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Logistics Players Land Rich M&A Valuations

Sector Banker Sounds Off on Deal Landscape for Transportation Providers

Deals for North American transportation and logistics players should continue seeing double-digit multiples as the number of attractive takeout candidates dwindle.

So noted Edward McGuire, managing director with BMO Capital Markets in an interview with Mergers & Acquisitions Report, adding that certain logistics businesses and other transportation companies that require low capital reinvestment are often seeing multiples in excess of 10 times EBITDA. But, he said, companies that are asset intensive, like trucking companies that must routinely reinvest into their fleets are seeing between four times and seven times EBITDA.

While M&A has kept strong among small private trucking companies, multiples have stalled out in the mid single digits (See M&AR, 4/23/07). With gas prices rising, McGuire noted that railroad transportation is 30% more fuel efficient than trucking. "Trucks are faster, but there is a balancing act," he said.

While already heavily consolidated, the railroad sector has seen a lot of M&A activity this year with multiples well into the double digits. McGuire said Canadian National Railway Co.'s (CNR) recent takeout of Elgin, Joliet & Eastern Railway (EJE) Co. is a good example of a strategic acquiror "working the market," while private equity players are sidelined by troubles in the debt market.

On Sept. 26, CNR agreed to acquire EJE from Transtar Inc., a subsidiary of United States Steel Corp. for $300 million, or 15 times EBITDA.

An industry analyst said he was not surprised to see multiples in the teens. In the case of EJE, he said CNR paid at the high end of the range but remarked there are not a lot of opportunities like this.

Other railroad deals this year that have garnered strong multiples include Canadian Pacific Railway Ltd.'s Sept. 4 acquisition of Dakota, Minnesota & Eastern Railroad Corp (DME) for $1.48 billion, or 12 times EBITDA, and Fortress Investment Group's $677 million takeout of RailAmerica Inc. at 11 times EBITDA on Feb. 14.

McGuire said railway companies are looking for long-term buys with unique aspects that cannot be replaced. DME, for example, secured Canadian Pacific's position in the Midwest where it competes against Union Pacific Corp.

The analyst did say that Transtar, the MERGERS & ACQUISITIONS REPORT U.S. Steel subsidiary, still owns several railways including the Birmingham Southern Railroad and the Union Railroad Company.

A spokesman for Pittsburgh-based U.S. Steel declined to comment on divestitures or multiples.

McGuire also didn't rule out private equity interest in the transportation space. He said there as been a flurry of interest in inland marine transportation from private equity firms, which have been conducting research on the space. There have been no big public transactions, but McGuire said he is expecting investments and M&A. "Private equity firms won't go away. They are just becoming more selective," he said.

Two large inland water players include: $2.5 billion market cap Kirby Corp. and $1.2 billion market cap American Commercial Lines Inc.

McGuire expects middle market transportation deals valued between $100 million and $500 million to keep on trucking.—E.L.