa has been challenged by its exposure to the Portuguese transportation market, where the local economy remains in a deep recession.

Transportation infrastructure deals have loomed large in mega-deal activity in recent periods and this quarter was no exception. There are many factors supporting these types of investments; however, the Brazilian concessions this quarter demonstrate the need for infrastructure investment in emerging markets to enable growth. Specifically, each of the Brazil airport transactions involved commitments for new capital investments prior to the 2014 World Cup and 2016 Olympics.

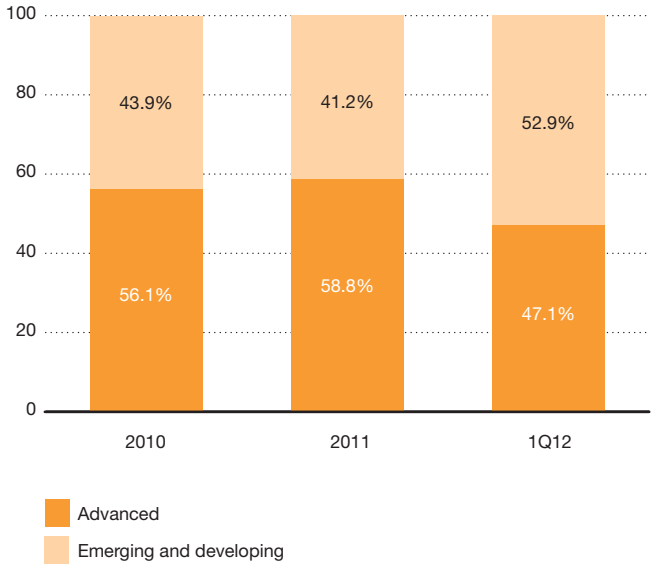
Global transportation and logistics M&A activity in 1Q12
Measured by number and value of deals worth $50 million or more



Local-market versus cross-border deals, all nations
Measured by number of deals worth $50 million or more



Targets from advanced versus emerging and developing markets
Measured by number of deals worth $50 million or more



While Asian entities did not contribute to the largest deals of the quarter, this region was a relative hotbed of activity on the strength of local M&A. These announcements involved a wide range of transportation targets and it is difficult to ascribe one motivation to all activity; however, broad drivers include the need to consolidate relatively fragmented transportation networks and the attractiveness of growth rates in many countries in the region. Furthermore, when considering all deals regardless of size, the region is particularly active. This is because many deals involving Asian parties have undisclosed values as the acquirer and/or target may be unlisted.

The majority of targets were in emerging and developing economies this quarter. This is a major shift from previous years and was driven by European companies making outbound deals into these nations. Each of these outbound deals from Europe targeted transportation infrastructure assets or the operator of those assets. Europe is home to many of the large strategic investors with experience in managing transportation infrastructure, and it stands to reason that these companies will continue to jointly bid with financial buyers in overseas auctions. In addition, the relative uncertainty surrounding several major economies in Europe supports the rationale for these companies to continue to look outward for new growth opportunities.

Russia accounted for some mega-deals this past year and is likely to be a source of deal flow in the future as the government plans to privatize several large state-owned entities. These plans have included selling positions in the largest railroad, Russian Railways, the largest shipping company, Sovcomflot, and the largest airline, Aeroflot. However, it is possible that some of these auctions could be postponed due to market conditions.

Airlines and airports deals

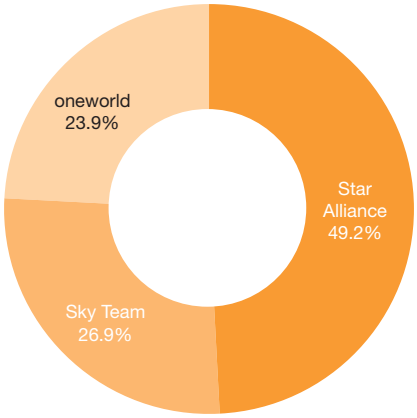
Top 5 airline deals completed—last 10 years

Rank	Date announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil
1	Jan-10	Japan Airlines Corp	Japan	Enterprise Turnaround Initiative Corp of Japan{ETIC}	Japan	Completed	8.17
2	Sep-05	Delta Air Lines Inc	United States	Creditors	United States	Completed	7.69
3	Sep-05	Northwest Airlines Corp	United States	Creditors	United States	Completed	5.56
4	May-10	Continental Airlines Inc	United States	UAL Corp	United States	Completed	3.69
5	Apr-08	Northwest Airlines Corp	United States	Delta Air Lines Inc	United States	Completed	2.96

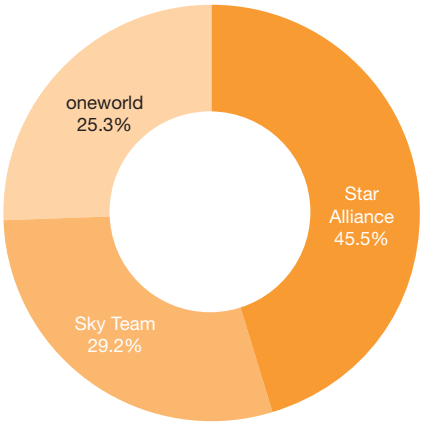
Top 5 airport deals completed—last 10 years

Rank	Date announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil
1	Feb-06	BAA PLC	United Kingdom	Airport Development & Investment Ltd	Spain	Completed	21.81
2	Jun-02	Kingsford Smith Airport (Australia)	Australia	Southern Cross Airports Corp Holdings Ltd	Australia	Completed	3.19
3	Jul-07	Sabiha Gokcen International Airport	Turkey	Investor Group	India	Completed	2.66
4	May-07	Budapest Airport Pte Ltd	Hungary	Investor Group	Germany	Completed	2.61
5	Oct-09	London Gatwick Airport Ltd	United Kingdom	Global Infrastructure Partners LLC	United States	Completed	2.47

Alliance market share by traffic
Measured by revenue passenger kilometers for most recent year



Alliance market share by revenue
Measured by passenger revenue for most recent year



Our research into historical M&A for airlines and airports indicates that the largest transactions for airports have been much more diversified across continents relative to transactions for airlines. The largest airline deals have mostly focused on the United States and Japan. This is in part due to differences in regulations that have opened certain markets to foreign partners as it concerns the privatization of airports, compared with the general limitations on traditional cross-border M&A among airlines.

It is also interesting that the three largest completed airlines deals were for bankrupt entities. This demonstrates the financial difficulties that this industry has historically faced. For example, the International Air Transport Association (IATA) estimates that the global industry has posted net losses for most of the last decade. The wave of consolidation in recent years among Western carriers has helped to improve competitive dynamics though factors such as rising fuel prices continue to challenge profitability.

Several of the large deals from the most recent round of consolidation remain pending, including the merger between Chile's LAN and Brazil's TAM. The LAN/TAM deal, as well as any potential M&A involving the now-bankrupt AMR Corp (parent of American Airlines), present some interesting possibilities for shifts in the global airline alliances. As indicated in the nearby graphics, Star is by far the largest alliance as measured by both revenue and traffic, followed by SkyTeam and oneworld. Once LAN and TAM complete their merger, they will likely choose between Star and oneworld. In addition, rumored bids for American Airlines by US competitors could involve a shift away from oneworld, in which American is the US anchor. This could support the rationale for International Airlines Group (IAG), the holding company of British Airways and Iberia, to take a stake in AMR though regulations currently limit a potential bid to a 25% voting share.

These factors could lead to some large and interesting airline M&A and alliance changes. However the most likely outcome is that airport deals drive passenger air (including both airline and airport) M&A higher based upon lower regulatory barriers, high investor interest, and the need for investment in these assets.

PwC experience

Deep transportation and logistics experience

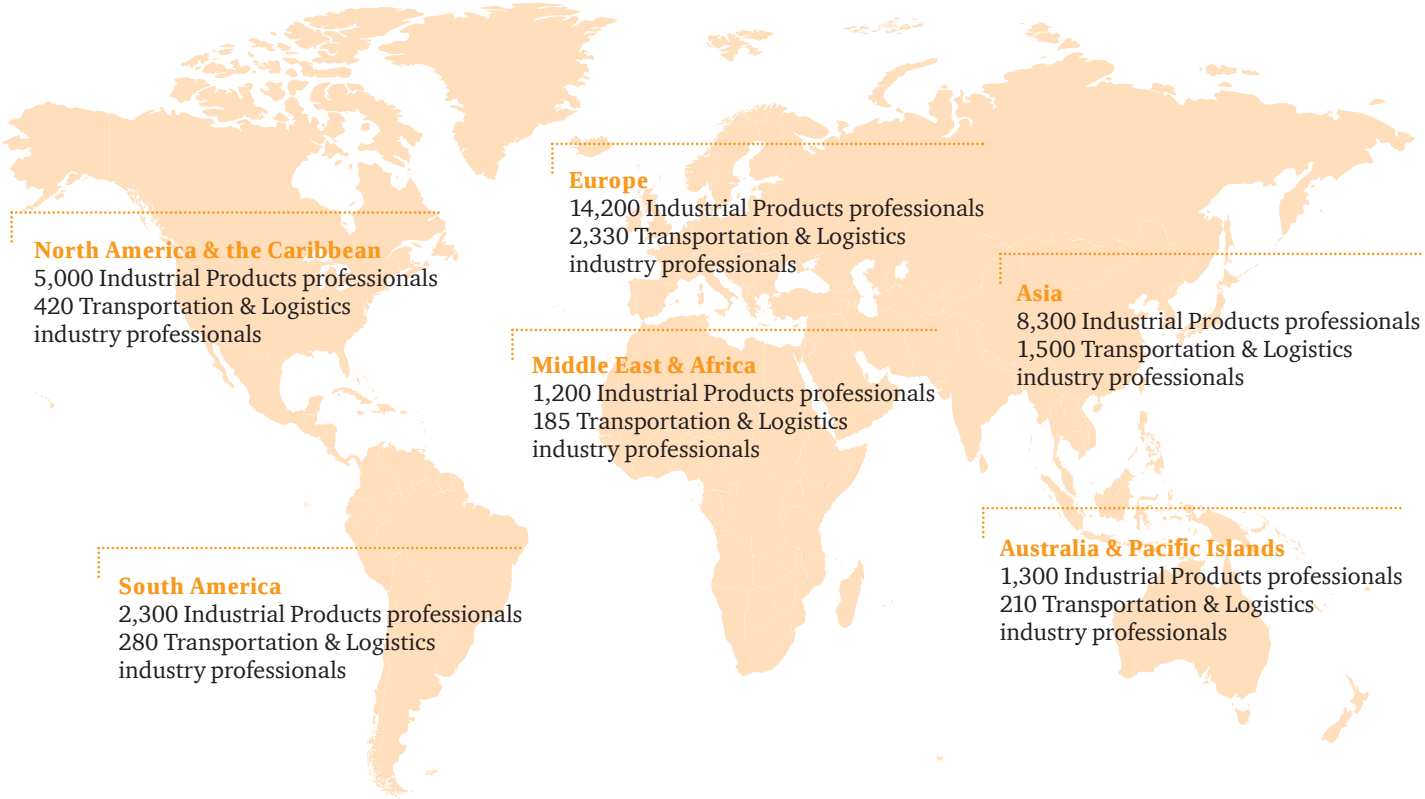
PwC provides advisory, assurance, and tax services for more than 93% of the transportation and logistics companies listed on the Fortune 500. Our transportation and logistics practice is composed of a global network of approximately 4,900 industry professionals who service nearly 300 public and private 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 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 an 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 March 31, 2012, 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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