THE M&A OUTLOOK

By Michael S. Galardi

THE LAST FIVE YEARS produced a high, low and then a rebound in merger and acquisition activity in the transportation and logistics markets. The drivers behind these changes will have profound consequences for the structure of the industry and the prospects for further consolidation in coming years.

Fueled by strong earnings, accommodating capital markets, improved earnings multiples, increased competition and a continued desire to grow, companies stepped up mergers and acquisitions between 2006 and the middle of 2008 to strengthen their core offerings or diversify by buying needed assets and capabilities. Strategic and financial buyers were very active during this time, and sellers were delighted to sell at prices that were above average by historical standards.

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But with the economic downturn that spread around the world starting in late 2008, the market for deals quickly dried up. Shipping tonnage plummeted, earnings disappeared, companies hoarded capital and trepidation reigned during late 2008 through 2009. Deals that had been in the works were delayed or scuttled entirely, while others never got off the ground. Prices and multiples declined dramatically.

EVEN WITH POTENTIAL acquisition targets available at attractive prices, buyers were scared by the uncertain outlook for their own and their target's business. And sellers saw dramatic declines in their financial performance, leaving them with limited or no prospects for liquidating their investments at levels they might have expected in an earlier era. Individual owners feared their life savings were seriously threatened. Large losses appeared likely for financial and strategic buyers because of fears about how bad the situation would become, when it might bottom, and when and how much the market would ultimately turn around.

Trucking and supply chain deals, in particular, declined significantly starting in late 2008, while facility deals grew as real estate prices fell and interest rates declined, leaving buyers with cash on hand in strong positions to take on added or new capabilities.

Average deal sizes, excluding mergers and acquisition deals totaling more than $1 billion, peaked in 2007 at $98 million. The average deal size declined 55 percent to $44 million by 2009 before bouncing back 45 percent to $64 million by last year, when the market began showing signs of improvement early in the year.

Capital started flowing as debt costs declined because of the Federal Reserve's intervention, and unemployment at least began to hold steady. As the year progressed, the volume of deals started to increase, with financial buyers leading the way.

It's the financial buyers, rather than strategic buyers, who have maintained the greatest stability in the mergers and acquisitions arena through the downturn and have been at the forefront of the renewed activity.

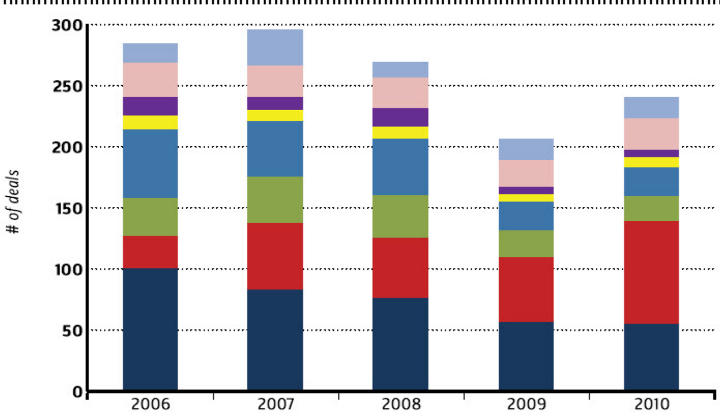
Over time, strategic buyers, who use the purchased company to advance their own business, as opposed to financial buyers, who purchase the company as an investment and expect to resell it at some point, have been the most common (between two and 3 ½ times the deal volume of financial buyers).

But those financial buyers, with better access to capital, have been more stable and opportunistic than strategic buyers. During the recent recession, financial buyers only cut back 22 percent, while strategic buyers reduced deal volume by 33 percent. During 2010, financial buyers were up 39 percent to new highs, while strategic buyers were only up 7 percent.

Because strategic buyers have paid 30 to 40 percent more than financial buyers, it partially explains why average deal size declined in 2008 and 2009 as well as why it started increasing in 2010.

BUT THE LAST three months of 2010 and the early part of 2011 saw a significant increase in large companies involved in deals in the transportation and logistics market —

US TRANSPORTATION M&A ACTIVITY BY CATEGORY



CATEGORY	CONTENTS INCLUDE:
SUPPLY CHAIN OR SOFTWARE SERVICES	Software and forwarding, brokerage, or consulting services or entities bought as piece of supply chain
FACILITIES STORAGE & USE	Individual, warehousing, business or personal storage, and terminal facilities, and related facilities services to support operations
AIR	Freight and passenger airlines or routes, scheduled and non-scheduled including executive jet services, helicopter sup port services, & maintenance services
TRUCK	Intercity or local, generalized or specialized trucking operators, and maintenance
RAIL & INTERMODAL	Short line and main line operators, intermodal operators, passenger and freight operations, and maintenance services
MARINE	Ocean/inland transport, storage, terminals, port operations, stevedoring, and maintenance services
IDENTIFIED OTHER	Moving cos., taxis, limos, ferries, school and commercial busing
ALL OTHER	Relocation, mail, ambulance services, manufacturers, toll operators, and miscellaneous

Source: Capital Alliance

Vitran, Ryder, Dynamex, Crowley, Patriot Rail, Bay Grove Capital and Transport America were among those that made prominent deals, even before the recent announcement of a merger of ProLogis and AMB Property. Most of these recent deals have been by strategic buyers.

The AMB Property - ProLogis combination is a strong example of how the economy has improved enough and the finances of companies have recovered enough to allow logistics and transportation operators to turn their attention to larger strategic imperatives and their place in the market over the longer term.

Although the activity has remained well below the levels of the peak, the outlook looks likely to continue improving. Barring the unforeseen impact of some significant external development — the European debt crisis, a double dip in the U.S. housing market, a significant increase in inflation or rapidly increasing debt costs, for instance — earnings should continue to grow, capital should remain plentiful, and confidence should increase.

In this market, sellers should see more reasonable valuations and financial buyers will look to cash out of old positions and invest in new assets.

Strategic buyers, who largely sat out the last two years, will get back in the game and help raise average deal size and multiples.

THIS YEAR SHOULD be a strong one for mergers and acquisitions in the transportation and logistics markets.

Leverage will increase, but it will not reach the peak of years past in the next year. Multiples could increase as more leverage and confidence is partially offset by rising debt costs. The result will be earnings and cash flow becoming even more important drivers of valuation.

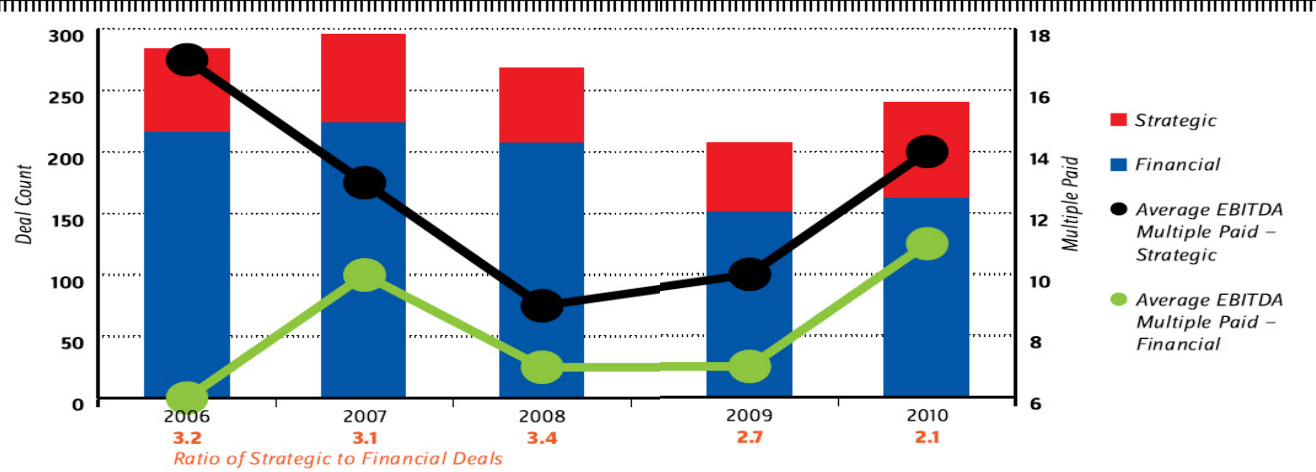
Buyers will look for specialized situations where real economic gains from cost reductions or market expansion are likely. Targeted or niche segments, such as heavy hauling, refrigerated transportation and warehousing, and package services will be viewed more positively than generalized transportation services. Logistical capabilities focused on improving end-to-end efficiency in systems and operating capability are likely to command premiums.

Sellers will likely be influenced by increasing market competitiveness; better prices for exit strategies and concern over potential increases in capital gains, dividends, and estate taxes; regulation; health care costs; and nervousness about a double dip or worse for the economy.

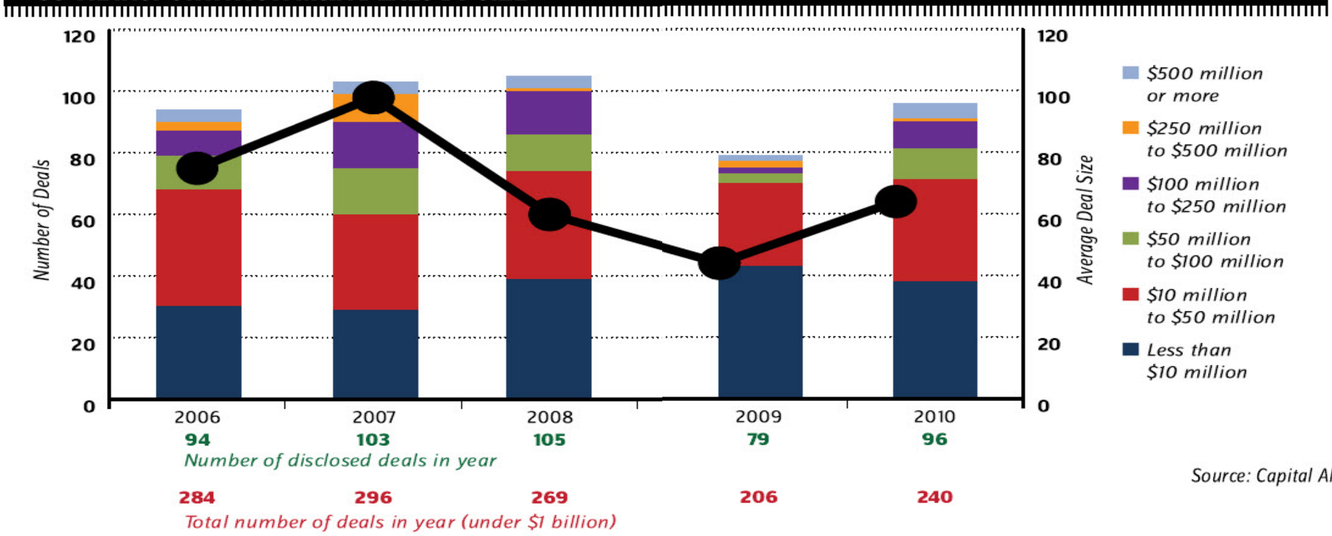
That's why sellers interested in testing the mergers and acquisitions market over the next two years should begin planning now. **JOC**

Michael S. Galardi is senior vice president of Dallas based Capital Alliance. Contact him at 214-382-4448 or at mike.galardi@cadallas.com.

US TRANSPORTATION M&A DEALS BY BUYER TYPE



US TRANSPORTATION M&A DEALS BY SIZE



Source: Capital Alliance