THE SPIN-OFF REPORT

April 7, 2021 8:15 AM EDT

XPO Logistics, Inc. (Pre-Spin)
(BUY)

Current Share Price (4/6/21): $125.50	Ticker: XPO
Fair Value Estimate: $159 per share	Dividend: Nil
Shares Outstanding: 113 million	Yield: N/A
Market Capitalization: $14.0 billion	

XPO Logistics, Inc. (Post-Spin)

Fair Value Estimate: $111 per share	Ticker: XPO
Shares Outstanding: 113 million	Dividend: TBD
Market Capitalization: $12.5 billion	Yield: N/A

GXO Logistics, Inc.

Fair Value Estimate: $48 per share	Ticker: TBD
Shares Outstanding*: 113 million	Dividend: TBD
Market Capitalization: $5.425 billion	Yield: N/A

TBD – To be determined. N/A – Not applicable.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin XPO Logistics, Inc.
* Assumes a one-for-one share distribution ratio.

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INVESTMENT THESIS

On December 2, 2020, XPO Logistics, Inc. (NYSE: XPO), a global transportation and logistics company, announced plans to separate its contract logistics business from its freight transportation operations, which include both asset-based less-than-truckload (LTL) and non-asset-based freight brokerage services. The new standalone company, which is expected to be the second largest contract logistics provider globally with ~212 million sq. ft. of warehouse space in 27 countries, will adopt the corporate moniker GXO Logistics, Inc. (and it is expected to initially trade on the New York Stock Exchange but ultimately explore a dual listing on the London Stock Exchange). The transaction is expected to be tax-free to shareholders and is scheduled to be completed in 2H 2021 subject to conditions, including the effectiveness of a Form 10 registration statement, which has been confidentially filed with the SEC, and receipt of final Board approval. Post-spin, Brad Jacobs, XPO's current chairman and chief executive, will retain those positions at RemainCo, which will maintain the current corporate moniker, XPO Logistics, while also serving as chairman of GXO Logistics, where Malcolm Wilson, the current head of XPO Logistics Europe, will take the helm as chief executive.

This separation follows a strategic review that was announced in January 2020 but terminated in March 2020, given market conditions amid the burgeoning COVID-19 pandemic. At the review's inception, XPO indicated that the potential spin-off or sale of one or more of its business lines would be explored, with the exception of its North American less-than-truckload operation, which is markedly more asset intensive than its other business lines (and essentially represents the legacy operations of Con-Way Freight, which XPO purchased for ~$3 billion in 2015). At the time, the decision to both break up the business and increase the focus on its more asset-based operation (although the truck brokerage business is non-asset based) could have been viewed by some investors as a somewhat surprising tack for Mr. Jacobs. In part due to his previous ventures, United Waste and United Rentals (along with XPO), he is known for active acquisition strategies in fragmented industries, as well as for his initial focus on non-asset-based and asset-light transportation services after assuming control of XPO in 2011. That said, the impending transaction seems 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 trade at persistent discounts to their most relevant peers. In pursuit of narrowing this perceived discount, XPO is seeking both to simplify the company (hence the proposed spin-off, which essentially separates its freight-moving and warehousing businesses) and to achieve investment-grade credit ratings for both RemainCo and GXO. On the latter, although the company is still in discussions with rating agencies on how to optimally allocate debt, the most likely use of near-term free cash flow, which is projected to be $600-$700 million in 2021, will seemingly be toward leverage reduction. As well, the company sees potential commercial benefits from more focused management and capital allocation, particularly with regard to each business's specialized technology requirements, as well as from having pure-play equity currencies that could facilitate longer-term M&A. With respect to potential dis-synergies, management anecdotally suggests that $10-$20 million of potential incremental costs will likely be offset by operating efficiencies, of which management sees, on a combined basis, $700 million-$1 billion looking toward 2023-2024.

Currently, XPO operates two segments: (1) Transportation, which is primarily comprised of asset-based less-than-truckload (LTL) and non-asset-based truck brokerage services, generated ~$10.2 billion in sales and $1.06 billion in adjusted EBITDA in 2020; and (2) Logistics, which designs, implements, and manages supply chains, generated 2020 sales and adjusted EBITDA of $6.2 billion and $518 million, respectively (see Exhibit 1). On a consolidated basis, XPO currently trades at about 9.1x 2022E EV/EBITDA, whereas its most applicable LTL and truck brokerage peers trade at ~15.5x and 12.5x, respectively. Valuations for public peers in the contract logistics business are less consistent, but average ~12.0x 2022E EV/EBITDA (albeit in a wide range of 6.5x-18.0x). In that context, based on solid underlying fundamentals, which we think could support incremental upside to our current forecasts, we see the opportunity for a re-rating across XPO's portfolio of businesses, particularly the LTL operation, which has consistently posted profitability at the high end of its peer group. In that regard, even assuming XPO's discount to peers simply narrows (but does not close), an initial pre-spin fair value estimate of $159 per share, comprised of $111 per share for XPO RemainCo, which will retain the current XPO Logistics moniker post-spin, and $48 per share for GXO Logistics, is derived. Given the implied upside of more than 25% to our fair value estimate, we rate the shares of pre-spin XPO as a BUY. While our initial bias is toward the post-spin Transportation company, XPO Logistics, we think the contract logistics business, GXO Logistics, will enjoy favorable secular tailwinds from growth in e-commerce fulfilment and could ultimately see more material upside, in terms of improvements in its operating performance and the magnitude of its potential multiple expansion, over the longer term.

COMPANY DESCRIPTION

XPO Logistics, Inc. (NYSE: XPO) was, for all intents and purposes, formed in September 2011 when current chairman and chief executive Brad Jacobs made a controlling investment in Express-1 Expedited Solutions, which, at the time, traded under the ticker XPO and generated ~$175 million of annual sales. The goal was to use it as a platform to build a "multibillion-dollar transportation brokerage business over the next several years". Previously, Mr. Jacobs had founded United Waste, which was sold to Waste Management (NYSE: WM), and United Rentals (NYSE: URI), which, although in divergent industries (from each other as well as from XPO), both successfully employed roll-up acquisition strategies in highly fragmented industries. In that context, during its first several years under Mr. Jacobs's leadership, XPO was an active consolidator across the transportation and logistics sectors, making notable deals, including: 3PD, the largest provider of last-mile service for heavy goods in North America, which was purchased for ~$365 million in August 2013; Pacer International, North America's third largest intermodal transportation provider, which was purchased for ~$335 million in April 2014; New Breed, a contract logistics company XPO bought for ~$615 million in September 2014; Norbert Dentressangle, a French-based leader in contract logistics, freight brokerage, and global forwarding purchased for ~$3.5 billion in June 2015; and Con-Way Freight, the third largest U.S. LTL company, purchased for ~$3 billion in October 2015. All told, XPO completed 17 acquisitions between 2011 and 2015. In 2016, XPO sold its North American truckload (TL) unit, primarily the legacy assets of Contract Freighters (CFI) that were purchased as part of the Con-Way transaction, to TFI International (TFII CN) for ~$558 million and went through a period of integration/digestion, during which it made substantial investments in technology (as well as share repurchases), before completing its most recent acquisition, Kuehne + Nagel's (KNIN SW) U.K. contract logistics operations (~$585 million of annual sales in 2020), in January 2021.

Exhibit 1 XPO Logistics, Inc.: Historical Operating Results (As reported)
($ in millions, except per share data)

	2015	2016	2017	2018	2019	2020
Revenue	$7,623	$14,619	$15,381	$17,279	$16,648	$16,252
Adj. EBITDA	$474	$1,168	$1,367	$1,562	$1,668	$1,393
Net income	($192)	$85	$360	$444	$440	$117
Adj. net income	($37)	$122	$249	$432	$428	$205
Adj. EPS	($0.40)	$1.00	$1.95	$3.19	$4.03	$2.01
Free cash flow	($98)	$208	$399	$694	$628	$554
Revenue growth YoY%	223.5%	91.8%	5.2%	12.3%	-3.7%	-2.4%
Adj. EBITDA margin	6.2%	8.0%	8.9%	9.0%	10.0%	8.6%
Adj. net margin	-0.5%	0.8%	1.6%	2.5%	2.6%	1.3%
FCF margin	-1.3%	1.4%	2.6%	4.0%	3.8%	3.4%

Source: Company reports, and Bloomberg.

Today, XPO, which generated more than ~$16 billion of sales and $1.3 billion of adjusted EBITDA in 2020, operates two segments (see Exhibit 2): (1) **Transportation** (62% of 2020 sales and ~67% of adjusted EBITDA) provides asset-based less-than-truckload (LTL) and non-asset-based truck brokerage services in North America and Europe; and (2) **Logistics** (~38% of sales and 33% of adjusted EBITDA in 2020), which operates ~212 million sq. ft. of global warehouse space and offers supply chain services such as e-commerce fulfilment, warehousing & distribution, reverse & cold-chain logistics, packaging & labeling, inventory management, and factory & aftermarket support. For some near-term context, the company has provided selected consolidated 2021 financial guidance, including adjusted EBITDA of $1.725-$1.800 billion, adjusted diluted EPS (excluding acquisition-related amortization of intangibles) of $5.10-$5.85 (versus an apples-to-apples comparison of $2.97 per share in 2020), and free cash flow of $600-$700 million. Regarding share count, management indicates that "with nearly all of our outstanding convertible preferred stock having been converted into common stock in December (2020), we'll have 113 million diluted shares outstanding this year (2021)."

Exhibit 2 XPO Logistics: Historical Segment Operating Results
($ in millions)

Transportation	**2017**	**2018**	**2019**	**2020**
Revenue	$10,276	$11,343	$10,687	$10,199
YoY growth %	*3.0%*	*10.4%*	*-5.8%*	*-4.6%*
Operating income	$547	$646	$752	$507
Adj. operating income	$618	$738	$818	$606
Depreciation & amortization	$447	$461	$447	$453
Adjusted EBITDA	$1,065	$1,199	$1,265	$1,059
Margin	*10.4%*	*10.6%*	*11.8%*	*10.4%*
Logistics	**2017**	**2018**	**2019**	**2020**
Revenue	$5,229	$6,065	$6,093	$6,182
YoY growth %	*9.8%*	*16.0%*	*0.5%*	*1.5%*
Operating income	$202	$216	$241	$140
Adj. operating income	$238	$257	$277	$217
Depreciation & amortization	$203	$244	$277	$301
Adjusted EBITDA	$441	$501	$554	$518
Margin	*8.4%*	*8.3%*	*9.1%*	*8.4%*
Corporate	**2017**	**2018**	**2019**	**2020**
Intersegment eliminations	($124)	($129)	($132)	($129)
Operating income	($167)	($158)	($172)	($256)
Adj. operating income	($147)	($149)	($166)	($196)
Depreciation & amortization	$8	$11	$15	$12
Adjusted EBITDA	($139)	($138)	($151)	($184)

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

Transportation – XPO Logistics (RemainCo)

The **Transportation** segment primarily provides asset-based, over-the-road, LTL transportation services (~43% of segment sales in 2020), as well as non-asset-based truck brokerage (TB) services (~42% of segment sales in 2020), along with so-called last-mile logistics (~9%), managed transportation (3%), and global freight forwarding services (3% of segment sales in 2020), in North America (NA) and Europe. In terms of the geographic split, ~72.5% of Transportation segment sales, including the bulk of its LTL and TB offerings along with all its last-mile and managed transportation services, are generated in North America, while 24.5% of segment sales, primarily LTL and TB, are generated in Europe (with the remainder being comprised of its global forwarding services).

Less-than-truckload transportation, as the name suggests, primarily serves shippers with less than a full truckload of freight (typically less than 10,000 lbs.) and involves the movement of goods for multiple customers on a single truck. By its nature, the LTL transportation model takes a "hub and spoke" approach that could be conceptually thought of as akin to a postal or parcel service, but for heavier freight. Roughly 80% (or ~$3.6 billion) of XPO's LTL revenue is generated in North America, where its network of 290 terminals/service centers, 7,800 tractors, and 25,000 trailers facilitate service of more than 75,000 next-day and second-day delivery lanes (XPO's U.S. LTL footprint largely reflects the legacy operations of Con-Way Freight [formerly NYSE: CNW], which XPO purchased for ~$3 billion in October 2015). By revenue, XPO is the third largest LTL player in North America behind FedEx Freight (NYSE: FDX) and Old Dominion Freight Line (NASDAQ: ODFL). Other competitors in the relatively consolidated NA LTL market, where the top 10 players control ~70% of the $40-$50 billion market (and the top 25 well above 80% of the market), include Yellow Corp. (NASDAQ: YELL), Estes Express (private), UPS Freight (NYSE: UPS), ArcBest Corp. (NASDAQ: ARCB), Saia, Inc. (NASDAQ: SAIA), R + L Carriers (private), and Southeastern Freight Lines (private).

Truck brokerage (TB) takes a non-asset-based approach to matching shippers' loads with third-party capacity; to that end, XPO is the "middleman" between those with freight to ship, in this case typically a full truckload, and those with the capacity/equipment to move it. On the capacity side, it can be noted that in stark comparison to the LTL market, the ~$350 billion U.S. truckload or TL transportation market remains highly fragmented, with the top 10 players controlling less than 10% of the market and the top 50 less than 30%. The U.S. brokerage market is also relatively fragmented, with over 10,000 players, of which only about ten generate more than $200 million of annual net revenue. In its brokerage operation, XPO does not own the physical transportation assets but rather leverages its proprietary technology platform and relationships with some 60,000 carriers in North America (and 75,000 globally) to help meet the shipping needs of a diverse customer base across myriad sectors, such as retail/e-commerce (23% of 2020 revenue), food & beverage (21%), industrial & manufacturing (19%), transportation & logistics (12%), agriculture & chemicals (4%), automotive (5%), and consumer (5%), among others (11% of 2020 revenue). XPO is the third largest brokerage player in North America, where TB generated ~62% of its sales in 2020, behind C.H Robinson (NASDAQ: CHRW) and Total Quality Logistics (private), and the second largest globally (with strong positions in the U.K., France, Spain, Portugal, and Morocco). Other competitors include Coyote Logistics, which was purchased by UPS (NYSE: UPS) in 2015, Echo Global Logistics (NASDAQ: ECHO), Landstar (NASDAQ: LSTR), Worldwide Express (private), and GlobalTranz (private), as well as brokerage divisions of trucking companies such as J.B. Hunt (NASDAQ: JBHT). Among the company's other non-asset-based services, which include managed transportation and global forwarding, we would highlight the so-called last-mile logistics business, which facilitates the delivery of heavy goods, such as appliances, electronics, and furniture, directly to the consumer's home (often with installation or so-called "white glove" service) as an attractive growth opportunity, given the increasing penetration of e-commerce.

In 2017-2019, following the acquisition of CNW (~$5.2 billion of annual sales, ex truckload) in late 2015, XPO's Transportation segment posted primarily organic compound annual top-line growth of 2.5%, with an ~11% CAGR for adjusted EBITDA. In 2020, segment sales fell~4.5% to $10.2 billion, primarily due to the impact of COVID-19 (along with lower fuel revenue), with an ~26% decline in adjusted operating income to $606 million and a 16% decline in adjusted EBITDA to $1.06 billion (see Exhibit 2). As illustrated in Exhibit 3, Transportation's North American LTL operation represents the bulk of segment profitability, which, along with the company's North American truck brokerage (~3% operating margin) and last-mile business lines, suggests that the company's European operations, primarily LTL and TB, make a minimal contribution from an operating profit perspective (but where the opportunity for improvement will clearly be a management focus in the next several years). As well, we would note that from a profitability perspective, XPO's LTL business compares favorably with peers, with only Old Dominion posting a lower operating ratio, which is an industry-specific metric for profitability that is simply the inverse of a traditional operating margin calculation; as such, lower is better (see Exhibit 3).

Exhibit 3 XPO Logistics, Inc.: North American LTL Operating Statistics (2019-2020) and Peer Profitability Comparison
(operating income, adj. operating income, and EBITDA in $ millions)

	2019	2020
Lbs. per day (thousands)	73,059	67,725
Shipments per day	52,079	48,875
Avg. lbs. per shipment	1,403	1,386
Gross rev. per shipment	$293.20	$296.90
Gross rev. per hundredweight	$21.16	$21.16
Avg. length of haul (miles)	811.7	825.7
Avg. age of tractor fleet (years)	5.07	4.84
Operating income	$597	$487
Operating ratio (OR)	84.3%	86.2%
Adj. operating income	$656	$573
Adj. operating ratio (OR)	82.7%	83.8%
Adj. EBITDA	$851	$764
LTL peer profitability (OR)		
Old Dominion (ODFL)	80.1%	77.4%
Saia (SAIA)	91.5%	90.1%
FDX Freight (FDX)	93.5%	91.8%
ArcBest (ARCB)	95.2%	95.3%
Yellow Corp. (YELL)	99.7%	98.7%

Source: Company reports.

Outlook: Transportation

Within the broadly constructive outlook for freight transportation, for which the American Trucking Association (ATA) has pegged average annual growth in general freight tonnage at 2.8% during the 2021-2031 period and growth in trucking volumes at 4.9% in 2021, followed by average annual growth of 3.2% per year through 2026, we would note that, in our estimation, U.S. industrial production is also a solid barometer for the less-than-truckload sector specifically. In that regard, Trading Economics estimates U.S. industrial production growth of 3.6% in 2022 and 3.2% in 2023, while the Congressional Budget Office forecasts broader growth in gross domestic product (GDP) to be 3.7% in 2021, 2.4% in 2022, and 2.3% in 2023. Longer term, while acknowledging that the sector is clearly still cyclical, we would note that pricing discipline within the highly consolidated LTL sector, which has high barriers to entry, has tended to serve as a mitigating factor for the industry during periods of economic contraction. With respect to truck brokerage, with the tailwinds for growth from outsourcing and just-in-time inventory management, which has helped drive the industry's penetration rate to ~20% in 2020 (from 10% in 2008; potentially reaching 30%-plus in 2030), as well as e-commerce and last-mile delivery, most industry estimates suggest the brokerage industry will outpace growth in the broader transport industry (and GDP) over the next decade. (As well, while we would note that the asset-light model reduces overall cyclicality, gross margin can be sensitive to shifts in underlying industry capacity.) As it relates to XPO specifically, management recently indicated, anecdotally, that, given current trends, its North American LTL segment should experience "operating ratio improvement of at least a couple of hundred basis points excluding real estate" in 2021. Longer term, the company has set a target for the North American LTL operation to achieve adjusted EBITDA of at least $1 billion in 2022, as it continues to optimize its pricing, routing (for both line-haul and pickup & delivery), and asset utilization technology. On the North American truck brokerage side, Armstrong & Associates predicts the U.S. brokerage market will grow in excess of 5% over the next five years, and XPO management expects to narrow the gap in profitability (~200-300 bps) with best-in-class peers such as CHRW, which sported an operating margin of ~5.0%-5.5% in 2019-2020.

Assuming compound annual top-line growth of ~6% in 2021-2022, with incremental margins in the mid-30%s at the North American LTL segment, which is conservative relative to the aforementioned anecdotal guidance, and only modest improvements in profitability in the remaining business lines, it is possible to derive 2022E segment sales and adjusted EBITDA of $11.45 billion and $1.46 billion, respectively.

Logistics – GXO Logistics (SpinCo)

The **Logistics** segment designs, implements, and manages supply chains for customers; to that end, the company operates ~212 million sq. ft. of global warehouse space across 890 locations in 27 countries and provides services, such as e-commerce fulfilment, warehousing & distribution, inventory management, reverse logistics (i.e., returns), cold-chain logistics (i.e., for temperature-sensitive goods), packaging & labeling, and factory & aftermarket support (i.e., procurement, sub-assembly, and tracking) to the retail/e-commerce (39% of 2020 segment sales), food & beverage (13%), consumer & packaged goods (13%), and consumer electronic/technology (11%) sectors, among others (24% of segment sales in 2020). In terms of geographic dispersion, XPO has 103 million sq. ft. of warehouse capacity in Europe, 101 million sq. ft. in the U.S., and ~8 million sq. ft. in Asia. By revenue, the company generates ~61% of sales in Europe and ~39% in North America, with a large majority of revenue from the U.S., U.K., France, and Spain.

Logistics is an asset-light business (e.g., more than 40% of its facilities are owned or leased by customers), with relatively low cyclicality, long-term contractual relationships (i.e., five years or more), and high renewal rates (i.e., better than 95%), and one where XPO has established itself as a leader, not only in terms of scale, as it is the second largest player (behind Deutsche Post AG [DPW GR]) in a ~$130 billion market, but also in technological sophistication, most notably in terms of the use of automation & robotics. Other competitors include Ceva Logistics (part of privately held CMA CGM Group), Clipper Logistics (CLG LN), DB Schenker (private), DSV Panalpina (DSV DC), Kuehne + Nagel (KNIN SW), and UPS Supply Chain (NYSE: UPS).

In 2017-2019, following several acquisitions in 2014-2015, including New Breed (~$597 million in annual sales) in late 2014 and Norbert Dentressangle (~$5.5 billion in annual sales) in mid-2015, XPO's Logistics segment posted primarily organic compound annual top-line growth of almost 9%, despite the loss of ~$600 million worth of business with Amazon (NASDAQ: AMZN), which took about two thirds of its outsourcing spend in-house during 2019, and posted a ~15% CAGR in adjusted EBITDA. In 2020, segment sales increased 1.5% to ~$6.2 billion, primarily driven by growth in its European business, which more than offset the impact of COVID-19 as well as the elimination of some low-margin businesses and the ongoing impact of Amazon's in-sourcing initiative, while adjusted operating income declined ~21.5% to $217 million and adjusted EBITDA fell less than 5% to $518 million (see Exhibit 2).

Logistics Spin-Off – GXO Logistics, Inc.

In January 2020, XPO announced a strategic review to explore the potential spin-off or sale of one or more of its business lines, with the exception of its North American less-than-truckload business. Given market conditions amid the burgeoning COVID-19 pandemic, the review was terminated in March 2020. Subsequently, on December 2, 2020, the company announced plans to separate its contract logistics segment from its freight transportation business in a tax-free spin-off to shareholders, which is expected to be completed in 2H 2021 subject to conditions, including the effectiveness of a Form 10 registration statement, which has been confidentially filed with the SEC, and receipt of final Board approval. The standalone contract logistics business, which will adopt the corporate moniker GXO Logistics, is expected to trade on the New York Stock Exchange (NYSE), although management has stated that the spin company is likely to pursue a dual listing on the London Stock Exchange at some point. (As an aside, the corporate moniker GXO is meant to represent the "game-changing" opportunities it brings to its customers, along with a "nod" to its XPO heritage.) Post-spin, Brad Jacobs, XPO's current chairman and chief executive, will retain those positions at RemainCo, which will maintain the current corporate moniker, XPO Logistics, while also serving as chairman at GXO Logistics, where Malcolm Wilson, who was formerly the head of logistics for Norbert Dentressangle and is currently the chief executive of XPO Logistics Europe, will take the helm as chief executive officer (CEO). In other executive appointments, XPO's current president, Troy Cooper, chief information officer (CIO) Mario Harik, and chief financial officer (CFO) David Wyshner, will also continue in their positions at XPO RemainCo. GXO Logistics recently announced that Sandeep Sakharkar, XPO's current senior vice president (SVP) of logistics technology, would be its CIO, and that Baris Oran, formerly the CFO of Turkish-based Sabanci Holdings (SAHOL TI), would be its chief financial officer. It currently remains in the process of identifying highly qualified candidates for other executive positions as well as for the remainder of its Board.

The impending transaction seems 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 seemingly trade at persistent discounts to their most relevant peers. In pursuit of narrowing this discount, XPO is seeking to both simplify the company (hence the spin-off, which essentially separates its freight-moving and warehousing businesses) and achieve investment-grade credit ratings at both RemainCo and GXO. (In terms of the latter, although the company is still in discussions with rating agencies on how to optimally allocate debt, it seems likely that the bulk of near-term free cash flow, which is projected to be $600-$700 million in 2021, will be deployed toward leverage reduction.) As well, the company sees potential commercial benefits from more focused management and capital allocation, particularly in regard to specialized technology requirements, as well as from having pure-play equity currencies that could facilitate longer-term M&A. With respect to potential dis-synergies, management anecdotally suggests that $10-$20 million of potential incremental costs will likely be offset by operating efficiencies, of which management sees, on a combined basis, $700 million-$1.0 billion looking toward 2023-2024.

Outlook: GXO Logistics

In our estimation, the contract logistics industry stands to continue benefiting from a trend toward outsourcing as well as, more importantly, secular growth in e-commerce fulfilment (and omnichannel retailing), which, per Transport Intelligence, is growing in excess of 10% annually. Moreover, as a leader in automation/robotics (and the use of technology more broadly), we view XPO as critical to its customers' need to increase the speed, efficiency, and accuracy of their supply chains, which are likely to become increasingly fragmented, while reducing costs (as e-commerce can be significantly more labor intensive than brick & mortar retailing). In that context, we do not think it is unreasonable to expect high-single-digit/low-double-digit organic growth over the next several years. For 2021, it should be noted that in January 2021, XPO closed on the acquisition of Kuehne + Nagel's U.K. contract logistics operations (~$585 million of annual sales in 2020 and projected sales of ~$600 million in 2021) and has indicated it has several "high-profile" engagements/contracts commencing, including the operation of a fully automated facility in the Netherlands for Danone's (BN FP) healthcare products business, Nutricia. As well, on March 30, the company announced that its 638,000 sq. ft. facility in Leicestershire, England, which serves Nestle (NESN SW) and is billed as the Digital Distribution Warehouse of the Future, had ramped up to full operation (following its opening in 2H 2020). More specifically, the company has anecdotally indicated the expectation that segment adjusted EBITDA could advance 24%-29% for full year 2021. Additionally, the company has anecdotally discussed the expectation that incremental margins on organic growth could be "into the 20%s," which, by our calculation, suggests the segment's adjusted EBITDA margin could expand into the double-digit range over the next several years.

Assuming compound annual top-line growth of ~11.5% in 2021-2022, with incremental margins in the low double-digits, which, again, seems conservative relative to the aforementioned anecdotal guidance, 2022E segment sales and adjusted EBITDA of $7.7 billion and $735 million, respectively, could be projected.

Balance Sheet/Cash Flow

XPO ended 2020 with net debt of $4.65 billion, comprised of $2.05 billion in cash and $6.7 billion in debt, and a net leverage ratio of 3.3x (see Exhibit 4). In early March 2021, XPO closed a refinancing of its existing $2 billion term loan, which previously had a $1.5 billion term B facility that bore interest at LIBOR plus 2.0%, as well as a $500 million term B-1 facility that bore interest at LIBOR plus 2.5%. The refinanced facility, which still matures in February 2025, bears interest of LIBOR plus 1.75%. This transaction, along with ~$1.2 billion of debt the company indicated was repaid in January 2021, is expected, per management, to reduce annual interest expense by ~$86 million (for context, XPO's previous guidance for 2021 interest expense was $275-$285 million). Currently, XPO's credit rating, per Moody's and S&P, is Ba2 and BB-, respectively; the company indicates it remains in discussion with the rating agencies to finalize the optimal distribution of debt post-spin, but that its stated goal is for both standalone companies to ultimately achieve investment-grade status. While we will make more granular forecasts of allocation of debt upon further management disclosure, it is our initial expectation that the post-spin Logistics business, GXO Logistics, would likely be levered around 1.0x (or less), implying that the post-spin Transportation company, XPO Logistics, would have a leverage ratio of ~2.5x-3.0x. In its pursuit of an investment-grade credit rating, which management strives to achieve "as soon as practically possible," the company is cognizant that it is "going to have to bring the leverage levels down." To that end, it could be reasonably assumed that the main use of free cash flow, which management forecasts will be $600-$700 million (based on a capital spending budget, net of asset disposals, of $475-$525 million) in 2021, will be toward leverage reduction, at least in the near term (as we discern that M&A is likely a longer-term possibility).

Exhibit 4 XPO Logistics, Inc.: Historical Balance Sheet and Free Cash Flow
($ in millions)

	2017	2018	2019	2020
Cash	$397	$502	$377	$2,054
Short-term debt	$104	$367	$84	$1,338
Long-term debt	$4,418	$3,902	$5,182	$5,369
Total debt	$4,522	$4,269	$5,266	$6,707
Net debt	$4,125	$3,767	$4,889	$4,653
Leverage ratio	3.3x	2.7x	3.2x	4.8x
Leverage ratio, net	3.0x	2.4x	2.9x	3.3x
Net cash from operations	$785	$1,102	$977	$885
Net capital expenditures	($386)	($408)	($349)	($331)
Free cash flow	$399	$694	$628	$554

Source: Company reports.

Exhibit 5 XPO Logistics, Inc.: Comparable Analysis Table

($ in millions, except per share data; shares in millions)

4/6/2021	XPO Logistics Inc	Old Dominion Freight Line Inc	Saia Inc	ArcBest Corp	FedEx Corp	Yellow Corp	CH Robinson Worldwide Inc	Echo Global Logistics Inc	Landstar System Inc	JB Hunt Transport Services Inc	Expeditors International of Washington Inc	Hub Group Inc	Clipper Logistics PLC	Deutsche Post AG	DSV PANALPINA A/S	Kuehne + Nagel International AG	United Parcel Service Inc
Ticker	**XPO**	**ODFL**	**SAIA**	**ARCB**	**FDX**	**YELL**	**CHRW**	**ECHO**	**LSTR**	**JBHT**	**EXPD**	**HUBG**	**CLG LN**	**DPW GR**	**DSV DC**	**KNIN SW**	**UPS**
Price	$125.50	$244.59	$228.67	$72.15	$282.17	$9.14	$97.56	$32.38	$168.64	$169.30	$109.94	$66.64	$617.00	$47.19	$1,251.50	$274.30	$172.97
Shares Out	102.2	116.9	26.3	25.4	265.3	51.2	131.1	26.6	38.4	105.7	168.7	33.8	101.8	1,239.1	230.0	120.0	721.4
M Cap	12,826.6	28,601.6	6,020.8	1,832.3	74,871.6	467.8	12,794.2	861.6	6,477.2	17,895.9	18,546.2	2,294.7	627.8	58,465.0	287,845.0	32,916.0	150,382.4
Cash & Equiv	2,054.0	731.7	25.3	369.4	8,856.0	439.3	243.8	41.3	290.7	313.3	1,527.8	124.5	-	4,563.0	4,060.0	1,697.0	6,316.0
Minority Interest	140.0	-	-	-	-	-	-	-	-	-	3.6	-	-	301.0	(88.0)	6.0	12.0
Total Debt	6,707.0	99.9	71.0	284.2	23,443.0	1,225.4	1,093.3	133.9	175.5	1,305.4	-	272.2	-	8,585.0	8,881.0	402.0	24,654.0
Net Debt	4,793.0	(631.8)	45.7	(85.1)	14,587.0	786.1	849.5	92.6	(115.2)	992.1	(1,524.2)	147.7	-	4,323.0	4,733.0	(1,289.0)	18,350.0
EV	17,620.6	27,969.9	6,066.5	1,747.1	89,458.6	1,253.9	13,643.7	954.2	6,362.0	18,888.0	17,022.0	2,442.3	631.5	62,788.0	292,578.0	31,627.0	168,732.4
Revenue																	
2019	16,648.0	4,109.1	1,786.7	2,988.3	69,693.0	4,871.2	15,309.5	2,185.0	4,089.6	9,165.3	8,175.4	3,668.1	460.2	63,341.0	94,701.0	21,094.0	74,094.0
2020E	15,835.1	3,988.5	1,820.8	2,927.1	68,285.6	4,508.0	15,875.7	2,460.2	4,035.8	9,489.1	9,413.9	3,473.6	506.3	66,714.4	114,771.0	23,590.8	82,587.7
2021E	18,148.8	4,651.6	2,043.8	3,355.9	81,871.1	4,866.0	17,477.0	2,876.2	4,691.5	10,853.6	10,512.3	3,989.6	659.7	70,270.5	121,701.5	23,592.3	87,600.9
2022E	18,952.7	5,084.0	2,208.3	3,464.6	85,728.0	5,062.3	17,886.1	2,917.3	4,749.4	11,723.4	10,348.0	4,230.4	743.3	72,468.0	126,863.9	24,717.2	90,905.2
EV / Sales																	
2019	1.1x	6.8x	3.4x	0.6x	1.3x	0.3x	0.9x	0.4x	1.6x	2.1x	2.1x	0.7x	1.4x	1.0x	3.1x	1.5x	2.3x
2020E	1.1x	7.0x	3.3x	0.6x	1.3x	0.3x	0.9x	0.4x	1.6x	2.0x	1.8x	0.7x	1.2x	0.9x	2.5x	1.3x	2.0x
2021E	1.0x	6.0x	3.0x	0.5x	1.1x	0.3x	0.8x	0.3x	1.4x	1.7x	1.6x	0.6x	1.0x	0.9x	2.4x	1.3x	1.9x
2022E	0.9x	5.5x	2.7x	0.5x	1.0x	0.2x	0.8x	0.3x	1.3x	1.6x	1.6x	0.6x	0.8x	0.9x	2.3x	1.3x	1.9x
EBITDA		26.6%	16.5%				6.3%						6.4%	12.1%	10.6%	8.2%	
2019	2,200.0	1,093.2	294.6	242.2	8,573.0	335.2	958.9	79.9	341.9	1,353.7	899.6	287.4	29.4	7,638.0	10,034.0	1,732.0	11,153.0
2020E	1,329.9	1,162.6	312.4	226.3	6,426.2	194.0	750.0	74.8	300.2	1,231.1	959.6	231.5	34.3	8,552.3	13,646.9	1,854.4	10,747.7
2021E	1,769.9	1,422.4	388.1	275.3	9,830.3	297.3	891.2	96.8	384.5	1,464.5	1,024.3	278.7	79.2	9,586.8	15,510.2	1,903.8	12,493.1
2022E	1,931.5	1,586.5	440.2	294.6	10,774.3	334.8	948.6	101.4	392.9	1,622.4	1,044.9	314.8	86.4	10,024.2	16,115.4	2,014.9	13,383.4
EV / EBITDA																	
2018	11.9x	26.7x	24.9x	7.5x	11.3x	3.9x	13.5x	10.5x	17.0x	16.7x	20.0x	11.8x	23.7x	9.4x	47.1x	26.9x	17.6x
2019	8.0x	25.6x	20.6x	7.2x	10.4x	3.7x	14.2x	11.9x	18.6x	14.0x	18.9x	8.5x	21.5x	8.2x	29.2x	18.3x	15.1x
2020E	13.2x	24.1x	19.4x	7.7x	13.9x	6.5x	18.2x	12.8x	21.2x	15.3x	17.7x	10.6x	18.4x	7.3x	21.4x	17.1x	15.7x
2021E	10.0x	19.7x	15.6x	6.3x	9.1x	4.2x	15.3x	9.9x	16.5x	12.9x	16.6x	8.8x	8.0x	6.5x	18.9x	16.6x	13.5x
2022E	**9.1x**	**17.6x**	**13.8x**	**5.9x**	**8.3x**	**3.7x**	**14.4x**	**9.4x**	**16.2x**	**11.6x**	**16.3x**	**7.8x**	**7.3x**	**6.3x**	**18.2x**	**15.7x**	**12.6x**
EPS																	
2019	$3.28	$5.15	$4.29	$2.71	$15.56	($2.90)	$4.19	$0.58	$5.70	$5.33	$3.39	$3.38	$0.13	$1.98	$20.32	$6.04	$7.53
2020E	$1.43	$5.64	$5.01	$3.18	$8.67	($1.58)	$3.61	$1.22	$5.04	$4.66	$3.99	$2.29	$0.15	$2.76	$27.47	$6.43	$7.70
2021E	$5.37	$7.22	$6.75	$4.13	$17.66	($0.37)	$4.34	$1.83	$6.62	$6.15	$4.21	$3.14	$0.23	$2.89	$36.85	$7.58	$8.92
2022E	$6.24	$8.25	$7.89	$4.48	$19.47	$0.17	$4.70	$1.90	$6.95	$7.18	$4.34	$3.79	$0.28	$3.08	$40.71	$8.25	$9.64
P/E																	
2019	38.3x	47.5x	53.3x	26.7x	18.1x	-3.2x	23.3x	55.6x	29.6x	31.7x	32.4x	19.7x	4577.9x	23.8x	61.6x	45.4x	23.0x
2020E	87.6x	43.4x	45.7x	22.7x	32.5x	-5.8x	27.1x	26.7x	33.5x	36.4x	27.5x	29.0x	4226.0x	17.1x	45.6x	42.6x	22.5x
2021E	23.4x	33.9x	33.9x	17.5x	16.0x	-24.9x	22.5x	17.7x	25.5x	27.5x	26.1x	21.3x	2730.1x	16.3x	34.0x	36.2x	19.4x
2022E	20.1x	29.6x	29.0x			52.8x	20.8x	17.1x	24.3x	23.6x	25.3x	17.6x	2235.5x	15.3x	30.7x	33.3x	17.9x
P/B	4.7x	8.6x	6.2x	2.2x	3.4x	-	7.0x	2.1x	9.4x	6.9x	7.0x	2.0x	17.7x	4.2x	6.0x	13.6x	201.9x
Dividend Yield	0.0%	0.2%	0.0%	0.4%	1.2%	0.0%	2.1%	0.0%	1.7%	0.6%	0.9%	0.0%	2.7%	-	-	-	2.3%
FCF Yield	3.1%	2.5%	1.3%	8.9%	5.2%	14.8%	3.6%	5.0%	2.8%	2.1%	3.3%	2.7%	14.4%	7.3%	3.2%	4.6%	7.4%
ROE	12.2%	21.4%	15.1%	5.4%	2.9%	-	35.3%	3.8%	32.3%	23.6%	28.2%	10.4%	32.5%	18.9%	11.6%	34.4%	141.2%
ROIC	6.1%	19.0%	11.4%	4.8%	17.6%	-0.4%	19.4%	3.9%	24.8%	13.4%	24.8%	7.5%	18.2%	9.8%	10.8%	18.1%	25.3%
Operating ROIC	9.8%	25.5%	15.1%	5.8%	11.9%	7.9%	25.3%	6.2%	32.1%	17.8%	34.2%	10.1%	19.6%	13.6%	14.7%	23.7%	26.2%
Leverage Ratio (2021)	2.7x	-	0.1x	-	1.5x	2.6x	1.0x	1.0x	-	0.7x	-	0.5x	-	0.5x	0.3x	-	1.5x
Leverage ratio (2022)	2.5x	-	0.1x	-	1.4x	2.3x	0.9x	0.9x	-	0.6x	-	0.5x	-	0.4x	0.3x	-	1.4x

Source: Bloomberg.

VALUATION ANALYSIS

As mentioned previously, XPO has filed its Form 10 confidentiality and remains in discussions with the rating agencies to finalize the optimal distribution of debt (with an eye toward both standalone companies ultimately achieving investment-grade status). To that end, we will update our forecasts to include a more granular allocation of debt as disclosures evolve; that said, our initial expectation is that the post-spin Logistics business, GXO Logistics, would likely be levered around 1.0x, implying that the post-spin Transportation company, XPO Logistics, would have a leverage ratio of ~2.7x (based on 2022E EBITDA). As well, it is assumed that corporate costs are distributed on a pro rata basis, based on adjusted EBITDA, and that the share distribution is on a 1:1 basis, based on a fully diluted share count of 113 million.

Valuation: Transportation – XPO Logistics, Inc. (RemainCo)

In 2020, Transportation segment sales fell~4.5% to $10.2 billion, primarily due to the impact of COVID-19 (along with lower fuel revenue), with an ~26% decline in adjusted operating income to $606 million and a 16% decline in adjusted EBITDA to $1.06 billion. Assuming compound annual top-line growth of ~6% in 2021-2022 with incremental margins in the mid-30%s at the North American LTL segment (which, in our estimation, is conservative relative to XPO's anecdotal guidance), and only modest improvements in profitability in the remaining business lines, 2022E segment sales and adjusted EBITDA of $11.45 billion and $1.45 billion, respectively, could be derived. In our estimation, the best pure-play, non-union peers to XPO Transportation's LTL operation are Old Dominion Freight Line (NASDAQ: ODFL) and Saia, Inc. (NASDAQ: SAIA), which trade at ~15.5x 2022E EV/EBITDA (in a range of ~14.0x-17.5x; see Exhibit 5). In contrast, we would note that FedEx Freight is ultimately a small part of FedEx (NYSE: FDX), which is primarily a parcel concern, and that Yellow Corp. (NASDAQ: YELL) and ArcBest (NASDAQ: ARCB) are unionized and far less profitable (see Exhibit 3). Peers to XPO Transportation's truck brokerage (TB) operation include C.H. Robinson (NASDAQ: CHRW), Echo Global Logistics (NASDAQ: ECHO), and Landstar System (NASDAQ: LSTR) as well as, to a lesser degree, other trucking companies with brokerage divisions, such as J.B. Hunt (NASDAQ: JBHT) and other brokers, such as Expeditors International (NASDAQ: EXPD) and Hub Group (NASDAQ: HUBG), that focus on different areas of the market, such as air, ocean, and rail transport. On average, this group trades at about ~12.5x (in a range of ~8x-16x). Applying a blended multiple of 12.5x, which reflects a 14x multiple on the LTL business and a 9.5x multiple on the remaining business, to 2022E segment EBITDA, less pro rata corporate costs, implies a segment enterprise value of ~$16.4 billion. Accounting for pro rata and net debt implies standalone segment value of ~$12.5 billion, or ~$111 per share (see Exhibit 6).

Exhibit 6 Transportation: Fair Value Estimate Based on 2022E EBITDA

($ in millions, except per share data; shares in millions)

2020A Revenue	$10,199
Growth	8.4%
2021E Revenue	$11,039
Growth	3.3%
2022E Revenue	$11,456
Margin	12.7%
Adj. segment EBITDA	$1,460
Corporate expense	($146)
Adj. EBITDA	$1,314
Multiple	12.5x
Enterprise value	$16,423
Net debt	($3,918)
Market capitalization	$12,505
Shares outstanding	113
FVE/per share	$110.67

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

Valuation: Logistics – GXO Logistics, Inc. (SpinCo)

In 2020, Logistics segment sales increased 1.5% to ~$6.2 billion, primarily driven by growth in its European business, which more than offset the impact of COVID-19, as well as the elimination of some low-margin businesses and the ongoing impact of Amazon's in-sourcing initiative, with a ~21.5% decline in adjusted operating income to $217 million and a less than 5% decline in adjusted EBITDA to $518 million. Assuming compound annual top-line growth of ~11.5% in 2021-2022 with incremental margins in the low double-digits, which, again, seems conservative relative to the aforementioned anecdotal guidance, 2022E segment sales and adjusted EBITDA of $7.65 billion and $729 million, respectively, could be derived. Public peers for Logistics are somewhat less plentiful than for Transportation, but could include Clipper Logistics (CLG LN), Deutsche Post (DPW GR), whose contract logistics arm is a relatively small piece of the overall busines, DSV Panalpina (DSV DC), Kuehne + Nagel (KNIN SW), and UPS Supply Chain (NYSE: UPS), which as a group trade, on average, at 12.0x 2022E EV/EBITDA (albeit in a wide range of ~6.5x-18.0x; see Exhibit 5). Additionally, on the M&A front, we would note that XPO's purchases of New Breed and Norbert Dentressangle in 2014 and 2015 were at 8.0x and 9.1x EV/EBITDA, respectively, and that in April 2020 AP Moeller – Maersk (MAERSKB DC) purchased Performance Team, a U.S.-based warehousing & distribution concern with ~20 facilities in North America, for $545 million (or ~6.1x 2019 EBITDA). For additional context, albeit perhaps less relevant given the source, it could be mentioned that when asked in a recent investor forum about what kind of valuation multiple the standalone contract logistics business should be awarded, Mr. Jacobs, XPO's chief executive, responded that as the largest outsourced e-fulfilment platform in Europe and a global leader in omnichannel logistics, reverse logistics, and cold-chain logistics, he thought a multiple in the "mid-to-high teens", more in-line with higher-valued peers such as DSV and KNIN, was "attainable" as investors became more educated about the business's capabilities.

Applying a multiple of 9.5x, which, for the sake of conservatism, is a discount to the peer average but roughly in line with XPO's current trading multiple (and the purchase multiple of its largest acquisition in the space), to 2022E segment EBITDA, less pro rata corporate costs, implies a segment enterprise value of almost $6.3 billion. Accounting for pro rata corporate costs, net debt, and minority interest implies standalone segment value of ~$5.4 billion, or ~$48 per share (see Exhibit 7).

Exhibit 7 GXO Logistics, Inc.: Fair Value Estimate Based on 2022E EBITDA
($ in millions, except per share data; shares in millions)

2020A Revenue	$6,182
Growth	16.3%
2021E Revenue	$7,187
Growth	7.3%
2022E Revenue	$7,713
Margin	9.5%
Adj. segment EBITDA	$735
Corporate expense	($74)
Adj. EBITDA	$661
Multiple	9.5x
Enterprise value	$6,284
Net debt	($735)
Minority interest	($140)
Market capitalization	$5,409
Shares outstanding	113
FVE/per share	$47.86

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

Thus, our initial pre-spin fair value estimate for XPO Logistics, Inc. is $159 per share (see Exhibit 8). Given the implied upside to our fair value estimate, we rate the shares of pre-spin XPO as a BUY.

Exhibit 8 XPO Logistics, Inc.: Pre-Spin Sum-of-the-Parts Fair Value Estimate
($ in millions, except per share data; shares in millions)

Transportation	$12,505
Logistics	$5,409
Total market capitalization	$17,914
Shares outstanding	113
FVE/share	$158.53
Current price	$125.50
Implied upside	*26.3%*

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

CONCLUSION

The impending spin-off at XPO Logistics, Inc. seems 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 seemingly trade at persistent discounts to their most relevant peers. In pursuit of narrowing this perceived discount, XPO is seeking to both simplify the company (hence the spin-off, which essentially separates its freight-moving and warehousing businesses) and achieve investment-grade credit ratings for both RemainCo and GXO. Although the company is still in discussion with rating agencies on how to optimally allocate debt, the spin-off will likely result in the bulk of near-term free cash flow, which is projected to be $600-$700 million in 2021, being deployed toward leverage reduction. As well, the company sees potential commercial benefits from more focused management and capital allocation, particularly in regard to each business's specialized technology requirements, as well as from having pure-play equity currencies that could facilitate longer-term M&A. In terms of potential dis-synergies, management anecdotally suggests that $10-$20 million of potential incremental costs will likely be offset by operating efficiencies, of which management sees, on a combined basis, $700 million-$1 billion looking toward 2023-2024.

On a consolidated basis, XPO currently trades at about 9.1x 2022E EV/EBITDA, whereas its most applicable LTL and truck brokerage peers trade at ~15.5x and 12.5x, respectively. Valuations for public peers in the contract logistics business are less consistent but average ~12.0x 2022E EV/EBITDA (albeit in a wide range of 6.5x-18.0x). In that context, amid solid underlying fundamentals, which we think could support incremental upside to our current forecasts, we see the opportunity for a re-rating across XPO's portfolio of businesses, particularly the LTL operation, which has consistently posted profitability at the high end of its peer group. In that regard, even assuming XPO's discount to peers simply narrows (but does not close) an initial pre-spin fair value estimate of $159 per share, comprised of $111 per share for XPO RemainCo, which will retain the XPO Logistics moniker post-spin, and $48 per share for GXO Logistics, is derived. Given the implied upside of more than 25% to our fair value estimate, we rate the shares of pre-spin XPO as a BUY. While our initial bias is toward the post-spin Transportation company, XPO Logistics, we think the contracts logistics business, GXO Logistics, will enjoy favorable secular tailwinds from growth in e-commerce fulfilment and could ultimately see more material upside in terms of improvements in its operating performance and the magnitude of its potential multiple expansion over the longer term.

Exhibit 9 XPO Logistics, Inc.: Consolidated Statements of Income (2018-2020)

(In millions, except per share data)	Years Ended December 31, 2020	2019	2018
Revenue	$ 16,252	$ 16,648	$ 17,279
Cost of transportation and services	7,852	8,303	9,013
Direct operating expense	5,837	5,679	5,725
Sales, general and administrative expense	2,172	1,845	1,837
Operating income	391	821	704
Other income	(79)	(54)	(109)
Foreign currency (gain) loss	(3)	9	3
Debt extinguishment loss	-	5	27
Interest expense	325	292	217
Income before income tax provision	148	569	566
Income tax provision	31	129	122
Net income	117	440	444
Net income attributable to noncontrolling interests	(7)	(21)	(22)
Net income attributable to XPO	110	419	422
Net income attributable to common shareholders	$ 79	$ 379	$ 390
Earnings per share data			
Basic earnings per share	$ 0.87	$ 3.95	$ 31.70
Diluted earnings per share	$ 0.78	$ 3.57	$ 2.88
Weighted-average common shares outstanding			
Basic weighted-average common shares outstanding	92	96	123
Diluted weighted-average common shares outstanding	102	106	135

Source: Company reports

Exhibit 10 XPO Logistics, Inc.: Consolidated Balance Sheets (2019-2020)

(In millions, except per share data)	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,054	$ 377
Accounts receivable, net of allowances	2,886	2,500
Other current assets	430	465
Total current assets	5,370	3,342
Long-term assets		
Property and equipment, net	2,661	2,704
Operating lease assets	2,278	2,245
Goodwill	4,599	4,450
Identifiable intangible assets, net	974	1,092
Other long-term assets	287	295
Total long-term assets	10,799	10,786
Total assets	16,169	14,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	1,255	1,157
Accrued expenses	1,814	1,414
Short-term borrowings and current maturities of long-term debt	1,338	84
Short-term operating lease liabilities	483	468
Other current liabilities	263	135
Total current liabilities	5,153	3,258
Long-term liabilities		
Long-term debt	5,369	5,182
Deferred tax liability	371	495
Employee benefit obligations	192	157
Long-term operating lease liabilities	1,795	1,776
Other long-term liabilities	440	364
Total long-term liabilities	8,167	7,974
Stockholders' equity		
Convertible perpetual preferred stock	1	41
Common stock	-	-
Additional paid-in capital	1,998	2,061
Retained earnings	868	786
Accumulated other comprehensive loss	(158)	(145)
Total stockholders' equity before noncontrolling interests	2,709	2,743
Noncontrolling interests	140	153
Total equity	2,849	2,896
Total liabilities and equity	$ 16,169	$ 14,128

Source: Company reports

Exhibit 11 XPO Logistics, Inc.: Consolidated Statements of Cash Flows (2018-2020)

	Years Ended December 31,		
(In millions)	**2020**	**2019**	**2018**
Operating activities			
Net income	117	440	444
Adjustments to reconcile net income to net cash from operating activities			
Depreciation, amortization and net lease activity	766	739	716
Stock compensation expense	59	67	49
Accretion of debt	21	21	15
Deferred tax (benefit) expense	(81)	46	45
Debt extinguishment loss	-	5	27
Unrealized (gain) loss on foreign currency option and forward contracts	(2)	9	(20)
Gain on sale of equity investment	-	-	(24)
Gains on sales of property and equipment	(92)	(110)	(8)
Other	45	21	8
Changes in assets and liabilities			
Accounts receivable	(382)	(67)	(13)
Other assets	28	(47)	(49)
Accounts payable	69	(120)	35
Accrued expenses and other liabilities	337	(213)	(123)
Net cash provided by operating activities	885	791	1,102
Investing activities			
Payment for purchases of property and equipment	(526)	(601)	(551)
Proceeds from sale of property and equipment	195	252	143
Cash collected on deferred purchase price receivable	-	186	-
Other	(26)	2	8
Net cash used in investing activities	(357)	(161)	(400)
Financing activities			
Proceeds from issuance of debt	1,155	1,754	1,074
Proceeds from borrowings related to securitization program	47	-	-
Repurchase of debt	-	-	(1,225)
Proceeds from borrowings on ABL facility	1,020	1,935	1,355
Repayment of borrowings on ABL facility	(820)	(1,935)	(1,455)
Repayment of debt and finance leases	(102)	(867)	(119)
Payment for debt issuance costs	(22)	(28)	(10)
Proceeds from forward sale settlement	-	-	349
Purchase of noncontrolling interests	(21)	(258)	-
Cash paid in connection with preferred stock conversion	(22)	-	-
Repurchase of common stock	(114)	(1,347)	(536)
Payment for tax withholdings for restricted shares	(26)	(14)	(53)
Other	41	1	-
Net cash provided by (used in) financing activities	1,136	(759)	(620)
Effect of exchange rates on cash, cash equivalents and restricted cash	14	2	(17)
Net increase (decrease) in cash, cash equivalents and restricted cash	1,678	(127)	65
Cash, cash equivalents and restricted cash, beginning of year	387	514	449
Cash, cash equivalents and restricted cash, end of year	2,065	387	514
Supplemental disclosure of cash flow information:			
Cash paid for interest	323	282	233
Cash paid for income taxes	65	121	70

Source: Company reports

Disclosures

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