

SURFACE & DOMESTIC TRANSPORTATION

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By William B. Cassidy

VITRAN HEADS SOUTH

Purchase of Milan Express signals stronger LTL trucking market

CANADIAN TRUCKING OPERATOR Vitran is trying to redraw North America's less-than-truckload map, and its own expansion strategy, by acquiring the LTL business of Milan Express.

Although terms of the transaction were not disclosed, the acquisition is undoubtedly the biggest buyout in LTL trucking since the start of the recession. The deal, which is expected to add about \$70 million to Vitran's annual revenue, extends the Canadian trucker's next-day and second-day LTL network from Canada to the Florida state line.

It restarts an expansion suspended during the recession and signals confidence in an economic recovery reflected in stronger than expected December volume at LTL and truckload carriers and a surge in acquisitions and mergers.

In mid-January alone, truckload carrier Transport America bought Southern Cal Transport, Greatwide Logistics Services purchased Overton Transportation, and

Ryder System completed its acquisition of Carmenita Leasing in California.

"People are looking for anything that will help them fill gaps in their system," said Michael Galardi, senior vice president at acquisitions specialist Capital Alliance. "With the economy looking better, and rates looking to go up, you'll see strategic buyers reappear ... They'll put some of that cash they've been hoarding to good use."

Vitran's deal with Milan is the second major Canadian acquisition of a U.S. carrier in two months. In December, TransForce acquired Dynamex, a same-day carrier in Dallas with extensive cross-border business, for \$248 million. The high value of the Canadian dollar increases the purchasing power of Canadian companies in the U.S.

The Milan acquisition will give Toronto-based Vitran 34 terminals in 10 states, including five states where it had no presence: Mississippi, Alabama, Georgia and

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the Carolinas. The transaction is expected to close Feb. 19.

"The acquisition of the Milan Express LTL operation is another critical component in Vitran's strategy of establishing a unique regional LTL network that serves the entire North American market," said Rick Gaetz, president and CEO. "This transaction will provide added density in the five central states we already cover and expands a quality service offering to the five new states."

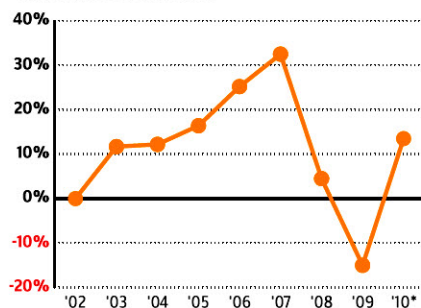
It follows the sale in November of Vitran's truckload assets in the U.S., Frontier Transport, to Online Transport of Indianapolis for \$5 million. "Our sole focus will be on our two core operations," LTL and supply chain, Gaetz said. Vitran's LTL business in the U.S. and Canada accounted for 83 percent of its business in 2009, and about 71 percent of that LTL business was U.S.-sourced, according to company reports.

"This is a solid strategic acquisition to broaden the company's service territory in an accretive manner," investment research



VITRAN'S LTL EXPANSION

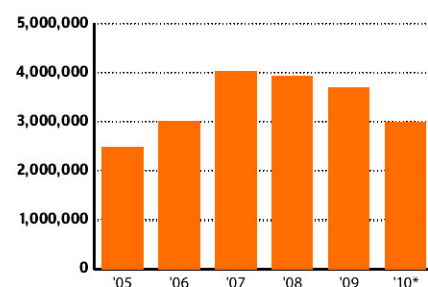
■ Year-over-year percentage change in Vitran's LTL revenue.



*January through September.
Source: Company reports

LTL SHIPMENT VOLUME

■ Number of shipments per year at Vitran, 2005-2009 and first nine months of 2010.



*January through September; shipments rose 7.1 percent year-over-year in that period.
Source: Company reports

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BUILDING INTO CAPACITY

TRUCKING OPERATORS AREN'T buying trucks to expand capacity; they're buying trucking companies. In the recent spate of acquisitions in trucking, the purchasers are increasing their market reach by buying existing capacity from others.

Transport America completed a major capacity play this month with the acquisition of Southern Cal Transport in Birmingham, Ala.

The transaction brings the truckload carrier not just trucks but drivers – increasingly the most valuable measure of capacity. The combined companies have 2,200 drivers,

twice the number they had alone.

“Transport America recognizes more than ever the market will need carriers that control their assets” and hire “quality drivers,” the company said.

Greatwide Logistics Services made a strategic acquisition last week, purchasing Overton Transportation from Sysco. The buyout gives Greatwide trucks and drivers it needs to strengthen its expedited refrigerated service. Overton, which has 70 tractors and 100 trailers, uses team drivers to haul perishables coast-to-coast. **joc**

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firm Morgan Keegan said in a note to investors. The carrier’s stock climbed from \$13.09 a share on the New York Stock Exchange Jan. 13 to \$13.54 late Jan. 18. “We believe this a good-fit acquisition for Vitran, as it has been looking to expand its geographic footprint in the U.S.,” said David G. Ross, trucking analyst at Stifel Nicolaus.

Publicly owned Vitran is the 12th-largest LTL trucker in North America ranked by sales, according to The Journal of Commerce and SJ Consulting Group. Milan Express ranked 34th on the JOC list of Top 50 LTL Trucking Companies in 2009.

“This is a good move on their part,” said Hank Mullen, an LTL pricing consultant and vice president of transportation solutions at Transolve in Atlanta. “Milan is a good solid carrier, and this will lock up a lot of questions about their coverage.”

Vitran began to spread its LTL roots from Ontario and Quebec across most of North America in 1983 through a series of acquisitions. It ventured into the U.S. in the 1990s, creating Vitran Express in 1999 from the merger of Quast Transfer and Overland Transportation. It purchased several U.S. carriers in the 2000s, including Chris Truck Line, Sierra West Express and PJAX Transportation, expanding into the Southwest, Pacific Coast and Mid-Atlantic states. With

the addition of Milan’s five-state southern tier, Vitran will directly serve 34 U.S. states, leaving direct service gaps only in New York and New England and a few Rocky Mountain states.

After the PJAX acquisition, Vitran focused on building an integrated U.S. operating model, hooking three years of acquisitions into a single computer network. It rolled out its integrated U.S. operating model in 2008 – just in time for the recession.

Despite a 15 percent drop in LTL revenue in 2009 to \$519.2 million, Vitran said it increased its market share, expanding its length of haul 22.5 percent. LTL revenue grew 13.5 percent year-over-year in the first nine months of 2010.

The acquisition of Milan Express will give Vitran’s LTL sales an immediate jolt this quarter, adding revenue by purchasing existing business. It may also cut into purchased transportation costs, which would rise as trucking rates go up.

The deal may herald more changes in the LTL market. Smaller regional players may look to follow Milan’s example and find a larger partner or buyer, Mullen said. “There will be two or three other small carriers that will be shouting, ‘me next.’” **joc**

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