Intersections

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First-quarter 2015 global transportation and logistics industry mergers and acquisitions analysis

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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 first-quarter 2015 summary as part of our ongoing commitment to providing you with a deeper understanding of related trends and prospects in the industry.

Overview*

Deal activity was mixed in the T&L sector as the year began, as volume fell compared to the fourth quarter of 2014, while total transaction value (for deals valued greater than $50 million) and average deal value both gained, showing that while fewer deals are being announced, the deals tend to be larger.

In previous years, we have indicated that before the global recession, deal activity was driven by advanced economies, e.g., North America and Europe. However, this trend has shifted recently, as Asia and Oceania continue to drive activity, predominantly through local deals in China, as this emerging economy seeks to consolidate smaller T&L players to achieve greater efficiencies and continue to consolidate relatively fragmented transportation modes. Emerging economies such as China can be expected to continue to contribute to the M&A deal environment in the foreseeable future.

Megadeals*

Much of 1Q15's gain in value can be attributed to megadeals (those transactions valued at $1 billion or more), as 2015 began with the same volume of large acquisitions as we saw in 4Q14. However, the total value of these five megadeals was substantially higher in the first quarter of 2015 than it was in the fourth quarter of 2014. Megadeals accounted for almost 55 percent of the value of all deals valued at $50 million or more in 1Q15. The largest T&L deal of the first quarter was the March announcement that Industry Funds Management Australia, a unit of Industry Fund Services, definitively agreed to acquire bankrupt ITR Concession Co., a US-based provider of toll road services, for $5.7 billion.

Cross-border and financial investor activity*

Cross-border deals continue to remain popular, with the proportion of these deals increasing significantly. This increase in cross-border deals is primarily driven by strategic investors, who often have to go offshore to improve geographic reach and increase long-term growth. This is especially true for companies that already have a large market share in their local area. It should be noted, however, that cross-border activity was substantially lower in emerging economies than it was in advanced economies, similar to what has been seen historically. This is being driven by the fact that local-market synergies are easier to attain in the emerging economies, and make local T&L players more competitive and efficient.

Activity by financial investors declined, falling to 38.9 percent in the first quarter of 2015, compared to 44.3 percent in 2014. However, despite the decline, financial investors remain a substantial proportion of the deal environment. It should be noted that financial investors have shorter time horizons and generally only hold acquisitions for six or seven years, while strategic investors tend to integrate acquisitions and hold acquisitions longer term as a means to expand market share, efficiency, and geographic reach. As the global economy improves, assuming capital markets remain robust and funding remains available at reasonable terms, we expect financial investors to remain a relatively high (on a historic basis) proportion of M&A activity, at least in the short-term, e.g., through 2015.

*Segmentation activity**

On a segment basis, 1Q15 deal activity was driven by the passenger ground and logistics industries, which together accounted for 40 percent of the year's activity. This was driven by a significant increase in passenger ground deals, which drove 20 percent of the first quarter's volume, compared to only 12 percent in 2014 overall. Trucking deals declined to 17 percent of activity in 1Q15 for deals valued at $50 million or more, compared to 20 percent in 2014, reversing recent trends. Of the five megadeals in the first quarter, the largest was a passenger ground transaction, the above-mentioned ITR acquisition. The logistics segment was also represented in the megadeals. In February, Japan Post agreed to acquire the entire share capital of Toll Holdings, a Melbourne-based provider of logistics services, for $5.1 billion, representing a major diversification out of its traditional and structurally declining postal market.

However, when looking at all deals (deals with a disclosed or undisclosed transaction vale), trucking remains the largest activity in the sector, followed by logistics. This is unsurprising given the fragmentation of these industries and the prevalence of smaller players that are ripe for consolidation as bolt-on acquisitions. As the industry seeks greater efficiency, and large to medium-sized companies look for growth rates higher than can be achieved through strategic means, these smaller companies are prime targets for the larger players.

Regional activity

At the same time, we see continued investing in the BRIC countries, particularly China. Generally, these are local deals, as the country works toward consolidating its infrastructure and transportation network as a means to improve service and compete with non-Chinese companies. As the middle class continues to grow in these emerging economies, we see an increased demand for improved transportation systems, infrastructure improvements, and logistics services to move people and goods. This will drive increased M&A in the coming years as these countries seek to modernize to increase efficiency and geographic reach through consolidation.

Outlook

We remain optimistic regarding 2015 as the recovery in many advanced economies continues. For example, the US economy remains strong and the US dollar has strengthened to near a ten-year high, making acquisitions by US players cheaper for offshore targets, on a relative basis. A primary driver in this increase in value is the Federal Reserve's indication that it will probably increase interest rates in the middle of 2015 in the face of a strengthening US economy. Also, most countries in Europe are seeing improvement in GDP.

In addition to this, emerging and developing economies continue to grow. One key driver of improved activity across modes will likely be the decline in fuel costs globally because diesel and gasoline prices have fallen to their lowest level since 2009. One possible headwind is the possibility of an increase in crude oil prices, which could later drive gasoline and diesel prices higher. Currency exchange rates can also be a concern, as companies refrain from investment in areas with weak economies to avoid losses driven by currency exchange rates.

In the coming months, we expect to see logistics transactions continue to grow, driven by a desire by strategic investors to expand geographic reach and improve efficiencies through consolidation. Along these lines, it should be noted that on April 7 it was announced that logistics company FedEx** would acquire the shares of TNT Express N.V. in an all-cash transaction. The deal is expected to increase FedEx's European capabilities and increase growth worldwide. Further information will be included in the second quarter edition of *Intersections*.

We hope this analysis will serve as a useful tool for monitoring trends and shaping your organization's business strategy.

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

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Data sources:

** Thomson Reuters (2015) "SDC Platinum Database"*

*** Press release: http://investors.fedex.com/news-and-events/investor-news/news-release-details/2015/FedEx-and-TNT-Express-Agree-on-Recommended-All-Cash-Public-Offer-for-All-TNT-Express-Shares/default.aspx*