

XPO posts 3Q 2021 results ahead of consensus, despite LTL performance that lagged peers, and marginally increases the mid-point of 2021E adjusted EBITDA and EPS guidance; still targeting 2022E adj. EBITDA of “at least \$1 billion” at LTL; maintain fair value of \$108 per share

- ✓ XPO posted 3Q 2021 sales growth of 22% to \$3.270 billion (vs. consensus of \$3.093 billion) with adjusted EBITDA growth of 14.5% to \$307 million (vs. consensus of \$297.6 million). Adjusted EPS were \$0.94 (vs. consensus of \$0.92 and \$0.42 in the prior year period).
- ✓ By segment, XPO’s LTL segment posted an almost 15% rise in sales to \$1.07 billion while adj. EBITDA fell 6.7% to \$222 million. Ex-gains on real estate, the LTL operating ratio deteriorated 190 basis points to 84.4%, primarily due to increased compensation and purchased transportation costs. (For context, XPO’s LTL results lag competitors, such as SAIA and ODFL, which posted average sales growth of ~30% along with 500 and 190 bps of OR improvement to 83.5% and 72.6%, respectively, in 3Q 2021). At Truck Brokerage, sales increased ~27% to \$2.26 billion while adj. EBITDA increased ~45.5% to \$131 million.
- ✓ XPO generated \$185 million of FCF in 3Q 2021 and ended the quarter with net debt of \$3.3 billion, incl. \$254 million of cash, and a leverage ratio of 2.8x. XPO targets a leverage ratio of 1.0x-2.0x in 1H 2023.
- ✓ In terms of guidance, the company tightened its adjusted EBITDA guidance to \$1.228-\$1.233 billion (previously \$1.195-\$1.235 billion), or \$1.231 billion at the midpoint (which is ~1.5% above the prior midpoint of \$1.215 billion but below current consensus of \$1.246 billion) as well as its adj. EPS guidance to \$4.15-\$4.25 (compared with the previous guide of \$4.00-\$4.30), or \$4.20 at the midpoint (which is ~1% above the prior midpoint of \$4.15 and modestly ahead of the current consensus estimate of \$4.17). The company increased its free cash flow guidance to \$425-\$475 million (from \$400-\$450 million) while maintaining its capital spending budget at \$250-\$275 million.
- ✓ For 2022E, while XPO has not provided formal guidance the company maintained its target for the LTL business to generate adjusted EBITDA “of at least \$1 billion”. Longer-term, management anecdotally indicated that it sees the opportunity for “hundreds” of basis points of incremental profitability improvement at LTL.
- ✓ Fair value remains \$108 per share based on a blended multiple of 11.5x multiple, reflecting 12x for LTL and 10.5x for truck brokerage, on 2022E adj. EBITDA of \$1.377 billion (previously \$1.39 billion).

UPDATE

XPO Logistics, Inc./GXO Logistics, Inc.

(NYSE: XPO; NYSE: GXO)

Date (11/3/2021)

XPO Price \$86.92/share

Market capitalization: \$9.93B

GXO Price \$90.82/share

Market capitalization: \$6.27B

XPO Logistics (XPO): \$108 per share

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 and 8/2/2021 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.



Institutional Research Group

PCS Research Group

100 Wall Street, 20th Floor

New York, NY 10005

(212) 233-0100

www.pcsresearchgroup.com

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HIDDEN OPPORTUNITIES

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

Exhibit #1 XPO Logistics, Inc./GXO Logistics, Inc.: Post-Spin Sum-of-the-Parts Fair Values
(\$ in millions, except per share figures)

| | <u>XPO Logistics</u> | <u>GXO Logistics</u> | <u>Total</u> |
|---|----------------------|----------------------|--------------------|
| 2022E Revenue | \$12,588 | \$8,544 | |
| <u>EBITDA margin</u> | <u>12.4%</u> | <u>9.3%</u> | |
| 2022E segment EBITDA | \$1,559 | \$796 | |
| <u>Corporate costs</u> | <u>(\$182)</u> | <u>(\$61)</u> | |
| 2022E Adj. EBITDA | \$1,377 | \$735 | \$2,112 |
| <u>Applied multiple</u> | <u>11.5x</u> | <u>15.0x</u> | |
| Enterprise value | \$15,761.8 | \$11,027.8 | \$26,790 |
| <u>Net debt & minority interest</u> | <u>(\$3,300.0)</u> | <u>(\$767.0)</u> | <u>(\$4,067.0)</u> |
| Market capitalization | \$12,461.8 | \$10,260.8 | \$22,722.6 |
| <u>Diluted shares</u> | <u>115.9</u> | <u>115.9</u> | <u>115.9</u> |
| Per share basis | \$107.54 | \$88.55 | \$196.10 |
| | | | |
| Bull | \$119.42 | \$94.90 | \$214.32 |
| Base | \$107.54 | \$88.55 | \$196.10 |
| Bear | \$95.67 | \$82.21 | \$177.87 |

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