

November 28th, 2017

Company Name: XPO

Kevin Boland

Sector: Industrials

Industry: Freight and Logistics

Current Price: \$76.57

Target Price: \$95.65

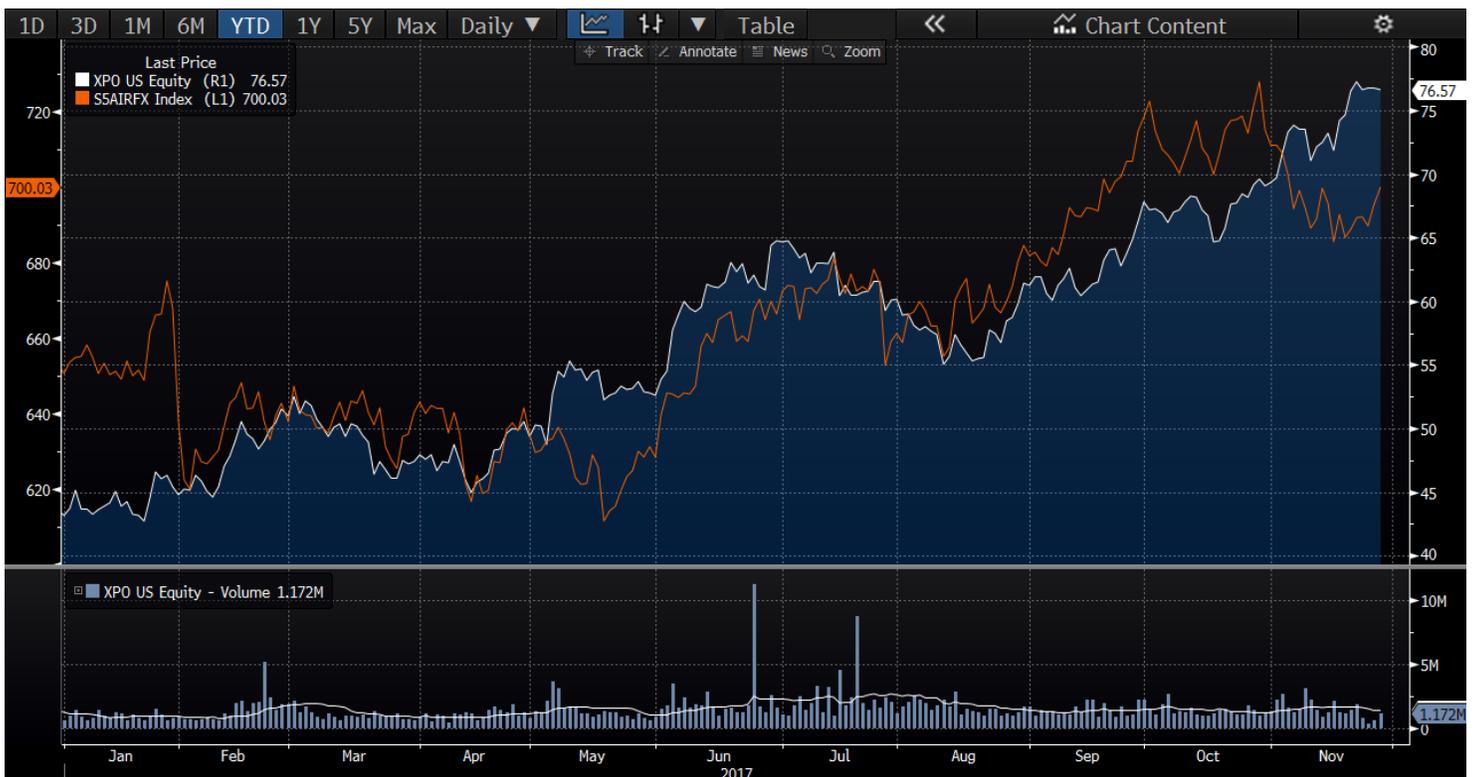
Company Description: XPO Logistics Inc. is a leading provider of transportation and logistics services to companies globally. The company operates as a highly integrated network of people, technology and physical assets. Through their two segments, Transportation and Logistics, XPO has built robust service offerings that are positioned to capitalize on fast growing areas of customer demand.

BUY

Current Price:	\$76.57
Target Price:	\$95.65
Market Cap:	9.2B
EBIDA Margin:	8.81%
EBITDA Growth:	11.95%
ROIC:	6.5%
WACC:	11.2%
D/E:	1.4

Catalysts:

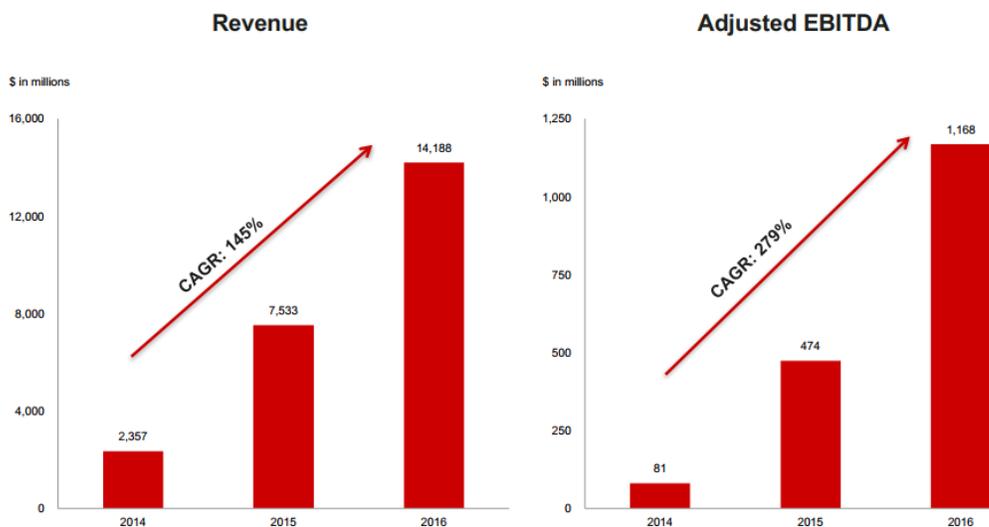
- **Short Term (within the year):** Q4 Earnings Report and benefits of 2015 acquisitions
- **Mid Term (1-2 years):** EBITDA growth through cost cutting focus
- **Long Term (3+):** Continued focus on expanding business through acquisitions



Thesis: In just a couple years, XPO has transformed itself from a company with an 800 million market cap to a major player in global freight and logistics. Through acquisitions in 2015, XPO has fostered a diverse product package that meets the many needs of their customers. The benefits of these acquisitions have just started to effect the stock price this year. We can continue to see these effects throughout the rest of the year and into 2018. While management is still looking into acquisitions for long-term growth, the company will maintain focus on internal operations. Cutting costs across the company will lead to a higher EBITDA margin that will offset any chance of stagnant sales. XPO's global share of their industry is growing fast and their strategy moving forward will be imperative to their future success.

Earnings Performance:

Industry-Leading Growth in Revenue and EBITDA



XPO Earnings have increased dramatically over the past few years. Revenues increased from \$702 million in 2013 to nearly \$15 billion in 2016. The company is starting to see the effects of past large acquisitions on their performance. Q3 2017 was no different, XPO reported record highs in revenues, net income and cash flow. Other historically negative metrics, such as EPS and Operating Income, have maintained positive numbers over the last two years. This quarter,

revenues increased 5% year-over-year to \$3.9 billion, including an organic revenue growth rate of 6.4%. Net income to common shareholders increased from \$14 million to \$58 million year-over-year. This equates to an increase in EPS from \$.11 to \$.44 over this same period. Operating income increased 15.8% to \$145 million and adjusted EBITDA increased by 4.6% to \$265 million. Both Transportation and Logistics experienced mid-single digit sales growth, demonstrating the company's consistency across their business segments. Management expects to maintain this sales growth while at the same time steadily improving margins. This year's goal of Adjusted EBITDA growth of 17% is well within reach and expected to be achieved by management. Overall, the quarter was quite successful and has given expectations for steady improvements across the board.

Business Segments:

Transportation:

The Transportation segment of XPO operates using the following lines of service: truck brokerage and transportation, last mile, less-than-truckload (LTL), intermodal and drayage, expedite and global forwarding. They are the second largest brokerage provider globally, including industry-leading positions in North America and Europe. In North America, they are the largest provider of last mile for heavy goods and second in LTL transportation. In Europe, XPO has the largest owned road transportation fleet. They are the leading LTL transportation and cover the regions that produce 90% of the Eurozone's GDP. This segment is the larger of the two, contributing to 63% of revenue. In Q3 2017, Transportation increased revenues 2.5% year-over-year to \$2.47 billion. Adjusted EBITDA also increased by 2.6% year-over-year to \$265 million. Management looks toward LTL and intermodal and drayage for additional growth opportunities. LTL covers 99% of all U.S. zip codes, delivering nearly 20 billion pounds of freight a year. Adjusted operating income here has nearly doubled in the past two years to \$433 million. Part of this is because of \$190 million run rate of savings. This success of cost control is a reason why management believes that LTL will reach \$1 billion of adjusted EBITDA within the next five years. In intermodal and drayage, XPO has one of the largest drayage networks in the country with access to over 25,000 drayage trucks. This market is favorable for XPO because of their Rail Optimizer technology. This growth engine and differentiator helped the company win its largest contract of all-time. With sales trends continuing to improve here, an opportunity for growth is well within XPO's grasp.

Logistics:

The Logistics segment operates through contract logistics, which build long-term relationships with customers. XPO is the second largest provider of contract logistics globally. This segment requires low CAPEX and leads to a strong free cash flow and ROIC. In Q3 2017, Logistics increased revenues 8.1% year-over-year to \$1.46 billion. This revenue increase can be attributed to the current high demand for contract logistics in Europe and North America. Adjusted EBITDA also increased by 7.4% year over year. This lower growth in Adjusted EBITDA growth can be due to higher direct operating costs related to new contract startups. With XPO's global position in this \$120 billion segment, the company expects to profit tremendously as contract logistics are expected to grow 2-3 times GDP. This business is also consistent and reliable, as XPO boasts a 95% renewal rate from their customers. Contract wins in late 2016 and early 2017 are ramping up now and will start to drive revenue growth when they come online in early 2018.

Leading Positions in Fast-Growing Industry Sectors

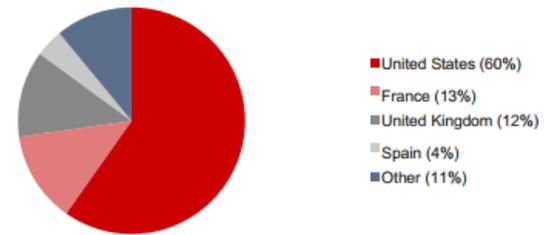
		As Percent of XPO's Gross Revenue ⁽¹⁾	Projected Industry Growth Rate X GDP ⁽²⁾
Contract Logistics	<ul style="list-style-type: none"> Second largest provider of contract logistics globally Largest outsourced e-fulfillment provider in Europe 	37%	2 – 3x
North American Less-Than-Truckload	<ul style="list-style-type: none"> Second largest LTL provider in North America More same-day and next-day lanes than any other provider 	24%	1 – 1.5x
European Transport	<ul style="list-style-type: none"> Largest provider of truck brokerage and largest owned fleet in Europe Leading provider of LTL in Western Europe 	17%	1 – 1.5x
Truck Brokerage, Expedite, Forwarding	<ul style="list-style-type: none"> Second largest freight brokerage firm globally Largest manager of expedited shipments in North America, with largest web-based auction TMS for expedite 	10%	2 – 4x
Intermodal and Drayage	<ul style="list-style-type: none"> Third largest intermodal provider in North America and a drayage leader A leader in cross-border Mexico freight movements by rail 	6%	3 – 5x
Last Mile Logistics	<ul style="list-style-type: none"> Largest last mile logistics provider for heavy goods in North America Expanding U.S. network hubs to 55 in 2017 and a targeted 85 in 2018 	6%	5 – 6x

Industry Analysis:

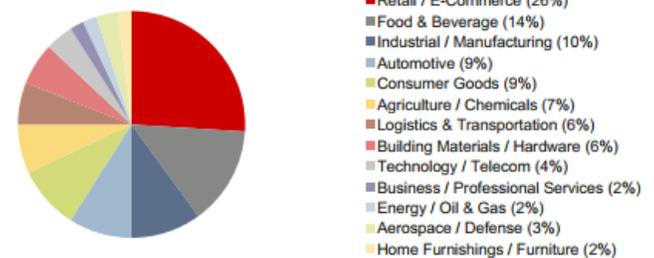
XPO is an industrial company that operates more specifically in the freight and logistics industry. This industry is large, growing and contains many unpenetrated market sectors. Many companies are seeking to consolidate their supply chain relationships, especially large companies with multinational footprints. XPO has strengths in scale, density, range and technology that are helpful in capturing this \$1 trillion opportunity. They currently have a 1.5% share of this addressable opportunity, which leaves them plenty of room to expand and capture a larger share. Since XPO has customers in different industries, their business can rely on the success of those industries. XPO believes they are not reliant on any one single industry because their customer base is so well diverse. Their largest customer industry is only 26% with many other areas of business to balance any low producing industry. XPO believes that their world-class service through technology and innovation will benefit them tremendously in an industry that requires precision.

Gross Revenue Profile

By Country of Operation



By Customer Vertical



Growth Strategy:

The stock price of XPO has done quite well this year, increasing just over 83% YTD. This large increase in price is a testament to the success and growth strategy of the company. Part of their past strategy has been to invest in mergers and acquisitions. Two of the company's biggest acquisitions occurred in 2015, where they bought Norbert Dentressangle (ND) for \$2.2 billion cash and Con-way for \$3 billion. These acquisitions have had tremendous effects on the company as revenue and EBITDA have grown 2,050% and 7,747% respectively. These massive changes in earnings have transformed XPO's business. Originally investors were skeptical of these massive deals and the stock price took a large hit. However, mainly over the past year the price has started to reflect the benefits of these deals. We can expect to see these benefits continue to flow throughout the rest of the year as these acquisitions continue to ascend to maturity phases. While management is still rigorously vetting possible acquisitions, they also have taken a great focus on their internal operations. The company recognizes areas within pricing, utilization, sales and workforce productivity, data analytics and warehouse automation as opportunities to cut costs and increase EBITDA Margin. Reported EBITDA Margin for 2016 was 8.2% and management expects that, with these initiatives, this number will rise to 10% by the end of 2018. These projected numbers stem from single digit sales growth over the next few years. This shows that management does not believe they need to rely heavily on sales to increase their EBITDA. Any unexpected drop in sales

	Before*	After^
Revenue	\$702.3 million	\$15.1 billion
Ebitda	-\$17 million	\$1.3 billion
Profit Margin	17.6%	47.2%
Market Value	\$802.8 million	\$9 billion

would not be as dramatic as it would be for other companies. XPO's sales organization is also much larger and more integrated than it was a year ago. They're maintaining a pipeline of over \$3 billion, while closing a record amount of new business. With these areas of growth recognized by management, they expect to outperform their industry going forward.

Competition:

XPO has performed relatively pedestrian when compared to their competition. They are hovering around the industry average for sales growth and EBITDA Margin. However, their EBITDA is growing twice as fast as their competitors which is where they want to continue their focus going forward. If they can follow through with their strategy and keep growing this margin it will give investors the confidence to invest and will improve the overall health of the company. Net Income growth was an astounding 205.31%. This can be attributed to lower interest rates and lower expenses for unusual items. XPO has been paying off their debt from acquisitions which is a reason why interest rates would be significantly lower. While we cannot rely on this major growth in net income going forward, the lower interest expenses are a great sign.

Name	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Net Income Growth (%)	Net Profit Margin
Median	7.80%	5.26%	10.83%	8.56%	4.03%
100) XPO LOGISTICS INC	4.05%	11.95%	8.81%	205.31%	1.62%
101) ARCBEST CORP	5.41%	14.19%	5.50%	55.51%	1.16%
102) ECHO GLOBAL LOGISTICS...	5.00%	-32.26%	2.04%	--	-0.41%
103) EXPEDITORS INTL WASH ...	10.07%	0.73%	10.83%	0.51%	6.50%
104) FEDEX CORP	15.55%	9.09%	13.64%	9.76%	5.21%
105) FORWARD AIR CORP	8.76%	5.26%	12.60%	-3.13%	4.66%
106) HUB GROUP INC-CL A	10.51%	-16.61%	3.79%	-30.78%	1.46%
107) OLD DOMINION FREIGHT ...	7.80%	11.81%	23.30%	11.81%	10.44%
108) SAIA INC	9.92%	12.58%	13.00%	8.56%	4.03%
109) UNITED PARCEL SERVICE...	6.57%	2.44%	16.44%	1.24%	8.20%

Ownership:

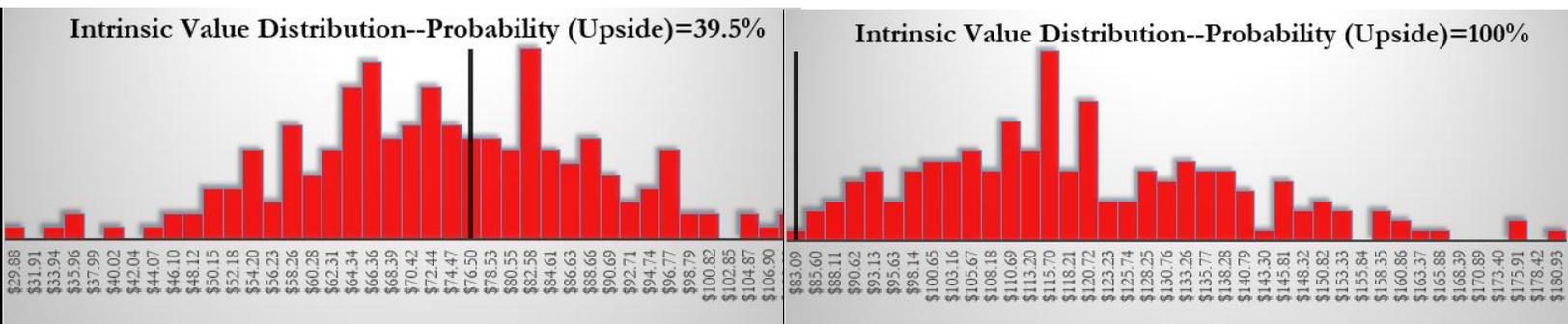
Compare Current Stats Against		11/26/16	
Ownership Type	11/20/16 ↓	Curr	Change
11) Investment Advisor	71.36	73.49	+2.13
12) Hedge Fund Manager	10.01	14.21	+4.20
13) Sovereign Wealth Fund	9.35	6.49	-2.86
14) Pension Fund	6.30	3.58	-2.72
15) Individual	1.12	0.84	-0.28
16) Brokerage	0.72	0.22	-0.50
17) Government	0.60	0.24	-0.36
18) Insurance Company	0.31	0.38	+0.07
19) Bank	0.15	0.46	+0.31
20) Holding Company	0.04	0.03	-0.01
21) Corporation	0.03	0.02	-0.01

XPO is owned mainly by Investor Advisors with 73.49% ownership. Hedge funds also have a sizeable position in the company with 14.21% ownership. Over the past year, these two categories of ownership have increased by 2.13% and 4.20% respectively. This shows that XPO's largest investors have remained confident in the company's ability to increase share price and want a greater chunk of the pie. Since

XPO's latest Q3 2017 earnings call hedge funds have increased their ownership by 1.63%. This reflects that hedge funds valued the information and results from the previous quarter. While short interest is relatively high at 13.56%, this figure has been steadily decreasing throughout the past few months.

What-If Analysis:

Using the Proforma, I was able to determine the extreme effects that the XPO stock price could face. In the bullish case I determined that we could see the one year target price increase to \$115.38 or a 50.68% return. In this scenario, I increased the continuing period revenue growth by .5% to 2.5% and decreased the Operating Cost/Revenue by 1% to 87.5%. This reflects the possibility that XPO will outperform the economy and increase sales greater than expected. If they are able to successfully complete their cost saving strategy they may also to increase EBITDA margin more than expected. In the bullish case I determined that we could see the one year target price decrease to \$69.25 or a -9.56% return. In this scenario, I decreased the continuing period revenue growth by .5% to 1.5% and increased the Operating Cost/Revenue by 2% to 90.5%. If sales slowdown faster than expected it is possible we can see this lowered continuing period revenue growth. This scenario also takes into the account that management cannot reach their goal of double digit EBITDA margin and it remains in the high single digits.



Conclusion:

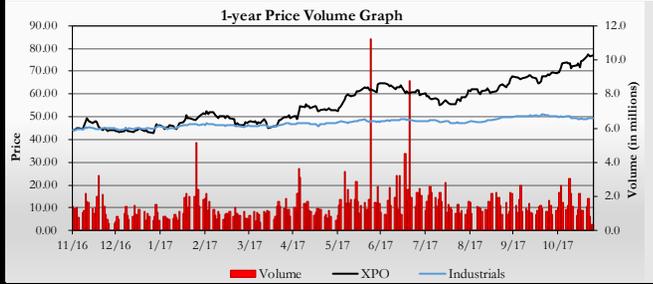
XPO is a great opportunity looking forward in the global freight and logistics sector. They have a premier product package that caters to the needs of their customers and creates relationships moving forward. With their focused strategy at cutting costs and their history of acquiring companies, I see no reason why would not continue to grow at a fast pace.

Analysis by Kevin Boland
12/1/2017

Current Price: \$76.57
Dividend Yield: 0.0%

Intrinsic Value: \$82.00
Target Price: \$95.65

Target 1 year Return: 24.91%
Probability of Price Increase: 91.5%

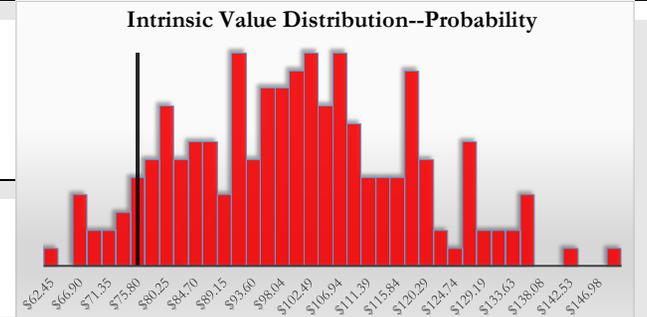


Description	
XPO Logistics, Inc. provides transportation and logistics services in the United States, North America, France, the United Kingdom, Europe, Asia, and internationally.	
General Information	
Sector	Industrials
Industry	Air Freight and Logistics
Last Guidance	November 3, 2015
Next earnings date	February 21, 2018
Estimated Country Risk Premium	5.35%
Effective Tax rate	23%
Effective Operating Tax rate	23%

Market Data	
Market Capitalization	\$9,179.46
Daily volume (mil)	1.17
Shares outstanding (mil)	119.88
Diluted shares outstanding (mil)	128.05
% shares held by institutions	116%
% shares held by investments Managers	72%
% shares held by hedge funds	22%
% shares held by insiders	1.20%
Short interest	13.43%
Days to cover short interest	11.18
52 week high	\$77.90
52-week low	\$42.07
Volatility	44.02%

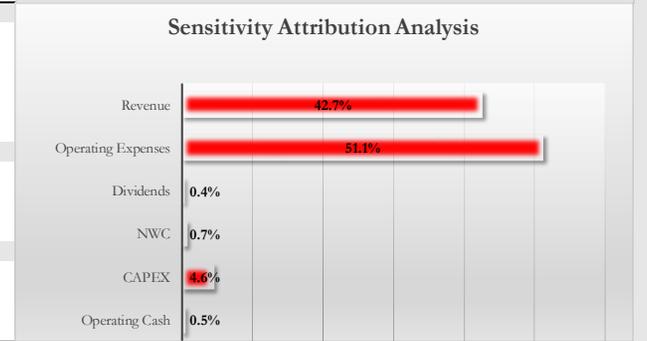
Past Earning Surprises		
Quarter ending	Revenue	EBITDA
9/30/2016	-1.68%	-5.30%
12/31/2016	1.58%	-15.10%
3/31/2017	-0.32%	-1.14%
6/30/2017	0.08%	-5.34%
9/30/2017	2.65%	-3.77%
Mean	0.46%	-6.13%
Standard error	0.8%	2.4%

Peers	
C.H. Robinson Worldwide, Inc.	12.91% per annum over 4y
United Parcel Service, Inc.	15.48% per annum over 3y
FedEx Corporation	-33.34% per annum over 1y
Expeditors International of Washington, Inc.	12.91% per annum over 4y
Echo Global Logistics, Inc.	N/M
Hub Group, Inc.	N/M
Forward Air Corporation	1.81% per annum over 2y
Atlas Air Worldwide Holdings, Inc.	



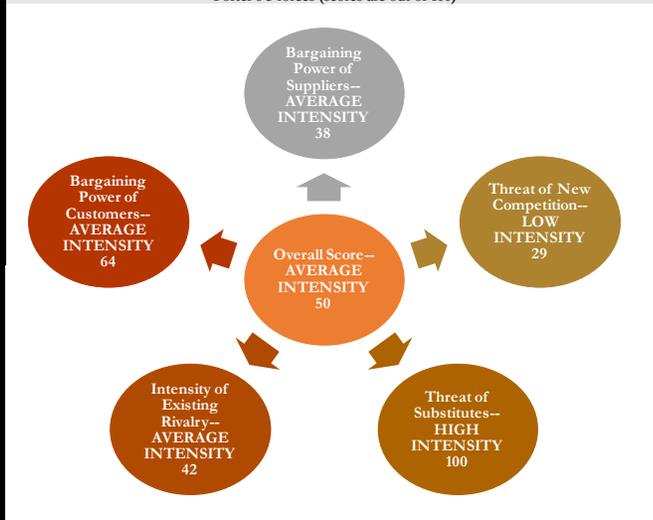
Management		Position		Total compensations growth		Total return to shareholders	
Jacobs, Bradley	Chairman and Chief Executive	31.69%	per annum over 4y	12.91%	per annum over 4y		
Hardig, John	Chief Financial Officer	-1.02%	per annum over 3y	15.48%	per annum over 3y		
Cooper, Troy	Chief Operating Officer and	49.32%	per annum over 1y	-33.34%	per annum over 1y		
Malat, Scott	Chief Strategy Officer	17.67%	per annum over 4y				
Robinson, Lance	Chief Accounting Officer	N/M		N/M			
Harik, Mario	Chief Information Officer	-100%	per annum over 2y	1.81%	per annum over 2y		

Profitability		XPO (LTM)		XPO (5 years historical average)		Peers' Median (LTM)	
Return on Capital (GAAP)	3.1%	-0.28%		12.64%			
Operating Margin	3%	-0.95%		4.22%			
Revenue/Capital (GAAP)	1.04	0.30		3.00			
ROE (GAAP)	5.3%	0.0%		105.1%			
Net margin	1.2%	0.4%		4.0%			
Revenue/Book Value (GAAP)	4.53	0.09		26.19			



Invested Funds		XPO (LTM)		XPO (5 years historical average)		Peers' Median (LTM)	
Cash/Capital	1.0%	5.4%		12.3%			
NWC/Capital	2.8%	1.3%		13.7%			
Operating Assets/Capital	62.8%	79.3%		51.3%			
Goodwill/Capital	33.4%	14.0%		22.8%			

Capital Structure		XPO (LTM)		XPO (5 years historical average)		Peers' Median (LTM)	
Total Debt/Market Capitalization	0.47	0.17		0.46			
Cost of Existing Debt	5.9%	7.5%		4.0%			
CGFS Rating (F-score, Z-score, and default Probability)	AA	BB		BBB			
WACC	6.9%	11.7%		8.5%			



Period		Revenue Growth Forecast	
Base Year		4%	
9/30/2018		5%	
9/30/2019		5%	
9/30/2020		1%	
9/30/2021		1%	
9/30/2022		1%	
9/30/2023		2%	
9/30/2024		2%	
9/30/2025		2%	
9/30/2026		2%	
9/30/2027		2%	
Continuing Period		2%	

Valuation	
NOPAT Margin Forecast	
Revenue to Capital Forecast	
Base Year	6.2%
9/30/2018	1.72
9/30/2019	1.51
9/30/2020	1.45
9/30/2021	1.43
9/30/2022	1.40
9/30/2023	1.38
9/30/2024	1.35
9/30/2025	1.32
9/30/2026	1.29
9/30/2027	1.20
Continuing Period	1.12
	1.05

Period		Return on Capital Forecast	
Base Year		10.7%	
9/30/2018		5.1%	
9/30/2019		5.7%	
9/30/2020		5.6%	
9/30/2021		5.7%	
9/30/2022		5.9%	
9/30/2023		6.0%	
9/30/2024		6.0%	
9/30/2025		10.8%	
9/30/2026		10.2%	
9/30/2027		9.7%	
Continuing Period		9.2%	

WACC Forecast		Price per share Forecast	
Base Year		6.9%	
9/30/2018		\$84.56	
9/30/2019		\$98.85	
9/30/2020		\$107.94	
9/30/2021		\$118.22	
9/30/2022		\$128.65	
9/30/2023		\$139.58	
9/30/2024		\$151.03	
9/30/2025		\$162.99	
9/30/2026		\$175.53	
9/30/2027		\$188.41	
Continuing Period		\$201.68	