

# Transportation & Logistics M&A Market Update<sup>©</sup>

Addressing the M&A Needs of Transportation and Logistics Professionals

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The McLean Group  
Transportation &  
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## About Us:

The McLean Group is a national investment bank serving middle market businesses. For more information, visit [www.mcleanllc.com](http://www.mcleanllc.com).

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## Industry Brief

During the past six months, Marine M&A in the US and Canada –across shipping, energy services and vessel-related sectors – experienced the same uncertainties found in the broader North American and global economies. The US Army Corps of Engineers Waterborne Commerce Statistics Center reported that on our inland waterways, movements of coal and petroleum products rose 6% and 8% respectively through September 2011 (as reflected in several transactions highlighted below). Meanwhile, long-haul tanker market overcapacity led to the first mothballing of a new-build tanker since the 1980s. Gulf Coast drilling began to recover, encouraging hopes of greater stability in the offshore services sector, though most deal activity remained confined to oil & gas assets as opposed to the marine sector itself.

Meanwhile, shipbuilding and repair transactions were dominated by a few top-tier Navy contractors and an array of smaller marine products and services deals characteristic of the US and Canadian markets rounded out the sector.

## Energy Market Deals

US and Canadian marine market M&A activities remained focused on the energy sector. **Kirby Corporation (KEX)**, the publicly-traded Houston liquid barge company, continued to augment its organic growth via acquisition, as stable refinery output, heavy fuel oil exports and the promise of increased shale oil production bolstered company earnings. Last spring, we discussed Kirby's acquisition of K-Sea Transportation Partners and the Enterprise Marine liquid barge fleet. More recently, Kirby acquired engine, transmission and oilfield equipment provider **United Holdings** for \$270 million. In a smaller deal, Kirby paid \$4 million for 51% of **Kinder Morgan Petcoke's** Houston barge shifting operation and fleeting facility.

**Genesis Energy LP** is another Houston company actively growing its barge fleet. Following its 2010 takeover of DG Marine's inland, Genesis acquired **Florida Marine Transporters' (FMT)** black oil transportation business for \$141 million, thereby gaining 30 double-hulled barges (average age: 3 years) and significantly increasing its integrated midstream business. In other barge news, **Alter Barge Line**— after more than 50 years in the business – sold its fleet of inland barges and tow vessels to the Cargo Carriers business of **Cargill** and **Marquette Transportation**. Alter, which will retain its terminal and recycling operations, plans to launch a new company, Alter Logistics, to offer supply chain and logistics consulting.

## *Energy Market Deals (continued)*

In the drilling support sector, **Crosby Tugs LLC** acquired **Delta Towing's** assets of from Hercules Offshore for \$30 million to diversify its offshore operations fleet. As for offshore service vessel deals, **Odyssea Marine** acquired the assets of **Gulf Fleet Management** in a bankruptcy auction. The Gulf Coast market will be one to watch as drilling returns to normal levels and new deep water deposits are developed. Furthermore, offshore wind power could spawn additional service vessel market activity if government support builds for large US projects.

## *Ports and Terminals*

Energy concerns continued jockeying for strategic positions for coal, petroleum and petrochemical transport along US and Canadian waterways. Foresight Energy/Cline Group affiliate **Raven Energy** acquired **Canadian National Railway's** IC RailMarine Terminal on the east bank of the Mississippi in Convent, LA for \$73 million. The terminal enables Raven to transfer liquid and bulk commodities among rail, barge and ship. The company intends to double the facility's coal exports to 8 million tons annually, and possibly double exports again should market conditions permit.

To expand its North American tank terminal business, US-based private equity firm **Lindsay Goldberg** invested \$247 million to acquire a 49% interest in each of Norway's **Odfjell** Rotterdam- and Houston-based tank terminals as well as in a greenfield project in Charleston, SC. **Enviva LP**— which supplies biomass energy in the form of wood pellets, primarily for export to European industrial and power generation customers — acquired a deep water port in Chesapeake, VA from **Giant Cement Company**.

Terminal acquisitions were not confined to the energy markets, however, as **Impala Warehousing LLC**, a division of Trafigura Beheer BV, acquired **Ormet Corporation's** Burnside, LA bulk terminal for \$28 million. Trafigura will relaunch terminal operations and provide terminal services to Ormet's alumina refinery while investing more than \$100 million to establish a state-of-the-art bulk terminal for coal, bauxite and alumina. Finally, APL purchased 43 acres of land in Joliet, IL for the Chicago Global Gateway intermodal terminal project to be completed by yearend 2011.

## *Vessel Construction and Repair*

Two large transactions dominated financial news in the shipbuilding sector recently. After exploring its strategic alternatives (and citing a lack of synergy with core businesses), **Northrup Grumman** spun off its shipbuilding business, folding Newport News (VA) and Ingalls (Pascagoula, MS) shipyards to existing shareholders as the newly-formed **Huntington Ingalls Industries, Inc. (HII)**. Meanwhile, **General Dynamics** expanded its shipbuilding presence with the September 2011 announcement of its intent to acquire **Metro Machine Corp.**, a private ship repair facility in Norfolk, VA. Though few terms were released, it was reported that Metro Machine's ESOP would receive \$148 million after payment of debt and other obligations. The acquisition supplements General Dynamics' East Coast shipyards in Bath, ME and Groton, CT.

On a smaller scale, **Arc Lite Power** acquired **Knight and Carver** shipyard in San Diego for \$30 million. A pioneer in hybrid, energy-efficient vessel designs, Arc Lite will transform the facility into the world's first global hybrid super yacht conversion and certification center while continuing to conventional marine construction and maintenance services. In other deal news, Baltimore-based **Ellicott Dredges** acquired the shares and certain assets of **Rohr Bagger GMBH**, manufacturers of automated floating clamshell and bucket ladder dredge systems for the sand & gravel and aggregate industries.

## Marine Products and Services

<b>JF Lehman &amp; Company</b> acquired <b>US Joiner LLC and Turnbull LLC</b> (together, US Joiner) the leading independent domestic provider of turnkey marine joiner and furniture solutions for US government and commercial customers.
<b>NetWave Systems BV</b> acquired the Voyage Data Recorder (VDR) division of <b>Rutter Inc.</b> , a public company headquartered in St. John's (Canada). Following a transition period, NetWave will manufacture this product line from its European manufacturing locations.
<b>Setcom Corporation</b> acquired <b>Piratecom</b> , the foremost producer of communications systems for marine vessels, accelerating Setcom's expansion in the specialty vehicle business.
<b>Nord-Lock</b> of Sweden acquired US company <b>Superbolt</b> for its industrial and offshore critical bolting products.
<b>Blackball Ferry</b> acquired <b>Victoria Express</b> , adding the ferry service's link between Victoria, BC on Vancouver Island with Port Angeles, WA on the Olympic Peninsula.
<b>Intercruises Shoreside and Port Services</b> acquired three <b>Transportation Management Services (TMS)</b> companies that provide port agency, ground handling, and tour programs to all major North American cruise lines.
<b>Weeks Marine</b> acquired Canada's <b>McNally Marine</b> to strengthen its presence in North America's tunnelling industry while establishing a significant Canadian presence.
<b>Canadian Groupe Techsol Marine</b> was acquired by <b>Imtech NV</b> of the Netherlands for its Canadian growth potential and its portfolio of new-build, refit and maintenance capabilities.
<b>Revere Supply</b> of Jacksonville, FL, sold its commercial marine business to <b>The Survitec Group</b> of Northern Ireland which thereby expanded its marine survival equipment offerings and US presence.
<b>Rapp Marine Group</b> acquired Seattle-based <b>Hydra Pro</b> for its local crane manufacturing capabilities.
<b>Patterson Manufacturing</b> of Pittsburgh, PA, acquired Texas-based deck fitting manufacturer <b>Blackburn Marine</b> , adding Blackburn's low-profile winches to its offerings.
<b>Natilus International Holding Corp</b> acquired <b>Suderman Contracting Stevedores</b> , adding to its subsidiary holdings in terminal ops, agency, logistics and risk management while gaining entry to the US Gulf Coast.

## Looking Forward

In a broad sense, global M&A activity in the Transportation and Logistics sector remained strong through the first half of 2011, led by shipping and terminal deals. Financial leverage and liquidity have returned to more normal levels, but the global economic outlook continues to be clouded by financial troubles in the developed world, particularly in the Euro Zone. That said, of the 60 T&L executives in 30 countries surveyed for PwC's 14th Annual Global CEO Survey, 40% said they planned to complete a merger or an acquisition this year.

More to the point, the maritime sector in North America is likely to see continued deal activity. According to Brent Dibner, president of Dibner Maritime Associates, a major shift is underway in US marine transport markets. "The past 20 years for the US-flag fleets focused on new builds to meet customer needs in return for initial long-term charters. Fleets of coastal and inland barges, deepwater supply and support vessels, and azimuth docking tugs are now essentially adequate to meet requirements. Further consolidation in the marine industry will occur, while new companies will be created by newcomers and incumbent management teams." But Dibner foresees strategic challenges for managers: "Great care will be required in the future and capital outlays will be more closely linked to replacement of older capacity. Owners and potential entrants must pay greater attention to long term demand trends and utilization."

The current mix of uncertainty and cautious optimism sets the stage for an interesting period of strategic maneuvering.

<sup>i</sup> Price Waterhouse Coopers Intersections, Second Quarter 2011 Transportation and Logistics Industry Mergers and Acquisitions Analysis, pg 5.

## About the Author

Harry Ward, Director at The McLean Group's Hampton Roads, VA office, has more than 20 years' executive management and start-up experience in middle market maritime, distribution and technology companies. He has worked closely with owners in a range of industries, opening new markets and implementing value enhancement strategies in preparation for company acquisitions.

In southeast Virginia, Mr. Ward focuses on the development of custom exit strategies for owners of government contracting, logistics and transportation companies.

A US Naval Academy graduate, Mr. Ward served as a US Navy helicopter pilot and survival instructor. He earned an MBA in finance from San Diego State University.

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## About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence and business valuation services. Headquartered in the Washington, DC metropolitan region's technology, communications and government contracting corridor, the firm is among the top middle market investment banks in the nation.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from \$5 million to \$250 million to support clients' expansions, mergers & acquisitions (M&A), refinancings, recapitalizations, leveraged buyouts and shareholder liquidity objectives.
- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, which provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.

## The McLean Group Transportation & Logistics Practice

The McLean Group's Transportation & Logistics practice provides broad transaction know-how to a wide range of clients in this multi-faceted industry. We have a history of working with such top logistics companies as Roadway, Excel Logistics and Logisticon. Our bankers' international network of contacts enables us to remain current with international industry trends.

### Transportation

- \* Air, Ocean & Surface Freight Forwarding
- \* Maritime Shipping
- \* Trucking
- \* Rail

### Logistics

- \* Air, Ocean & Surface Freight Forwarding
- \* Distribution & Fulfillment
- \* Third-Party Logistics (3PL)
- \* Technology