

ArcBest Corporation

Mid 1Q24 Update: Vols & Pricing below target; Board move shows value potential

Reiterate Rating: UNDERPERFORM | PO: 141.00 USD | Price: 139.50 USD

Volumes and yields miss targets given challenged demand

ArcBest posted its mid-1Q24 update, with quarter-to-date volumes and yields below our target due to challenged demand and smaller customer orders. The carrier has worked to reduce its transactional (spot) mix, leading to worse-than-peers' volume declines, yet added core LTL volumes, which drove strong pricing gains. Less-than-Truckload (LTL) Tons/Day declined 14% year-year in Feb as it culled spot loads, moderating from -18% Jan, to avg -16% QTD (we were -10.5%, now -14%). Feb LTL all-in Rev/Hundredweight (CWT) was up 13% year-year, to average +13% QTD (we targeted +13.5%, now +14.6%). LTL Revenue/Day declined 3% y-y in Feb to average -5% QTD (we targeted +2.1%, now -1%). Historically, ArcBest LTL Operating Ratio deteriorates 400 bps seq 4Q to 1Q. We expect 1Q Operating Ratio nearly in-line w/ seasonality (we target 91.2%, a 350 bps seq deterioration) on below target vols & yields, from our prior 300 bps worse seq target.

Board lowers threshold for potential acquisition

On March 4, ArcBest's Board of Directors restated its bylaws, lowering the affirmative vote required for a corporate merger/consolidation, asset sale, and/or dissolution to a majority shareholder vote (50%+) from its prior requirement of a two-thirds affirmative vote (67%+). It lowered the approval threshold for board director elections and bylaw amendments to 50% from 75% previously. ArcBest, at 13.5x, trades at a significant discount to its unionized LTL peer TFI (19.6x), as well as pure-play non-unionized LTLs on our 2024 EPS estimates vs. XPO's 34.6x, SAIA's 36.6x, and ODFL's 35.2x. This follows TFI acquiring a 4% stake in ArcBest February 2023 (which led a 16% intraday increase in shares) which it sold in July 2023. We view this development as a positive shareholder shift and in corp. governance, which could lead potential value realization.

Hold \$141 PO

We remain Underperform on ArcBest's shares and reiterate our \$141 PO. Our PO is based on a target multiple of 13.5x on our 2024 EPS estimate (from 13.0x) as we factor in the improved corporate governance and potential value creation. We see its lack of move to grow capacity, take share and unionized labor force as an overhang on its ability to flex through demand cycles and thus see relative share gains at peers. Nevertheless, increased M&A focus could be a potential upside risk. We lower our 2024 and 2025 EPS estimates 4% and 2%, to \$10.40 and \$13.05, from \$10.85 and \$13.35, respectively

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.63	7.88	10.40	13.05	14.90
GAAP EPS	11.69	7.90	10.40	13.05	14.90
EPS Change (YoY)	68.1%	-42.2%	32.0%	25.5%	14.2%
Consensus EPS (Bloomberg)			10.20	12.86	14.55
DPS	0.44	0.48	0.52	0.56	0.60
Valuation (Dec)					
P/E	10.2x	17.7x	13.4x	10.7x	9.4x
GAAP P/E	11.9x	17.7x	13.4x	10.7x	9.4x
Dividend Yield	0.3%	0.3%	0.4%	0.4%	0.4%
EV / EBITDA*	6.4x	9.9x	8.0x	6.8x	6.2x
Free Cash Flow Yield*	9.4%	3.0%	1.4%	4.7%	5.9%

* For full definitions of *IQmethod*SM measures, see page 5.

08 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,426.9	4,461.6
2025E Rev (m)	4,653.0	4,705.1
2026E Rev (m)	4,872.2	4,927.9
2024E EPS	10.85	10.40
2025E EPS	13.35	13.05
2026E EPS	15.20	14.90

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Stock Data

Price	139.50 USD
Price Objective	141.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-3-7
52-Week Range	82.18 USD - 148.74 USD
Mrkt Val (mn) / Shares Out (mn)	3,435 USD / 24.6
Free Float	93.2%
Average Daily Value (mn)	42.66 USD
BofA Ticker / Exchange	ARCB / NAS
Bloomberg / Reuters	ARCB US / ARCB.OQ
ROE (2024E)	18.2%
Net Dbt to Eqty (Dec-2023A)	-2.7%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 08 March 2024 01:35PM EST

iQprofileSM ArcBest Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	21.3%	10.3%	13.0%	14.7%	14.7%
Return on Equity	33.4%	16.2%	18.2%	18.6%	17.4%
Operating Margin	8.9%	5.8%	7.6%	8.8%	9.4%
Free Cash Flow	323	103	49	161	202

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.7x	1.6x	1.5x	1.5x
Asset Replacement Ratio	1.4x	2.0x	2.9x	2.4x	2.3x
Tax Rate	26.1%	26.8%	26.1%	26.4%	26.4%
Net Debt-to-Equity Ratio	10.7%	-2.7%	1.4%	-2.1%	-6.4%
Interest Cover	NM	28.4x	37.2x	46.6x	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,324	4,427	4,462	4,705	4,928
% Change	33.8%	-16.8%	0.8%	5.5%	4.7%
Gross Profit	473	258	338	416	462
% Change	55.8%	-45.4%	30.7%	23.3%	10.9%
EBITDA	578	370	457	542	592
% Change	42.3%	-36.0%	23.5%	18.4%	9.4%
Net Interest & Other Income	(3)	7	(1)	(2)	2
Net Income (Adjusted)	348	194	249	305	342
% Change	60.2%	-44.2%	28.1%	22.8%	11.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	348	194	249	305	342
Depreciation & Amortization	105	112	119	125	130
Change in Working Capital	34	26	12	12	12
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(16)	(9)	19	19	18
Capital Expenditure	(148)	(219)	(350)	(300)	(300)
Free Cash Flow	323	103	49	161	202
% Change	21.7%	-68.0%	-52.8%	230.7%	25.4%
Share / Issue Repurchase	(65)	(92)	(100)	(100)	(100)
Cost of Dividends Paid	(11)	(12)	(12)	(13)	(14)
Change in Debt	(35)	(83)	(13)	(13)	(13)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	158	262	196	242	327
Trade Receivables	592	482	482	482	482
Other Current Assets	239	140	132	133	134
Property, Plant & Equipment	811	915	1,145	1,320	1,490
Other Non-Current Assets	694	685	685	685	685
Total Assets	2,494	2,485	2,641	2,862	3,119
Short-Term Debt	83	67	67	67	67
Other Current Liabilities	686	635	655	675	695
Long-Term Debt	198	162	149	137	124
Other Non-Current Liabilities	376	379	279	187	95
Total Liabilities	1,343	1,243	1,150	1,066	981
Total Equity	1,151	1,242	1,491	1,797	2,138
Total Equity & Liabilities	2,494	2,485	2,641	2,862	3,119

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Road Transport/Trucking

Company Description

ArcBest is a transportation holding company serving 98.6% of the cities in the US with populations greater than 25,000. Through its main subsidiary, ABF Freight, it provides national less-than-truckload (LTL) services throughout North America.

Investment Rationale

ArcBest has traded at a 14.9x average over the past decade, & between 7x-18x over the prior 20 years, with shares peaking in freight downturns, around 21x-25x forward earnings. Its high-cost infrastructure historically constrained its ability to post profits in downturns. The LTL market is competitive, yet its move to add spot freight is expected to pressure yields & compress margins. Its higher negative leverage versus peers may exaggerate earning declines in a decelerating freight environment.

Stock Data

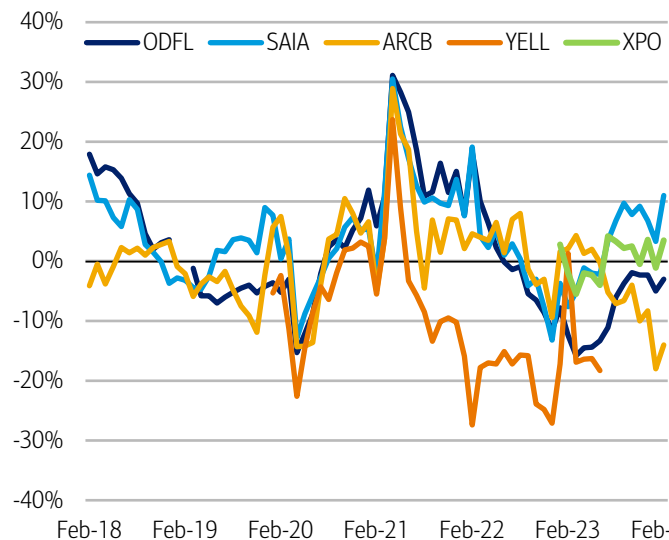
Average Daily Volume 305,824

Quarterly Earnings Estimates

	2023	2024
Q1	1.58A	1.83E
Q2	1.54A	2.78E
Q3	2.31A	3.06E
Q4	2.47A	2.75E

Exhibit 1: Less-than-Truckload Tons/Day (Y-Y%)

ARCB Feb tons/day was down 14%, moderating from -18% in Jan

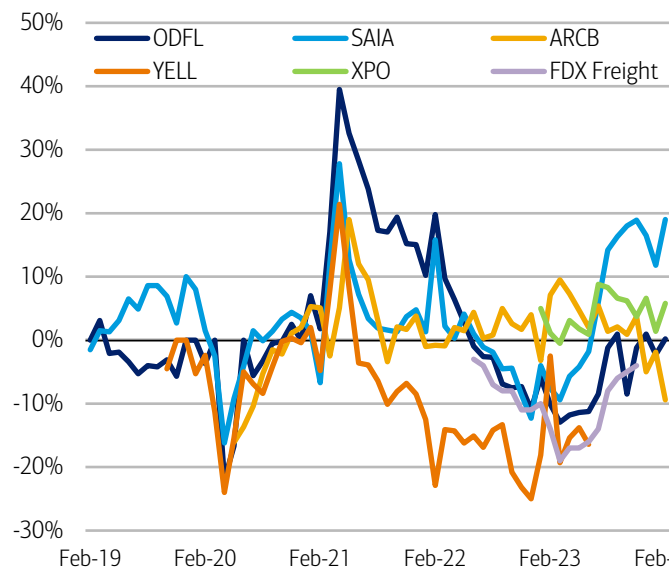


Source: BofA Global Research estimates, company reports

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Exhibit 3: Less-than-Truckload Shipments/Day (Y-Y%)

ARCB Feb shipments/day was down 4% year-year, moderating from -9.4% in Jan



Source: BofA Global Research estimates, company reports

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Exhibit 2: Less-than-Truckload Tons/Day (Y-Y%)

ARCB Mid 1Q-to-date tons/day down 16% on average, below our prior -10.5% 1Q24e target (now -14%)

Date	ODFL	YELL	ARCB	SAIA	XPO	Average (ex-YELL)
Feb-23	-12.4%	1.3%	2.1%	-7.6%	-2.0%	
Mar-23	-15.8%	-16.9%	4.3%	-5.2%	-5.5%	
Apr-23	-14.5%	-16.4%	1.3%	-1.1%	-2.0%	
May-23	-14.4%	-16.3%	2.0%	-2.0%	-2.3%	
Jun-23	-13.3%	-18.3%	-0.2%	-2.2%	-4.0%	
Jul-23	-11.1%		-5.2%	3.4%	4.2%	-2.2%
Aug-23	-6.0%		-7.1%	6.8%	3.3%	-0.8%
Sep-23	-3.7%		-6.6%	9.7%	2.2%	0.4%
Oct-23	-1.9%		-4.0%	7.8%	2.5%	1.1%
Nov-23	-2.3%		-10.0%	9.2%	-0.5%	-0.9%
Dec-23	-2.3%		-8.3%	6.8%	3.6%	-0.1%
Jan-24	-5.0%		-18.0%	3.3%	-1.1%	-5.2%
Feb-24	-3.0%		-14.0%	11.0%	3.5%	-0.6%

No data provided (BofA quarterly average)

Source: BofA Global Research estimates, company reports

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Exhibit 4: Less-than-Truckload Shipments/Day (Y-Y%)

ARCB Mid-1Q-to-date shipments/day down 6.7% on average, in line with our prior -6.3% 1Q24e target (now -5.5%)

Date	ODFL	YELL	ARCB	SAIA	XPO	FDX	Average (ex-YELL)
Feb-23	-10.1%	-2.5%	9.5%	-7.6%	1.1%	-14.0%	
Mar-23	-12.9%	-19.3%	7.3%	-9.4%	-0.5%	-19.0%	
Apr-23	-11.8%	-15.4%	4.7%	-5.7%	3.1%	-17.0%	
May-23	-11.4%	-13.8%	2.0%	-4.2%	1.8%	-17.0%	
Jun-23	-11.2%	-16.4%	5.4%	-1.8%	0.9%	-16.0%	
Jul-23	-8.5%		1.4%	6.0%	8.8%	-14.0%	-1.3%
Aug-23	-1.2%		2.1%	14.2%	8.3%	-8.0%	3.1%
Sep-23	1.0%		0.9%	16.3%	6.6%	-6.0%	3.8%
Oct-23	-8.5%		3.7%	18.0%	6.2%	-5.0%	2.9%
Nov-23	-1.2%		-5.0%	18.9%	3.7%	-4.0%	2.5%
Dec-23	1.0%		-1.9%	16.5%	6.6%		5.5%
Jan-24	-2.3%		-9.4%	11.8%	1.4%		0.4%
Feb-24	0.2%		-4.0%	19.0%	5.8%		5.3%

No data provided (BofA quarterly average)

Source: BofA Global Research estimates, company reports

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Price objective basis & risk

ArcBest Corporation (ARCB)

Our \$141 price objective is based on a 13.5x multiple on our 2024 EPS estimate, near the midpoint of its historical range. ArcBest shares have averaged 14x over the past 5 years and traded in a 7x-18x one-standard deviation range over the past 20 years on forward earnings (10x-17x more recently). We believe a multiple slightly below its historical average is appropriate given a slower macro environment, negative operating leverage from lower volumes, and its move to add more transactional (lower profitable) freight, which can pressure earnings in this slower environment. Its unionized labor capacity could also restrict and limit its capacity agility and thus lead to underperformance vs peer carriers. Alternatively, benefits are moving past trough earnings, potential improvement at ARCB from its integration plan and focus on its asset-light segments, as well as structural gains at asset-based margins over time as it benefits from the industry's focus on improved pricing.

Downside risks to our price objective and estimates are a sustained economic downturn, a decline in fuel costs (LTLs make a profit on surcharges), a return to pricing competition among its peers, a significant recovery of its largest competitor and rising labor costs.

Upside risks to our price objective and estimates are more resilient yield growth, a faster-than-expected recovery in LTL volumes, and accelerated reduction in costs.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Norfolk Southern	NSC	NSC US	Ken Hoexter

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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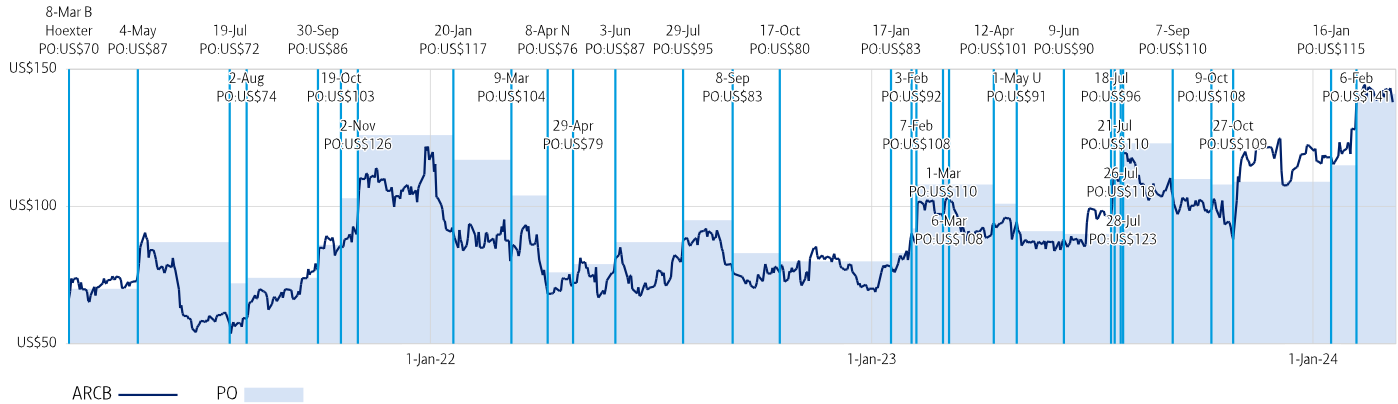
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Disclosures

Important Disclosures

ArcBest (ARCB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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