THE SPIN-OFF REPORT

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ALERT: XPO to Spin-Off Brokerage Business, Divest European Business, and North American Intermodal

On March 8, 2022, after the market close, XPO Logistics Inc. (NYSE: XPO) announced that its Board of Directors has approved a plan to spin-off its tech enabled brokered transportation services business ("brokerage") from its less-than-truckload ("LTL") business. In addition, XPO announced its intention to divest its European business and North American intermodal business.

The separation of brokerage from LTL, if completed, is intended to be tax-free to XPO shareholders and would be accomplished via a pro rata distribution of share in the brokerage business to XPO shareholders. The separation is expected to be completed in 4Q 2022, subject to customary closing conditions including an effectiveness declaration of a Form 10 filing with the SEC, receipt of a tax opinion from counsel, debt refinancing terms, and final Board approval.

Following the separation, XPO shareholders will own shares in two independent companies that are leaders in their respective industries. The spin company will hold the asset light truck brokerage business, is expected to have a low net debt leverage and will pursue an investment-grade credit rating.

The parent company will become a pure-play LTL industry leader. As of December 31, 20221, XPO's LTL business consisted of 291 terminals, approximately 12,000 drivers, 7,900 tractors and 25,800 trailers. XPO's LTL business is the third largest North American LTL providers, with a national network and integrated driver training and trailer manufacturing capabilities.

XPO Logistics Inc.

Current Share Price: (3/8/22): $61.93
Ticker: XPO

Preliminary Fair Value Estimate: $92 per share

Shares Outstanding: 117.5 million
Market Capitalization: $7.1 billion

Dividend: Nil
Yield: N/A

Market capitalization at current share price.

In reference to the asset divestitures, management stated that the European business will either be sold or listed on a European stock exchange, while the North American intermodal operation is currently under an exclusivity agreement in connection with a potential sale. Notably, last nights announcement follows the August 2, 2021, spin-off of GXO Logistics Inc. (NYSE: GXO), which became a pure-play global contract logistics provider. Following the spin-off, GXO shares increased in price by 58% in the initial four-month trading period, while shares of XPO declined 8% and the Russell 2000 increased by 4.8% over the same time period. (From the spin-off to yesterdays close, shares of GXO were up 2.4%, shares of XPO declined 27.8%., and the Russell 2000 declined 11.7%)

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PRELIMINARY VALUATION

In terms of rationale, it would appear that XPO management would be seeking to replicate the benefits of the GXO spin-off in creating two pure-play, investment grade post-spin companies that would alleviate the apparent conglomerate valuation multiple discount that XPO currently is awarded. In relation to the GXO spin-off, the initial strategic review was rooted in management's frustration that, despite industry-leading scale and operating performance in terms of growth, profitability, and free cash flow generation, its myriad businesses traded at persistent discounts to their most relevant peers. In pursuit of narrowing that perceived discount, XPO indicated that feedback from its investors overwhelmingly pointed to two primary potential actions: (1) simplifying the business (hence the spin-off, which essentially separated its freight-moving and warehousing businesses); and (2) achieving an investment-grade credit rating.

We approach the pre-spin sum-of-the-parts valuation based on the current reporting structure, which includes two segments North American LTL, and Brokerage & Other Services. North American LTL reported revenue of $4.1 billion in 2021 and EBITDA of $904 million. Following the spin-off we would compare the parent company to peers such as Saia Inc. (NYSE: SAIA), which currently trades at 10.0x the 2023 consensus EBITDA estimate. For its part XPO currently trades at 7.1x the consensus 2023 EBITDA estimate. We forecast LTL revenue and EBITDA of $4.7 billion and $1.1 billion, respectively. in 2023. Valuing the parent company at 9.5x, a slight discount to SAIA, implies an enterprise value for the LTL business of $10.2 billion.

According to management, the brokerage business generated $4.8 billion in revenue and $305 million in EBITDA in 2021. We estimate that brokerage could generate $5.7 billion in revenue and $370 million in EBITDA in 2023. Applying a 10.5x multiple to the standalone brokerage business implies a $3.9 billion enterprise value. Our 10.5x multiple is a discount to peer C.H. Robinson Worldwide Inc. (NASDAQ: CHRW), which currently trades at 13.7x the 2023 consensus EBITDA estimate.

Backing out Brokerage's revenue and EBITDA contributions from the Brokerage & Other Services segment results, we forecast that in 2023 the Intermodal and European businesses that are to be divested generate approximately $245 million in combined EBITDA. Assuming a conservative 8.0x valuation multiple could be achieved for the businesses, we estimate after-tax proceeds of $1.6 billion for the two divestitures. We note that the Intermodal business is essentially the old Pacer International, which was acquired by XPO in 2014 for $296 million (inclusive of debt assumed), which at the time equated to 9.1x forward EBITDA estimates.

Incorporating corporate costs, valued at the weighted average segment multiple, and projected 2023 net debt of $2.9 billion, we derive a preliminary sum-of-the-parts fair value estimate of $92 per share for XPO.

Exhibit XPO Logistics Inc.: Sum-of-the-Parts Valuation
($ in millions; shares in millions)

	LTL	Brokerage/Last Mile	Intermodal & Europe	Corporate	Enterprise Value	Net Debt	Total
2023E Revenue	**$4,722**	**$5,652**	**$4,354**	**($250)**			**$14,478**
EBITDA margin	22.9%	6.5%	5.6%				
2023E Adj. EBITDA	**$1,080**	**$370**	**$245**	**($205)**			**$1,490**
Applied multiple	9.5x	10.5x	8.0x	9.5x			
Enterprise value	**$10,262.7**	**$3,880.4**	$1,960.0	**($1,947.7)**	**$14,155.4**	**($2,943.1)**	$11,212
After-tax proceeds	-	-	**$1,571.2**	-	-	-	**$10,823**
Diluted shares	117.5	117.5	117.5	117.5	117.5	117.5	117.5
Per share basis	**$87.34**	**$33.02**	**$13.37**	**($16.58)**		**($25.05)**	**$92.11**

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Disclosures

This report was produced by Institutional Research Group, LLC ("IRG"). The following persons employed by IRG contributed to this report: Michael Wolleben, Director of Research. IRG is located at 88 Pine Street, 31st Floor, New York, NY 10005. At the time of this report, there are no planned updates to the recommendations.

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