

GXO tops consensus in 4Q 2021 and modestly raises 2022E adj. EBITDA (and adj. EBITDAR) guidance; intends to issue long-term financial targets later this year; fair value remains \$89 per share; withdraw recommendation, as of today's close

- ✓ Last night, after the market close, GXO, the contract logistics business spun off from XPO Logistics (NYSE: XPO) in August 2021, reported a 28% increase in 4Q 2021 sales, of which 19% was organic, to \$2.26 billion (vs. consensus of \$2.05 billion) with a 14.5% rise in adj. EBITDA to \$167 million (vs. consensus of \$158 million). Adj. EPS doubled to \$0.48 (vs. consensus of \$0.53 and \$0.24 in the prior year period).
- ✓ For full-year 2021, GXO sales increased ~27.5% to \$7.94 billion with a 38.5% rise in adj. EBITDA to \$633 million. Adj. EPS were \$2.09 (compared with \$0.55 in 2020).
- ✓ The company generated \$216 million in free cash flow in 2021 and ended the year with net debt of \$628 million as well as a net leverage ratio of ~1.0x (compared with 1.3x at the end of 3Q 2021).
- ✓ For 2022E, GXO maintained its previously articulated top-line guidance calling for organic top-line growth of 8%-12% while modestly increasing its adjusted EBITDA guidance to \$707-\$742 million (up from \$705-\$740 million) as well as its adjusted EBITDAR forecast to \$1.5-\$1.6 billion (up from \$1.5 billion). Free cash flow is expected to be ~30% of adjusted EBITDA. For context, this guidance compares with current sales and adj. EBITDA consensus of \$8.5 billion, implying a ~7% year over year increase, and \$728.7 million, respectively.
- ✓ As well, GXO indicated that they intend to outline more specific long-term financial targets later this year; previous anecdotal indications have suggested GXO could sustain “double-digit” sales and adj. EBITDA growth as the company sees “secular tailwinds” from E-Commerce, Automation and Outsourcing underpinning the opportunity in a large (i.e., TAM of ~\$430 billion) and fragmented (i.e., top 5 players control less than 25%) market.
- ✓ Fair value remains \$89 per share, reflecting a 15x multiple, roughly in-line with its IFRS adjusted peers as well as management’s “mid-teens” commentary, to 2022E adj. EBITDA of \$735 million (see Exhibit #1).
- ✓ That said, with GXO trading near fair value and a lack of incremental catalysts (as GXO is a pure play) we will withdraw coverage, as of today's close. For context, shares of XPO/GXO have collectively advanced ~25.3% since our initial pre-spin recommendation (vs. a ~10% gain in the S&P and an ~11% rise in the Russell).

UPDATE

GXO Logistics, Inc.

(NYSE: GXO)

Date (2/16/2022)

GXO Price \$84.05/share

Market capitalization: \$9.635B

GXO Logistics (GXO): \$89 per share

(See the report dated 4/7/2021 and updates from 4/14/2021, 4/27/2021, 5/4/2021, 6/9/2021, 6/29/2021, 7/13/2021, 7/29/2021, 8/2/2021 and 11/2/2021 for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.



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HIDDEN OPPORTUNITIES

“Valuing possible breakups by providing sum-of-the-parts analysis.”

Exhibit #1 GXO Logistics, Inc.: Post-Spin Fair Value

(\$ in millions, except per share figures)

	<u>GXO Logistics</u>		
2021A Revenue		\$7,940	
<u>Revenue growth est.</u>		<u>10.2%</u>	
2022E Revenue		\$8,749	
<u>EBITDA margin</u>		<u>9.1%</u>	
2022E segment EBITDA		\$795	
<u>Corporate costs</u>		<u>(\$60)</u>	
2022E Adj. EBITDA		\$735	
<u>Applied multiple</u>	<u>14.0x</u>	<u>15.0x</u>	<u>16.0x</u>
Enterprise value	\$10,294	\$11,029	\$11,765
Net debt	(\$628)	(\$628)	(\$628)
<u>Minority interest</u>	<u>(\$39)</u>	<u>(\$39)</u>	<u>(\$39)</u>
Market capitalization	\$9,627.0	\$10,362.3	\$11,097.6
<u>Diluted shares</u>	<u>116.0</u>	<u>116.0</u>	<u>116.0</u>
Per share basis	\$82.99	\$89.33	\$95.67

Source: Company reports, Bloomberg, and Institutional Research Group estimates.