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Intersections
Fourth-quarter 2012 transportation and logistics industry mergers and acquisitions analysis

pwc

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To our transportation and logistics readers

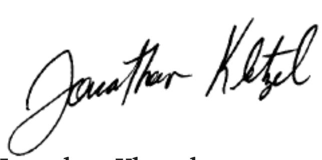
Welcome to *Intersections*, PwC's quarterly analysis of deal activity in the transportation and logistics (T&L) sector. In this report, you'll find an overview of mergers and acquisitions in the sector during the fourth quarter of 2012, as well as expectations for deal activity in the near future.

PwC's Transportation and Logistics practice is monitoring several trends expected to affect the values and locations of deals in the sector:

- Robust transportation deal totals during the quarter drove full-year results, marking a significant increase over 2011. While deals above $50 million were strong in 2012, smaller and undisclosed activity was somewhat weaker.
- In contrast to previous quarters, fourth-quarter US deals, likely hurt by fiscal cliff negotiations, the sluggish current expansion, and concerns about the coming debt ceiling debate, were relatively weak, while eurozone deals strengthened. Targets and acquirers from eurozone countries during this quarter announced the highest quarterly totals seen in the last three years, probably stemming, at least in part, from a recovery in deals involving countries in Southern Europe, and the fact that about half of eurozone targets involved local shipping consolidation.
- Freight operators became more common targets in 2012. As freight M&A tends to be more cyclical than passenger M&A, a continued expansion could drive the continuing popularity of these targets.
- Infrastructure deals remained popular, especially at the market's top end, contributing to the largest share of mega deals last year driven by a wave of airport concessions in Brazil. If additional privatization takes place in the country, it could bring in additional transportation investment.
- Other large infrastructure deals in 2013 may come from the United States, where the state of Virginia is studying port privatizations, and from Europe, due to a project bond initiative from the European Investment Bank, giving the EU guarantees on private debt for infrastructure projects.
- Based on our analysis, the transportation and logistics sector in 2013 is forecast to see 22 percent growth in announced volume and 15 percent growth in announced value compared with 2012.

For 2013, there are expectations for increased large infrastructure deals, particularly in high-growth emerging markets and advanced markets; a mega-deal arena bolstered by Russia's broad five-year privatization plan; and significant "headline risk" in the form of US and European country-specific concerns. The balance of risks favors an optimistic outlook for transportation and logistics M&A.

We're pleased to present this edition of *Intersections*, which we hope will provide you with a deeper understanding of M&A trends and prospects in the industry.



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Perspectives:
Thoughts on deal activity in the forth quarter of 2012

As we've noted, strong fourth-quarter deal totals drove full-year results significantly above those of 2011. In this edition of *Intersections*, we will introduce a quantitative forecast for the number and value of 2013 deals; these predictions are for all deals, regardless of whether a value has been disclosed.

These forecasts are the result of models that primarily use global economic output as independent variables, due to the positive correlation between sector M&A and global GDP. Based upon our analysis, we are forecasting 22 percent growth in announced volume and 15 percent growth in announced value in 2013, compared with 2012. This is higher than the respective longer-term — i.e., 10-year — CAGRs, but the growth rate should also be put into the context of recent M&A totals. For example, while 2012 was a strong year for deals above $50 million, smaller and undisclosed activity was somewhat weaker, leading to a lower 2012 base on which this growth is expected.

In a major change from previous quarters, fourth-quarter US deals were relatively weak, while eurozone deals were stronger. It is likely that a confluence of factors, including the fiscal cliff, the weak current expansion, and the debt ceiling debate, hurt US totals. The strength of the eurozone — i.e., targets and acquirers from these countries announced the highest quarterly totals over the last three years during the fourth quarter — is more difficult to put into a macroeconomic context. There has been some recovery in deals involving countries in Southern Europe, and roughly half of eurozone targets involved local shipping consolidation. We are hopeful that eurozone deals will remain strong, but see significant risks to growth in M&A coming from this region.

As we've also noted, freight operators were more frequent targets in 2012. Freight M&A is usually more cyclical than passenger M&A, and in a continued expansion we would expect to see the popularity of these targets continue. We also note that M&A opportunities can be higher among freight than among passenger operators because of the relatively high number of potential targets to be acquired. And infrastructure deals remain popular, especially at the top end of the market, and contributed to the majority of mega deals this year. The increased activity in airport concessions in Brazil led to this result, and additional privatizations in order to bring more transportation investment into the country are expected.

Other candidates for large infrastructure deals in 2013 come from the United States, where Virginia is studying port privatizations, as well as from Europe, due to a project bond initiative from the European Investment Bank providing the EU with guarantees on private debt for infrastructure projects. Our research indicates that infrastructure deals carry significant multiple premiums, compared with transportation operators, and continued interest in this asset class is a factor that could contribute to high valuations this year.

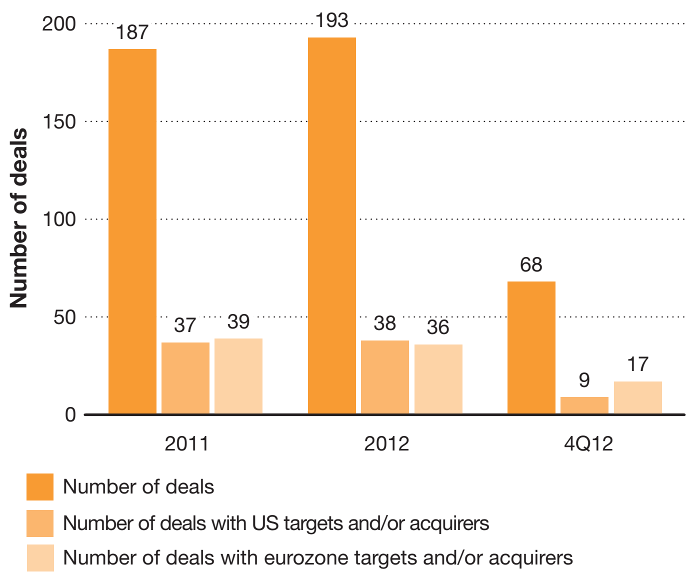
In closing, here are some potential themes to consider: 1) more large infrastructure deals, particularly in high-growth emerging markets and advanced markets in which budget realities necessitate deals; 2) Russia's broad five-year privatization plan contributing to the mega deal table; and 3) significant "headline risk" in the form of US and European country-specific concerns. When weighing these expectations, we believe that the balance of risks still favors an optimistic outlook for transportation and logistics M&A in 2013.

Commentary

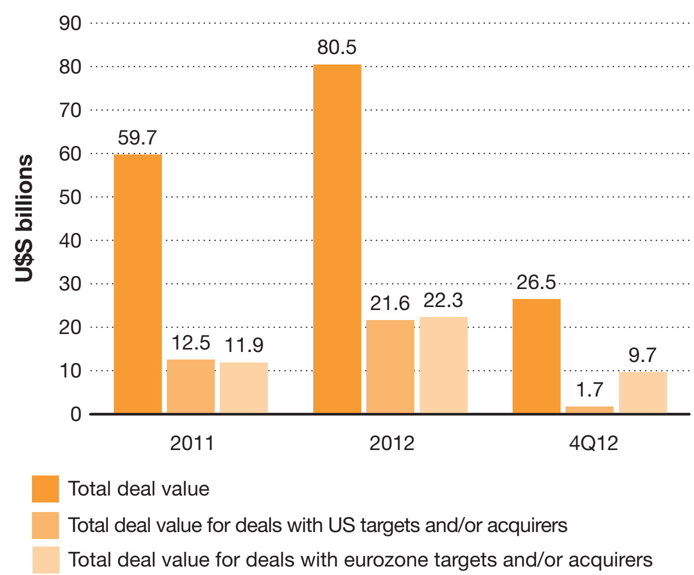
Quarterly transportation and logistics deal activity
Measured by number and value of deals worth $50 million or more (1Q10–4Q12)

	2010				2011				2012			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of deals	41	45	47	62	51	50	50	36	37	49	39	68
Total deal value ($ bil.)	21.4	26.7	21.6	48.7	11.8	16.8	16.3	14.8	24.6	13.8	15.5	26.5
Average deal value ($ bil.)	0.5	0.6	0.5	0.8	0.2	0.3	0.3	0.4	0.7	0.3	0.4	0.4

Deal activity by number of deals
Measured by number of deals worth $50 million or more

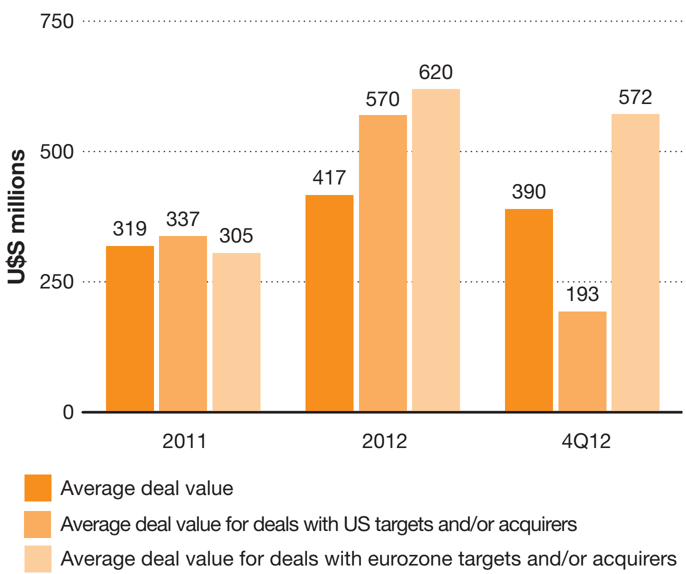


Deal activity by total deal value
Measured by value of deals worth $50 million or more



Deal activity by average deal value

Measured by value of deals worth $50 million or more



A flurry of transportation and logistics deal activity during this past quarter contributed to a strong overall result for 2012. Deal volume in the fourth quarter was the highest quarterly total in the last three years, with deal value the third highest quarterly value in those same three years. This strong close to 2012 led annual volume and value for deals of at least $50 million to exceed 2011 levels. In a reversal of previous trends, the relative level of fourth-quarter deals involving eurozone parties trended sharply upward, and the relative level of deals involving US parties trended downward.

These results may have been somewhat surprising, given the recession and ongoing sovereign debt issues in the eurozone, as well as the capital gains tax changes in the United States, which should have provided some motivation to sellers. However, regarding the latter, it is likely that concerns over the tepid recovery, the recent debate over the "fiscal cliff," and upcoming debt ceiling negotiations have provided headwinds for US activity which more than offset tax considerations. As noted in past reports, transportation and logistics M&A has historically demonstrated a strong relationship with global economic output. Because of this relationship, it's possible that this quarter's eurozone results could be an aberration.

In light of all of these factors, a major theme for this quarter seems to be robust growth in M&A, driven by a deal recovery within the eurozone. While the trend in this region may not continue, the overall outlook for global transportation and logistics M&A is quite positive due to economic performance in emerging and developing economies, as indicated in the following deal volume and value forecasts for 2013.

Transportation and logistics M&A outlook for 2013

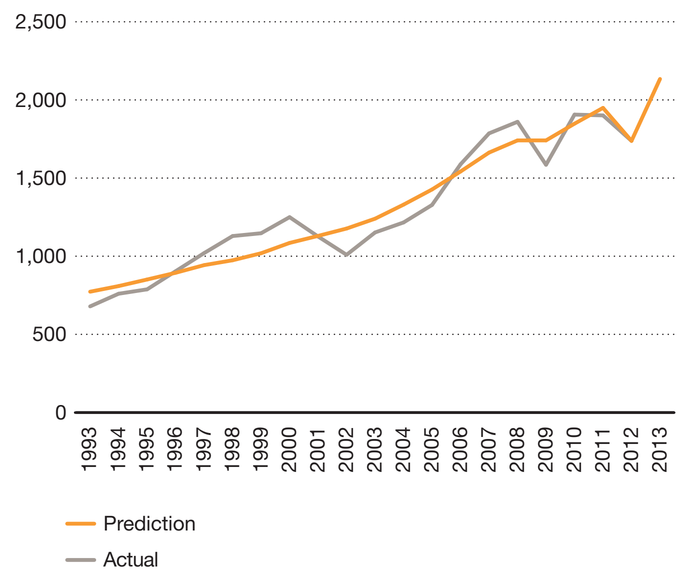
PwC has conducted an analysis testing the historical relationship of transportation and logistics sector M&A with a variety of global macroeconomic variables. The analysis encompassed such factors as nominal GDP, direct investment levels, energy costs, and trade volumes. Ten years of all historical transportation and logistics M&A, regardless of whether a deal value was disclosed or the level of value, was incorporated into this testing, which led to the development of an announced volume and announced value forecast for 2013.

Since global GDP has historically been the strongest predictor of sector deal activity, each model incorporates IMF historical and forecast global GDP, as well as binary variables to account for outlier periods (e.g., leverage bubble in the value model), as predictive inputs. The coefficient of determination, or R2, is 0.93 for the announced deal volume model, and 0.89 for the announced deal value model.

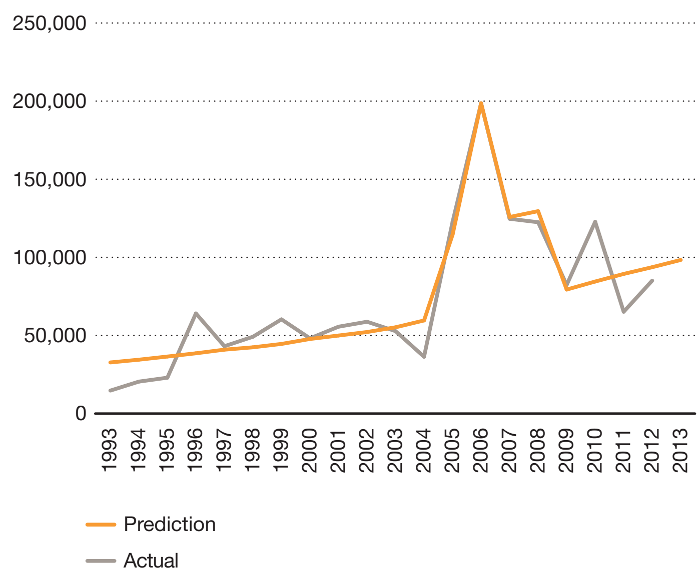
For the historical period 2003 through 2012, the models predicted 4.4% CAGR in volume and 5.7% CAGR in value. This compares with actual CAGRs of 5.1% and 9.7%, respectively. As shown in the graph above, deal value has historically been the more volatile, and difficult to predict, data series, leading to a greater difference in deal value forecast versus actual results.

Based upon this analysis, we forecast growth of 22% in transportation and logistics deal volume and 15% in sector deal value in 2013, compared with 2012 levels. This forecast is primarily driven by expectations for a slight acceleration in global GDP growth during 2013 due to stronger output from emerging and developing economies. In addition, the 2013 volume forecast represents a rebound of sorts from the decline in total disclosed and undisclosed volume experienced during 2012 (as opposed to deal value, which increased in 2012 vs. 2011). The results support our relatively sanguine qualitative outlook, though we acknowledge that risks to the global economy are not insignificant and could provide a downside to 2013 results.

Predicted and actual announced volume
All disclosed and undisclosed deals

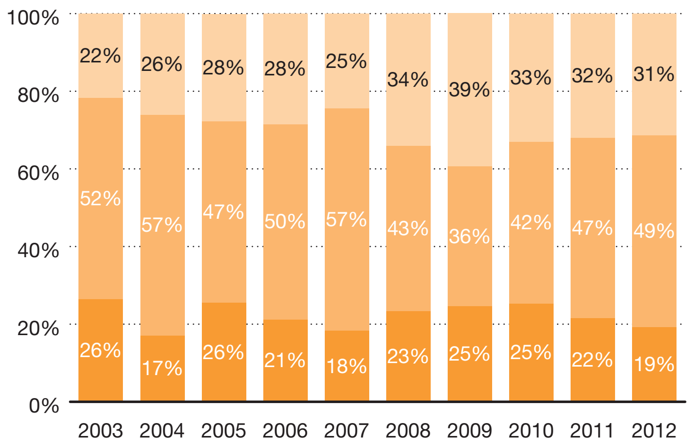


Predicted and actual announced value
All disclosed and undisclosed deals in $ billions



*Undisclosed deal value is equal to zero

Historical deals by transportation and logistics mode
Measured by number of announced deals worth $50 million or more

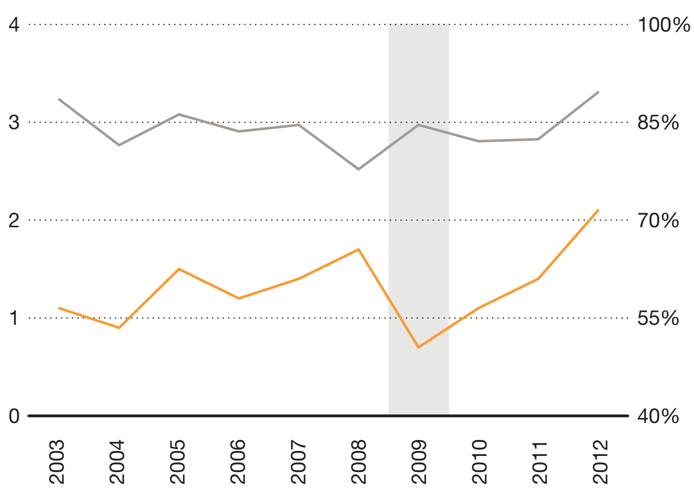


% Passenger Targets: 10-yr. avg. = 22.2%, 5-yr. avg. = 22.8%, 2012 = 19.2%

% Freight Targets: 10-yr. avg. = 47.9%, 5-yr. avg. = 43.2%, 2012 = 49.4%

% Infrastructure Targets: 10-yr. avg. = 29.9%, 5-yr. avg. = 34.0%, 2012 = 31.4%

Historical deal valuation vs. minority stakes
Measured by value/sales for deals worth $50 million or more (2003–2012)



Deal value/sales (left-axis): 10-years median=1.3x, 5-years median=1.4x
Controlling interests (right-axis)

Historically, almost half of transportation and logistics deals have involved freight operator targets. Passenger targets tend to represent a smaller proportion of deal volume, likely due to the relative size and antitrust restrictions within some passenger modes. In addition, many passenger public transportation systems, such as subways and buses, are still owned and operated by governments that have long since privatized ownership of freight carriers. This also tends to result in fewer passenger transportation deals, compared with freight M&A.

We have also observed a tendency for passenger-related M&A to hold up somewhat better during economic downturns than freight-related M&A. Freight transportation tends to be driven by the level of inventories, which can fluctuate significantly over the course of the business cycle. Research on the relationship between passenger transportation and the business cycle is more mixed, but it suggests less responsiveness to economic conditions. If freight transportation demand is more cyclical, it stands to reason that freight-related M&A would also tend to be more cyclical than passenger M&A. Accordingly, it's possible that freight targets will continue to account for the largest share of the market in 2013.

While infrastructure deals accounted for a slightly lower proportion of the deal market in 2012 compared with the last several years, the ten-year chart shows the growing importance of infrastructure to overall transportation M&A over the last five years, compared with prior periods. While the privatization of road assets may not receive as much attention as some airport and port deals, the majority of transportation infrastructure deals are road concessions, likely due to the larger number of potential assets available for purchase relative to airports and ports. These infrastructure deals are growing in their importance to the top end of the market. For example, the majority of mega deals, those with a value of at least $1 billion, in 2012 were for infrastructure targets. This is a significant increase over their contribution in 2011. We expect these deals to become more important to overall sector M&A due to budget pressures in developed countries and the need to bring in more investment to support growth in emerging and developing countries.

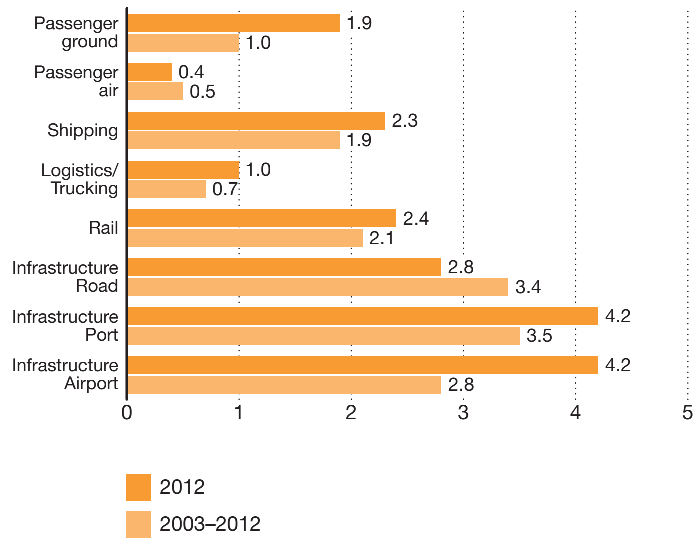
Valuation, as measured by the median value/sales, increased in 2012 to a ten-year high. One driver of this trend is the increase in deals for controlling interest stakes, which tend to carry a premium multiple. While multiples across the majority of transportation modes moved higher during this last year, compared with the longer-term historical averages, the jump in value/sales across most infrastructure categories was particularly important in driving this sector trend.

Historically, transportation and logistics deal valuations have shown some tendency to increase in economic expansions and contract during recessions, so, consistent with our expectations for a continued global economic expansion in 2013, it seem that multiples are likely not at their peak. The positive outlook for infrastructure deals, which have historically carried a superior multiple relative to transportation operators, also bodes well for future M&A valuation.

The valuation of sector targets in emerging and developing markets has also tended to exceed that of targets in advanced economies, and this premium increased during 2012. This can be attributed to generally higher growth in emerging markets and, generally, the relative lack of similar growth opportunities in advanced economies. This disparity is expected to continue in 2013.

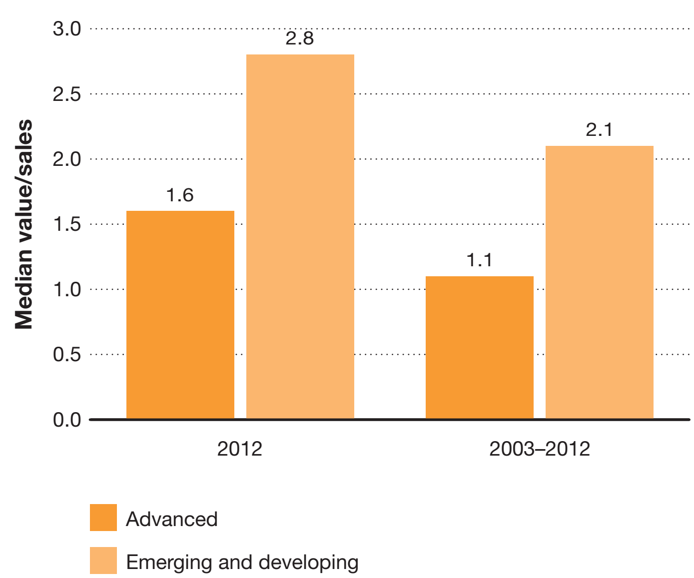
Historical valuation/sales by target mode

Measured by value/sales for deals worth $50 million or more



Historical value/sales by target economy

Measured by value/sales for deals worth $50 million or more



Mega deals in 2011

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
Oct	Freight One	Russian Fed	UCL Holding BV	Russian Fed	Completed	4.22	Rail
May	Dollar Thrifty Automotive Group Inc	United States	Hertz Global Holdings Inc	United States	Withdrawn	2.08	Other
May	Abbot Point Coal Terminal	Australia	Adani Enterprises Ltd	India	Completed	1.95	Shipping
Jun	Brussels Airport Co SA	Belgium	OTPP	Canada	Completed	1.75	Passenger air
Jul	Korea Express Co Ltd	South Korea	Investor Group	South Korea	Completed	1.65	Logistics
Dec	Lasalle Investment Management KK-Property Portfolio	Japan	Investor Group	China	Completed	1.57	Logistics
Jul	ConnectEast Group	Australia	CP2 Ltd	Australia	Completed	1.53	Passenger ground
Oct	Maersk LNG A/S	Denmark	Teekay LNG Partners LP	Denmark	Completed	1.40	Shipping
May	Daxinhua Airlines Co Ltd	China	Chongqing Longsheng Jiuzhi	China	Pending	1.23	Passenger air
Dec	Matson Navigation Co Inc	United States	Shareholders	United Kingdom	Completed	1.17	Shipping
Sep	Puerto Rico Public-Private Partnership Authority{PPPA}- PR 22	Puerto Rico	Investor Group	United States	Completed	1.14	Passenger ground
Aug	GE SeaCo Ltd	Barbados	Investor Group	China	Completed	1.05	Shipping
Jun	Avis Europe PLC	United Kingdom	Avis Budget Group Inc	United Kingdom	Completed	1.01	Other
Aug	Diamond S Shipping LLC	United States	Investor Group	United States	Pending	1.00	Shipping
Jul	ING Car Lease International BV	Netherlands	BMW AG	Germany	Completed	1.00	Other

Mega deals in 2012

Deals with a disclosed value of at least $1 billion

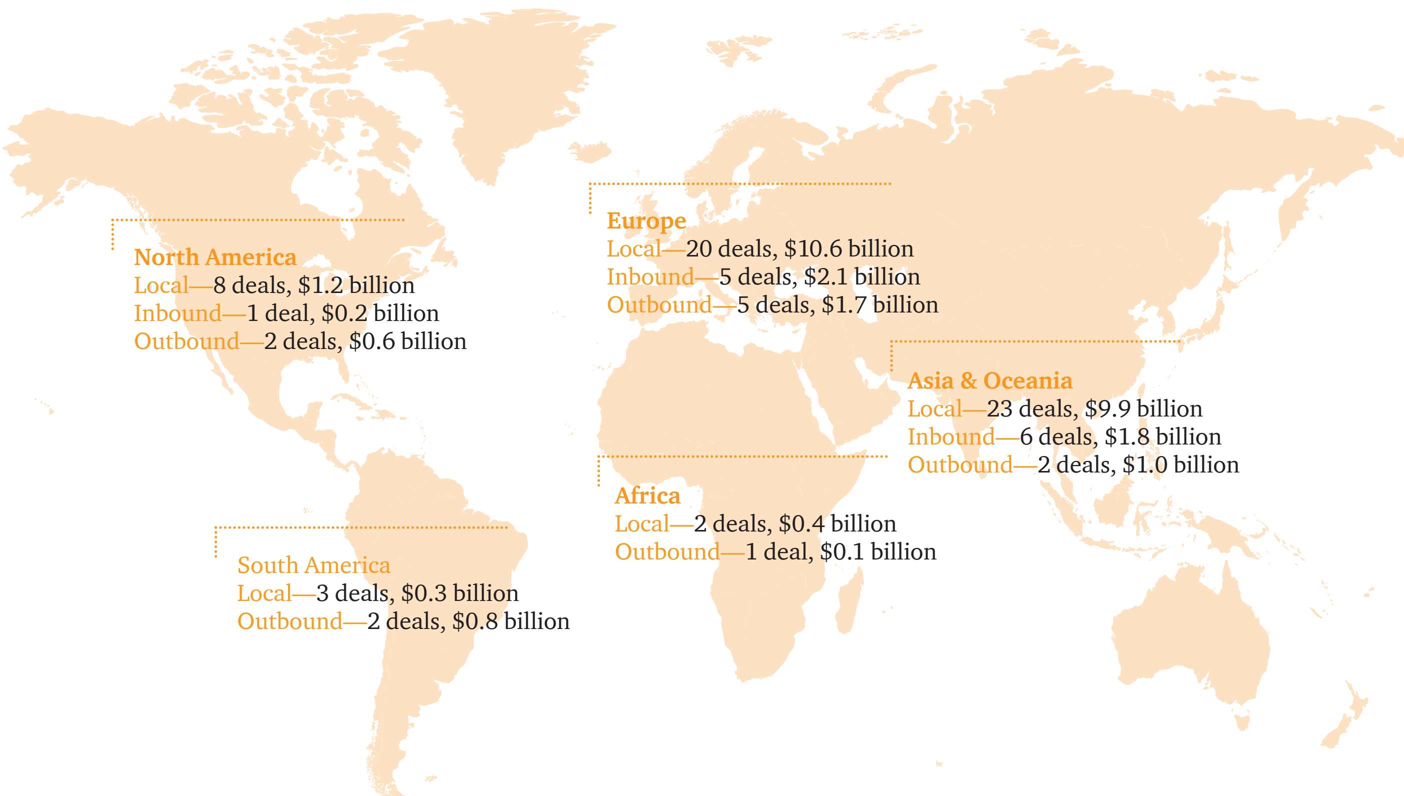
Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Category
Feb	TNT Express NV	Netherlands	UPS	United States	Withdrawn	6.83	Logistics
Dec	Turkey-Motorways & Bridges Concession Rights	Turkey	Investor Group	Turkey	Pending	5.72	Passenger ground
Feb	Infraero-Guarulhos Airport Concession	Brazil	Invepar	Brazil	Pending	4.79	Passenger air
Dec	ANA Aeroportos de Portugal SA	Portugal	VINCI SA	France	Pending	4.08	Passenger air
Aug	Dollar Thrifty Automotive Group Inc	United States	Hertz Global Holdings Inc	United States	Completed	2.57	Other
Aug	Australian Infrastructure Fund Ltd-Assets	Australia	Australia	Australia	Pending	2.08	Passenger air
Feb	Cheniere Energy Partners LP	United States	Investor Group	United States	Pending	2.00	Logistics
Oct	Freight One	Russian Fed	UCL Holding BV	Russian Fed	Completed	1.62	Rail
Aug	FGP Topco Ltd	United Kingdom	State of Qatar	Qatar	Completed	1.41	Passenger air
Jul	RailAmerica Inc	United States	Genesee & Wyoming Inc	United States	Completed	1.39	Rail
Feb	Infraero-Brasilia Airport Concession	Brazil	Investor Group	Brazil	Pending	1.33	Passenger air
Apr	Edinburgh Airport Ltd	United Kingdom	Credit Suisse Group AG	United States	Completed	1.30	Passenger air
Jun	Vela International Marine Ltd	Utd Arab Em	National Shipping Co of Saudi	Saudi Arabia	Pending	1.21	Shipping
Apr	Grupo Costanera SA	Chile	Canada Pension Plan	Canada	Completed	1.17	Passenger ground
Feb	Infraero-Campinas Airport Concession	Brazil	Investor Group	Brazil	Pending	1.13	Passenger air
Nov	Gefco SA	France	Russian Railways	Russian Fed	Completed	1.02	Logistics

Another sign of strength in the transportation and logistics deal market is the sixteen mega deals announced in 2012, which edged out the fifteen mega deals announced during 2011. As mentioned earlier, the majority of these deals have involved infrastructure targets. While road concessions were the most common infrastructure deal among all deals, regardless of size, in 2012 the vast majority of infrastructure mega deals were airport transactions. The wave of airport privatizations in Brazil, motivated by a need to boost investment ahead of the 2014 World Cup and 2016 Olympics, contributed to this trend. The country is also looking to support broad growth in demand for air travel within the country. So, in addition to the auction of three of the country's biggest airports (Guarulhos, Viracopos, and Brasilia) this past year, Brazil has announced increased investment for its regional airports, as well as plans to privatize Galeao airport in Rio De Janeiro, and Confins airport in Belo Horizonte. The government has also indicated interest in offering licenses to build and operate new roads and railways as part of a comprehensive infrastructure program to boost economic growth.

The two largest mega deal announcements this quarter were also for infrastructure targets. The largest deal was the $5.7 billion concession of highways, ring roads, and bridges in Turkey to a consortium of Turkish and Malaysian investors, a transaction that was previously delayed because of the global financial crisis. In addition, Portugal sold the ANA airport management company, in a concession that includes Lisbon, Porto, Faro, Ponta Delgada, Santa Maria, and Horta airports, to Vinci Group for $4 billion. This is part of a broader privatization program including sales of state-owned energy, power grid, airport, and airline assets, in order to reduce public debt.

Russian transportation announcements were another theme among mega deals this quarter. Russian Railways, for instance, bought a majority stake in French logistics group Gefco, which will help attract more Europe-Asia transcontinental traffic. And the continued liberalization of the Russian transportation sector continues to lead to new mega deals and has the greatest potential to drive additional large deal activity. This includes UCL's recent acquisition of the minority stake that it did not own in Freight One, Russia's largest rail freight operator. The Russian government has also indicated interest in selling stakes in transportation entities, including NCSP, the largest port operator; Sovcomflot, the largest shipping company; Russian Railways; and S7 and Aeroflot airlines. These deals could be delayed for a variety of reasons, including market conditions and political considerations; however, the trend toward using privatizations in order to modernize the economy is likely to benefit the transportation deal market.

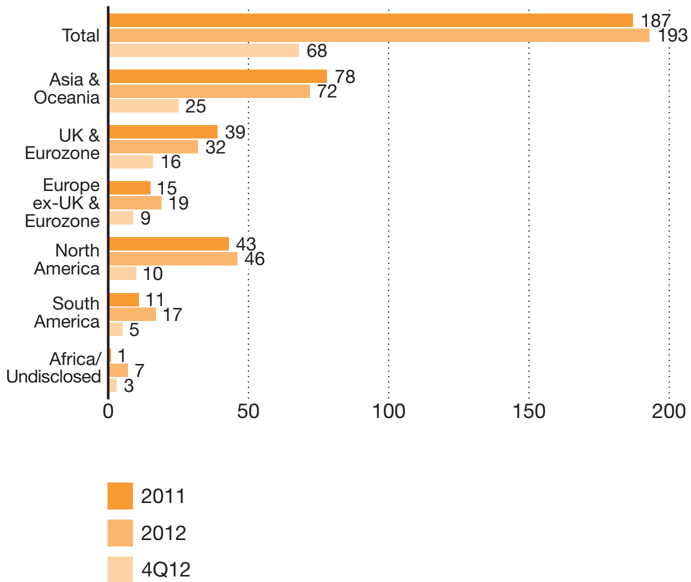
Global transportation and logistics M&A activity in 4Q12
Measured by number and value of deals worth $50 million or more



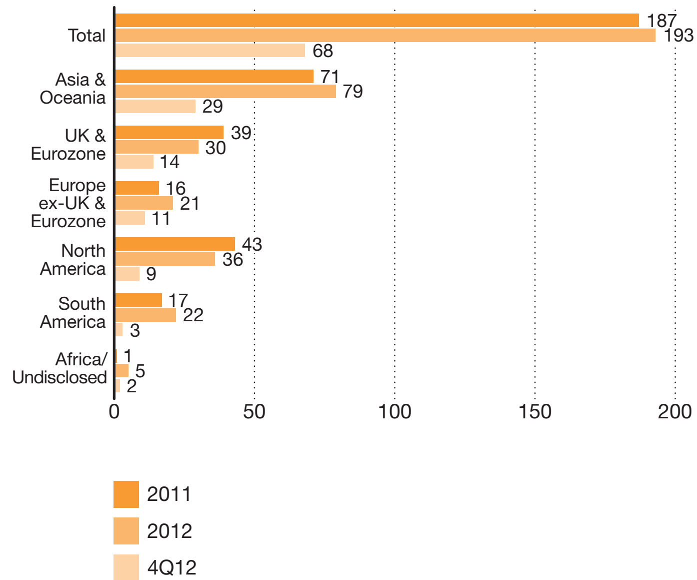
The Europe and Asia and Oceania regions were highly active during the fourth quarter, particularly in local deals. This is fairly normal for Asia and Oceania, due to such factors as the size of this region and the more fragmented nature of transportation markets in many of the developing countries in the region. However, the strength in local deals in Europe is more unusual and can be attributed to Russian transactions, including two of the four mega deals announced this quarter as well as a slight recovery in M&A activity involving countries in Southern Europe.

In addition, cross-border deals are becoming more prominent among acquirers from advanced as well as emerging and developing economies. This trend seems likely to continue, with advanced economy acquirers looking to purchase more foreign entities in higher growth countries, and more emerging market acquirers growing large enough to begin to seek merger opportunities internationally.

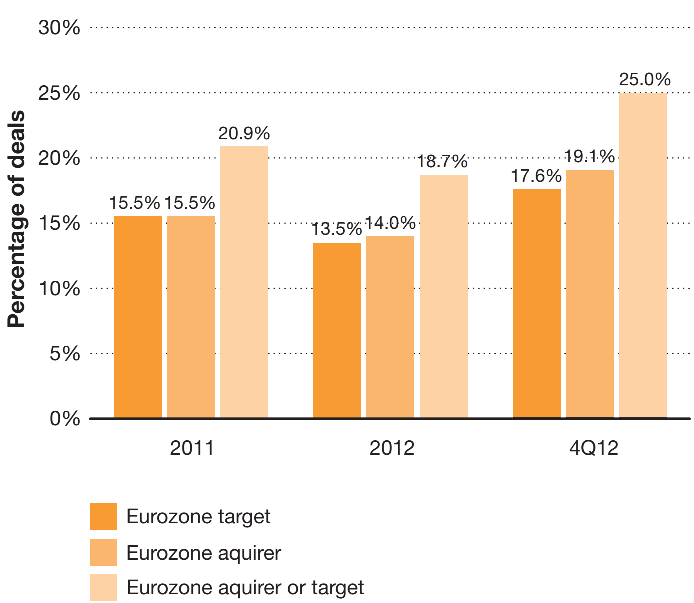
Regional distribution of all deals by acquirer region
Measured by number of deals worth $50 million or more



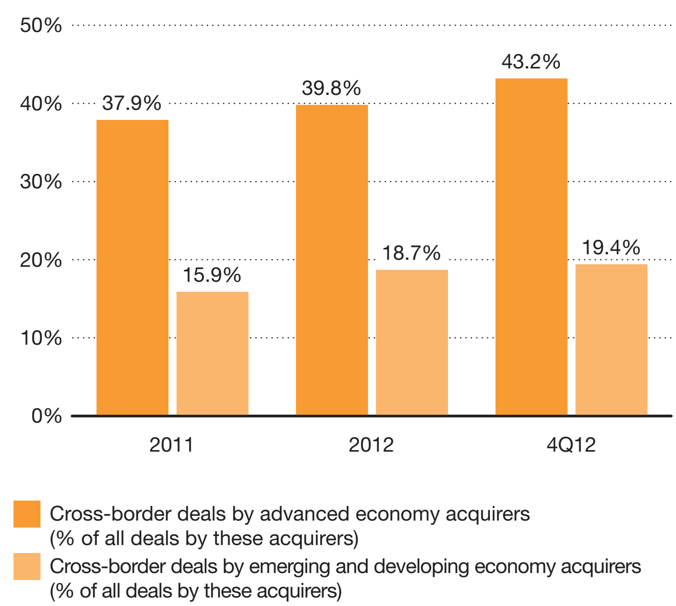
Regional distribution of all deals by target region
Measured by number of deals worth $50 million or more



Eurozone deal activity by number of deals
Measured by number of deals worth $50 million or more



Cross-border deals by acquirers in advanced versus emerging and developing economies
Measured by number of deals worth $50 million or more



PwC experience

Deep transportation and logistics experience

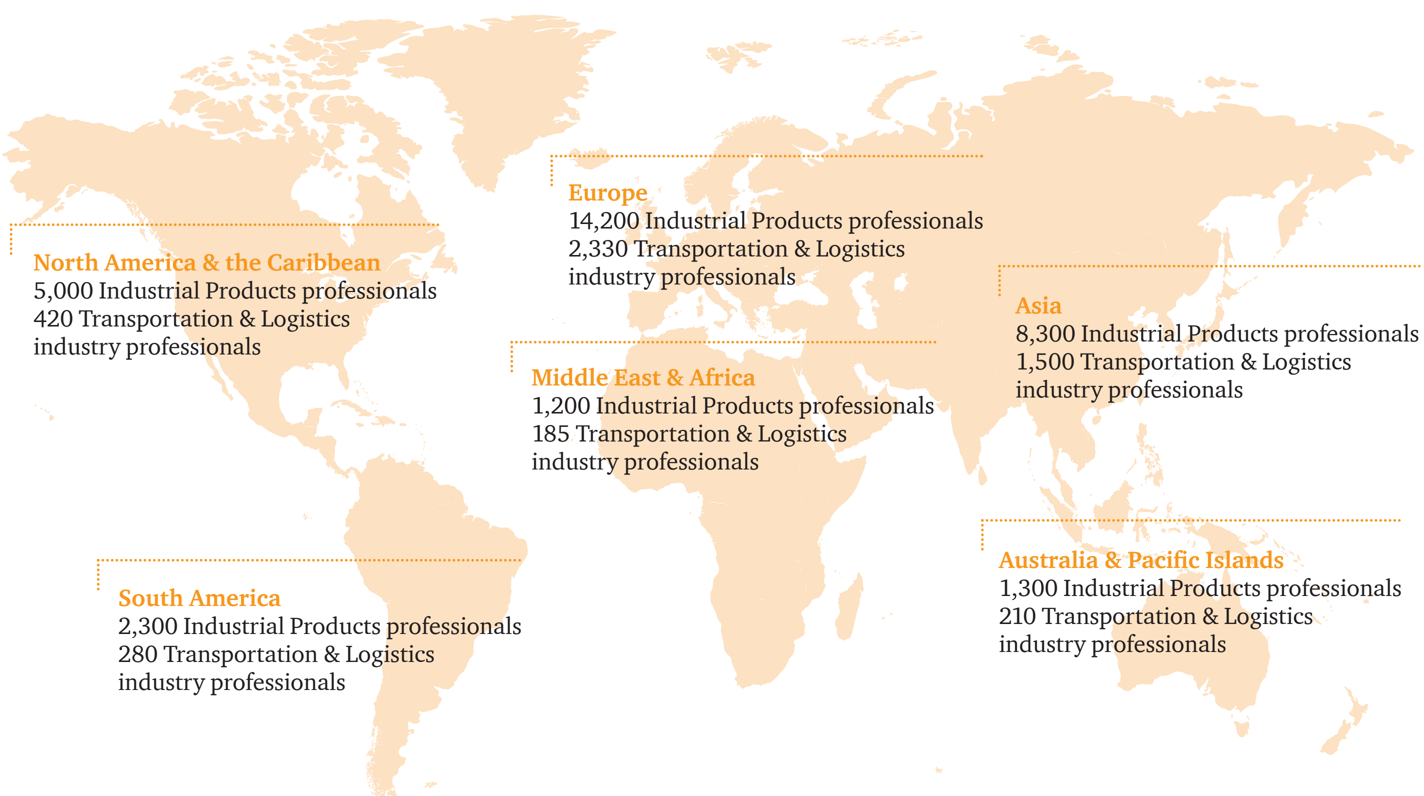
PwC provides advisory, assurance, and tax services for more than 93% of the transportation and logistics companies listed on the Fortune 500. Our transportation and logistics practice is composed of a global network of approximately 4,900 industry professionals who serve public and private companies around the world. Central to our successful delivery is an in-depth understanding of today's industry issues and our commitment to delivering economic value through specialized resources and international leading practices. Our highly skilled team encourages dialogue regarding complex business issues through active participation in industry conferences and associations such as the Air Transport Association, American Trucking Association, American Railroad Association, Freight Transport Association, and European Logistics Association.

Skilled M&A deal professionals

PwC's Deals practice consists of more than 6,500 dedicated deal professionals worldwide. The depth of their industry and functional experience enables them to advise clients regarding factors that could affect a transaction across the deal continuum. From initial due diligence and evaluation to preparation for Day One and post-close merger integration, our teams are committed to capturing value throughout the deal process and helping our clients achieve their objectives. The functional areas our professionals can assist with include sales and marketing, financial accounting, tax, human resources, information technology, risk management, and supply chain. Teamed with our transportation and logistics industry practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as an industry point of view.

Local coverage, global connection

In addition to global transportation and logistics resources, our team is part of a large Industrial Products practice that consists of more than 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 providing advisory services. This expands our global footprint and allows us to concentrate our efforts in bringing clients a greater depth of talent, resources, and knowledge in the most effective and timely way.



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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, 2010, and December 31, 2012, 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.

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