



Intersections

Fourth-quarter 2013 transportation and logistics industry mergers and acquisitions analysis

Highlights

To our transportation and logistics readers



Jonathan Kletzel
US Transportation
& Logistics Leader

A handwritten signature in black ink that reads "Jonathan Kletzel".



Klaus-Dieter Ruske
Global
Transportation &
Logistics Leader

A handwritten signature in blue ink that reads "Klaus-Dieter Ruske".

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. *Intersections* offers an overview of deals in the sector during the fourth quarter of 2013, as well as expectations for deal activity in the future.

The year closed strong, but the weak pace of M&A announcements earlier in 2013 kept annual volume and value totals near ten-year lows. Consequently, US—and Eurozone—involved announcements remain well below pre-economic crisis levels due to relatively weak economic performance. The geographic focus on deal activity has generally shifted toward emerging markets such as China, where numerous port and logistics deals occurred in 2013.

Local-market deals are popular, and the industry is trending toward fewer and smaller deals, suggesting that acquirers may have become more risk-averse. The aforementioned emerging market deals have tended to focus on consolidating domestic transportation networks.

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

- Infrastructure targets accounted for the majority of mega deals in 2013. In particular, interest in asset heavy airport and port assets contributed to high median valuations (measured as sales multiple) for all 2013 announcements.
- With US airline consolidation mostly complete, activity is likely to focus more on cross-border minority stakes and antitrust immunity agreements that allow some revenue synergies without violation of foreign-ownership restrictions.

- Shipping deals may increase, although anti-competition laws mean that alliances and vessel sharing agreements are more likely than large M&A. One large potential shipping deal on the horizon could involve Hapag-Lloyd and CSAV, which are reported to be in discussions to form the fourth largest global container line.
- Trucking and logistics seem ripe for consolidation, as this more fragmented part of the sector tends to underperform other modes. In addition, the relatively low regulatory barriers to new mergers should let competitors build scale more easily.

In 2014, we expect the transportation and logistics sector to experience 10.5 percent growth in announced volume and 15.5 percent growth in announced value compared with 2013.

Acquirers are expected to continue their focus on local deals with more easily achievable synergies. In addition, valuations seem likely to remain high due to competition for favored assets, including the potential supply of infrastructure deals to the market.

We're pleased to present our fourth-quarter 2013 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

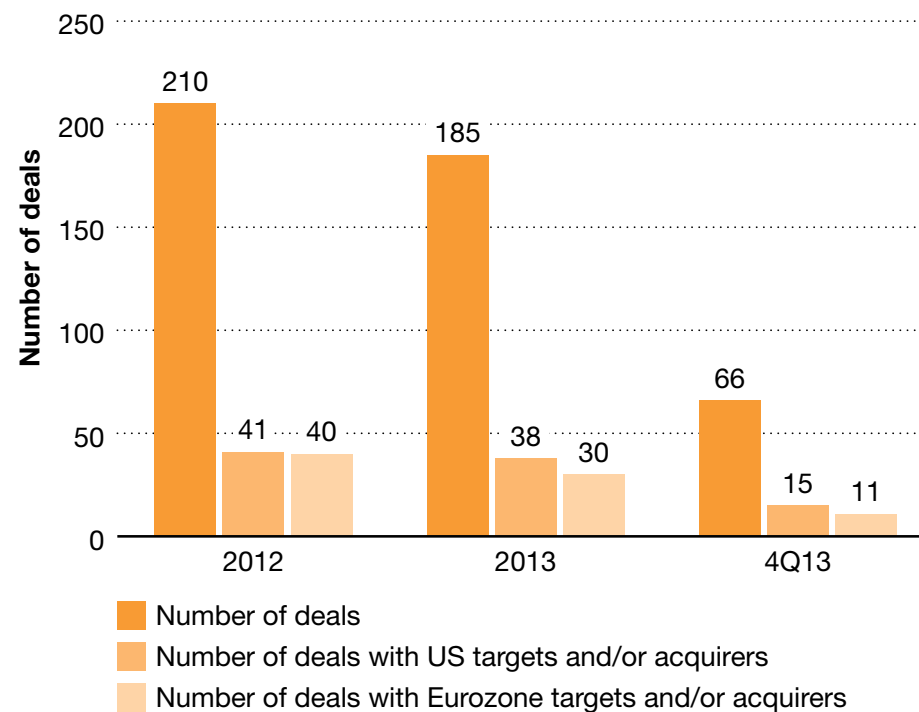
For a deeper dive into the data, launch the data explorer at <http://pwcprd-wip.pwcinternal.com/us/en/industrial-products/publications/intersections.jhtml> or contact us to further discuss our insights.

Deal activity

The fourth quarter was robust, but 2013 totals remained weak.

Deal activity by number of deals

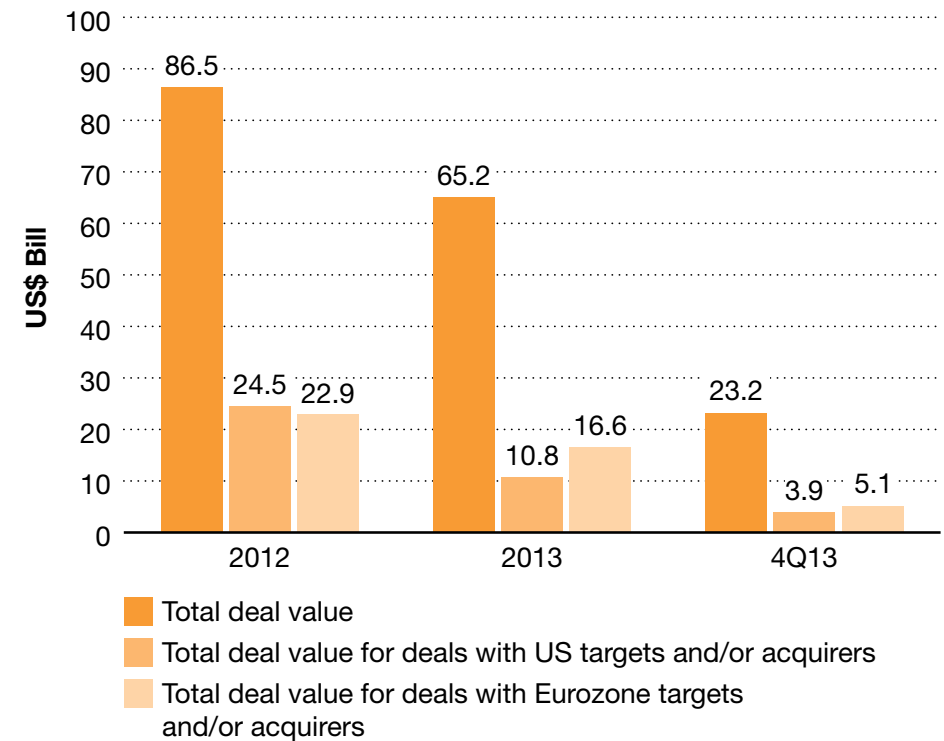
Measured by number of deals worth \$50 million or more



Source: Thomson Reuters/PwC Analysis

Deal activity by total deal value

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



Source: Thomson Reuters/PwC Analysis

The fourth quarter of 2013 was robust by recent historical standards, with the second highest quarterly deal volume and value totals of the last three years. While 2013 wrapped up with a flurry of announcements, annual volume and value remained weak. In fact, 2013 volume and value were only the seventh and eighth highest annual totals, respectively, of the last ten years.

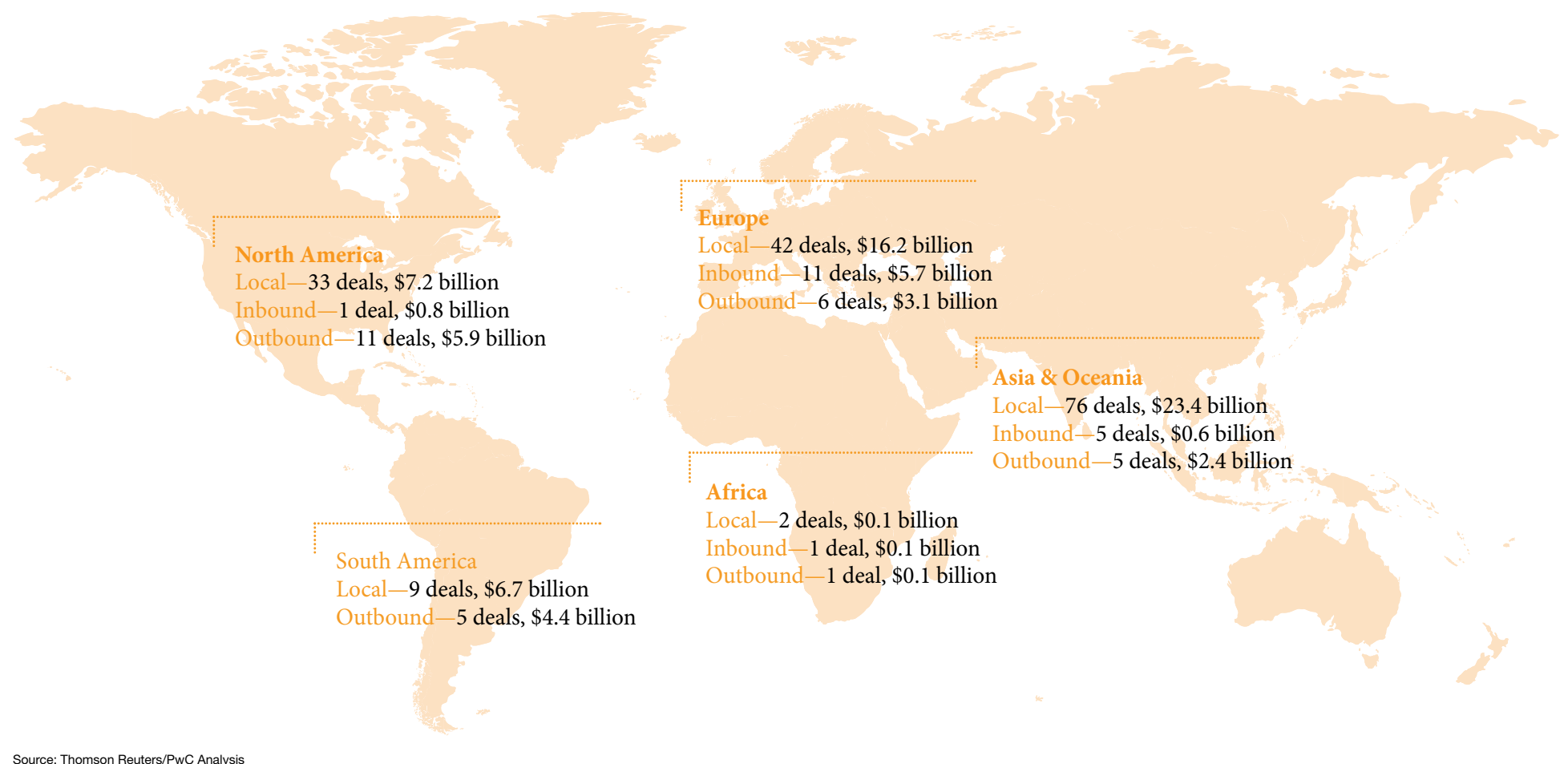
One major culprit is that US and Eurozone deal making has not yet recovered to pre-economic crisis levels, affecting volumes and, to a greater extent, values. In the five years preceding the global recession, these deals accounted for the majority of growth in T&L M&A volumes. Yet US and Eurozone announcements ended 2013 with one of the lowest annual totals of the past decade.

However, we do see stronger times ahead, as our transportation and logistics deal models suggest that M&A volume and value will rise in 2014. We expect that deal totals will be helped by continued global economic expansion and increased global industrial production.

Deal market characteristics

Europe and Asia and Oceania were highly active in 2013, particularly in local deals.

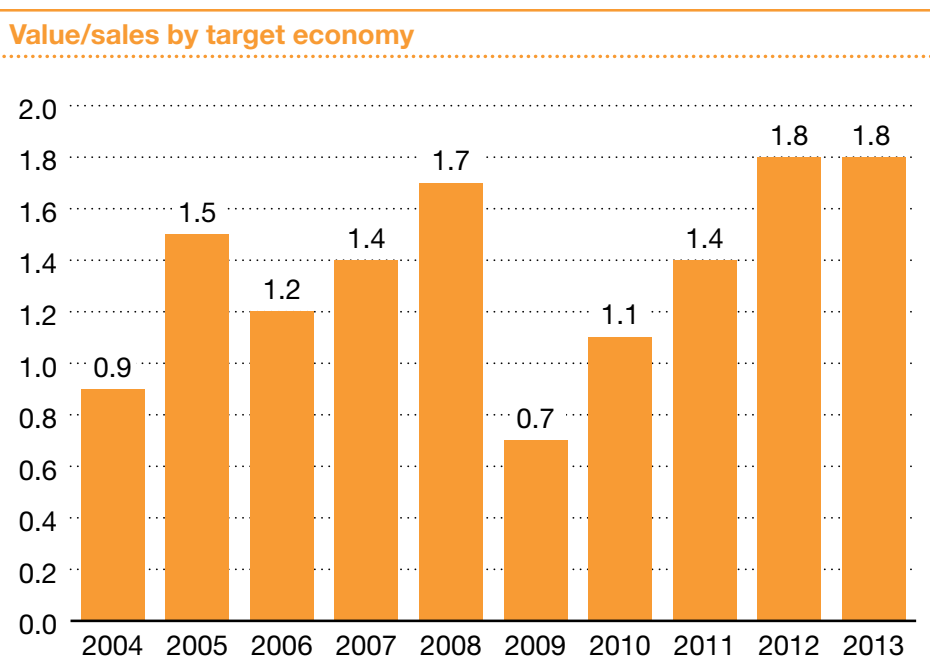
M&A global map for 2013—deals worth \$50 million or more



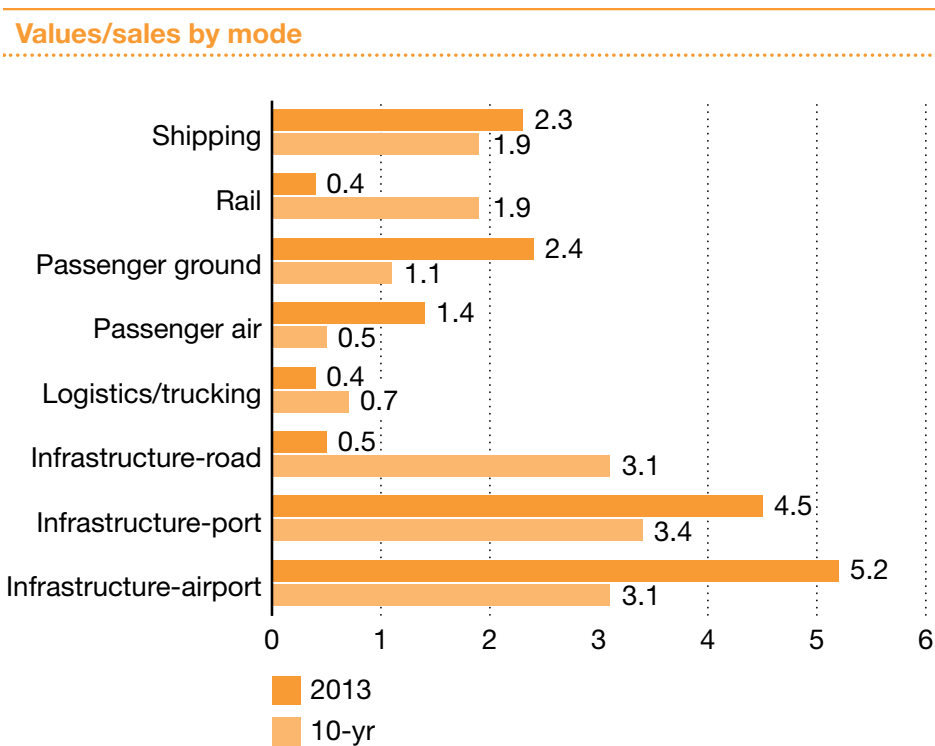
Local deals were favored in 2013. In fact, the proportion of local-market volume reached a ten-year high. This reflects less risk-taking on the part of acquirers as local-market synergies can be easier to attain given the tendency for there to be more overlap in transportation networks and existing operations.

In particular, emerging market acquirers have increasingly focused on using M&A to build out their national domestic passenger and freight networks. This likely reflects both the more fragmented nature of the modes within these countries, as well as the perception that higher growth opportunities are available from focusing on their own markets. For example, China continues to consolidate at a high rate since the financial crisis, with deal activity skewed toward the local port and logistics industries.

Valuation, as measured by the median value/sales, matched a ten-year high.



Source: Thomson Reuters/PwC Analysis



Source: Thomson Reuters/PwC Analysis

Even given the moderate slowdown in overall deal activity following the global recession, transportation and logistics valuations are near historical highs. Our comparison of 2013 median sales multiples vs. 10-year medians indicates that valuation has increased across a variety of targets. When considering the generally rich valuations alongside the relatively modest level of deal volume, it seems that there is a good deal of interest in a limited set of potential targets. Infrastructure has historically commanded premium multiples, and these targets were of particular interest in 2013 as airport and port deals have been one of the hottest post-crisis areas of the market. We believe that the interest in infrastructure will continue to provide support to sector valuations.

Large deals

Mega deals were less frequent in 2013, and infrastructure dominated.

Mega deals in 2013—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
Apr	Port Botany	Australia	Investor Group	Australia	Completed	4.53	Shipping
Nov	Empresa Brasileira de Infraestrutura Aeroportuaria-Antonio Carlos Jobim Airport Concession	Brazil	Investor Group	Brazil	Pending	4.26	Passenger air
Jan	Generale Mobiliare Interessenze Azionarie SpA {Gemina}	Italy	Atlantia SpA	Italy	Completed	3.02	Passenger air
Jan	MISC Bhd	Malaysia	Petroliam Nasional Bhd {PETRONAS}	Malaysia	Withdrawn	3.00	Shipping
Jan	Stansted Airport Ltd	United Kingdom	Manchester Airport Group PLC	United Kingdom	Completed	2.38	Passenger air
Oct	MMX Porto Sudeste Ltda	Brazil	Investor Group	Luxembourg	Pending	2.35	Shipping
Apr	Terminal Investment Ltd SA	Netherlands	Global Infrastructure Partners LLC	United States	Completed	1.93	Shipping
May	Hochtief Airport GmbH	Germany	Public Sector Pension Investment Board	Canada	Completed	1.44	Passenger air
Nov	Sydney Airport Holdings Ltd	Australia	Shareholders	Australia	Pending	1.34	Passenger air
Dec	Cie Financiere & Industrielle des Autoroutes SA	France	Vinci SA	France	Pending	1.09	Passenger ground
Aug	Sydney Airport	Australia	Sydney Airport Holdings Ltd	Australia	Completed	1.09	Passenger air

2013 ended with one of the lowest volumes of mega deals (deal value > \$1bn) of the last ten years with only 11 such announcements. However, infrastructure remained active even among a diminished level of mega deals with several airport and, to a lesser extent, port transactions among the year's top deals.

Brazil has been the source of many large infrastructure auctions in recent years as the government attempts to upgrade transportation assets ahead of the upcoming 2014 World Cup and 2016 Olympics. These concessions generally involve the commitment of capital expenditures on the part of acquirers in the form of renovation and expansion. For example, Brazil has privatized three major airports—Sao Paulo, Brasilia, and Campinas—which account for 30% of the total passenger traffic and 57% of the total cargo traffic in Brazil, and has auctioned rights to build and operate a new airport near Natal. Infraero,

the government corporation which operates major commercial airports in the country, also recently awarded concessions for airports in Rio de Janeiro and Belo Horizonte. While efforts to bring in new port investment have faced some legal challenges, the country is considering an auction for the rights to build and operate rail between Rio de Janeiro, Sao Paulo, and Campinas. So it is likely that Brazil will continue to be a source of large infrastructure auctions. In addition, infrastructure deals outside Brazil also featured prominently in the mega deal table this year. This includes both newly privatized assets and transactions for already-privatized assets.

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; process, physical distribution, and logistics consulting; and auto equipment rental and leasing.

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, 2011, and December 31, 2013, 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.

Resources

PwC Transportation and Logistics practice

US T&L Leader

Jonathan Kletzel—+1.312.298.6869
jonathan.kletzel@us.pwc.com

US T&L Tax Leader

Michael J. Muldoon—+1.904.366.3658
michael.j.muldoon@us.pwc.com

US T&L Assurance Leader

Andre Chabanel—+1.973.236.4549
andre.chabanel@us.pwc.com

US Industrial Products Deals Partner

Brian McCann—+1.617.530.6364
brian.mccann@us.pwc.com

US T&L Deals Partner

Darach Chapman—+1.305.375.6220
darach.chapman@us.pwc.com

US T&L Deals Director

Roland Stickler—+1.305.703.3006
roland.stickler@us.pwc.com

US T&L Partner

David Mandelbaum—+1.646.471.6040
david.n.mandelbaum@us.pwc.com

US T&L Assurance Senior Manager

Jeffrey J. Simmons—+1.214.979.8606
jeffrey.j.simmons@us.pwc.com

US Industrial Products Marketing Director

Thomas Waller—+1.973.236.4530
thomas.a.waller@us.pwc.com

US Industrial Products Marketing Manager

Diana Garsia—+1.973.236.7264
diana.t.garsia@us.pwc.com

US Research Analyst

Michael Portnoy—+1.813.348.7805
michael.j.portnoy@us.pwc.com

Editorial Contributor

Philip Booth—+1.813.348.7815
philip.booth@us.pwc.com

Global T&L Leader

Klaus-Dieter Ruske—+49.211.981.2877
klaus-dieter.ruske@de.pwc.com

Global T&L Tax Leader

Jorgen Juul Anderson—+45.39.45.94.34
jorgen.juul.anderson@dk.pwc.com

Global T&L Advisory Leader

Michael Burns—+44.20.780.44438
michael.h.burns@uk.pwc.com

United Kingdom T&L Leader

Coolin Desai—+44 (0)20 7212 4113
coolin.desai@uk.pwc.com

Brazil T&L Leader

Marcio Lutterbach—+55 11 3674 2780
marcio.lutterbach@br.pwc.com

China-Hong Kong T&L Leader

Alan Ng—+852.2289.2828
alan.ng@hk.pwc.com

Australia T&L Leader

Joseph Carrozzi—+61.2.8266.1144
joseph.carrozzi@au.pwc.com

Middle East T&L Leader

Anil Khurana—+971.4304.3100
anil.khurana@ae.pwc.com

Global Logistics and Post Coordinator

Dietmar Pruemmm—+49.211.981.2902
dietmar.pruemm@de.pwc.com

Global Rail Coordinator

Guido Sirolli—+39 06 570832125
guido.g.sirolli@it.pwc.com

Global Shipping and Ports Coordinator

Socrates Leptos-Bourgi—+30.210.428.4000
socrates.leptos-.bourgi@gr.pwc.com

Global Airlines and Airports Coordinator

Bernd Roesse—+49.49.9585.1162
bernd.roese@de.pwc.com

Global Transportation & Logistics Director

Peter Kauschke—+49.211.981.2167
peter.kauschke@de.pwc.com

Visit our transportation and logistics industry website at www.pwc.com/us/industrialproducts

