Intersections

Fourth-quarter 2014 transportation and logistics industry mergers and acquisitions analysis

Highlights

Deal market characteristics

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To our transportation and logistics readers

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Welcome to our year-end edition of *Intersections*, PwC's quarterly analysis of deal activity in the transportation and logistics (T&L) sector. In this report, you'll find an overview of mergers and acquisitions in the sector during 2014, as well as expectations for deal activity in the future. We are pleased to present these findings as part of our ongoing commitment to providing you with a deeper understanding of related trends and prospects in the industry.

Following are several of the trends we're monitoring, which are expected to affect the characteristics of deals in the T&L sector:

- 2014 ended weakly, with the fourth quarter accounting for the lowest deal value and the second lowest deal volume of the year. Because of 2014's lackluster performance, M&A volume and value remain near ten-year lows.
- On a quarterly basis, the fourth quarter of 2014 saw declines in activity. Volume and value fell both sequentially and year-over-year and average deal value declined as well, over 8 percent compared to 3Q14 and more than 20 percent from 4Q13. Much of this decline can be attributed to fewer megadeals (those valued at $1 billion or more) as the year closed with fewer large acquisitions than seen previously.
- Local-market deals remained popular, although the proportion of these deals declined slightly. Despite this decline, these deals were at the highest level, with the exception of 2013, since at least 2003. This is likely driven by the fact that local-market synergies are easier to attain.
- Infrastructure targets accounted for a significant proportion of megadeals this year, and accounting for almost half of deal value. Infrastructure deals such as toll roads and ports are attractive because pension funds and other investors value the stable, long-term returns and strong barriers to competition.
- The shipping and trucking industries accounted for almost half of the year's activity. This was a result of the significant increase in trucking deals, which drove 20 percent of annual volume, compared to only 12 percent in 2013. Trucking deals are due in part to the highly fragmented industry, as larger companies acquire smaller ones in order to achieve increased market share. In our third quarter report we observed that trucking deals were increasing, and these acquisitions were once again a major focus of the market during the fourth quarter. At the same time, overcapacity in shipping is believed to be driving consolidation in that mode as larger players attempt to reduce competition and create more efficient economies of scale.
- Asia and Oceania drove deal value and volume in 2014, accounting for approximately half of global activity. This was led, in large part, by deals involving China. Australian-based local-market deals were also a big part of the region's activity, with two megadeals, valued at $8.2 billion, which accounted for almost 28 percent of 2014 megadeal activity.
- Stock swaps, as a means for acquisition financing, increased somewhat in 2014. This increase was likely driven, in part, by the general improvement in the equity market over the course of the year in addition to strong activity in the fourth quarter.

- Cross-border activity was substantially lower in emerging economies than it was in advanced economies, similar to what has been seen historically.
- We are cautiously optimistic regarding 2015 as the recovery in many advanced economies continues. For example, the US economy remains strong and a strong US dollar makes acquisitions by US players cheaper for offshore targets, on a relative basis. Also, some countries in Europe are seeing improvement, although the region as a whole remains mixed. In addition to this, emerging and developing economies continue to grow. Despite the expected deceleration in GDP growth in China for the coming year, the country's economic growth is still expected to remain strong at more than 7 percent. Meanwhile, India and Brazil are expected to see some improvement.
- One key driver of improved activity across modes will likely be the decline in fuel costs globally, as oil prices have fallen to their lowest level since 2009. We expect these prices to improve profitability and shore up balance sheets, thus providing additional capital for more inorganic growth through M&A.

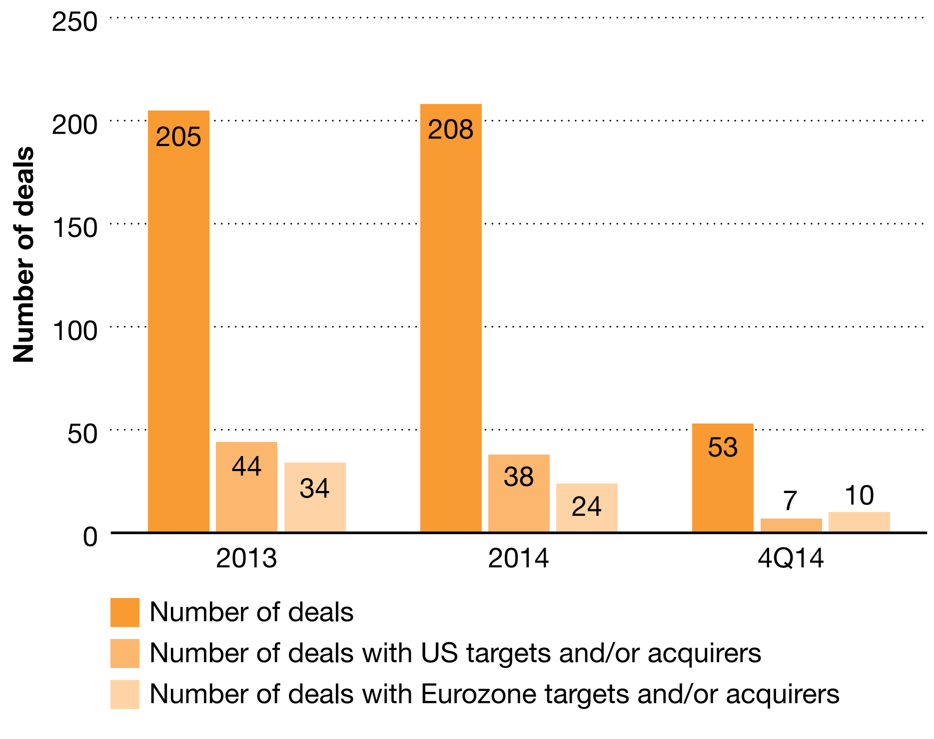
We hope this analysis, which we provide more detail around on the following pages, will serve as a useful tool for monitoring trends and shaping your organization's business strategy.

For a deeper dive into the data, launch the data explorer at ***www.pwc.com/us/industrialproducts*** or contact us to further discuss our insights.

Deal activity

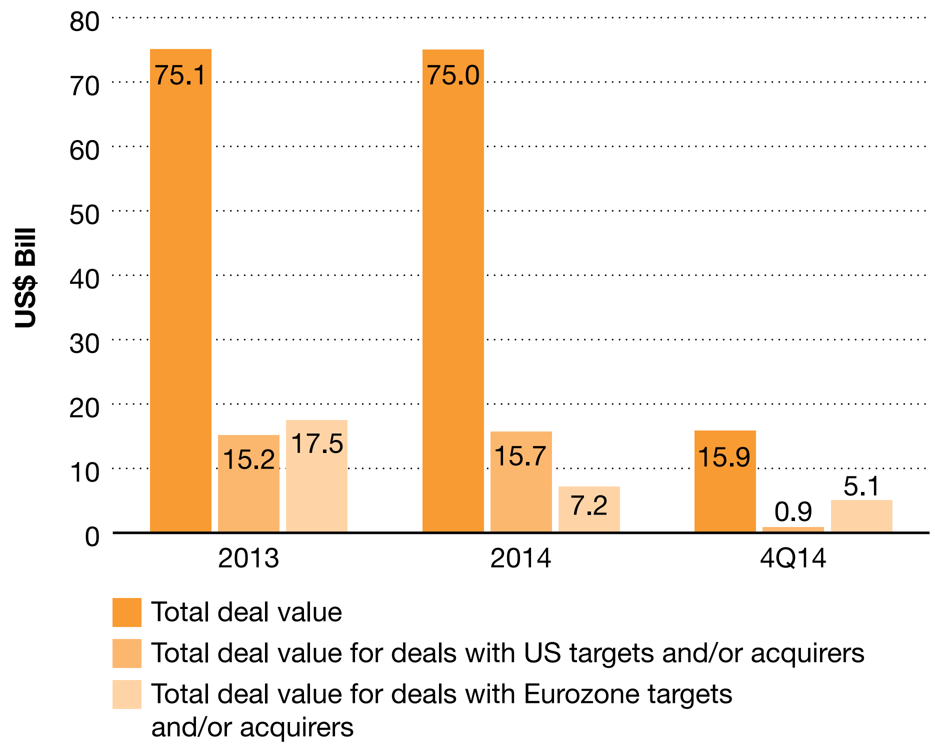
Despite declines in 4Q, 2014 activity remained similar to what was seen in 2013.

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

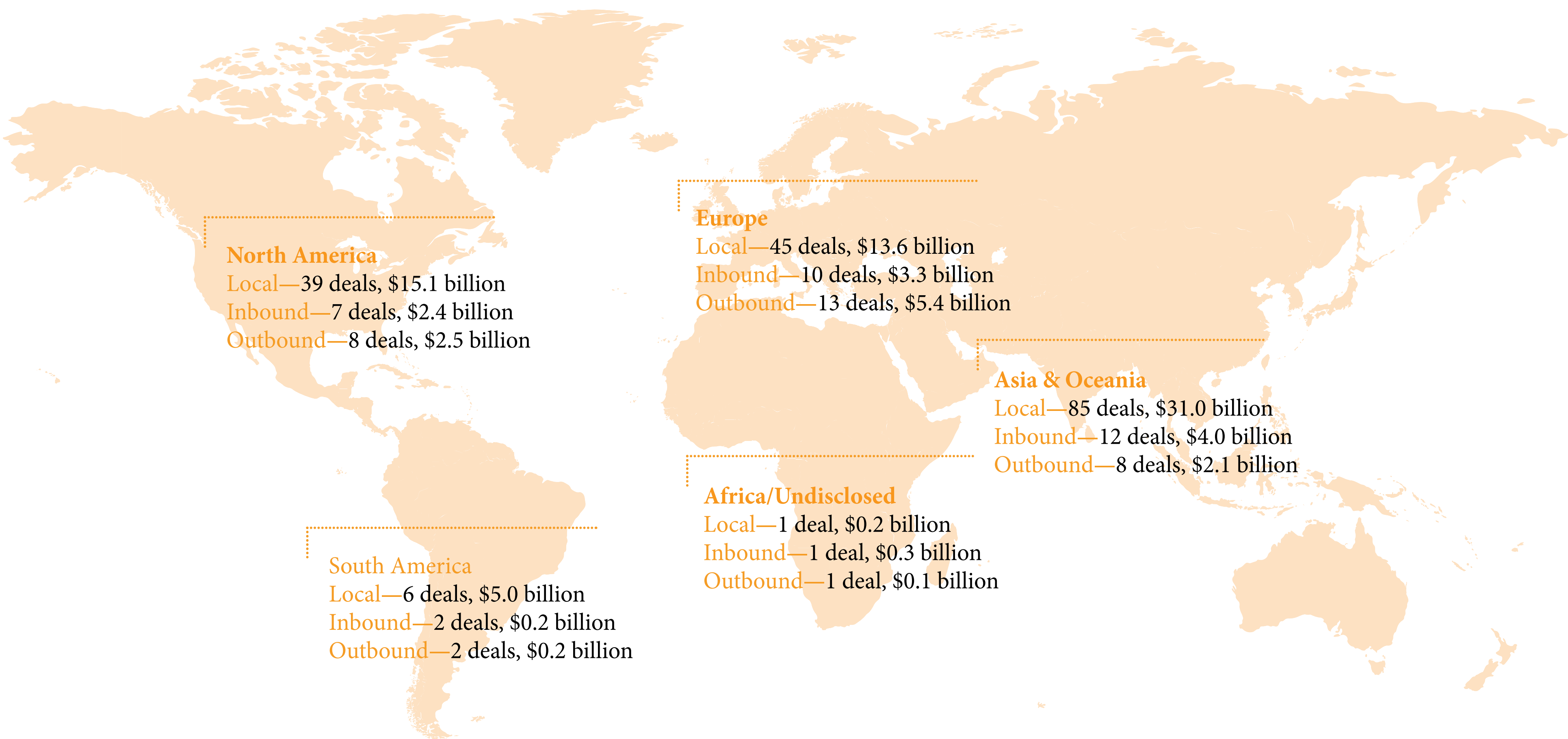
2014 volume and value were flat compared to the previous year, increasing by only 1.5 percent and declining 0.02 percent, respectively. Given the slight increase in volume and slight decrease in value, average deal value fell as well. Average deal value was $361 million in 2014 versus $366 million in 2013.

In the fourth quarter, deal volume and value declined substantially on a year-over-year basis. Volume fell by one-third, while value dropped by almost half. The decline in value was driven by both the lack of volume and the fact that the fourth quarter saw only two megadeals, with a combined value of $4.3 billion, less than 15 percent of megadeal volume for the year.

Deal market characteristics

Asia and Oceania activity remained robust, accounting for approximately half of global activity.

M&A global map for 2014—deals worth $50 million or more

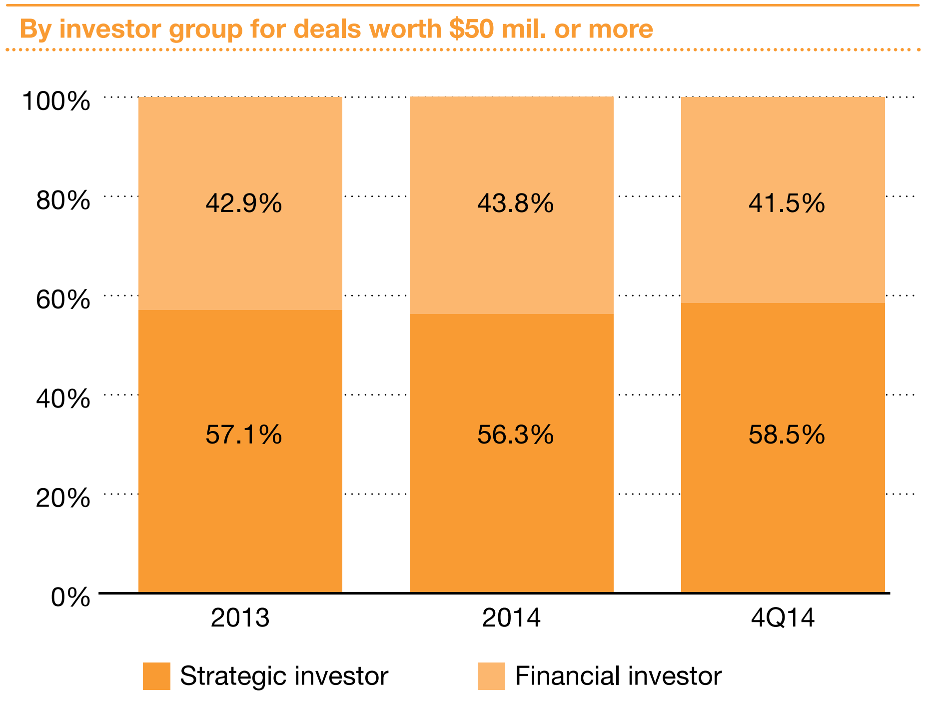


Source: Thomson Reuters/PwC Analysis

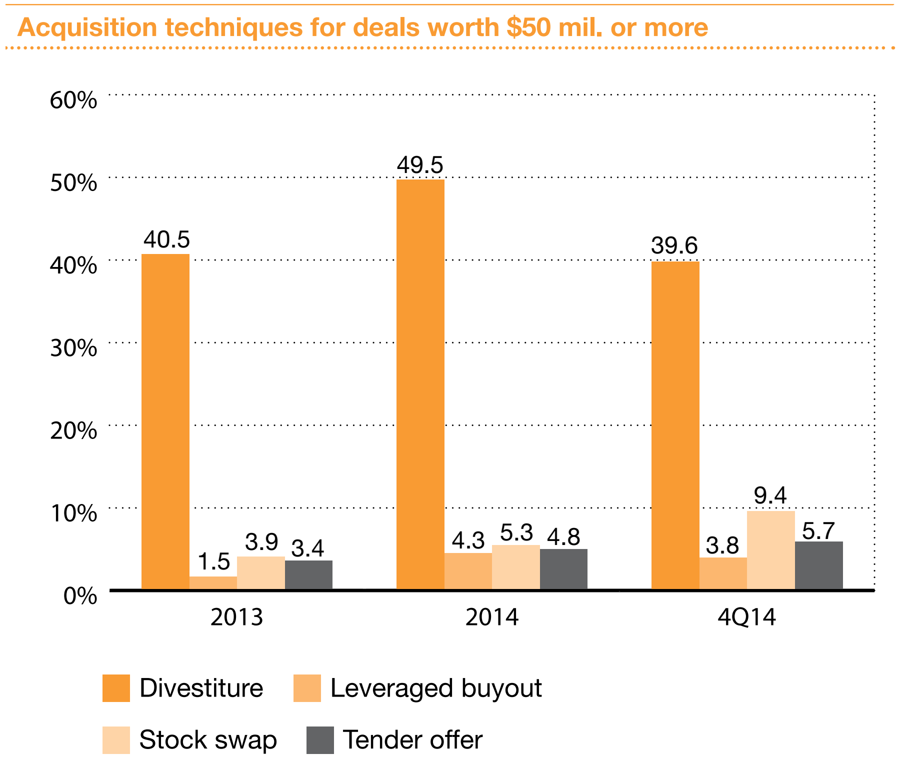
Asia and Oceania drove deal value and volume in 2014, accounting for approximately half of global activity. Europe had the second highest deal value and volume (68 deals valued at $22.3 billion), aided by two United Kingdom-related megadeals, valued at almost $4.4 billion, which comprised almost 20 percent of the region's total deal value for the year. Finally, North America saw 54 deals valued at $20 billion. In the fourth quarter, Asia and Oceania drove activity, but at a lower proportion of worldwide deal volume (41 percent and 48 percent, respectively).

Local deals continued to dominate in 2014, although the proportion declined slightly from the previous year. However, the proportion of local deals was still higher than any year, other than 2013, since at least 2003. 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. Cross-border activity was substantially lower in emerging economies than it was in advanced economies, similar to what has been seen historically.

Proportion of financial deals and stock swaps increased slightly.



Source: Thomson Reuters/PwC Analysis



Source: Thomson Reuters/PwC Analysis

The proportion of deals involving financial investors increased slightly in 2014, despite a decline in the fourth quarter. Financial investors appear to be comfortable with the deal environment as the economy continues to improve. Financial investors generally have shorter time horizons for obtaining a return on investment than strategic investors, and as the world economy continues to improve, it is not surprising that we see an increase in activity from this group.

Stock swaps as a means for acquisition financing increased somewhat in 2014. This increase was likely driven in part by the general improvement in the equity market over the course of the year. Increasing stock prices make stock swaps attractive to publicly traded companies as they allow companies to leverage the appreciation in value of their stock as a mechanism for acquisitions. The overall increase in stock swaps in 2014 was aided by a substantial increase in the fourth quarter, as rising stock prices continued to make them an attractive financing instrument.

Large deals

Mega deals were less frequent in 2014, and infrastructure dominated.

Megadeals in 2014—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	Queensland Motorways Ltd.	Australia	Investor Group	Australia	Completed	6.61	Passenger ground
Sep	Prestige Cruises International Inc.	United States	Norwegian Cruise Line Holdings Ltd.	United States	Completed	3.08	Shipping
Jan	ALL America Latina Logistica SA	Brazil	Rumo Logistica Operadora Multimodal SA	Brazil	Pending	2.97	Rail
Mar	Avincis Mission Critical Services Topco Ltd.	Untied Kingdom	Babcock International Group PLC	United Kingdom	Completed	2.70	Other
Nov	Economic Zones World FZE	Utd Arab Em	DP World Ltd.	Utd Arab Em	Pending	2.60	Shipping
Feb	Iowa China Offshore Holdings(Hong Kong) Ltd.	China	Investor Group	Hong Kong	Completed	2.36	Trucking
Jun	B/E Aerospace Inc-Distribution, Logistics,Technical Services Business	United States	Shareholders	United States	Completed	2.24	Trucking
Oct	Aberdeen International Airport Ltd,Glasgow Airport Ltd, Southampton International Airport Ltd.	United Kingdom	Investor Group	Spain	Completed	1.68	Passenger air
Apr	Newcastle Port Corp-Port of Newcastle	Australia	Investor Group	Australia	Completed	1.62	Shipping
Jun	PHH Vehicle Management Services LLC.	United States	Element Financial Corp.	Canada	Completed	1.40	Other
Feb	BR Properties SA-Portfolio of Logistic Assets	Brazil	LPP Empreendimentos e Participacoes Ltda	Brazil	Completed	1.18	Logistics
Jul	International-Matex Tank Terminals Inc.	United States	Macquarie Infrastructure Co LLC.	United States	Completed	1.03	Logistics

2014 saw a decline in megadeal value, falling 6 percent to just under $29.5 billion, compared to more than $31.3 billion in 2013. This comes despite megadeal volume increasing by one deal, to 12. Thus, while more megadeals were done, they tended to be somewhat smaller deals, indicative of continued concerns about the economy, particularly in some parts of Europe.

The largest deal of the year, announced in April and completed in July, was the acquisition of Australia-based Queensland Motorways by an investor group for $6.6 billion. The group led by Transurban Group also included pension fund AustralianSuper Pty and Abu Dhabi Investment Authority. Queensland Roadways is the manager of a 44-mile network of toll roads, bridges, and other infrastructure assets in Queensland. The deal is part of an attempt by Australian states to sell off large infrastructure assets in order to increase capital works programs. Infrastructure targets remain popular, given the stable return on investment and relatively low level of competition.

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, 2013, and December 31, 2014, 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, Latvia, Lithuania, 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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