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Intersections
Third-quarter 2011 transportation and logistics industry mergers and acquisitions analysis

Deal activity was resilient despite concerns over macroeconomic trends.

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To our Transportation & Logistics Industry readers:

Welcome to the third-quarter 2011 edition of *Intersections*, PwC's quarterly analysis of mergers and acquisitions in the global transportation and logistics industry. In this report, you'll find an overview of third-quarter deals, the significant drivers of these trends, and our expectations for sector M&A activity in the near term.

Our analysis reveals several trends are affecting the values and locations of deals in the industry. In terms of M&A transactions, the pace of activity receded only slightly. Why the resiliency? First, economic concerns in the United States and Europe don't seem to have adversely affected M&A totals. Second, the minor M&A slowdown can be almost entirely attributed to fewer deals in emerging markets, where inbound BRIC and non-BRIC transactions have been the primary culprits resulting in slower activity.

Mega-deals—transactions worth $1 billion or more—increased in number. Financial investors were active in mega-deals despite being less engaged in overall deal activity. They are likely to focus primarily on certain larger infrastructure deals and select distressed targets. Strategic players, continuing to stockpile cash, are in the best position to drive further recovery in M&A totals.

Overall, deal multiples remained high and are more likely to contract than expand. During 2011, the acquirers paid approximately the same median value-to-EBITDA ratio for targets in emerging markets as they did for targets in advanced markets, a stark contrast from the norm of the past decade.

Looking to the future, global T&L deals could be hurt by continuing macroeconomic trends, and it seems unlikely that overall M&A activity will see a sustained increase until some of these issues recede. While strategic acquirers have the ability to engage in larger deals, uncertainty may keep some on the sideline. We anticipate that small, strategic deals may be a theme in the final quarter of 2011.

We're pleased to present the third-quarter 2011 edition of *Intersections*, as a part of our ongoing commitment to providing a better understanding of M&A trends and prospects in the industry.

Kenneth H. Evans,
US Transportation and Logistics Leader

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Perspectives:
Thoughts on deal activity in the third quarter of 2011

The pace of deal activity in the transportation and logistics sector slowed only slightly, which was surprising given numerous macroeconomic risks, including the potential for a double-dip recession in the United States, concerns over sovereign debt in several European countries, and uneasiness regarding slowing growth in emerging markets.

Our analysis of the impact that these factors may have had on transportation and logistics deals led us to two unexpected conclusions. First, concerns over the US and European economies do not seem to have affected M&A totals, and second, the minor M&A slowdown can be almost entirely attributed to fewer emerging market deals. This decline in emerging market deals resulted primarily from a decrease in inbound BRIC and non-BRIC transactions.

This shift represents a new sign of caution on the part of global acquirers, one that is also apparent when comparing valuations across economies. Our analysis of valuations in the sector indicates that overall deal multiples remain high by historical standards and seem more likely to contract than expand from this point. What is striking is that the acquirers paid approximately the same median value-to-EBITDA ratio for targets in emerging markets as they did for targets in advanced markets during 2011. This is in stark contrast to the norm of the past decade, when emerging market deals carried a premium multiple on the assumption that they offered relatively favorable growth prospects. We believe that this valuation convergence, when considered along with the trend in deal volumes in these nations, indicates that acquirers currently view risk-adjusted emerging market prospects to be roughly equal to that of advanced economies.

Shipping, logistics, and infrastructure deals were relatively common when measuring sector M&A activity by mode. We have seen an increase in distressed targets, particularly in shipping, where weak fundamentals have increased calls for consolidation. We also continue to expect deals for transportation infrastructure to remain popular given ongoing budget pressures and investor interest in this asset class.

Despite M&A headwinds, mega-deal activity increased this quarter. Financial investors were very active in mega-deals despite becoming less involved in overall deal activity. With strategic investors continuing to stockpile cash, we believe that these companies are best positioned to drive any further recovery in M&A totals. Financial investors are likely to focus on certain larger infrastructure deals and select distressed targets.

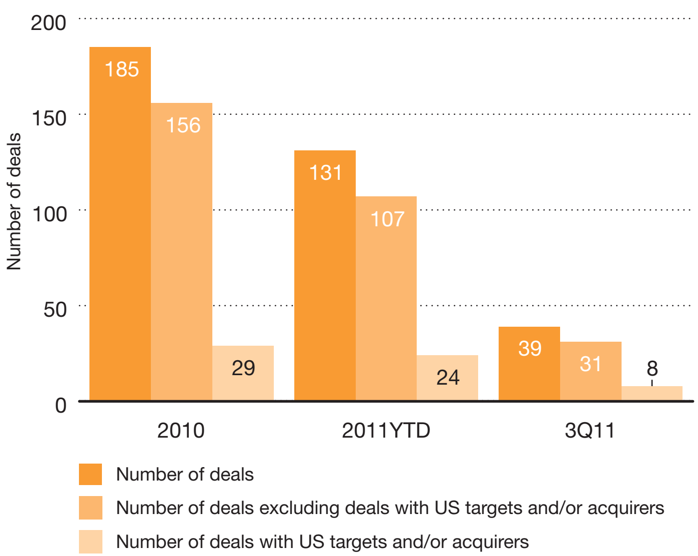
The aforementioned macroeconomic concerns have largely persisted into the fourth quarter and it seems unlikely that overall activity will pick up in a sustained manner until at least some of these concerns begin to ease. In addition, some of the resiliency in third-quarter totals may reflect decisions to proceed with deals being made before the quarter began, which may delay the full impact of economic concerns on deal activity until the fourth quarter. While strategic acquirers have the wherewithal to engage in larger M&A, uncertainty may keep some on the sideline. Accordingly, we anticipate that small, strategic deals may be a theme in the final quarter of 2011.

Commentary

Quarterly transportation and logistics deal activity
Measured by number and value of deals worth $50 million or more (4Q08-3Q11)

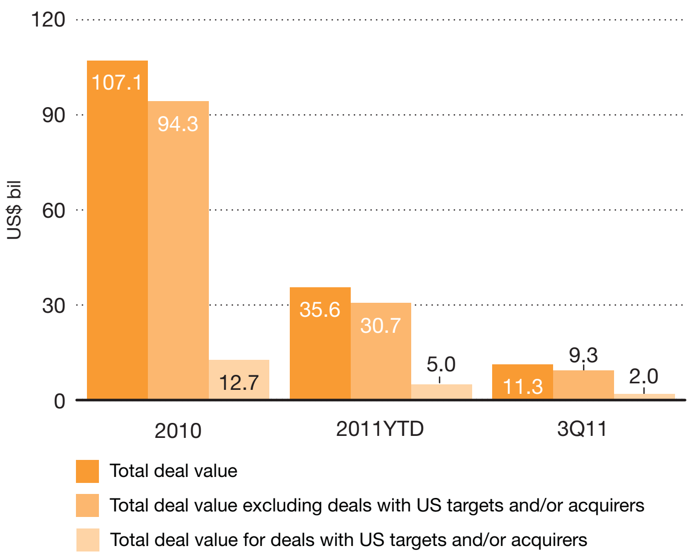
	2008	2009				2010				2011		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Number of deals	58	26	20	29	44	41	41	43	60	46	46	39
Total deal value ($ bil)	34.7	6.2	7.0	10.2	56.2	19.4	18.2	21.2	48.3	10.9	13.4	11.3
Average deal value ($ bil)	0.6	0.2	0.3	0.4	1.3	0.5	0.4	0.5	0.8	0.2	0.3	0.3

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

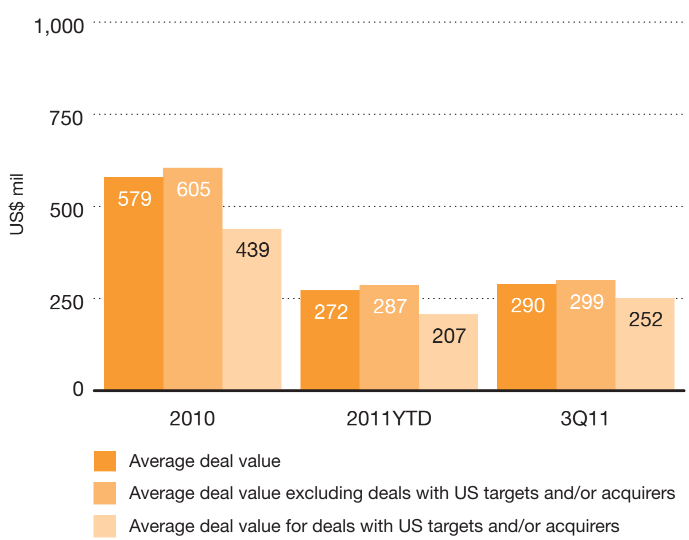


The pace of deal activity in the third quarter remains below the torrid pace of 2010 but has slowed only slightly from the first half of the year. This is an interesting contrast with the M&A market across all sectors, where macroeconomic concerns relating to Eurozone sovereign debt, a potential double-dip recession in the United States, and the risk of a hard landing in several emerging markets, have weighed on deal totals. The first two factors don't seem to be an issue for M&A in the transportation and logistics sector, given that deal activity in the Eurozone and United States outpaced previous quarters this year and 2010. The only headwind that seems to be affecting the sector so far is concern over a slowdown in emerging markets. The pace of emerging market deals in the third quarter was below that of 2010 while the reverse was true for advanced economies.

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



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

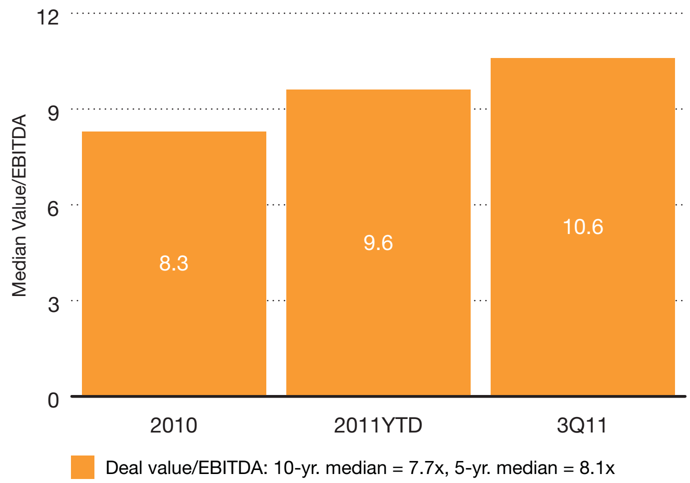


One encouraging sign is that average deal values have held up well relative to the first half of the year. This is mainly because of mega-deal activity, with four of the seven 2011 mega-deals announced during the third quarter. This is a positive indicator for the sector as it demonstrates that acquirers are pulling the trigger on some larger deals despite the backdrop of economic uncertainty.

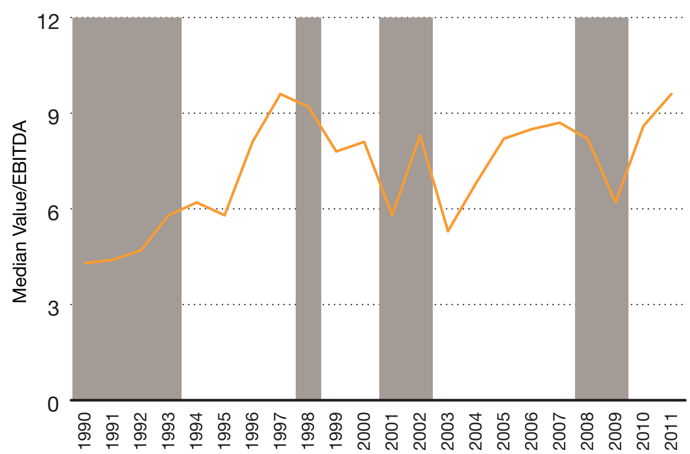
Deal valuation continued to increase in the third quarter, and remains above the level of announcements during 2010 and the first half of the year. The median value-to-EBITDA multiple is also far above the longer-term historical averages of the past five and 10 years, reflecting the historical tendency for valuations to increase during economic expansions. It is unlikely that multiples will expand further because the current position is near a historical high. In addition, macroeconomic risks appear oriented to the downside, which would likely weigh on future value-to-EBITDA ratios.

Given expectations that emerging market economies will generally continue to grow at a high rate over the long-term, it seems reasonable that the valuation of announcements for targets in these nations would tend to be higher than the valuation for targets in slower-growth advanced economies. A review of valuations for the past decade in the transportation and logistics sector confirms this. However, there was virtually no difference in median value-to-EBITDA ratios between these two groups during 2011. This appears to indicate that overall, investors have judged the balance of risk and return opportunities of targets in these markets to be approximately equal so far this year.

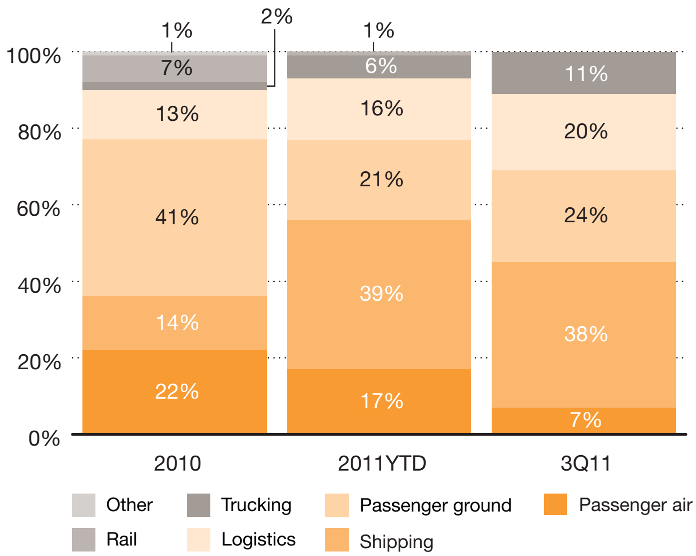
Deal valuation by median deal value/EBITDA
Measured by value/EBITDA for deals worth $50 million or more



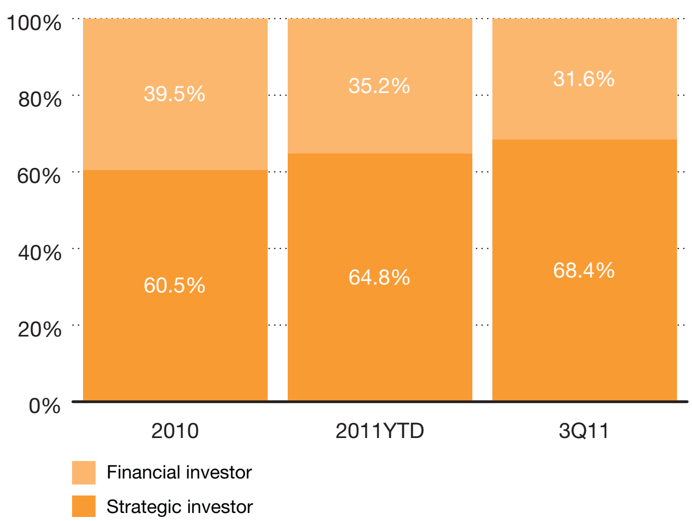
Deal valuation by median deal value/EBITDA multiple
Measured by value/EBITDA for deals worth $50 million or more
(Shaded periods indicate global recession)



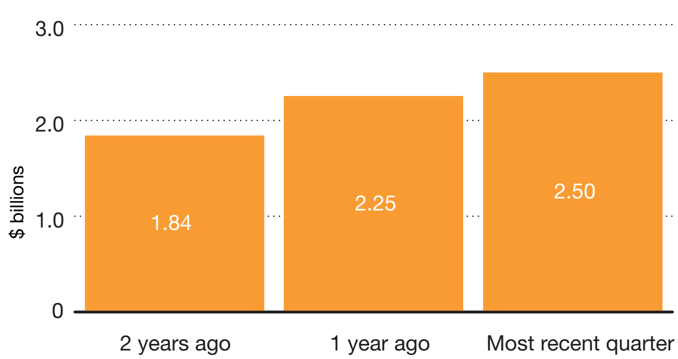
Deals by transportation and logistics mode
Measured by value of announced deals worth $50 million or more



Deal activity by investor group
Measured by percent of deals worth $50 million or more



Financial leverage and liquidity
Average of top 50 global public competitors



Deal activity has shifted toward shipping and logistics modes and away from passenger targets, with three of the four mega-deals announced during the third quarter falling into these categories. These modes are likely to account for a significant amount of deal activity in the future, given that consolidation may help address challenges related to oversupply in shipping and allow fragmented logistics providers to expand their networks. Regarding the former, the expansion of fleets prior to the financial crisis has exacerbated a global supply/demand imbalance. The resulting weakness in shipping valuations could attract additional horizontal mergers, similar to DryShip's $120 million announcement for OceanFreight in July 2011, as well as more financial investment in targets in this mode.

Infrastructure deals, which contributed significantly to totals in the first half of the year, seem likely to pick back up again due to interest by investors in the relatively stable cash flows that these investments can offer. This could trigger activity in passenger air and ground modes because of the potential for airport privatizations and road concessions, as well as potential port deals in the shipping mode.

Strategic investors have increased their relative activity as measured by deal volume, with financial investment falling off somewhat. With the recent volatility in capital markets and the continued stockpiling of cash by large sector constituents, it seems that strategic investors are relatively well positioned to engage in new deals, though some may choose to wait on transactions until current economic concerns ease, boosting acquirers' confidence in their traffic and freight volume expectations.

Mega-deals in 2010 (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
Dec	Plus Expressways Bhd	Malaysia	Jelas Ulung Sdn Bhd	Malaysia	Withdrawn	8.30	Passenger ground
Jan	Japan Airlines Corp	Japan	Enterprise Turnaround Initiative Corp of Japan{ETIC}	Japan	Completed	8.17	Passenger air
Oct	Plus Expressways Bhd	Malaysia	Investor Group	Malaysia	Intended	7.46	Passenger ground
Dec	TNT Express NV	Netherlands	Shareholders	Netherlands	Completed	7.24	Logistics
May	Continental Airlines Inc	United States	UAL Corp	United States	Completed	3.69	Passenger air
Jul	Abertis Infraestructuras SA	Spain	Trebol Holdings Sarl	Spain	Completed	3.68	Passenger ground
May	Transurban Group	Australia	Investor Group	Canada	Withdrawn	3.68	Passenger ground
Aug	TAM SA	Brazil	LAN Airlines SA	Chile	Pending	3.43	Passenger air
Nov	Eversholt Rail Group	United Kingdom	Eversholt Investment Group	United Kingdom	Completed	3.42	Rail
Nov	HS1 Ltd	United Kingdom	Investor Group	Canada	Completed	3.40	Rail
Nov	Queensland Motorways Ltd	Australia	QIC Ltd	Australia	Completed	3.35	Passenger ground
Mar	Arriva PLC	United Kingdom	Deutsche Bahn AG	Germany	Completed	2.43	Passenger ground
Sep	OOO "Primorskiy torgovyi port"	Russian Fed	OAO "Novorossiyskiy Morskoy Torgovyi Port"	Russian Fed	Completed	2.15	Shipping
Oct	La Poste SA	France	Groupe Caisse des Depots & Consignations{CDC}	France	Completed	2.11	Logistics
Dec	DP World Australia Ltd	Australia	Citi Infrastructure Investors	United States	Completed	1.48	Shipping
Sep	Odebrecht Transport Participacoes SA	Brazil	Fundo de Garantia do Tempo de Servico	Brazil	Completed	1.11	Passenger ground
Mar	Corredor Norte Toll Road Project	Panama	Republica de Panama	Panama	Pending	1.07	Passenger ground
Jun	Societe des Autoroutes Paris-Rhin-Rhone SA	France	Eiffarie SAS	France	Completed	1.05	Passenger ground
Sep	AirTran Holdings Inc	United States	Southwest Airlines Co	United States	Completed	1.04	Passenger air

Mega- deals in 2011YTD (deals with a disclosed value of at least $1 billion)

Month anounced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Category
May	Abbot Point Coal Terminal	Australia	Mundra Port & Special Economic Zone Ltd{MPSEZ}	India	Completed	1.95	Shipping
Jun	Brussels Airport Co SA	Belgium	Ontario Teachers Pension Plan {OTPP}	Canada	Pending	1.75	Passenger air
Jul	Korea Express Co Ltd	South Korea	Investor Group	South Korea	Pending	1.75	Logistics
Jul	ConnectEast Group	Australia	Horizon Roads Pty Ltd	Australia	Pending	1.53	Passenger ground
May	Grand China Airl Co Ltd	China	Chongqing Longsheng Jiuzhi Investment Management Centre	China	Pending	1.23	Passenger air
Aug	GE SeaCo Ltd	Barbados	Investor Group	China	Pending	1.05	Shipping
Aug	Diamond S Shipping LLC	United States	Investor Group	United States	Pending	1.00	Shipping

There were four mega-deals announced in the third quarter. This is an increase from the three mega-deals announced during the first half of the year, but below the 19 mega-deals announced during 2010. The third-quarter mega-deals involved targets—shipping, logistics, and infrastructure—that have been the most popular during 2011 in the broader market.

The largest deal announced this quarter was the $1.75 billion acquisition of Korea's largest logistics firm, Korea Express, by a local investment consortium, CJ Group. This deal is part of a restructuring of Korea Express' parent, Kumho Asiana Group. The acquirers are reportedly pursuing a discount to the original offer price in order to reflect the decline in the target's share price since the acquisition was announced.

The second-largest deal announced this quarter was the $1.53 billion offer for ConnectEast Group by CP2 Ltd., an infrastructure investor, through its Horizon Roads acquisition vehicle. ConnectEast finances, constructs, and operates toll roads, with its main asset being the EastLink road in Australia, which it built in 2004 and operates under a concession. CP2 raised capital for this offer from a variety of global financial investors, indicating continued interest in transportation infrastructure assets.

There were also two shipping mega-deals announced this quarter. One was the $1.05 billion acquisition of GE SeaCo, a container leasing joint venture between GE Capital Services and Sea Containers Ltd., by HNA Group Co. and Bravia Capital Hong Kong. GE SeaCo is estimated to be the fifth-largest global marine container leasing company. This deal should help the acquirers benefit from growth in containerized shipments between Asia and the West, which has been a relative bright spot in the global shipping industry. It would also allow GE to continue to shift its business away from financial services and toward a more industrial-focused portfolio.

The other shipping mega-deal was the $1 billion stake in Diamond S Shipping by a group of financial investors that included WL Ross and sovereign wealth fund China Investment Corporation. This capital is being used to help acquire new oil and product tankers. The acquirers have indicated interest in additional shipping industry acquisitions as opportunities become available.

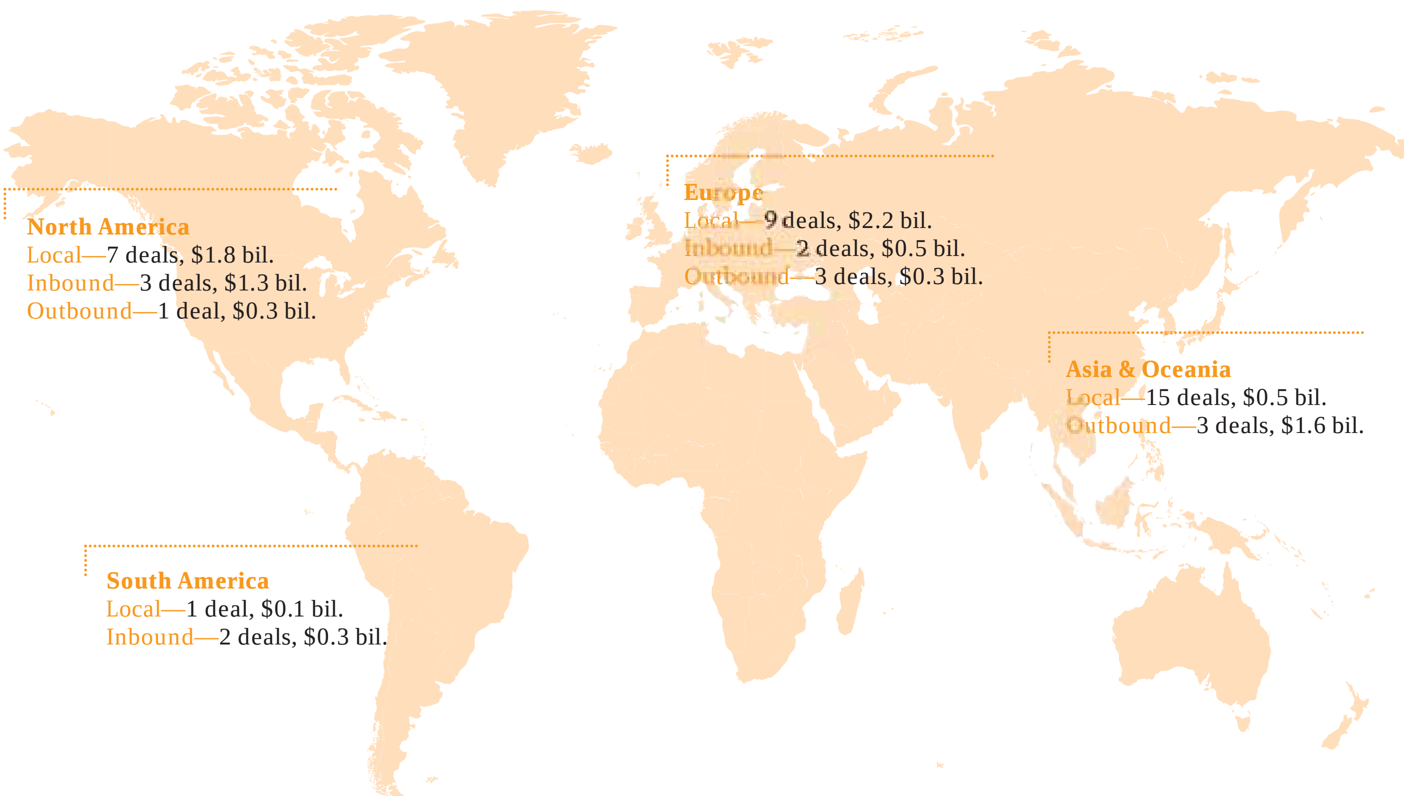
One interesting characteristic of mega-deal activity this quarter is that participation by financial investors contrasted with their relative lack of involvement in smaller deals. As previously mentioned, strategic investors have the ability to enter into new mega-deals but some may choose to hold off announcing larger deals until the direction of advanced economies becomes clearer. Accordingly, it wouldn't be surprising to see financial investors relatively active in mega-deal announcements in the near term, with a continued focus on shipping and transportation infrastructure.

The global map of transportation and logistics deal activity

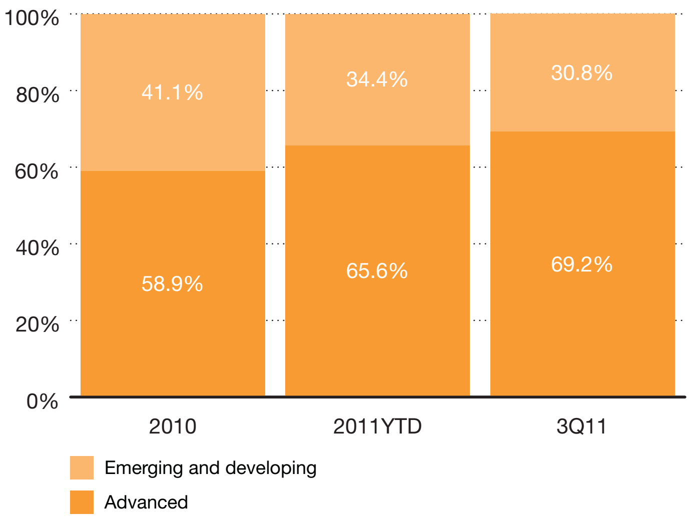
The global map of transportation and logistics deal activity illustrates a strong preference for local-market deals in the third quarter. This proportion of local deals is likely related to the trend of increased strategic investment as financial investors may tend to look for investments with less regard to geography than strategic acquirers. In comparison, strategic acquirers may weigh the consideration of investing further in markets where they have an existing network and could potentially reap synergies with greater certainty.

*Global transportation and logistics M&A activity in 3Q11**

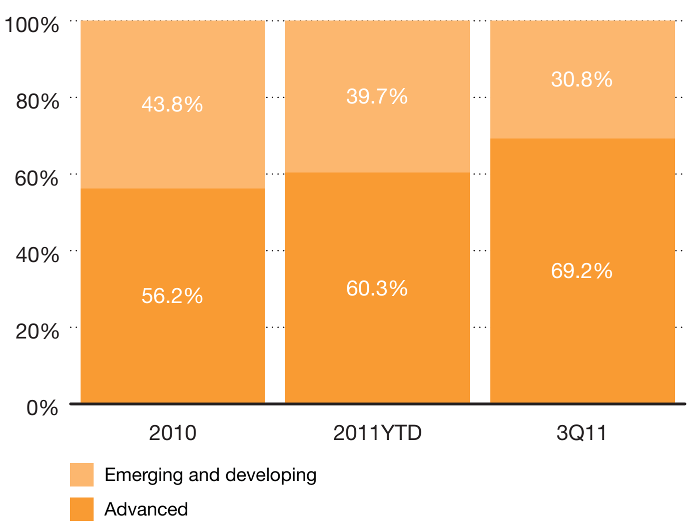
Measured by number and value of deals worth $50 million or more



Acquirers by advanced vs. emerging and developing economies
Measured by number of deals worth $50 million or more



Targets by advanced vs. emerging and developing economies
Measured by number of deals worth $50 million or more



The pace of emerging market activity is down significantly on both an absolute basis and relative to advanced economies. At the same time, activity in the United States and Eurozone has held up remarkably well, despite economic concerns in both geographies. The emerging market slowdown has mostly occurred in non-BRIC markets, with BRIC nations on pace to match recent levels of M&A. However, focusing solely on overall BRIC activity obscures a subtle shift during the third quarter: an increase in local deals has replaced a decline in inbound deals into these BRIC nations. The trends of weakness in emerging market activity and inbound BRIC M&A are likely attributable to a more conservative investment stance on the part of foreign strategic acquirers.

Should emerging market economies, particularly China, successfully engineer a soft landing, it seems likely that total and inbound deals in these nations will increase again, leading to higher M&A totals for the overall sector. Under such a scenario, it also seems likely that acquirers will become more willing to engage in cross-border transactions to take advantage of a broader array of return opportunities.

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 service nearly 300 public and private companies located around the world. Central to the successful delivery of our services 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, and European Logistics Association.

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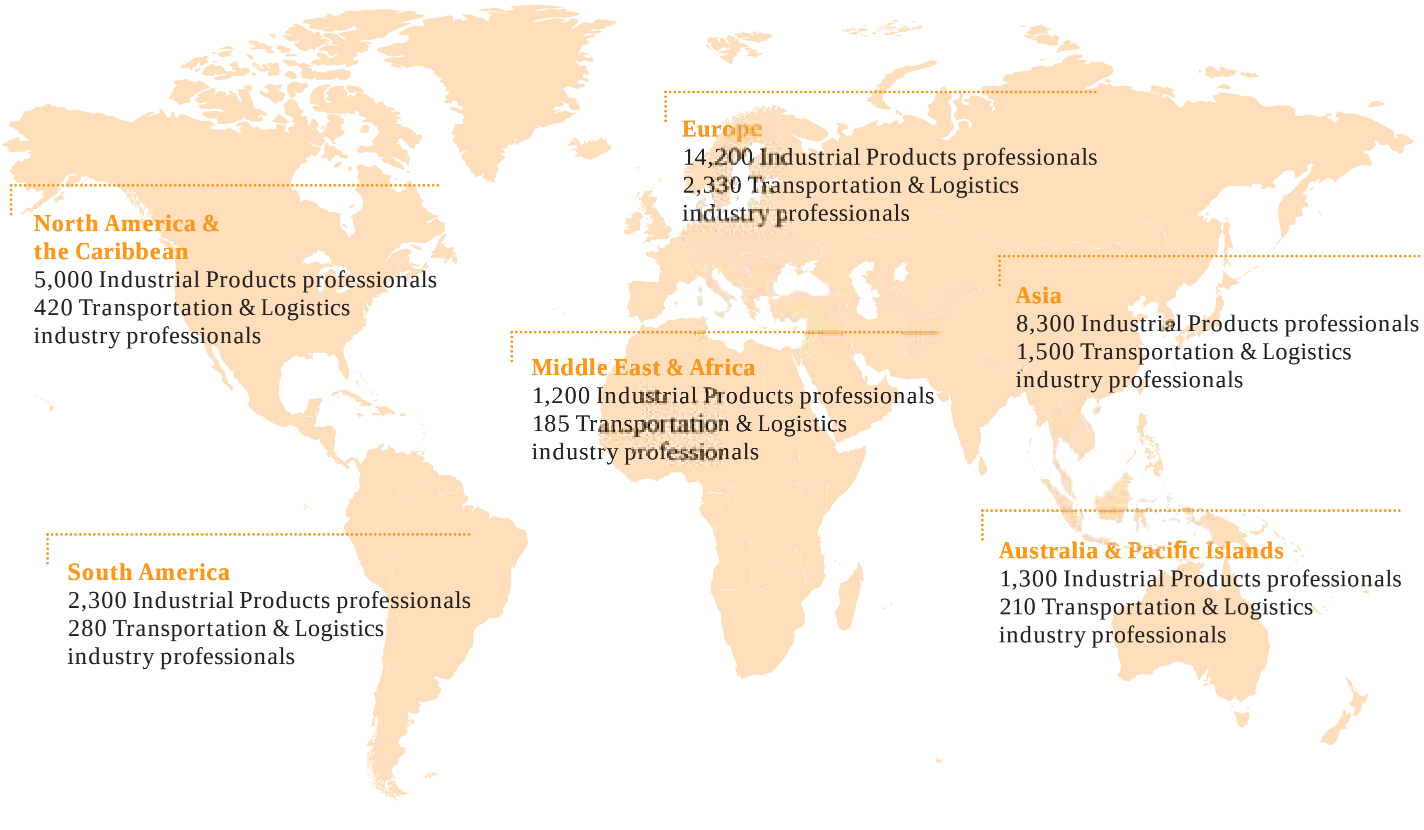
In addition to global transportation and logistics resources, our team is part of a large Industrial Products group that consists of more than 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and knowledge in the most effective and timely way.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North America &
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5,000 Industrial Products professionals
420 Transportation & Logistics
industry professionals
Asia
8,300 Industrial Products professionals
1,500 Transportation & Logistics
industry professionals
Middle East & Africa
1,200 Industrial Products professionals
185 Transportation & Logistics
industry professionals
Australia & Pacific Islands
1,300 Industrial Products professionals
210 Transportation & Logistics
industry professionals
South America
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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; and process, physical distribution, and logistics consulting.

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 October 1, 2008, and September 30, 2011, 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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