

SHUFFLING AT THE TOP

2015 IS COMING to a close, and there have been numerous events over the last year that will shape how the ranking of the world's top transportation and logistics companies looks at the end of 2016. Although UPS is currently the

world's largest transportation company, its reign may be short-lived, because several other companies are racing toward the top.

UPS has added significant revenue to its top line this year through its acquisition of Coyote Logistics and the more than \$2 billion in annual sales that brings. Excluding this acquisition, UPS's revenue was flat for the first

nine months of the year, but including its new purchase, UPS is on a \$60 billion annual run rate.

Although DHL was UPS's nearest challenger for the top spot, the weak euro and strengthening U.S.

revenue in 2016 through its pending deal with TNT Express.

TNT's revenue grew 3.3 percent through the first nine months of 2015 on a euro basis, but this marginal increase transforms into a significant top-line drop. With revenue in U.S. dollars down 15 percent year-over-year, TNT is on pace to generate about \$8 billion in revenue in 2015. Still, FedEx's annual revenue run rate will be \$56 billion, and the \$12 billion 2014 revenue gap between the current largest and third-largest companies will shrink to \$4 billion when the TNT deal is done.

FedEx is poised to take over the top spot in the near future if it decides to enter into any other business segments. The company is unlikely to take on another major acquisition until it completes its purchase of TNT, but there are still markets in the U.S. in which FedEx does not fully compete. Once the TNT transaction occurs, FedEx could move quickly to take over a sizable U.S.-based operator.

intermodal, evidenced by the strong growth and profit margins of the company's ground parcel segment.

With stock markets largely flat or down down from the start of the year, the discounted share values of the publicly held intermodal players make for more attractive acquisition candidates for companies ripe with cash or with access to financing. Likewise, with a stagnant economy seemingly in place for the near term, share prices are likely to remain depressed for the foreseeable future.

Although the potential for UPS to make an acquisition in the intermodal space exists, the company's recent decision to enter the heavyweight shipment space via the takeover of non-asset-based Coyote suggests the company may have little interest in being an intermodal operator, despite its decades of experience with using intermodal service through its ground parcel division. A FedEx move into intermodal could enable the company to drive operational synergies and open new bundling opportunities.

Aside from a shift in the ranking of the world's three largest logistics companies, two other companies are making moves to raise their place on the list. Denmark-based global logistics provider DSV is poised to move into the top 20 in 2016 through its acquisition of UTi Worldwide, and XPO Logistics will be ranked in 2015 because of recent takeovers of Norbert Dentressangle and Con-way.

These two acquisitions of Top 50 companies give XPO an annual revenue run rate of \$15 billion, which would have made the company the 15th-largest transportation service provider based on 2014 revenue. This is likely a temporary spot in the rankings, because XPO acquisitions will continue as the company looks to meet a \$23 billion revenue target for 2019. That would have been good enough for 10th on this year's list. **JOC**

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dollar is changing this dynamic. Through the first half of 2015, DHL's revenue jumped 10 percent on a euro basis, but this reverses to a 10 percent drop when converted to U.S. dollars. This wide currency fluctuation opens the door for FedEx to take over the No. 2 spot.

While DHL revenue is shrinking, FedEx's revenue has increased 3.7 percent over the last nine months, helped largely by the company's January acquisition of GENCO, which generated \$1.6 billion in new business. Including this purchase, FedEx is on a \$48 billion annual revenue run rate, but the company likely will add significant

The company's acquisition of warehousing provider GENCO was quick, as FedEx chose to keep its new division as a stand-alone company. FedEx could follow this approach with the purchase of a company operating in an attractive market with above-average growth, such as intermodal.

Intermodal would fit well into the company's service portfolio because it would give the company access to the heavyweight shipments from customers currently using its parcel, less-than-truckload and warehousing services. Likewise, FedEx has had great success in running an asset-light business such as