



April M&A Transactions	2
Current Trading Statistics	3
Selected Transaction	4

BMO Capital Markets connects you to the latest M&A and Corporate Finance topics affecting the Supply Chain.

May 2011

Two Unique Emerging Trends in Transportation & Logistics

We are dedicating this edition of *The Link* to discussing a few longer term trends we believe could become sizable growth opportunities for transportation companies.

Shale Gas and the Trucking Sector

Drilling for oil and gas in shale rock in the United States began in earnest after the discovery of several sizable shale formations, including the Marcellus Shale (Northeast), Barnett Shale (Texas) and Bakken Shale (Dakotas/Montana) and horizontal drilling techniques in the 1990s. However, it was not until the economics of horizontal drilling became compelling with higher oil prices in 2006-07 when the opportunity for transporting equipment and supplies related to shale drilling became a reality. In a previous edition of *The Link*, we discussed the impact to the rail industry, however, the trucking industry should also be positively impacted. Consider the following statistics on the trucking demands at one well site in the Marcellus Shale:

- ✓ 100-1,000 truckloads of fracking fluids and materials
- ✓ 100-150 truckloads of fracking equipment (pump trucks, tanks)
- ✓ 150-200 truckloads of drilling equipment, materials and fluids

Industry experts estimate that the average oil and gas well requires 320 to 1,365 truckloads of equipment just to prepare the well for production. With oil prices today around \$100 per barrel and the emergence of natural gas as a primary fuel for electricity generation, we believe shale drilling is a trend that could continue to grow for the next several decades.

Bulk Intermodal

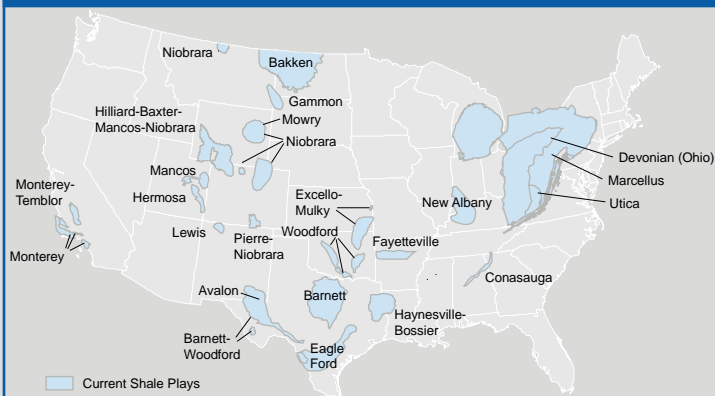
Another major trend we see is the rise in shipments of bulk industrial freight over multiple modes, traditionally rail and trucking. Commodities such as steel pipe, beams, rods, wood and palletized loads have traditionally been transported by flatbed truck as existing intermodal containers were difficult to load and lack the required strength and securement devices necessary for transport.

Additionally, we have seen the increase in the price of fuel, a shortage of drivers and significant capacity issues result in the demand for an alternative method for moving this bulk industrial freight. Only recently has a solution emerged; Raildecks, a Canadian based intermodal equipment manufacturer is offering a stackable 53 foot collapsible, flat rack container. The product is a container without a roof or side that allows for both the containers and bulk commodities such as steel and pipe to be transported on the intermodal rail network.

The intermodal network travels at speeds up to 70 mph in a double stacked position matching or exceeding the comparable truck service. The intermodal containers eliminate the need for multiple handling of the freight and increases loading and unloading efficiency. The stacking ability allows for 4 containers to be transported in one stacking slot reducing “empty miles”. The freight is secured within the containers using straps or chains consistent with current flatbed securement techniques.

We believe that along with the continued growth of intermodal traffic and significant and continued investment in infrastructure that solutions allowing for bulk freight to be shipped via intermodal represents a significant growth opportunity for both motor carriers and rail service providers.

CHART 1: Major U.S. Shale Formations



Source: U.S. Geological Survey

CHART 2: Stackable Trailers for Intermodal Bulk Freight



Image courtesy Raildecks, Inc.

TRANSPORTATION CLIENT COVERAGE

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SELECT APRIL 2011 M&A TRANSACTIONS

Logistics companies continue to be the most active in the search for highly strategic M&A targets

Date Announced	Target	Target Location	Acquiror	Enterprise Value (\$MM)
04/04/2011	Exel Transportation Services (Deutsche Post AG)	United States	Hub Group, Inc.	\$83.0
04/04/2011	Britton Transportation	United States	Bison Transport Inc.	--
04/05/2011	SCO Logistics	United States	Transplace, Inc. (CI Capital Partners)	--
04/08/2011	ENTREC Transportation Services Ltd. (Flint Energy Services)	Canada	EIS Capital Corp.	--
04/11/2011	Three Notch Railroad / Wiregrass Central Railroad / Conecuh Valley Railroad	United States	RailAmerica, Inc.	\$12.7
04/18/2011	AIG Rail Services Inc. (American International Group, Inc.)	United States	Perella Weinberg Partners LP	--
04/25/2011	E. Stiewing, Inc.	United States	William B. Meyer	--

April 4, 2011 – Hub Group, Inc., an Illinois-based provider of freight transportation management services, announced the acquisition of **Exel Transportation Services**, a Texas-based provider of 3PL services, from Germany-based **Deutsche Post AG**, for \$83.0 million.

April 4, 2011 – Bison Transport Inc., a Canada-based provider of truckload transportation services, announced the acquisition of **Britton Transport**, a North Dakota-based provider of trucking and logistics services. Financial terms of the transactions were not disclosed.

April 5, 2011 – Transplace, Inc., a Texas-based provider of logistics services, and portfolio company of **CI Capital Partners**, announced the acquisition of **SCO Logistics**, a Pennsylvania-based provider of logistics services for the chemical industry, from **Red Barn Investments**. Financial terms of the transactions were not disclosed.

April 8, 2011 – EIS Capital Corp. announced the acquisition of **ENTREC Transportation Services Ltd.**, a Canada-based provider of transportation services for overweight and oversized cargo in the oil & gas, construction, petrochemical, mining and power generation industries, from Canada-based **Flint Energy Services Ltd.** Financial terms of the transactions were not disclosed.

April 11, 2011 – RailAmerica, Inc., a Florida-based operator of short-line and regional railroads, announced the acquisition of **Three Notch Railroad**, **Wiregrass Central Railroad** and the **Conecuh Valley Railroad**, all three Alabama-based railroads, from Tennessee-based **Gulf & Ohio Railways, Inc.** for \$12.7 million.

April 18, 2011 – Perella Weinberg Partners LP, a New York-based financial services firm, announced the acquisition of **AIG Rail Services Inc.**, a provider of customized full service and net leases for railroads, from New York-based **American International Group, Inc.** AIG Rail Services will operate under the name Flagship Rail Services LLC. Financial terms of the transactions were not disclosed.

April 25, 2011 – William B. Meyer, a Connecticut-based provider of transportation and storage services, announced the acquisition of **E. Stiewing, Inc.**, a Connecticut-based provider of moving and relocation services. Financial terms of the transactions were not disclosed.

CURRENT TRADING STATISTICS FOR SERVICE PROVIDERS

Comparable Public Company Trading Analysis																
Company	04/29/11 Share Price	Market Equity	Enterprise Value	Valuation Multiples												Est. LT Growth Rate
				EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings			
				LTM	CY11	CY12	LTM	CY11	CY12	LTM	CY11	CY12	LTM	CY11	CY12	
TL Operators																
JB Hunt Transport Services Inc.	\$ 47.68	\$ 5,733	\$ 6,426	1.6x	1.5x	1.3x	11.3x	9.7x	8.4x	17.4x	14.2x	12.1x	27.0x	22.7x	18.7x	19.4%
Heartland Express, Inc.	\$ 17.25	\$ 1,564	\$ 1,419	2.8x	2.5x	2.3x	10.2x	8.5x	7.4x	17.6x	13.6x	11.3x	24.0x	22.3x	18.5x	14.6%
Knight Transportation Inc.	\$ 18.01	\$ 1,509	\$ 1,437	1.9x	1.7x	1.5x	9.1x	7.7x	6.4x	16.6x	12.9x	10.1x	26.7x	22.4x	17.7x	15.4%
Werner Enterprises Inc.	\$ 26.17	\$ 1,905	\$ 1,857	1.0x	0.9x	0.9x	6.5x	5.7x	5.0x	13.8x	11.3x	9.4x	22.3x	19.4x	16.4x	11.6%
Marten Transport Ltd.	\$ 22.36	\$ 492	\$ 496	0.9x	0.8x	0.7x	5.6x	4.9x	4.1x	14.2x	11.2x	8.6x	24.6x	19.5x	15.3x	NA
Celadon Group Inc.	\$ 14.77	\$ 327	\$ 321	0.6x	0.5x	0.5x	6.4x	5.3x	4.4x	16.3x	9.9x	8.1x	27.3x	19.4x	13.6x	NA
USA Truck Inc.	\$ 12.45	\$ 128	\$ 241	0.5x	0.4x	0.4x	4.9x	4.3x	3.3x	NM	NM	13.3x	NM	NM	15.0x	10.0%
Swift Transportation Co., LLC	\$ 14.03	\$ 1,938	\$ 3,746	1.2x	1.1x	1.0x	7.9x	6.9x	6.0x	14.1x	11.6x	9.6x	NM	16.6x	12.5x	17.5%
Covenant Transportation Group, Inc.	\$ 9.59	\$ 139	\$ 355	0.5x	0.5x	0.5x	4.3x	4.2x	3.6x	14.3x	11.6x	8.7x	46.3x	22.8x	11.3x	NA
Median				1.0x	0.9x	0.9x	6.5x	5.7x	5.0x	15.3x	11.6x	9.6x	26.7x	20.9x	15.3x	15.0%
Mean				1.2x	1.1x	1.0x	7.4x	6.4x	5.4x	15.5x	12.0x	10.1x	28.3x	20.6x	15.4x	14.8%
LTL Operators																
Cor-way Inc.	\$ 38.92	\$ 2,157	\$ 2,562	0.5x	0.5x	0.5x	8.3x	6.8x	5.4x	20.9x	14.3x	9.9x	NM	29.0x	16.8x	21.1%
Old Dominion Freight Line Inc.	\$ 37.42	\$ 2,150	\$ 2,350	1.5x	1.3x	1.1x	9.8x	8.1x	6.8x	14.8x	11.6x	9.7x	24.0x	19.2x	15.7x	23.2%
Arkansas Best Corporation	\$ 23.01	\$ 585	\$ 522	0.3x	0.3x	0.3x	NM	8.3x	4.1x	NM	NM	9.8x	NM	NM	18.2x	9.5%
YRC Worldwide Inc.	\$ 1.98	\$ 95	\$ 1,051	0.2x	0.2x	0.2x	7.9x	7.6x	4.0x	NM	NM	14.6x	NM	NM	NM	15.0%
Median				0.4x	0.4x	0.4x	8.3x	7.8x	4.7x	17.8x	12.9x	9.8x	24.0x	24.1x	16.8x	18.1%
Mean				0.6x	0.6x	0.5x	8.7x	7.7x	5.1x	17.8x	12.9x	11.0x	24.0x	24.1x	16.9x	17.2%
Logistics																
CH Robinson Worldwide Inc.	\$ 80.18	\$ 13,275	\$ 12,915	1.4x	1.2x	1.1x	19.0x	17.1x	14.6x	19.9x	17.9x	15.3x	33.2x	29.6x	25.2x	13.4%
Expeditors International of Washington Inc.	\$ 54.27	\$ 11,525	\$ 10,293	1.7x	1.5x	1.3x	16.3x	15.0x	13.0x	17.3x	15.9x	13.8x	30.8x	29.3x	25.6x	16.4%
Landstar System Inc.	\$ 47.40	\$ 2,270	\$ 2,333	1.0x	0.9x	0.8x	13.5x	11.8x	10.3x	15.9x	13.7x	11.8x	25.0x	21.5x	18.3x	15.6%
UTI Worldwide Inc.	\$ 22.41	\$ 2,289	\$ 2,284	0.5x	0.5x	0.4x	12.5x	10.2x	8.6x	18.6x	14.8x	11.6x	32.7x	24.9x	19.5x	21.8%
Hub Group Inc.	\$ 40.28	\$ 1,510	\$ 1,375	0.7x	0.5x	0.4x	16.5x	13.5x	10.7x	18.6x	14.4x	11.3x	33.4x	24.7x	19.5x	16.7%
Foward Air Corp.	\$ 33.62	\$ 988	\$ 953	1.9x	1.8x	1.6x	11.9x	10.1x	8.8x	15.6x	12.9x	11.1x	27.1x	22.6x	19.2x	12.9%
Echo Global Logistics, Inc.	\$ 13.91	\$ 308	\$ 265	0.6x	0.5x	0.4x	14.2x	9.1x	6.7x	17.6x	13.2x	9.2x	32.7x	25.3x	17.4x	31.5%
Universal Truckload Services Inc.	\$ 15.84	\$ 248	\$ 231	0.4x	0.3x	0.3x	8.0x	6.8x	5.8x	13.0x	10.0x	7.8x	28.0x	17.1x	14.1x	(1.0%)
Roadrunner Transportation Systems, Inc.	\$ 14.09	\$ 425	\$ 469	0.7x	2.9x	2.5x	13.1x	10.1x	8.3x	14.6x	11.0x	8.9x	NM	17.2x	14.1x	NM
Pacer International Inc.	\$ 5.99	\$ 210	\$ 220	0.1x	0.1x	0.1x	9.9x	8.0x	6.3x	14.2x	11.0x	7.9x	NM	20.0x	13.8x	15.0%
Median				0.7x	0.7x	0.6x	13.3x	10.2x	8.7x	16.6x	13.4x	11.2x	31.8x	23.6x	18.8x	15.6%
Mean				0.9x	1.0x	0.9x	13.5x	11.2x	9.3x	16.5x	13.5x	10.9x	29.1x	23.2x	18.7x	15.8%
Railroads																
Union Pacific Corporation	\$ 103.47	\$ 50,754	\$ 58,702	3.4x	3.1x	2.8x	8.9x	8.2x	7.2x	11.5x	10.5x	9.1x	17.5x	16.0x	13.5x	15.7%
Canadian National Railway Company	C\$ 73.39	C\$ 33,414	C\$ 38,746	4.6x	4.3x	4.0x	9.9x	9.2x	8.5x	12.6x	11.7x	10.7x	14.8x	15.3x	13.5x	13.3%
Norfolk Southern Corp.	\$ 74.68	\$ 26,378	\$ 32,640	3.3x	3.0x	2.8x	9.2x	8.3x	7.4x	12.0x	10.5x	9.3x	16.9x	15.5x	13.4x	12.8%
CSX Corp.	\$ 78.69	\$ 28,926	\$ 36,490	3.3x	3.1x	2.9x	8.7x	8.0x	7.3x	11.4x	10.2x	9.1x	17.5x	15.3x	13.2x	15.5%
Canadian Pacific Railway Limited	C\$ 62.75	C\$ 10,629	C\$ 14,539	2.9x	2.7x	2.5x	10.0x	8.9x	7.5x	14.3x	12.8x	10.4x	18.2x	16.4x	12.6x	18.6%
Kansas City Southern	\$ 58.11	\$ 5,968	\$ 7,784	4.2x	3.7x	3.4x	11.3x	10.0x	8.7x	15.4x	13.2x	11.3x	28.6x	21.1x	17.3x	30.3%
Genesee & Wyoming Inc.	\$ 61.98	\$ 2,602	\$ 3,161	4.7x	3.9x	3.6x	16.8x	12.2x	10.9x	23.7x	16.2x	14.4x	29.8x	22.8x	19.4x	19.4%
RailAmerica, Inc.	\$ 17.02	\$ 888	\$ 1,332	2.7x	2.5x	2.3x	7.4x	7.8x	7.2x	9.9x	11.3x	9.8x	NM	23.0x	17.9x	17.0%
Median				3.3x	3.1x	2.9x	9.5x	8.6x	7.5x	12.3x	11.5x	10.1x	17.5x	16.2x	13.5x	16.3%
Mean				3.6x	3.3x	3.0x	10.3x	9.1x	8.1x	13.8x	12.1x	10.5x	20.5x	18.2x	15.1x	17.8%
Canadian Transportation Companies																
Mullen Group Ltd.	C\$ 21.22	C\$ 1,685	C\$ 2,066	1.8x	1.7x	1.5x	9.4x	8.2x	7.5x	14.5x	11.9x	10.7x	16.3x	18.1x	15.4x	15.0%
TransForce Inc.	C\$ 14.09	C\$ 1,343	C\$ 2,010	1.0x	0.8x	0.7x	7.6x	6.2x	5.4x	14.5x	11.1x	8.8x	12.8x	14.4x	10.8x	NA
Contrans Group Inc.	C\$ 9.00	C\$ 322	C\$ 335	0.8x	0.8x	0.8x	7.2x	6.4x	6.0x	11.4x	9.6x	8.9x	18.5x	15.1x	13.1x	20.4%
Vitran Corp Inc.	\$ 15.59	\$ 255	\$ 333	0.5x	0.4x	0.4x	12.6x	8.2x	6.5x	38.6x	16.3x	10.8x	NM	19.5x	12.1x	15.0%
Trimac Transportation Services Limited Partnership	C\$ 4.95	C\$ 126	C\$ 203	0.7x	0.6x	0.6x	5.9x	5.5x	5.1x	11.2x	10.4x	9.1x	6.9x	11.8x	11.0x	NA
Student Transportation, Inc.	\$ 6.81	\$ 398	\$ 614	2.1x	1.9x	1.7x	12.8x	10.3x	8.7x	47.6x	NM	NM	NM	54.5x	35.8x	NA
Cargojet Inc.	C\$ 8.53	C\$ 68	C\$ 105	0.7x	0.6x	0.6x	4.8x	4.6x	4.2x	6.7x	6.2x	5.6x	11.8x	7.0x	6.1x	NA
Median				0.8x	0.8x	0.7x	7.6x	6.4x	6.0x	14.5x	10.8x	9.0x	12.8x	15.1x	12.1x	15.0%
Mean				1.1x	1.0x	0.9x	8.6x	7.0x	6.2x	20.6x	10.9x	9.0x	13.2x	20.1x	14.9x	16.8%
Packagers																
United Parcel Service, Inc.	\$ 74.97	\$ 73,936	\$ 80,654	1.6x	1.5x	1.4x	10.2x	9.2x	8.3x	13.2x	11.6x	10.3x	19.3x	17.4x	15.0x	11.3%
FedEx Corporation	\$ 95.67	\$ 30,327	\$ 30,653	0.8x	0.8x	0.7x	7.2x	6.1x	5.2x	13.3x	10.5x	8.5x	23.1x	17.1x	13.9x	14.1%
Median				1.2x	1.1x	1.1x	8.7x	7.7x	6.8x	13.3x	11.1x	9.4x	21.2x	17.2x	14.5x	12.7%
Mean				1.2x	1.1x	1.1x	8.7x	7.7x	6.8x	13.3x	11.1x	9.4x	21.2x	17.2x	14.5x	12.7%

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SELECT BMO CAPITAL MARKETS TRANSACTION

Company Description

- SkyLink Aviation, Inc (“SkyLink”) is a leading global provider of air cargo and transportation services, primarily fixed-wing and rotary-wing air transportation and related activities
- SkyLink is majority owned by Apollo Management

Transaction Description

- On March 8, 2011 SkyLink closed on a five year senior secured second lien notes offering (with three year non-call provision) for C\$110 million, priced at par to yield 12.25%
- As part of the transaction, BMO Capital Markets acted as Joint Bookrunner



Portfolio Company of



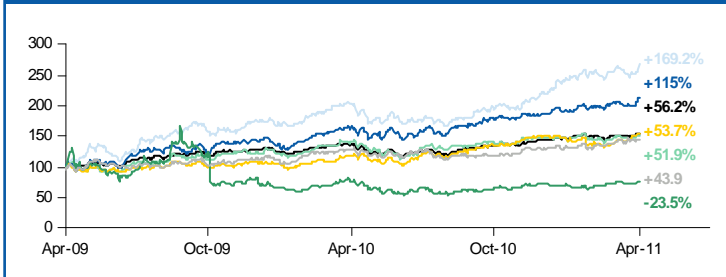
\$110 million

Senior Secured Second Lien Notes

Joint Bookrunner

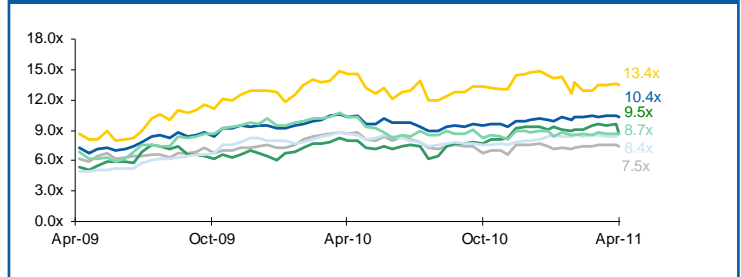
March 2011

RELATIVE STOCK MARKET PERFORMANCE
Two-Year Index Performance



Source: FactSet

COMPARATIVE VALUATION PERFORMANCE
Two-Year EV / EBITDA



Sources: Company Filings, Capital IQ

Index: — TL Operators — Logistics — Canadian Transportation — LTL Operators — Railroads — UPS and FedEx — S&P 500