



Earlier this year, within a Kirby Corporation announcement about the acquisition of inland river tank barges from Coastal Towing and Cypress Leasing, Kirby's Chairman, **Mr. Joe Pyne** (pictured- man on the right), was quoted saying: "Kirby always prefers to own rather than lease whenever possible due to the tax advantages of ownership." In this latest of more than two dozen such deals, the "brown water" specialist said that it would be funding the \$34.3 Million purchase of 58 barges from the two sellers, through a combination of cash and a bank credit line.

What's unspoken here, though well known to analysts who de-construct company numbers, is that "tax advantages of ownership" are only available to profitable companies. Indeed, Houston based Kirby's 1Q 2007 financial results were its best ever, beating the expectations of most Wall Street analysts. Overall revenue for 2006 were just shy of \$1 Billion, with \$800 Million from inland barge operations, and the remainder from its business of servicing diesel engines. In recent quarters, its earnings have continued to grow. Last year, its stock split.

Kirby's business, has been one of steady growth, lacking the cyclicity of bulk shipping segments because 75% of its revenues are earned on contracts rather than in the more volatile spot trades. Revenues from continuing operations growing at a 17.4% rate from 1988 through 2006 and its marketing emphasizes its "one stop shop" for customers- who are the blue chip oil and chemical companies moving oil products and chemicals along America's inland waterways. A consensus of analysts are forecasting earnings of \$2.06/share in 2007 and \$2.32/ share in 2008- up from \$1.79 in 2006. The majority of shareholders are institutional, rather than individuals.

Its roots extend back to the 1920's when oil barons in the burgeoning Houston oil community set up what grew to be a large oil and gas producer. Veterans of the rivers will remember "Dixie Carriers", a part of Kirby since the late 1960's. Much of its growth since the mid 1980's, on both the marine and diesel engine servicing side, has come from its role as a consolidator of smaller businesses. CEO Pyne told Fairplay: " Since 1986, Kirby has successfully acquired and integrated 26 marine transportation companies and 13 diesel engine service acquisitions"

Through the years, Kirby has built up a fleet of 913 tank barges (17.3 Million bbl capacity) and 248 towboats. Well known names that have joined the Kirby fold include "Hollywood Marine", "Chotin Transportation" and the barge fleets of SeaRiver (Exxon)

and Dow Chemical / Union Carbide. Kirby operates more tank barge equipment than any competitors, with nearly one third of the 2,850 existing inland tank barges.

The rebounding U.S. economy and the active markets since 2003 have enabled Kirby to build up cash and pay down debt. Debt/ Capitalization has shrunk to 35.3% (on a balance sheet with just over \$1 Billion in assets), versus 57.3% (of a smaller entity) seven years ago. Due in part to such favorable ratios, Kirby has attained an enviable “investment grade” rating, with its debt rated “BBB-“ by Standard & Poors.

Going forward, Kirby faces some challenges common to all industrial businesses, and some unique to the maritime industry. In recent years, the strong demand for refined products (and record refining margins evidenced by the gasoline prices) has brought about good fortune. A slowdown or a more serious recession, triggered by any number of macroeconomic factors, is always a concern.

Fleet renewal is also a big challenge- Throughout the industry, a substantial portion of the fleet was built prior to 1982; a major challenge for Kirby and others will be fleet replacement. Joe Pyne talked about the way ahead, telling Fairplay: “This year, we anticipate adding 2% to 3% to our tank barge capacity and we will continue to seek acquisitions. As in the past, Kirby’s capital needs will be met through cash flow and bank borrowings.” Kirby will continue to invest in equipment, with CEO Joe Pyne saying: “For 2006 our net cash from operations totaled \$150 Million, and our capital expenditure guidance for 2007 is \$135 - \$145 Million.”

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## SIDEBAR INFORMATION

Kirby Corporation

Trades on New York Stock Exchange (NYSE)

Symbol KEX

Revenues \$984.2 Million (2006)  
-\$807.2 Million Marine Transportation  
-\$177.0 Million Diesel engine services

Cash Flow \$154.2 Million EBITDA (a cash flow measure)  
Net Income \$ 95.5 Million (\$1.79/share fully diluted)

Inland Marine Revenue Distribution (2006)- within the \$807.2 Million

Petrochemicals	67%
Black Oil Prod.	20%
Refined Prod	10%
Agr. Chemicals	03%

Balance Sheet - End 2006

Equity	\$632 Million
Debt	\$310.4 Million



Market Capitalization	\$1.899 Billion
Enterprise Value	\$2.209 Billion



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