Intersections

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First-quarter 2013 global transportation and logistics industry mergers and acquisitions analysis

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To help provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our quarterly analysis of M&A activity in the global transportation and logistics (T&L) industry.

M&A activity in the T&L sector slowed during the first quarter, despite several major shipping and infrastructure deals that drove an overall increase in average deal size. China's busy deals market, the result of domestic consolidation in shipping and terminal assets, helped offset slower M&A in the United States and Europe and likely reflects differences in expectations for growth as well as a disparity in the current levels of sector consolidation.

PwC analysts are monitoring several additional trends expected to affect the values and locations of deals in the T&L sector:

- The decline in the overall volume of deals largely was caused by a fall-off in financial investor activity. The general rise in stock markets gives a relative advantage to strategic acquirers, as these companies have used stock more frequently in order to meet richer seller valuations. This also means that strategics are relying less on their ample cash holdings, which may bode well for future M&A.

- Financial parties nevertheless remained active in transportation infrastructure transactions, which have accounted for the majority of mega deals in 2013, as was the case last year. Developed nations rely on infrastructure M&A to close budget gaps and raise capital for improvements, a factor driving potential deals. For example, as Greece grapples with massive debt, it reportedly plans to privatize the Hellenic Railways Organization and has also expressed interest in selling its stake in Athens International Airport and numerous regional airports. Similarly, the city of Chicago has selected bidders in the event that there is another push for privatization of Chicago Midway Airport under an FAA pilot program.

- Airlines could also stimulate significant deal flow this year, despite regulatory barriers. The distressed nature of many constituents, which led to the recent US Airways/AMR mega deal, could contribute to new deal announcements. For example, Indian carriers have sought minority investments from international partners following a decision by the government to reduce limits on foreign ownership; these deals, in addition to providing new capital, would help the airlines improve access to international routes. Prospects for international expansion are also contributing to Finland's potential reduction of its controlling stake in flagship carrier Finnair.

We expect a modest acceleration in transportation M&A for the rest of 2013, buoyed by infrastructure privatizations, near-term opportunities within the airline industry, and the potential for acquisitions of bulk liners in Korea. However, confidence in many economies is tentative and could slow deal flow. Overall, however, there is reason to be optimistic about deal activity through the end of this year.

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Sincerely,

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