Private Equity Market Intelligence 2015

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Transportation Quarterly Report–Q3

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1. Market Overview

- A PwC report tracked 44 deals worth a cumulative $28.8 billion in Q3, down from 63 deals worth $39.4 billion in Q2. The authors remain optimistic regarding 2015 overall, despite declining deal activity in the third quarter. Private equity hit its lowest 2015 third quarter performance since the second quarter of 2013. The report suggests 2015 is on pace to be the sector's most active since 2006, measured by its total deal value of $97.9 billion.
- The report showed there was a significant increase in marine shipping and related services deals, which drove more than a third of the quarter's volume. Trucking also continued to be an active deal-making segment, but the energy "dip" lowered revenues and profits.
- This is in line with a Zacks report showing the transportation sector is headed for a solid Q3 earnings season, lagging only auto. Total earnings from 97.8% of the sector's total market capitalization reported are up 22.5% while revenues declined 1.2%. This is much better than Q2 earnings growth of 9.4% and revenue decline of 1.9% for the same period.
- PwC's report reveals that cross-border expansion continued to be a key driver for many of the deals in Q3, particularly in advanced economies. It also shows that Q3 deals were more concentrated into a few big transactions than in earlier quarters, with six deals representing 63% of the quarter's deal activity, or $18.3 billion.
- That trend was also highlighted in a Law360 article stating the average size of M&A deals in the industry rose slightly to $656 million, indicating that large deals are becoming the "new normal" amid a series of strategic tie-ups and private equity plays.

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2. Major Transactions

- Bank of Montreal bought GE Capital's transportation-finance business operations in a multi-billion-dollar deal (exact amount undisclosed). This follows GE's earlier announcement that it would sell its U.S., Mexico, Australia and New Zealand fleet businesses for $6.9 billion to Canada's Element Financial. The business provides commercial car- and truck-financing and fleet-management services.
- Palladium Equity Partners purchased transportation staffing company TransForce from Argentum. TransForce provides more than 2,500 commercial truck drivers to logistics and transportation companies across 47 branches in 24 states. Its acquisition is the latest addition to Palladium's more than $2 billion in assets.
- UPS bought Warburg Pincus-backed Coyote Logistics, a truckload brokerage firm, in a $1.8 billion deal.
- Blackstone plans to increase its stake in Gateway Rail Freight by converting its shares into equity, bringing its stake in the company to as much as 47%. Indian logistics firm Gateway Distriparks had earlier offered Blackstone more than $90 million for the Gateway Rail stake, which Blackstone turned down.
- M33 Integrated, a third-party logistics firm, was acquired by Transplace, a Texas-based transportation management services and logistics technology company which generates more than $1.6 billion a year in revenue. It is owned by Greenbriar Equity, a transportation industry-focused PE firm with more than $2.5 billion of committed capital.
- A consortium led by Brookfield Asset Management will buy Australian logistics firm Asciano for $6.56 billion to create a global port and rail freight business after Brookfield increased the offer price. The bid gives Asciano an enterprise value of $8.84 billion. The deal will combine Asciano's Australian container terminals with Brookfield's existing assets in North America and Europe.
- KKR raised $3.1 billion for KKR Global Infrastructure Investors II. The fund's predecessor collected $1 billion in 2012. The funds primarily invest in renewable energy, pipelines, utilities and transportation-related assets as investors increasingly look for assets that are undervalued in the energy sector; that provide steady cash flows and a hedge against inflation.
- Levine Leichtman Capital Partners acquired Regional Rail, a Penn.-based operator of short line railroads and rail-related businesses in the U.S, for an undisclosed sum. Regional Rail's subsidiary, Diamondback Signal, provides engineering, construction and maintenance for highway rail crossings in the U.S.

- A consortium of investors agreed to purchase Dutch automobile fleet and leasing company LeasePlan from a Volkswagen joint venture in a deal worth $4.06 billion. The consortium includes U.K. buyout firm TDR Capital and the Merchant Banking Division of Goldman Sachs.
- Platinum Equity-owned American Commercial Lines will acquire AEP River Operations from American Electric Power for about $550 million, giving the river shipping company a barge operator that delivers roughly 45 million tons of products each year.
- New York-based mid-market firm Tailwind Capital sold Re Transportation, a non-asset based provider of third-party logistics services, to Swiss integrated logistics services business Kuehne + Nagel Investment.
- Veritas Capital completed the acquisition of StandardAero from Dubai Aerospace Enterprise in a deal valued at $2.1 billion, marking the third-largest U.S. transportation deal so far this year, according to Dealogic.
- BBA Aviation agreed to buy Carlyle's Landmark Aviation for $2.07 billion to expand in flight services for business and general aviation. The deal is expected to close in early 2016.

3. Disruptive Forces

- Mergers and acquisitions by logistics and transportation companies slowed in Q3 as companies stepped back to evaluate the market after a rush to consolidation over the past year. According to PwC, the pause in deal making indicates that companies are thinking about more than just the price of their targets and capital expenditures.
- PwC's transportation group, said "the industry is facing disruption at the moment, especially in terms of using technology to control transportation." They added that the trend is toward more companies offering a wider array of services to customers, including arranging for transportation and owning and operating trucks, rail freight services and warehouses.
- Some of the nation's largest fleets reported mixed financial results or expectations as the freight environment in Q3 remained soft. Demand in the truckload segment—which is heavily weighted toward refrigerated food items—was impacted by lower than expected poultry, beef and produce freight due to the recent Midwest and West Coast droughts and the bird flu epidemic.

4. Outlook

As more companies make the decision to outsource logistics services and turn to third-party suppliers, efficiencies in scale and geographic reach are expected to become critical drivers of inorganic growth, according to PwC. The firm says that a growing consumer demand as a result of an improving economy and historically low fuel costs are leading to increased freight volume, creating an opportunity for logistics companies to consolidate. T&L companies are expected to continue to divest business operations and shed non-strategic business.

A number of large transactions among the world's largest logistics operators already points to a continued rapid consolidation within the logistics industry.

For example:

- French supply chain operator **Geodis** is acquiring U.S.-based OHL from private equity firm Welsh, Carson, Anderson & Stowe for about $800 million;
- **FedEx** bought **GENCO**, a specialist in logistics for returned merchandise, for $1.4 billion and is attempting a $4.8-billion purchase of **TNT Express**;
- **United Parcel Service** agreed to acquire freight brokerage **Coyote Logistics** for $1.2 billion; and
- **Kuehne & Nagel**, the world's No. 2 freight forwarder, acquired U.S. rail and truck logistics operator **ReTrans**.

According to Reuters, Connecticut-based **XPO Logistics** is leading industry consolidations as it benefits from a rise in the number of trucks available to transport goods, especially given widespread bottlenecks on rail networks:

- XPO, which acts as a broker between shippers and freight companies, has grown to over $3 billion in market capitalization from $173 million in 2011, as it seeks to become a one-stop shop in U.S. transportation logistics. XPO bought **Norbert Dentressangle in a $3.5-billion deal**, making it one of the world's top 10 logistics companies. It then bought U.S.-based **Bridge Terminal Transport for $100 million** to almost triple its drayage capacity, and most recently, it agreed to buy trucking and logistics company **Con-way for $3 billion**, making it the second largest provider of less-than-truckload services in North America.

Elsewhere, record low interest rates have added to the M&A appeal of the logistics sector in Australia, which is already struggling with lower valuations because of a downturn in coal exports.

In India, investment and PE firms are increasingly interested in investing in operational road projects. The trend stems from a new government rule introduced in August making it easier for build-operate-transfer (BOT) road operators to exit operational projects. Consequently, several large infrastructure companies are looking to monetize their assets.