

Transportation and Logistics



Ocean Freight Logistics Update Non-Vessel Operating Common Carriers Continue To Capture Market Share

According to *Journal of Commerce* and its sister company PIERS, Non-Vessel Operating Common Carriers' market share continues to grow within the ocean freight logistics sector. Non-Vessel Operating Common Carriers (NVOCC) are third-party intermediaries, which primarily serve the less-than-container load market. Two of every five trans-Pacific import containers are booked through NVOCCs, instead of directly with container lines. The NVOCC share of trans-Pacific imports from China and other North Asia countries grew from 30 percent in 2006 to 40 percent in 2010. The intermediaries' market share for all U.S. import trades rose from 25 percent to 33 percent, measured in 20-foot equivalents.¹

Like freight forwarding companies, NVOCCs are licensed by the U.S. Federal Maritime Commission to act as Ocean Transportation Intermediaries. However, unlike the agent-principal relationship that freight forwarders establish with their customers, NVOCCs act as ocean freight carriers issuing their own bills of lading and are legally responsible for physical loss or damage to cargo. NVOCCs purchase space aboard vessels from carriers that are subsequently resold to shippers.²

U.S. trade with the rest of the world has grown considerably during the past decade, particularly in the liner shipping sector, and the NVOCC industry has grown even more rapidly. This growth can be attributed to several factors, the most significant growth being attributable to NVOCCs' abilities to facilitate, or make economically feasible, the international transport of relatively

small shipment lots. These small shipment lots would be less likely to move across borders in the ocean freight system.¹

For the larger shipping industry, the growth of the NVOCCs goes along with the expansion of third-party logistics businesses in general, from the intermediaries that book ocean freight capacity, to the brokers increasing reliance on finding truck capacity in U.S. domestic markets.²

NVOCC companies are also proving to be attractive acquisition targets. In 2011, China-based Kerry Logistics Network Limited, a provider of supply chain management and logistics services primarily in Asia, acquired a controlling stake in Shanghai Wisdom Group and Shanghai Huicheng Logistics, for an undisclosed amount. The combined operations of Shanghai Wisdom Group and Shanghai Huicheng Logistics Co., Ltd. operate as an NVOCC and provide sea freight consolidation services. Additionally, Arizona-based Swan & Hercules Global Logistics Co. Ltd., a provider of supply chain management services for customers in the United States and internationally, acquired, GP Logistics, Inc., an operator of a non-vessel operating common carrier and foreign freight forwarder in the United States, for an undisclosed amount. As NVOCCs continue to capture significant market share in the ocean freight logistics markets, companies looking to expand or enter the market will keep NVOCCs on their radar of potential takeover targets.

Container Freight Derivatives Take Shape

Container freight derivatives continue to take shape with the recent development of Container Freight Swap Agreements, which are financial futures contract that allow for hedging and

speculating against the volatility of seaborne, intermodal container box-rates. Container freight derivatives have been developed in the wake of the tremendous market volatility seen over the past few years to allow market participants the ability to manage price risk more efficiently and to allow logistics professionals around the world to concentrate on the service, quality and reliability.³

A container freight swap agreement most commonly takes the form of a cash-settled agreement between two parties with an equal and opposite opinion of the future of the market. The parties agree on a price in \$USD per container for a given number of containers, on an agreed route, during a specified period. At the expiration of the contract the parties settle the difference in cash between the predetermined contract price and the actual spot market price.³

If the market strengthens, and box rates increase, then the buyer of a CFSA (the long position) benefits, since by entering the agreement they have effectively paid less, in advance, for the goods than they would have trading at spot market prices. The buyer of the CFSA has successfully hedged against an increase in cost of the underlying physical market. Conversely, if the market softens, and box rates decrease, the seller of the CFSA benefits since they have effectively sold the goods, in advance, at a higher rate than they would have trading at spot market prices. These agreements are currently available over the counter with clearing at LCH.Clearnet and SGX AsiaClear, against the Shanghai Containerised Freight Index (SCFI).³

In April, TBB Global Logistics, a third-party supply chain management firm, entered into an agreement with ICAP Logistics, a unit of ICAP Energy and interdealer broker and provider of post-trade risk and information services, to become the first U.S. NVOCC to offer CSFAs. According to Sam Polakoff, president and third-generation co-owner of TBB Global Logistics, CSFAs create opportunities for many businesses that were previously unable to take a more active approach to risk management in the ocean container market. Importers with low margin product will find CSFAs as an intriguing methodology to deliver promised bottom line results to company shareholders.⁴

¹ Bonney, Joseph. "NVOs Outpace Vessel Operators". *Journal of Commerce*. July 15, 2011.

² PIERS NVOCC Analysis 2006-2010, June 2011.

³ Clarkson Securities: Container Freight Derivatives, Freight Investor Services: Container Swaps, Container Freight Derivatives Association.

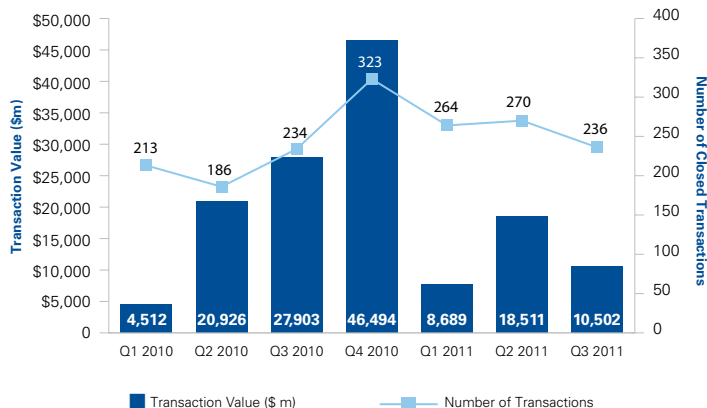
⁴ TBB Global Logistics Press Release. "TBB Global Logistics Partners with ICAP to Become First U.S. NVOCC to Offer Container Freight Swap Agreements" April 20, 2011.

Transportation & Logistics Deal Landscape

Third quarter transaction activity in 2011 decreased in transaction value as well as in transaction volume compared to last quarter. In total, there were 236 announced, closed, or effective transactions worldwide in the global transportation and logistics industry in Q3 2011, which was a slight increase from the 234 transactions in Q3 of 2010 and a significant decrease from the 270 transactions in Q2 of 2011. Deals in which transaction values were released amounted to \$10.5 billion. The average deal size was \$111 million with average enterprise value/revenue and average enterprise value/EBITDA multiples of 0.7x and 9.3x, respectively.⁵

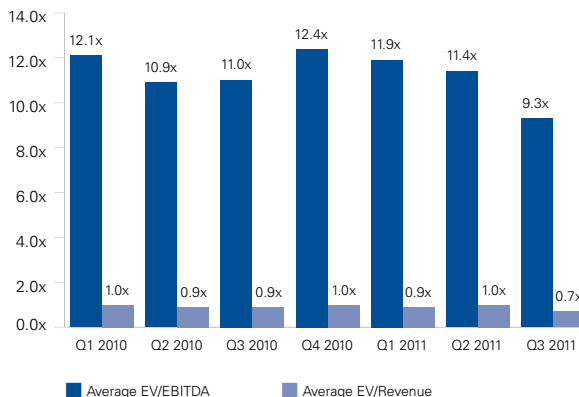
Deal volumes and values continue to remain at depressed levels due to the sluggish economic recovery, Europe's sovereign debt headwinds, and Standard & Poors' U.S. credit rating downgrade. Despite the recent volatility, all indications are that cash rich companies will continue to cautiously search for compelling acquisitions targets to further penetrate existing markets and expand into new ones.

Transportation and Logistics Transaction Volume and Value



Source: Capital IQ and Company Filings, 2011.

Public Comparables Average Enterprise Value to Revenue and EBITDA Multiples



Source: Capital IQ and Company Filings, 2011.

Select Transportation and Logistics M&A Transactions

- September 13, 2011– **National Express Group Plc** (LSE:NEX), a provider of mass passenger transport services in the United Kingdom, North America, and Spain, acquired **Petermann, Ltd.**, a provider of transportation services and MR/DD transportation services to board schools, adult centers, and work sites in Ohio, for \$200 million. The deal implies a valuation multiple of 1.3x revenue and 6.8x EBITDA based on LTM December 2010 results.
- August 22, 2011– **Roadrunner Transportation Systems, Inc.** (NYSE:RRTS), a non-asset-based transportation and logistics service company, acquired **Prime Logistics Corp.**, a provider of logistics and freight consolidation services, inventory management, warehousing, order fulfillment, and related LTL and truckload services, for \$98 million. The deal implies a valuation multiple of 1.4x revenue based on LTM March 2011 results.
- August 15, 2011– **Rhenus AG & Co. KG**, a provider of contract logistics solutions and services for engineering and industrial goods, service equipment and construction materials, automotive goods, pharmaceutical products, consumer goods, and publishers and merchandisers, acquired **Wincanton Plc, The German and French Businesses**, a provider of contract logistics and intermodal transportation services, for \$107 million. The deal implies a valuation multiple of 0.1x revenue and 18.0x EBIT based on LTM March 2011 results.
- August 2, 2011– **TransForce Inc.** (TSX:TFI), a provider of freight transportation and logistics services in Canada and the United States, acquired **Concord Transportation Inc.**, a provider of shipping, warehousing and logistics services across Canada, for \$10 million. The deal implies a valuation multiple of 0.3x revenue based on LTM December 2010 results.
- August 1, 2011– **Genesee & Wyoming Inc.** (NYSE:GWR), which owns and operates short line and regional freight railroads, and provides railcar switching services in the United States, Canada, Australia, the Netherlands, and Belgium, acquired **Arizona Eastern Railway Company**, owner and operator of railroads between Miami to Bowie in Arizona, for \$90 million.
- July 28, 2011– **CJ Corp.** (KOSE:A001040), a provider of entertainment media, home shopping & logistics, traditional food & food service, and pharmaceutical businesses in Korea, acquired **CJ GLS Corporation**, a provider of logistics and supply chain management services, for \$143 million. The deal implies a valuation multiple of 0.3x revenue based on LTM December 2010 results.
- July 28, 2011– **OMERS Private Equity**, a private equity firm specializing in mid-market buyout financing, acquired **V.Group Limited**, a provider of ship management services, for \$520 million.
- July 17, 2011– **The Hertz Corporation**, a provider of the rental and leasing of cars, trucks, and equipment, acquired **Donlen Corporation**, a provider of fleet leasing and management services for corporate fleets, for \$947 million. The deal implies a valuation multiple of 2.7x revenue based on LTM December 2010 results.
- July 26, 2011– **DryShips, Inc.** (NasdaqGS:DRYS), a provider of drybulk carriers and drilling rigs that operate worldwide, acquired **OceanFreight, Inc.** (NasdaqGM:OCNF), a provider of shipping transportation services, for \$212 million. The deal implies a valuation multiple of 3.2x revenue and 7.8x EBITDA based on LTM June 2011 results.

Source: Capital IQ, Company Filings and Press Releases, 2011.

⁵ Capital IQ, Company Press Releases and Filings, 2011.

Select Transportation and Logistics Public Comparables

KPMG Corporate Finance LLC—Transportation and Logistics										
Company	Market Cap ^{1,2}	Px Last ²	52-Week Low	52-Week High	Chg Pct 1m	Chg Pct 3m	Chg Pct 1Yr.	EV ³ /Sales	EV ³ /EBITDA ⁴	EV ³ /EBIT ⁵
Transportation and Logistics										
CH RobinsonWorldwide Inc.	11,291.30	68.47	62.30	82.61	-2.90%	-13.20%	-2.10%	1.1x	15.6x	16.3x
Con-way Inc.	1,229.90	22.13	21.32	42.38	-13.50%	-43.00%	-28.60%	0.3x	4.7x	10.7x
Echo Global Logistics, Inc.	294.6	13.30	9.85	18.53	-5.00%	-25.10%	4.20%	0.5x	12.3x	15.3x
Expeditors International of Washington Inc.	8,600.10	40.55	39.28	57.15	-10.90%	-20.80%	-12.30%	1.2x	11.4x	12.1x
FedEx Corporation	21,469.30	67.68	64.55	98.66	-14.00%	-28.60%	-20.80%	0.5x	4.6x	8.0x
Forward Air Corp.	751.00	25.45	23.70	36.32	-10.40%	-24.70%	-2.10%	1.4x	8.1x	10.5x
Hub Group Inc.	1,059.90	28.27	25.77	40.86	-10.20%	-24.90%	-3.40%	0.5x	11.1x	12.6x
JB Hunt Transport Services Inc.	4,341.70	36.12	33.89	49.12	-10.10%	-23.30%	4.10%	1.2x	8.4x	12.7x
Landstar System Inc.	1,887.70	39.56	35.85	49.66	-2.30%	-14.90%	2.40%	0.8x	10.8x	12.6x
Pacer International Inc.	131.20	3.75	3.40	7.29	-17.00%	-20.60%	-37.90%	0.1x	5.9x	8.1x
Ryder System, Inc.	1,918.00	37.51	37.51	60.38	20.30%	-34.00%	-12.30%	0.9x	4.4x	14.6x
United Parcel Service, Inc.	61,936.80	63.15	60.74	77.00	-6.30%	-13.40%	-5.30%	1.3x	8.4x	10.8x
UTiWorldwide Inc.	1,340.10	13.04	11.94	24.05	-3.70%	-33.80%	-18.90%	0.3x	7.1x	10.4x
YRC Worldwide Inc.	93.60	0.05	0.04	6.54	-93.50%	-95.70%	-99.20%	0.3x	17.7x	NM
Transportation and Logistics Mean					-15.70%	-29.70%	-16.60%	0.7x	9.3x	11.9x
Transportation and Logistics Median					-10.30%	-24.80%	-8.80%	0.7x	8.4x	12.1x

Source: *Capital IQ* and company filings, 2011.

¹ Market Capitalization amounts are in millions, based on closing share prices as of September 30, 2011.

² Market Capitalization and Share Prices are based on foreign exchange listed securities and converted to USD.

³ Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents.

⁴ EBITDA equals Earnings before Interest, Taxes, Depreciation, and Amortization.

⁵ EBIT equals Earnings before Interest and Taxes.

KPMG Corporate Finance LLC We Can Do a Great Deal Together

KPMG Corporate Finance LLC provides a broad range of investment banking and advisory services to its domestic and international clients. Our professionals have the experience and depth of knowledge in global M&A and project finance to advise clients on mergers and acquisitions, sales and divestitures, buyouts, financings, debt advisory, equity recapitalizations, infrastructure project finance, and other advisory initiatives. In addition, we remain independent of financing sources, helping to ensure that our efforts are objective and aligned with the goals of clients.

Operating in 82 countries, KPMG International's member firms' corporate finance practices (KPMG) comprise more than 2,100 professionals who are able to meet the needs of clients across the globe. In 2010, as a leading financial adviser, KPMG completed 269 deals totaling US\$16.5 billion, according to Thomson Reuters SDC's global M&A middle market league tables.

www.kpmgcorporatefinance.com

Contact Us

We welcome the opportunity to meet with you, learn more about your company's objectives, and discuss our people and capabilities.

Stephen Guy
Managing Director
Baltimore
410-949-8909
sguy@kpmg.com

Joe Rodgers
Managing Director
Atlanta
404-222-3278
jrodgers@kpmg.com

Corporate finance services, including Financing, Debt Advisory, and Valuation Services, are not performed by all KPMG member firms and are not offered by member firms in certain jurisdictions due to legal or regulatory constraints. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2011 KPMG Corporate Finance LLC, a Delaware limited liability company, is a member of FINRA and SIPC and is registered as a broker dealer with the SEC. KPMG Corporate Finance LLC is a subsidiary of KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. 25183NSS