M&A in the Transport & Logistics Industry

January–December 2018

pwc

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Highlights

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23% fewer T&L deals in 2018 than the year before

37% of all deals with Chinese involvement

3rd Every third European deal involves a UK company

M&A activity 2018: strong first half-year, weak second half: The first half-year of 2018 was a record period for the T&L industry in terms of deal value ($74.3 billion), while a slight slowdown in the number of deals (127) in comparison with previous half-years could be observed. However, in the second half of 2018 only 92 deals were announced, which is the lowest number in five years. The total deal value also nearly halved in comparison with the first half-year ($41.0 billion). Deal value is mainly driven by megadeals. Intense competition for target properties in combination with investment pressure, especially from institutional investors, has led to a surge in prices for companies or equity interests in the area of infrastructure, railways and airlines, with the result that various transactions were initially discontinued.

Furthermore, global factors, such as uncertainty surrounding the China-US trade dispute – an example of increasing protectionism – weighed on both the logistics and the general transaction markets. Measured by the number of deals announced, 2018 showed a slowdown in deal activity across all industries, but the decline in T&L is particularly strong at –22.6% compared with 2017. T&L-related industries like Retail & Consumer (+0.6%) or Industrial Manufacturing (–7.1%) show a stable level or more moderate decline in M&A activity.

China – Still acting locally, some with a global vision: With a share of 37%, China is the most active country in terms of T&L deals worldwide: 81 out of 219 deals were with Chinese involvement in 2018. Also, China was party to most of the megadeals in 2018 (6 out of 21), predominantly in Logistics & Trucking. China's deal activities developed against the global trend of fewer but larger deals. In China we observed the highest deal number ever, but the lowest deal value ($32.6billion) since 2014. Activities are mostly local as a result of market consolidation and internal restructuring measures. Most Chinese logistics companies are investing in the expansion of their national networks, while regulatory changes and controls hamper cross-border investments. However, some players demonstrate ambitions and strategies to grow internationally.

Europe – Brexit with mixed repercussions: In Europe, the decline in M&A activity was particularly strong at -42%. This is also true for transactions with companies from the United Kingdom. Although the UK experienced a M&A boom over the past few months, the number of T&L deals with UK targets (12) or acquirers (13) has dropped sharply in 2018. Still, companies from the UK are involved in every third European Deal in 2018. We see some, albeit smaller, deals that were driven by the need to strengthen supply chain ties between the UK and continental Europe. However, uncertainty about the conditions of Brexit and reactions from manufacturing and retail companies still seem to keep T&L companies from making M&A decisions.

Highlights

Further results at a glance:

Total deals
- The number of announced transactions (219) is the lowest since 2013
- The total deal value of $115.3 billion is the lowest since 2014

Megadeals
- 21 megadeals (over $1 billion) – nine targets in Europe, six in China/HK, seven infrastructure targets

Regions
- Asia & Pacific surpasses Europe and North America in terms of number of deals and deal value (129 / 57 / 54; $56.7 billion / 48.0 / 19.0)
- Number of deals in Europe 42% below 2017

Financial investors
- Share of financial investors recedes slightly by number and value of deals but is roughly on the same level as in previous years.

Prices
- Prices fall to level of 2012; median value/sales multiple is 1.8
- Prices for infrastructure assets (ports, airports and toll roads) still significantly higher than ten-year average

Subsectors
- With a share of 42% Logistics & Trucking is again the most active sector: 91 deals with a value of $28.4 billion

Outlook for 2019: Our outlook for future deal activity is relatively optimistic. After the weak second half of 2018, M&A activity in T&L is expected to pick up during 2019. Investors continue to have huge funds available for acquisitions. The industry is in a state of cut-throat competition to the detriment of margins, impairing companies' ability to make bold investments to streamline and digitise their businesses. This may lead to further industry consolidation. China will likely continue to dominate the scene with most acquisitions driven by local restructuring and consolidation. However, increased deal activity along the Silk Road and in Europe can be expected, should the economic situation in China improve. Furthermore, the reduced level of deal activity in Europe could pick up in 2019. The potentiality of a hard Brexit might reshuffle international supply chains and consequently become a driver for new transactions in Transport & Logistics in Europe.

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M&A activity 2018:

strong first half-year, weak second half

M&A activity slowed down in 2018

	2014	2015	2016			2017			2018		
	Total	**Total**	H1	H2	Total	H1	H2	Total	H1	H2	Total
Number of deals	229	239	107	130	237	146	137	283	127	92	219
Total value of deals ($bn)	89.1	183.8	68.7	51.3	120.0	62.9	71.3	134.2	74.3	41.0	115.3
Ø Transaction value ($m)	389.0	769.2	642.0	394.3	506.1	430.7	520.4	474.1	584.7	446.0	526.4

M&A activity 2018: strong first half-year, weak second half

After the record year 2017 with 283 deals, M&A activity slowed down in 2018, with the number of deals declining to only 219. Although the total value of announced deals in H1/2018 ($74.3 billion) reached the record level of H2/2017 and surpasses any other half year since the record high in H2/2015, the much lower activity in H2/2018 (92 deals) caused a significant downturn in total deal value in 2018. Still, the average transaction value remains high at $115.3 billion.

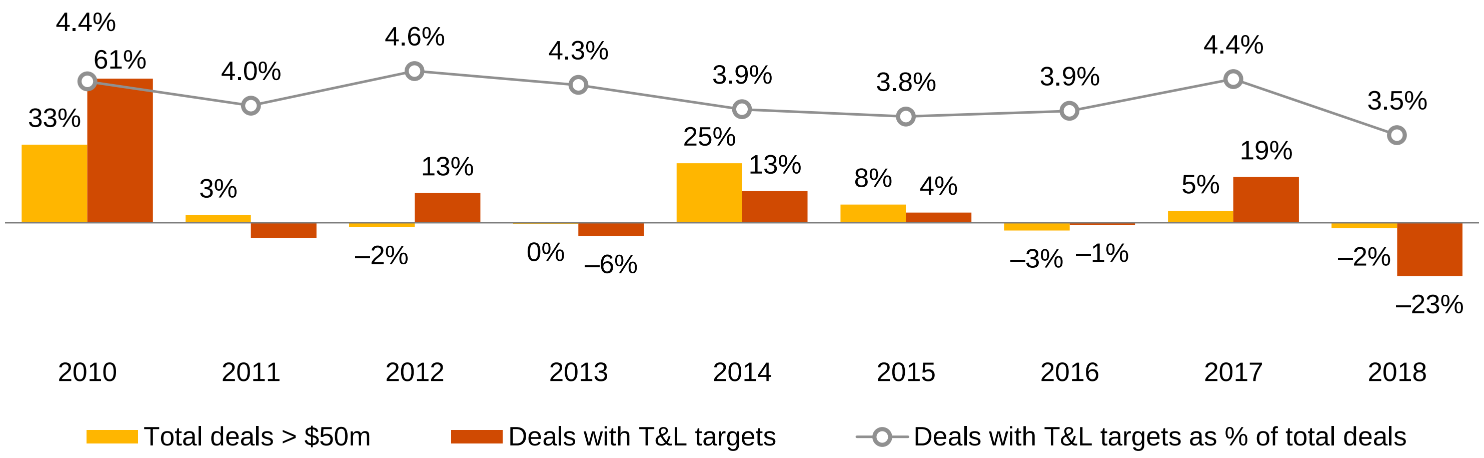
This has been caused by several individual factors. The intense bidding competition in combination with investment pressure, especially from institutional investors, has driven up prices for companies or equity interests in the infrastructure, railways and airlines segments. Strategic investors are holding back and financial investors are having problems finding suitable takeover targets on attractive terms.

In the light of these developments they are more cautious as general uncertainty lingers as the escalating US-China trade tensions slow down M&A transactions and investors put transactions on hold. Private equity buyers and business owners are beginning to discuss the impact from the US trade tariffs and their negotiations are increasingly touching on how to split the additional tariff cost in their purchase price multiple discussion.

Source for all evaluations: PwC analysis based on Thomson Reuters M&A data; information updated from previous versions; generally deals starting from a volume of $50 million were evaluated

T&L affected more strongly than other industries

Year-on-year change in global number of deals with a deal value of $50 million or more (including the share of T&L targets)



T&L affected stronger than other industries

In line with the overall market, M&A activity in T&L receded in 2018, albeit on a larger scale than in other sectors: The number of announced deals with T&L targets dropped 23% compared with the previous year. The share of M&A deals with T&L targets in total global M&A activity across all industries dropped to the lowest level of the last ten years. Consequently, other industries appear to overtake T&L in deals activity.

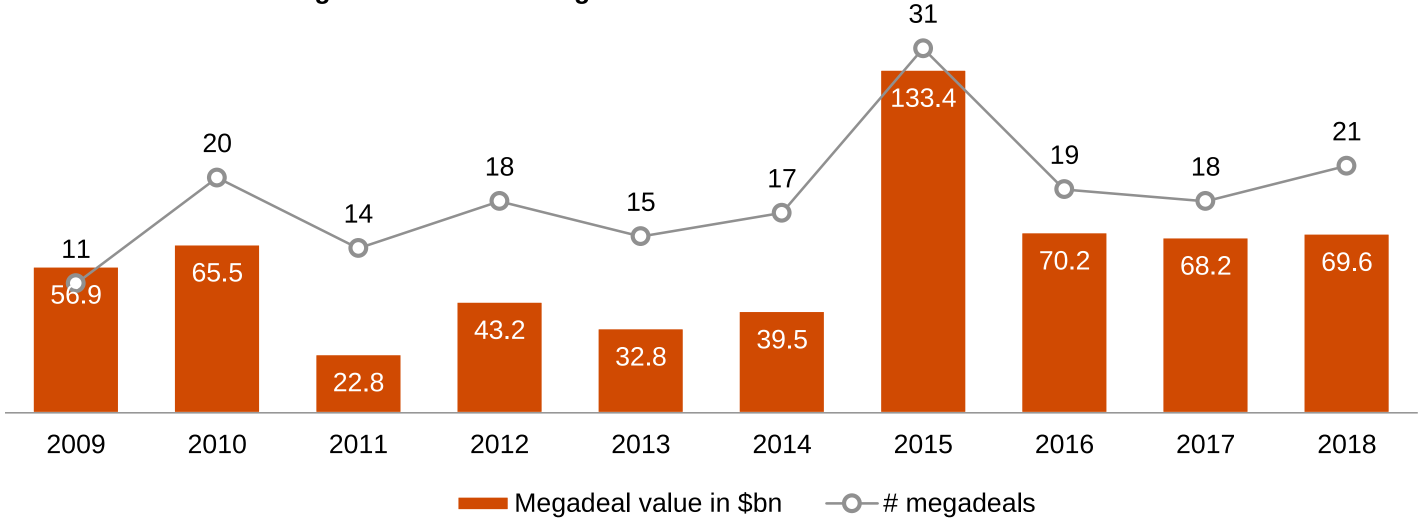
T&L-related industries like Retail & Consumer (+0.6%) or Industrial Manufacturing (–7.1%) show a stable level or moderate decline in M&A activity. Nonetheless, both number and value of megadeals within the T&L sector remain stable on a high level. In Industrial Manufacturing in particular, deal makers appear to be affected by the uncertainty surrounding the future of global trade relations following the steps taken by the US administration to impose tariffs on certain goods in 2018.

Source for all evaluations: PwC analysis based on Thomson Reuters M&A data; information updated from previous versions; generally deals starting from a volume of$50million were evaluated.

21 megadeals: fewer but larger deals

Megadeals = deals with a volume starting from $1 billion

Number and value of megadeals with T&L targets



T&L megadeals – more or less stable

Overall, we see a trend towards fewer but larger deals, with the number of megadeals (21) surpassing the previous year's level of 18 such deals. As a consequence, the average transaction value in the first half of 2018 also exceeds the value of the previous two years. More than 60% of these deals see financial investors or investor groups as buyers, while strategic investors appear to limit themselves to smaller transactions. 6 out of the 21 megadeals were with Chinese involvement.

In the second half of 2018, only 8 new megadeals came up in all subsectors. The biggest one was the Australian passenger ground sector: WestConnex Motorway was acquired by a financial investor for $6.75 billion in August. The second biggest new deal is in the Japanese passenger air segment: whether the operating concession of Fukuoka Airport will be acquired for $3.99 billion is still pending. Another interesting pending deal is China Eastern Airlines' sale of 12.9% of its shares to an investor group for $2.24 billion. Just before year-end, the takeover of a 50.01% stake in Gatwick Airport by France's Vinci for more than $4.1 billion made it to the list of megadeals.

Megadeals in 2018

Announce-ment	Target	Target nation	Buyer	Buyer nation	Deal status	Deal vol. (in $bn)	Sector
Mar 18	Abertis Infraestructuras SA	ES	Abertis Infraestructuras SA SPV (50% Atlantia SpA, 30% ACS, 20% Hochtief)	ES	Completed	22.53	Passenger Ground
Aug 18	WestConnex Motorway	AU	Investor Group	AU	Completed	6.75	Passenger Ground
Jun 18	China Merchants Port Holding	HK	Shenzhen Chiwan Wharf Holdings Ltd.	CN	Pending	4.28	Shipping
Dec 18	Gatwick Airport Ltd. (50.01%)	UK	Vinci Airports SAS	FR	Pending	4.13	Passenger Air
May 18	Operating Concession of Fukuoka Airport	JP	Fukuoka International Airport Co Ltd.	JP	Pending	3.99	Passenger Air
Mar 18	4 Phil-Airport Concessions	PH	Aboitiz InfraCapital Inc	PH	Intended	2.85	Passenger Air
Feb 18	Beijing Jingbangda Trade Co	CN	Investor Group	CN	Pending	2.50	Logistics/Trucking
Feb 18	Italo SpA	IT	Global Infrastructure Partners	US	Completed	2.45	Rail
Jul 18	China Eastern Airlines (12.9%)	CN	Investor Group	CN	Pending	2.24	Passenger air
Dec 18	Travelport Worldwide	UK	Travelport Worldwide SPV	UK	Pending	2.09	Other
Apr 18	Man Bang Grp	CN	Investor Group (financial investors and subsidiaries of Softbank and Google	CN	Completed	1.90	Logistics/Trucking
Dec 18	GrainCorp Ltd.	AU	Long-Term Asset Partners Pty Ltd.	AU	Pending	1.74	Logistics/Trucking
Nov 18	Capital Product Partners Tanker Business	US	DSS Holdings LP (Diamond S)	US	Pending	1.65	Shipping
Feb 18	Shenzhen Chiwan Wharf Holding	CN	Investor Group (Subsidiaries of state-owned China Merchants Group)	CN	Completed	1.48	Shipping
Jun 18	Worldwide Flight Services	FR	Cerberus Capital Management LP	US	Pending	1.39	Passenger Air
May 18	ZTO Express (10% Stake)	CN	Alibaba Group/Cianiao (Alibaba Logistics Unit	CN	Pending	1.38	Logistics/Trucking
Mar 18	Scandlines GmbH	DE	Group of Financial Investors	UK	Pending	1.36	Shipping
Jul 18	Simply Self Storage – 2 REITS	US	NSA HHF JV LLC	US	Pending	1.33	Logistics/ Trucking
Mar 18	Aero 1 Global & International Sarl*	LUX	Atlantia SpA	IT	Pending	1.30	Rail
Apr 18	UN Ro-Ro Isletmeleri AS	TR	DFDS A/S	DK	Completed	1.17	Shipping
Oct 18	Ceva Logistics AG	CH	CMA CGM SA	FR	Pending	1.11	Logistics/ Trucking

Megadeals = deals with a volume starting from $1 billion

* Aero 1 is a Luxembourg-based investment vehicle that holds Goldman Sachs Infrastructure Partners' 15.49% stake in Getlink SE, which controls the two Channel Tunnel Concessionaires and Europorte SAS, a French rail freight transport company.

Regional distribution of deals

North America	No. of deals	Vol. ($bn)	Ø Deal
Local	30	10.0	0.33
Inbound	9	2.7	0.30
Outbound	15	6.3	0.42
Total	54	19.0	0.35

South America			
Local	3	0.6	0.19
Inbound	5	1.0	0.20
Outbound	0	0.0	–
Total	8	1.6	0.20

Africa/unknown			
Local	1	0.1	0.10
Inbound	0	0.0	–
Outbound	7	1.2	0.18
Total	8	1.3	0.17

Europe			
Local	40	41.3	1.03
Inbound	9	5.5	0.61
Outbound	8	1.2	0.15
Total	57	48.0	0.84

Asia & Pacific			
Local	108	51.9	0.48
Inbound	14	2.2	0.16
Outbound	7	2.6	0.37
Total	129	56.7	0.44

In 2018, Asia & Pacific was once again the number one region in terms of number of deals and deal value, even though there was a significant decrease of around 22% compared with 2017. China accounts for the majority of these transactions, including the six megadeals with Chinese targets and buyers. In the first six months of 2018, Europe was ahead in terms of deal value, mainly because of the Abertis deal announcement. In this report, we will examine China and Europe in more detail, with a focus on the UK and Germany.

Local = Target and buyer in the region
Inbound = Target in the region, but buyer outside the region
Outbound = Target outside the region, but buyer in the region

An inbound deal in one region is also an outbound deal in another. Inbound / outbound deals are, therefore, recorded twice in the list.

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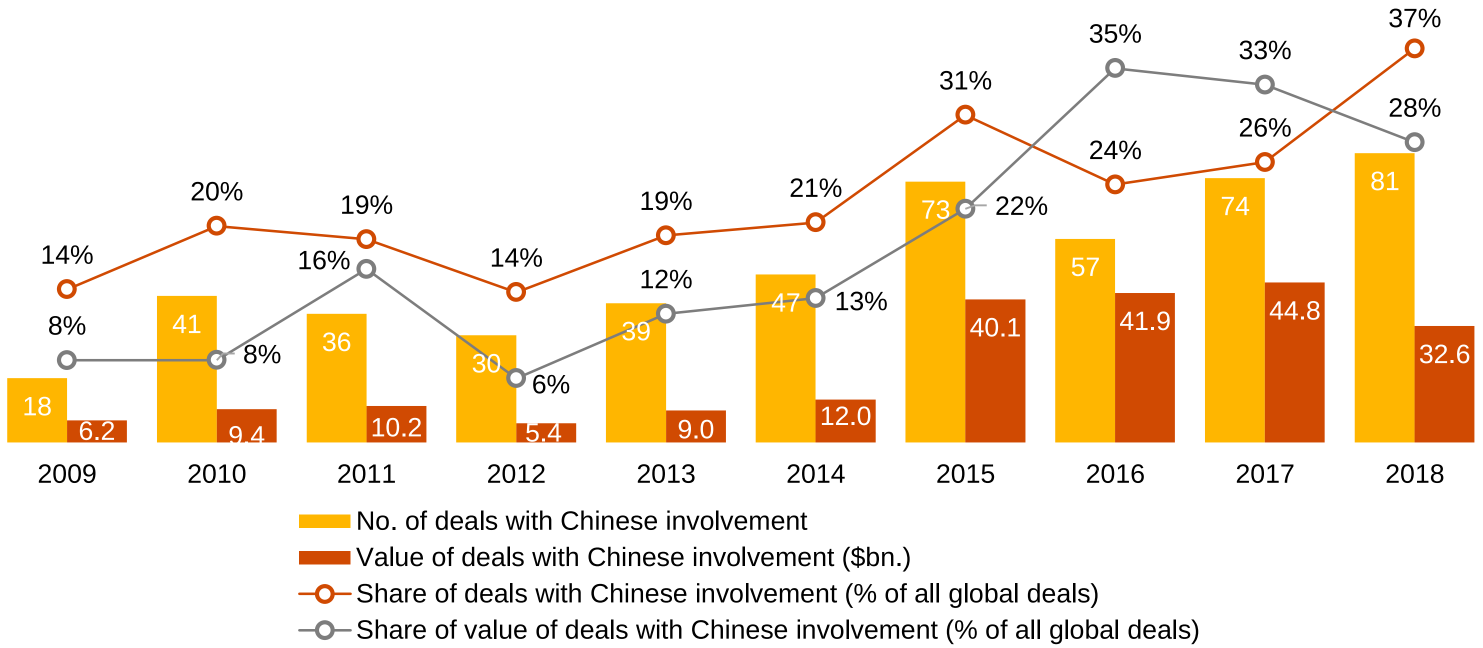
China:

still acting locally, some with a global vision

China – a major player in Asia & Pacific

Deals with Chinese involvement from 2009 to 2018 (deals with a volume greater than $50m)



1/3 of all deals in 2018 with Chinese involvement

China has been the major Asian player when it comes to deals in the T&L industry. Since 2014, more than 20% of all deals were with Chinese involvement and this stake has increased to 37% in 2018. The number of Chinese deals has been stable at a high level since 2015. 2018 shows the highest number of Chinese deals in the last ten years (81). These deals are driven by the even stronger need to invest in the logistics market, increase capacities, or reduce costs. Main drivers are also the pressure to consolidate, restructure internally or generate additional assets to handle the pressure coming from the rising e-commerce.

However, total deal value fell by $12.2 billion (total $32.6 billion) in 2018 after three years of an almost unchanged deal value of more than $40 billion. The general downward trend is hitting China too; however, only in terms of deal value.

China – local industry restructuring and consolidation

Local = Target and buyer in the region
Inbound = Target in the region, but buyer outside the region
Outbound = Target outside the region, but buyer in the region

Financial investors become more active

Financial investors play an increasingly important role in China. In 2018, 42 deals were from strategic investors and 39 from financial investors. The latter also include investor groups on the buyside, which often involve both financial and strategic investors. In China, however, these groups nowadays often include subsidiaries of state-owned enterprises (SOEs), since the government has put a focus on structural reforms of the SOE sector. A significant share of Chinese local deals, regardless of investor type, can be attributed to restructurings of SOEs.

The two largest deals with financial investors involve a partial investment of the China Structural Reform Fund, a special purpose fund set up by Chinese government in 2017 to accelerate reforms with 31 SOEs that were selected for the third round of SOE mixed ownership reform, aiming to bring more private capital into the state sector. The fund is fuelled by $15 billion jointly invested by a number of SOEs and private companies. It aims to invest in mixed-ownership reform and the restructuring of central and local government-controlled enterprises. This fund participated in several Chinese megadeals this year. One example is the privately negotiated transaction in the second half of 2018, where it agreed to acquire a 12.9% stake in China Eastern Airlines for $2.4 billion in cash in cooperation with Juneyao Airlines. The investment was meant to establish a strategic partnership between China Eastern Airlines and Juneyao and was followed by China Eastern Airlines announcement to buy a minority stake in Juneyao in November. In the short term we expect the ongoing wave of restructuring among SOEs to continue, also leading to more divestments.

China – M&A activity still mainly local

Chinese market develops counter cyclical

The record number of Chinese deals (81) and the increasing percentage (37%) of all deals globally becomes even more noteworthy if we consider the drop in total deal value. This development is in opposition to the global trend of fewer, more expensive deals. Reasons for the decrease in deal value (but not in deal number) might be the pressure on the Chinese T&L market due to the slowdown of the local economic growth, which makes it more difficult to get funding for acquisitions. Furthermore the depreciation of the RMB since 2017 reduced the deal value in terms of US Dollars.

China	Number of deals	Value of deals (in $bn)	Ø deal value (in $m)
Local	74	31.3	420
Inbound	4	1.1	280
Outbound	3	0.2	60
Total	**81**	**32.6**	**400**

Chinese deals are still mainly local

Most deals are local – this includes megadeals and smaller deals. Some regulatory changes are part of the cause: China's government published an Overseas Direct Investment (ODI) guideline in August 2017, which has been effective since 1 March 2018. The purpose of this guideline is to exert tighter control over ODI flows to stem speculative investment and stabilise the weakening RMB. This is also to prevent financially stricken Chinese companies from making big deals abroad. Besides that, China's government has tightened foreign exchange control to avoid outflow of state assets, which has caused difficulties for Chinese buyers in making foreign acquisitions.

Also, some investors may put transactions on hold in light of the uncertainty and insecurity which has come with tensions in US-China trade. Since 2017, Chinese investors have experienced increasing concern from Western governments regarding inbound acquisitions from China. Some European countries are considering increased scrutiny of Chinese M&A, and the scrutiny will focus on certain key infrastructure, technology and defence industries.

China – e-commerce drives M&A in Logistics & Trucking

Quantity and total value of the deals (in $ bn) with a volume greater than $50 million

The growing e-commerce drives strong Logistics & Trucking sector

In line with the global situation, Logistics & Trucking is the dominant sector in China with a share of 38% (31 of 81 deals). The main drivers are the high growth in domestic e-commerce and resource integration of diversified holding companies, which are drivers for many local deals. In the first half year of 2018, big Chinese e-commerce players invested in expanding their logistics capacities (e.g. Alibaba's investment in ZTO Logistics or JD.com's funding of its logistic unit Beijing Jingbangda Trade Co.). This trend is still pushing acquisitions in the second half. In August an investor group composed of JD.com and Walmart acquired an undisclosed minority stake in Shanghai Qusheng Network Technology Co., Ltd., a Shanghai-based provider of specialised freight trucking services, for $500 million. At the same time, some domestic companies are facing cash flow issues to meet debt repayment, hence selling off some of their shares (Jingde Changyun Logistics Park Co., Ltd).

Expanding intra-Asian networks first – Hong Kong the gateway

Others use intra-Asian networks to slowly realise their global ambitions. One prominent example is Cainiao Smart Logistics Network, which will take a 51% stake in the $1.53 billion joint venture in Hong Kong, while the state-owned China National Aviation Corp (Group) will have 35% and the courier company YTO Express 14%. Also state-owned companies are interesting in Hong Kong as a gateway: an investor group consisting of a unit of the Chinese state-owned State Development & Investment Corp. and a unit of the Chinese state-owned Silk Road Fund acquired a 15.1% stake in Orient Overseas (International). The Wanchai-based provider of long-distance freight trucking services was acquired for $947 million. Shipping capacities in Hong Kong are also expanding, as can be deduced from the following pending deal announced in September 2018: Sinotrans Shipping (Holdings) Ltd., owned by the Chinese state-owned China Merchants Group Ltd., plans to acquire the remaining 31% stake, which it did not already own, in the Hong Kong-based provider of deep sea freight transportation services Sinotrans Shipping Ltd.

China – outbound M&A still moderate

Ambitions to become a global leader

When it comes to investing in Europe, big players seem cautious and are focussing on smaller initiatives or using Western companies operating in China. SF Logistics, which invested in a strategic deal to take over the supply chain business of Deutsche Post DHL in China in October 2018, is one example. For approximately $700 million, a ten-year strategic partnership for contract logistics operations in China was started in order to grow supply chain operations in China and enable the company to realise its ambition to become an international logistic service provider. The company also funded Flexport with $100 million. This strategic partnership allows Flexport to expand its operations in China and around the world. At the same time, SF Express can expand its international influence through Flexport's network. However, like most companies it is still focussing on China.

China – still a challenging market to develop

Due to strong national logistics champions, China is a difficult territory for international players. Only some invest in China's logistics industry, because they do not want to miss out on the potential coming from the growth in e-commerce, a rising middle class and infrastructure build-out. One example of a non-logistics investor is the German insurer Allianz's investment arm Allianz Real Estate, which acquired a 50% interest in a portfolio of core modern logistics assets across China. But also the Canadian Reinsurance Carriers Fairfax Financial Holdings Ltd. wants to capitalise on Hong Kong's gateway position. It acquired warrants convertible into a 23% stake in Seaspan Corp., a provider of deep-sea freight transportation services. We expect the Chinese T&L industry to remain an attractive investment market for foreign investors, especially since it has been announced that the current foreign investment restrictions in areas including Energy, Resources, Infrastructure, Transportation, Commerce & Logistics, and Professional Services will be loosened or scrapped soon.

New Silk Road might raise new investments

In the course of the Belt and Road initiative, new investments were promised to countries along the new Silk Road, such as Poland. Chinese companies are investing less than they used to. The rationale may be that the Silk Road has not developed as quickly as they expected because Chinese regulations for FDI were restricted recently. However, after China recovers from the economic slowdown, European countries along the Silk Road may benefit from the aim to grow internationally. Furthermore, the current trade tensions between China and the US will make European countries even more interesting for Chinese investors.

4

Europe:

Brexit with mixed repercussions

Europe – reduced deal activity

Europe	Number of deals	Value of deals (in $bn)	Ø deal value (in $m)
Local	40	41.3	1030
Inbound	9	5.5	610
Outbound	8	1.2	150
Total	**57**	**48.0**	**840**

High transaction volume though fewer deals announced

Europe is ranked second behind Asia, measured by the number of deals, and also has the second highest transaction volume at a total of $48 billion. This is largely due to the high proportion of megadeals with European participants. These megadeals also ensure that the average transaction value of deals with European participants is far higher than in any other region. At the same time, the number of deals with European participants (57) has dropped significantly by -42%. The trend towards fewer, but larger deals resembles the situation in the European M&A market across all industries, where a rebound in megadeals combined with a slowdown in the number of deals announced indicates that companies are attempting fewer but bigger takeovers. One of the reasons for this development may be that decision-makers face the end of the loose monetary policy, with the ECB signalling to end its quantitative easing programme this year, which may lead to an interest rate hike, potentially making it harder to secure financing for larger transactions in the coming years.

Largest acquisition announcements in Spain, UK and Italy

Two of the top three largest deals in Europe were announced in the first half of the year: the biggest deal in European T&L deal history so far, the takeover of the Spanish Abertis Infraestructuras SA by a consortium of Atlantia, ACS and Hochtief, and the acquisition of the Italian railway company Italo SpA by Global Infrastructure Partners. The third deal, and the largest European deal announced in the second half of 2018, was the takeover of a 50.01% stake in Gatwick Airport by France’s Vinci for more than $4.1 billion. The deal fits into Vinci’s strategic push into the airport market since its takeover of ten Portuguese airports in 2013, the acquisition of the operating concession of Serbian state-owned Belgrade Nikola Tesla Airport in January 2018 for $603 million and the purchase of the airport management portfolio of Airports Worldwide for an undisclosed sum in April 2018. Upon completion of the deal, Gatwick, the UK’s second largest airport, will become by far the biggest airport in Vinci’s portfolio.

Europe – Brexit with mixed repercussions

Number of Deals	2014	2015	2016	2017	2018
Target UK	21	19	14	19	12
Acquirer UK	24	15	13	16	13
Target UK % of all deals	9.2	7.9	5.9	6.7	5.5
Acquirer UK % of all deals	10.5	6.3	5.5	5.7	5.9
All deals	**229**	**239**	**237**	**283**	**219**

Brexit with mixed repercussions

The UK is still the country with the strongest M&A activity in Europe. While political uncertainty normally leads to a less favourable environment for M&A activities, the consequences of the forthcoming Brexit for T&L deals in Europe are twofold. On the one hand, there are players who are staying on the sideline until there is more clarity regarding the terms of the UK's departure from the EU. As a consequence, the number of T&L deals with UK targets (12) or acquirers (13) has dropped sharply in 2018. Since the Brexit referendum in 2016, the share of deals with UK targets or acquirers as percentage of all global T&L deals has been consistently below the levels of 2014 and 2015.

On the other hand, the UK has experienced an M&A boom since the referendum and, regarding T&L, deals with UK companies involved still make up 33% of the European deal count. In fact, the takeover of a 50.01% stake of Gatwick Airport by France's Vinci has been facilitated by the prospect of Brexit. Additionally, we are seeing some UK-based logistics companies, especially in the area of supply chain solutions, acquiring targets within the EU to make sure that they still have a foothold on the continent to strengthen their offering to and from the UK – even in the event of a 'no-deal' Brexit. One example of this is the acquisition of Continental Cargo Carriers in Belgium by UK's Europa Worldwide Ltd. This rationale is also working the other way around, with some international supply chain players adding capabilities in the UK at the moment. A case in point is the recent takeover of ConneXion World Cargo by AIT Worldwide Logistics. Announcing the acquisition, AIT's CEO said that one of the reasons for the acquisition was that it will help mitigate any uncertainty their customers with business in the UK may have with respect to the forthcoming Brexit milestones.

Brexit – future deal driver?

Further developments will largely depend on the outcome of Brexit negotiations and are difficult to predict. A 'no-deal' Brexit may cause significant supply chain disruption and additional uncertainty. But a positive impact on deal activity seems likely, as expectations on smooth supply chain processes and end-to-end delivery capability will put pressure on logistics companies in both the UK and Continental Europe while a possible devaluation of the British Pound will make M&A targets in the UK more attractive for foreign investors.

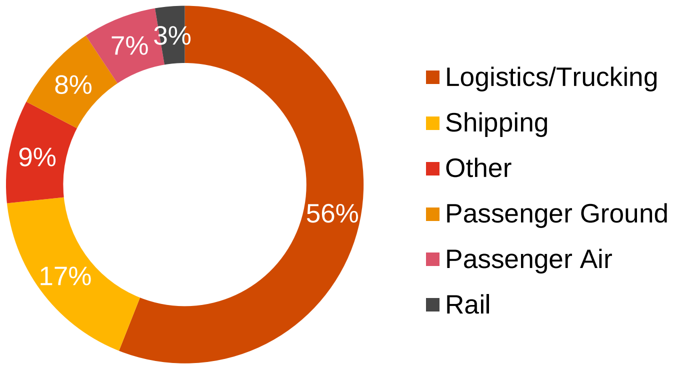
Basically, logistics service providers may consider having a presence and building contingency stocks on either side of the new border. Acquiring other companies for this purpose would be a big step, though, which most players shy away from given the still existing uncertainties. However, Brexit has the potential to cause shifts of supply chains and relocation of sites which may lead to M&A activity in transport and logistics.

Results

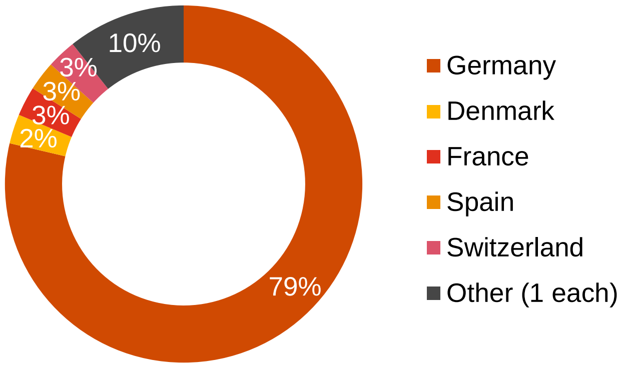
Europe – Germany less active than before

All deals were counted, regardless of the deal volume (also < $50 million).

Distribution of deals with German participation by sector



Distribution of deals with German participation by origin of the target



Two megadeals with German participants

In Germany, the upturn in M&A activity perceived in the previous year did not continue in 2018. A total of 75 deals were announced in which German companies were involved – about 23% less than the total for 2017 (97 deals, 2016: 91). Transaction values were specified for only 13 deals, of which 7 had a transaction value over $50 million.

Apart from Hochtief's participation in the Abertis bidder group, the largest transactions in the year were the acquisition of a 65% stake in ferry operator Scandlines GmbH by two financial investors from 3i Group for $1.37 billion and Rethmann Group's takeover of the 30% stake previously held by Veolia in Transdev for nearly $395 million. The largest German infrastructure asset-related transaction of the year happened in the airport sector, where Fraport sold its 30% stake in Airport Hannover Langenhagen to iCON Flughafen GmbH, a UK-backed financial investor for around $126 million.

International deals slightly outweigh local deals, where both the buyer and the target come from Germany: 36 of the 75 deals with German participants are so-called 'local' deals. For 23 inbound deals, the sale of German companies or individual assets in Germany to foreign investors was announced. Conversely, German investors announced 16 acquisitions of targets abroad.

The Logistics & Trucking sector was the focus of investors. 42 of the 75 announced deals with German participation had a target from this sector; the second highest M&A announcements (13) were related to targets in the shipping sector.

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Analysis of M&A activity by sector and investor type

T&L sectors – Logistics & Trucking again dominating

All deals Total value (in $bn)	1H2016 No. of deals	1H2016 Total value	2H2016 No. of deals	2H2016 Total value	1H2017 No. of deals	1H2017 Total value	2H2017 No. of deals	2H2017 Total value	1H2018 No. of deals	1H2018 Total value	2H2018 No. of deals	2H2018 Total value
Passenger Air	12	6.4	24	8.1	21	9.3	21	9.7	24	13.6	14	9.1
Passenger Ground	22	5.1	18	7.1	19	5.4	16	29.1	16	27.3	20	11.1
Rail	3	0.4	10	2.1	5	4.4	4	0.7	3	3.8	1	0.4
Logistics/Trucking	36	38.9	43	12.9	55	29.7	48	17.0	52	14.6	39	13.9
Shipping	28	16.4	27	18.6	44	12.6	34	10.9	28	13.8	15	5.7
Other	6	1.5	8	2.4	2	1.6	14	3.8	4	1.1	3	0.8
Total	107	68.7	130	51.3	146	62.9	137	71.3	127	74.3	92	41.0

During 2018, transactions with targets in Logistics & Trucking dominated T&L M&A activity, making up 41% of all announced transactions in the industry and 23% of total deal value. Also, 6 of the 21 megadeals announced involve targets in this sector. In line with previous years, Rail has been the sector with the lowest number of transactions, although the sector had a fair share of total deal value in the first half of 2018 owing to the fact that two of the three deals in the sector were megadeals.

Only 40 of the total 219 transactions were deals with infrastructure-related targets, significantly below the previous five years in which on average every fourth deal was infrastructure-related. The total value of the 40 deals, however, accounts for nearly half of the total deal value in 2018.

… thereof infrastructure Total value (in $bn)	1H2016 No. of deals	1H2016 Total value	2H2016 No. of deals	2H2016 Total value	1H2017 No. of deals	1H2017 Total value	2H2017 No. of deals	2H2017 Total value	1H2018 No. of deals	1H2018 Total value	2H2018 No. of deals	2H2018 Total value
Infrastructure Airports	4	0.8	9	3.2	13	4.7	6	2.4	8	8.7	3	4.3
Infrastructure Road	17	4.5	13	6.0	18	6.1	12	27.4	8	25.5	9	9.1
Infrastructure Ports	11	11.5	10	9.3	16	6.7	19	5.6	6	6.7	6	0.8
Total (infrastructure)	32	16.8	32	18.5	47	17.5	37	35.3	22	41.0	18	14.2

Number and total value of the deals (in $bn) from a volume of $50 million. Infrastructure-related deals can come from Passenger Air, Passenger Ground or Shipping.

Sector analysis

Shipping

Following a strong first half-year, the number of deals in shipping dropped significantly. After some larger and smaller transactions over the last two years, companies are now engaged in integrating the companies they acquired. Strategic acquisitions in the liner shipping business, in particular, have been completed. These companies are now focused on improving the alliance operations with other parties and are cooperating with each other in non-profit initiatives to define standards for managing the challenges of accelerating digitisation in the industry and in the logistics chain. Nevertheless, some logistics service providers (LSPs) seem to be quite active in looking for new targets and areas to invest in, even outside their original field of activity. While the interest of DSV in logistics service provider Ceva has been fended off by majority owner CMA CGM, the GP World takeover of Unifeeder may indicate that LSPs are looking for targets in short sea transport to add additional capabilities to their service offering.

In contrast to the liner segment, the consolidation wave in the tanker business has yet to emerge in full force. The $1.65 billion merger of Diamond S Shipping with Capital Product Partners announced in November may be a starting point, as it will not only create a consolidated fleet of 68 tankers but will also give Diamond S access to capital markets. The deal activity in the ship financing business may cause changes in the ownership structures of companies and vessels and that could lead to increased deal activity in 2019.

Logistics & Trucking

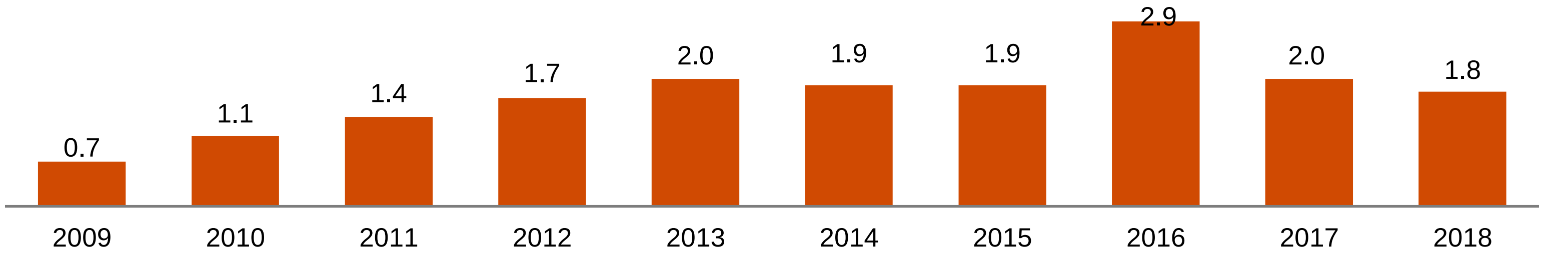
For this sector, similar effects apply as for the shipping industry. The North American trucking market is currently characterised by high company valuations. This makes big acquisitions relatively pricy and reduces the economies of scale effect for strategic investors. Furthermore, a strong labour market in the US makes it more expensive to hire qualified drivers. The highly fragmented European M&A market has been affected by political uncertainties with regard to Brexit. Owing to the risk of a no-deal Brexit, corporate valuations currently appear too high. In the second half of 2018, the Swiss market became active. Kühne + Nagel acquired Quick International Courier, a New York-based global market leader in time-critical transportation and logistics solutions globally. Ceva Logistics raised $1.2 billion in an offering of new shares that saw the French shipping company CMA CGM Group taking a roughly 25% stake.

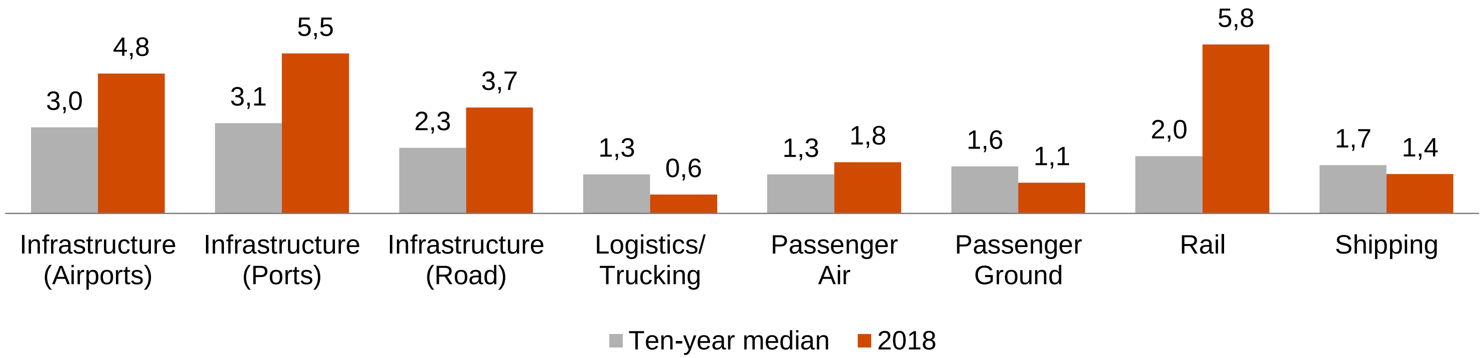
Rail

The number of transactions in Rail has been in consistent decline since 2016. However, considering the high proportion of state-owned companies within the rail sector and the asset-heavy nature of the industry, higher volatility in the number of deals and deal values comes as no surprise. So, although we have seen only four deals in the Rail sector in 2018, their total deal value amounts to more than $4.4 billion, with the takeover of Nuovo Trasporto Viaggiatori (NTV) through infrastructure funds manager GIP being the largest transaction.

Prices for T&L targets dropped slightly

Median of the value/sales multiples* (deals with a volume greater than $50 million)





Prices more or less constant

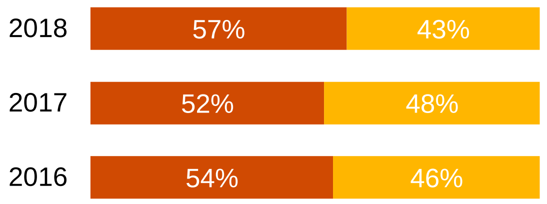
During 2018, we have seen prices for T&L targets returning to the level of 2012–2015 with the median value/sales multiple declining to 1.8. Prices for infrastructure assets (ports, airports and toll roads) and railway companies, however, are still significantly higher than the ten-year average: owing to intense bidding competition, especially in Passenger Air, Passenger Ground and Rail, as well as a lot of funds being available on the market, company valuations in these markets rose to a relatively high level over the last 12 months.

On the buyside, financial investors tend to pay higher multiples than strategic investors when acquiring T&L targets. Nonetheless, in 2018 the median value/sales multiple paid by financial investors was 1.3 (2017: 3.2) while that of strategic investors was 2.2 (2017: 1.8).

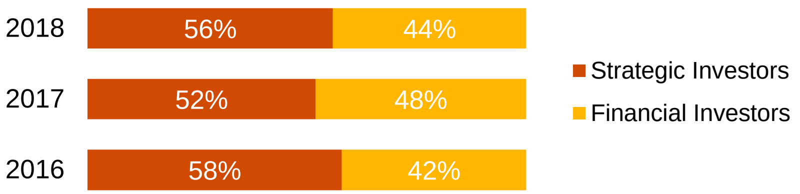
* The transactions multiple specifies the relationship between the company valuation (purchase price) and the annual turnover.

Financial investors

Distribution of the number of deals by type of investor



Distribution of the value of deals by type of investor



Activity of financial investors in line with previous years

In 2018, financial investors had a share of 43% of the total number of M&A deals, which is slightly below the levels of the preceding years. The total value of these deals is around $75 billion (strategic investors: $40.1 billion).

In 13 out of 21 mega deals with a combined deal value of about US$ 32 billion, financial investors are situated on the bidding side. The largest of these transactions was the takeover of a 51 percent stake in the Australian toll road network WestConnex by a consortium including the Canadian pension fund CPPIB, the Australian pension fund AustralianSuper and Abu Dhabi’s Tawreed Investments as well as the Australian toll road operator Transurban. Financial investors are particularly involved in deals within the Logistics & Trucking sector, mainly investing in logistics properties (16) and trucking companies (18).

Number and total value of deals with participation of financial investors

	2016		2017		2018	
Total value (in $bn)	No. of deals	Total value	No. of deals	Total value	No. of deals	Total value
Passenger Air	15	6.5	20	10.2	15	12.9
Passenger Ground	20	5.4	20	8.9	14	10.0
Rail	8	2.1	3	1.5	3	2.9
Logistics/Trucking	47	13.9	56	30.0	45	17.7
Shipping	19	22.3	28	9.8	14	6.4
Other	2	1.3	10	3.6	4	1.4
Total	**111**	**51.4**	**137**	**64.0**	**95**	**51.3**

Investor Groups are counted as Financial Investors, as Financial Investors normally play a leading role in these groups.

6

Outlook for 2019

Outlook for 2019

More deal activity expected in the coming months

Investors continue to have huge funds available for acquisitions. The cash positions of the top 500 Transport & Logistics companies have been rising with a compound annual growth rate of about six percent on average since 2013. So even in the event of a hike in interest rates during 2019 maybe in consequence of the ECB's decision to end its bond buying program, strategic buyers will still have the means to finance acquisitions. The industry is experiencing cut-throat competition to the detriment of margins, impairing companies' ability to make bold investments to streamline and digitise their businesses. Gross profit per transported unit has been under pressure as shipping companies and new players are also pushing their way onto the market. Anyone who plays to economies of scale in this environment profits, with major players finding it easier to finance such investments. Owing to a big pipeline of possible deals, higher activity is expected in the coming months. In the medium term we may see further consolidation in Logistics & Trucking and Shipping as the tanker business catches up with the consolidation wave that has already restructured the liner business.

Countries along the Silk Road might benefit from China's ambition to grow

China will continue to dominate in international deal comparison, with most acquisitions driven by local restructuring and consolidation. Owing to the political priority of the Belt and Road initiative, it is likely that, after an easing of the economic situation in China, more Chinese companies will be returning to their initial investment plans in countries along the Silk Road. It is already happening in ocean shipping and the next may be freight forwarding. Europe will be more attractive for Chinese investors owing to trade tensions with the US. We also expect that there will be an increasing number of private Chinese enterprises acquiring overseas companies; these may be faster and more agile than state-owned Chinese enterprises.

Brexit the next deal driver?

Furthermore, the lower deal activity in Europe may change in 2019. Brexit could be a deal catalyst or an obstacle for both British and non-British companies. Some are expecting 2019 to be the weakest year for the British economy since the financial crisis. However, activity in 2018 shows that international investors still seem to find investable targets in the UK. Possible further depreciation of the British pound may even make locally well-positioned targets more attractive for investors from outside the UK. Additionally, the need to adapt supply-chain ties with the UK to post-Brexit conditions may be a short-term deal driver. We expect Brexit to have a positive impact on cross-border deal activity. The potentiality of a hard Brexit has already motivated some British companies to look for investment targets in mainland Europe to increase their European footprint.

7

Methodology

Methodology

This report is an analysis of the global transaction activities in the Transport & Logistics industry.

The analysis covers all mergers, acquisitions, sales, leveraged buyouts, privatisations and the acquisition of minority interests with a transaction volume greater than $50 million. All announcements between 1 January 2018 and 31 December 2018 have been considered. Project transactions, such as public-private partnerships – which are more common than corporate transactions, especially in the field of infrastructure – are outside its scope.

The data for the analysis are derived from Thomson Reuters and include all announced deals where the target company stems from one of the NAICS industries listed below. Historical data is continuously updated.

All transactions whose status at the time of the analysis was 'completed', 'not yet completed because of antitrust approval procedures', 'unconditional' (buyer-side conditions have been met but the deal has not yet been completed) or 'withdrawn' have been included.

Sectors and assigned NAICS industries

Passenger Air: Scheduled passenger air transportation; non-scheduled chartered passenger air transportation; air traffic control; other airport operations; other support activities for air transportation

Passenger Ground: Highway, street, and bridge construction; all other specialty trade contractors; commuter rail systems; bus and other motor vehicle transit systems; other urban transit systems; inter-urban and rural bus transportation; taxi service; limousine service; school and employee bus transportation; charter bus industry; special needs transportation; all other transit and ground passenger transportation; other support activities for road transportation

Rail: Line-haul railroads; short-line railroads; support activities for rail transportation

Logistics: Gas distribution; freight transportation arrangement; packing and crating; all other support activities for transportation; postal service; couriers; local messengers and local delivery; general warehousing and storage; refrigerated warehousing and storage; farm product warehousing and storage; other warehousing and storage; process, physical distribution and logistics consulting services

Trucking: General freight trucking, local; general freight trucking, long distance, truckload; general freight trucking, long distance, less than truckload; used household and office goods moving; specialised freight (except used goods) trucking, local; specialised freight (except for used goods) trucking, long distance

Shipping: Deep sea freight transportation; deep sea passenger transportation; coastal and great lakes freight transportation; coastal and great lakes passenger transportation; inland water freight transportation; inland water passenger transportation; port and harbour operations; marine cargo handling; navigational services to shipping; other support activities for water transportation; regulation and administration of transportation programmes

Other: Scheduled freight air transportation; non-scheduled chartered freight air transportation; other non-scheduled air transportation; mixed mode transit systems; commercial air, rail and water transportation equipment rental and leasing; passenger car rental; passenger car leasing; truck, utility trailer and RV rental and leasing

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