

Intersections

August 2014

Second-quarter 2014 global transportation and logistics industry mergers and acquisitions analysis



Jonathan Kletzel



Julian Smith

Welcome to *Intersections*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the transportation and logistics (T&L) sector. We are pleased to present our second-quarter 2014 analysis as part of our ongoing commitment to providing you with a deeper understanding of related trends and prospects in the industry.

The pace of T&L transactions accelerated during the second quarter, as measured by both announced value and volume. However, 2014 is not expected to set records for M&A in the sector.

Shipping and trucking modes were more active, as we expected, with acquisitions driven by overcapacity, high fragmentation, and attendant poor financial performance. Several recent trucking acquisitions have helped companies expand into specialized freight, which can increase overall margins.

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

- While strategic investment has been weak this year compared with longer-term totals, the level of financial investment has been more robust. Debt financing is being used more frequently because of interest from these acquirers. Financial investors also tend to focus on shipping and trucking.
- Deal multiples are reaching record highs, continuing a trend in effect since the global recession. The general increase in equity market valuations has contributed to higher deal valuations, but infrastructure deals, which tend to carry above-average multiples, remain popular. Two of the three mega deals announced this quarter were infrastructure related.
- Acquirers remain focused on local-market deals, as 2014 is on pace to be one of the decade's weakest years for cross-border activity. Emerging market acquirers in particular are consolidating their local markets. These acquirers are driven by the relative fragmentation and, in some cases, higher return possibilities within these nations.

These M&A trends suggest that the overall sector is taking steps to improve performance through consolidation within underperforming modes and in emerging markets. Acquirers remain somewhat risk averse, as indicated by the overall pace of deals and the general local-market focus. There is, however, a healthy appetite for a more narrow set of targets, as indicated by the historic valuations.



Looking forward, we expect shipping, trucking, and infrastructure deals to lead the M&A market. And although these deals may not rank among the largest within the sector, we also note the strong rationale for cross-border minority stakes by airlines, as acquirers attempt to boost access to international markets and targets seek to improve their finances. Rationales such as these should support a modest recovery in M&A announcements during the second half of 2014.

We're pleased to present our first-quarter 2014 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

Launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/intersections.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,



Jonathan Kletzel
US Transportation & Logistics
Leader



Julian Smith
Global Transportation & Logistics
Leader