

School Transportation® *News*

JUNE 2008

Upward Mobility

**Denis Gallagher
and Student
Transportation
of America are
on the move**

**School bus
contractors chime
in on rising costs of
transportation**

**The Other
Yellow:**
*finding contracted
alternatives for
specialized routes*

**Tracking large
installs of
school bus GPS**



Expansion TEAM

STUDENT TRANSPORTATION OF AMERICA CONTINUES GROWTH WITH BIG DEALS DONE IN 2008, AND IT'S ONLY JUNE

By Ryan Gray

For Denis Gallagher, his explanation of Student Transportation of America's growth comes easy and metaphorically.

"We have a lot of dry powder to expand," said the founder, president and CEO of North America's fourth largest school bus contractor.

It was late January, and stockholders of Canadex Resources Limited had just approved a takeover by STA, a move that brought the school bus contractor's total fleet to approximately 5,200, nearly 1,000 of which are north of the border. Canadex, or CDX, was a public company that owned Parkview Transit, one of the larger school bus contractors in Toronto's outlying Golden Triangle region that also boasted one of the largest biodiesel fleets.

The move was a no-brainer as the area's mix of farmland and sprawling housing developments meshed with STA's rural-suburban strategy.

"It's a growing area we like a lot," said Gallagher. "I had seen Parkview probably 10 years ago, right after I left Laidlaw. It was one of my first stops on the acquisition trail."

That was in mid-1997, shortly after Gallagher started STA. But, up until earlier this year, Canadex, a company on the Toronto Stock Exchange, had resisted his advances to acquire the school bus business. Instead, Canadex was only interested in selling off all of its assets, which included oil wells and gasoline pumps primarily located in Texas and Oklahoma. Though it initially seemed to be "kind of a strange combination," Gallagher saw a means to an end. By late February of this year, STA not only acquired Parkview Transit but also all of Canadex's oil assets for \$41.8 million Canadian, or just slightly over \$41 million US.

Yet Gallagher is no Daniel Plainview, so don't be expecting him to begin prospecting the countryside for the black gold. More than anything, STA has its sights set on the yellow-gold of school buses, as the Canadex deal more than anything was a financial play from a company led by a cunning man who calls it like he sees it. The goal to grow the business by acquiring as many existing school bus providers located in strategic areas is a value Gallagher wears on his sleeve. Admitting he has no background in the oil business, Gallagher said STA is shopping the oil reserves to fund further acquisitions, like that which has allowed the company to gain a foothold in Ontario.

"There are three provinces in particular we've been working in, but our original emphasis was to build some regional density in Ontario," he said. "From the U.S. perspective, we pretty much have a very large region in California (about 1,000 vehicles alone), a pretty good size region in the Midwest and the Northeast, as well as in New England.

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"Whatever we sell the oil for and gas for just gives us more availability to buy other transportation and school bus business in North America."

BY THE END OF APRIL, STA ANNOUNCED IT'S SECOND MAJOR COUP OF 2008 WHEN A SUBSIDIARY OF THE FRENCH NATIONAL RAILWAY, SNCF PARTICIPATIONS, PURCHASED \$40 MILLION IN COMMON SHARES. At the same time, STA sold another \$10 million in shares to Caisse de dépôt et placement du Québec, one of Canada's largest pension funds and now STA's largest single shareholder. As if that wasn't enough, existing STA shareholders also gobbled up another \$10 million the same day.

"We have had just over a 20 percent revenue growth rate for the last seven years, and we continue to see tremendous opportunities for us in the years ahead," Gallagher said at the closing. "Large investors like these appreciate our ability to weather various business cycles and see the long-term consistence in our operations and annualized results."

The arrival of SNCF, or Société Nationale des Chemins de fer Français, on the surface represented the first real French presence in the American yellow school bus market. Time only will tell how that relationship will unfold. What is on the horizon is a major push by STA as an industry leader, especially with the capital it's been able to raise of late. And smaller school bus operators are taking notice.

Needless to say, the current economic downturn has caused ripple effects throughout U.S. school districts as budgets are shrinking or disappearing altogether. And STA's expansion comes at a time when many private school bus contractors, especially the smaller ones, are also cutting back.

"It's something we're seeing, more owners contacting us and saying, 'Can I at least sit down and talk to you,'" commented Gallagher. "We're still in negotiations on some of them, and quite a few others we passed on. We concentrated on the ones that made sense to us."

STA already has large operations in California, with pockets dotting the southern part of the state from San Diego north to Santa Barbara. And the company is gaining ground in San Jose and the Silicon Valley area. Currently, STA setting its sights on the Pacific Northwest, where new Vice President Patrick Holmes, a Laidlaw transplant, is mining new business in Washington, Oregon and even Nevada. Another Laidlaw alum, John DiMaio, is STA's new vice president and chief accounting officer at the company's headquarters in Wall, N.J.

The arrival of Holmes and others is indicative of the growth. In a strategic management realignment (Raymond Delagarde remains as STA's vice president of West Coast operations), there's also Michael Kennedy, the regional chief operating officer of the newly created Atlantic region. He's responsible for overseeing business in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, and Vermont. Peter Pearson, formerly with FedEx and Laidlaw, is Kennedy's counterpart in the central region, consisting of Illinois, Minnesota and Pennsylvania. ■



While things are looking up at STA, it is not immune to the issues the rest of the school bus industry is facing. Visit www.stnonline.com/go/58 for more from Denis Gallagher on his outlook for private school bus contractors.