

## Transportation - Trucking

# Yellow auction, Round 2: \$83 mil for 23 service centers; FedEx adds Reno facility

Industry Overview

### Yellow auction, 2<sup>nd</sup> round: sells 23 terminals for \$83 mil

Last Friday (Jan 12), the bankruptcy court approved the second round sales of 23 of Yellow's terminals (all leased) to 6 bidders for \$83 mil. This followed the Dec 4 closure of the first round of sales, when 130 properties (128 owned, 2 leased) were sold for \$1.9 billion (see our [YELL Auction Round 1 report](#)). Private Less-than-Truckload (LTL) carrier Estes Express (4<sup>th</sup> largest LTL by 2022 revenues ex-Yellow), led the winning bidders, acquiring 5 terminals for \$35 million. This was in addition to the 24 sites it purchased in the first round for \$212 million. FedEx Freight, the largest US LTL which had closed 29 of its own terminals in August 2023, and was absent during the first round, added a Reno, NV-based facility for \$23 million. Carriers R&L (3 for \$9 mil), Saia (11 for \$7.9 mil), ArcBest (1 for \$7.8 mil), and Knight-Swift (2 for \$0.4 mil) bought 17 centers combined, for \$25 mil. There are 46 owned properties, 118 leased properties, and rolling stock of 12,000 tractors/35,000 trailers remaining in the liquidation process. Yellow's had started with assets of ~320 facilities prior to the auction process, of which 143 were leased, 174 were owned.

### Second round smaller scale; Positive rising pricing focus

We remain positive on the developments in Yellow's auction of its LTL capacity yet note the scale of the second auction round is significantly smaller than the first. Given the higher average dollar spent per terminal in the first round (\$15 mil/terminal on average) versus the second (\$4 mil/terminal), most of Yellow's top-tier facilities sold earlier, with XPO a notable winner in the 1<sup>st</sup> round, adding 28 sites for \$870 mil, including YELL's Harrisburg (281 doors) and Nashville (213 doors) terminals. Nevertheless, we are encouraged by the continued participation of pricing & service focused operators with most of the 23 facilities sold this round shifting to leading non-union carriers (although union-based ArcBest did buy a terminal for \$8 mil). We highlight that the incremental capacity would need at least 12 months for an operational ramp given necessary repairs (new buyers are expected to pay costs to cure delinquent rents and deliver required repairs). Some sites could also be duplicative to an existing network, representing a facility upgrade rather than a disruption to LTL supply-demand balance.

### Stay positive on leading LTL carriers XPO, SAIA, and ODFL

We reiterate our positive view on Buy-rated XPO, Saia, and Old Dominion Freight Line as continued industry pricing discipline and capacity tightness should drive increased returns. As we noted in our [2024 Transports Year Ahead](#), rising industry consolidation and volume upside following the bankruptcy of Yellow Corp should lead to growth in both LTL tonnage and yields in 1H24, aided by a favorable base. Thus, we see leading operators continuing to drive value creation in 2024 despite the somewhat uncertain macro backdrop. We view the acquisition of capacity by FedEx, Saia, ArcBest and Knight-Swift in the second round as part of carriers' existing capital plans for 2024 given the more digestible scale and hold our 2024 and 2025 earnings estimates.

16 January 2024

Equity  
United States  
Road Transport/Trucking

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Timestamp: 16 January 2024 01:26PM EST

**Exhibit 1: Yellow Terminal Auction Summary**

The second round of Yellow's auction resulted in the sale of 23 leased facilities for \$83 million.

Bidder	Auction 1		Auction 2		Total	
	Terminals	Value	Terminals	Value	Terminals	Value
XPO	28	\$ 870.0			28	\$ 870.0
Estes	24	\$ 248.7	5	\$ 35.3	29	\$ 284.0
Saia	17	\$ 235.7	11	\$ 7.9	28	\$ 243.6
RAMAR (R&L Carriers)	8	\$ 211.5	3	\$ 9.0	11	\$ 220.5
Terminal Properties (Pitt Ohio)	7	\$ 83.8			7	\$ 83.8
Knight-Swift Transportation	13	\$ 51.3	2	\$ 0.4	15	\$ 51.7
Crown Enterprises (Central Transports)	8	\$ 38.2			8	\$ 38.2
ArcBest	3	\$ 30.2	1	\$ 7.8	4	\$ 38.0
A. Duie Pyle	4	\$ 29.4			4	\$ 29.4
FedEx Freight	0	\$ -	1	\$ 22.5	1	\$ 22.5
RLF IV Acquisitions	3	\$ 20.9			3	\$ 20.9
TFI International	2	\$ 16.0			2	\$ 16.0
GPSS Holdings	1	\$ 9.9			1	\$ 9.9
Southeast Consolidators	1	\$ 8.5			1	\$ 8.5
Skylark Logistics	2	\$ 8.0			2	\$ 8.0
United Holding Group	2	\$ 4.7			2	\$ 4.7
Z Brothers Trucking	1	\$ 4.2			1	\$ 4.2
IOS Fund I Acquisitions	1	\$ 3.1			1	\$ 3.1
Royal Group Holdings	1	\$ 3.0			1	\$ 3.0
MDHE Enterprises	1	\$ 2.8			1	\$ 2.8
Unis	2	\$ 2.4			2	\$ 2.4
All Star Investments	1	\$ 0.6			1	\$ 0.6
<b>Total</b>	<b>130</b>	<b>\$ 1,883</b>	<b>23</b>	<b>\$ 83</b>	<b>153</b>	<b>\$ 1,966</b>

Source: BofA Global Research and Court Filings.

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**Exhibit 2: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ARCB	ARCB US	ArcBest	US\$ 117.95	C-3-7
KNX	KNX US	Knight-Swift	US\$ 54.37	B-1-7
ODFL	ODFL US	Old Dominion	US\$ 388.87	B-1-7
SAIA	SAIA US	Saia Inc.	US\$ 439.86	B-1-9
XPO	XPO US	XPO, Inc.	US\$ 86.46	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Price objective basis & risk****ArcBest Corporation (ARCB)**

Our \$115 price objective is based on a 11.0x multiple on our 2024 EPS estimate. 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 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.

#### **Knight-Swift Transportation Holdings Inc (KNX)**

Our \$68 price objective is based on a 22.0x target multiple on our 2024 EPS estimate. Our target multiple is above the midpoint of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it nears trough earnings (led by pressure on economic growth and truck spot rate declines). We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles.

Risks to our price objective are volatility at its truckload segment (particularly its historical SWFT segment, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities, and the failure to complete its acquisition of US Xpress, which may affect its growth outlook.

#### **Old Dominion Freight Line (ODFL)**

Our \$447 price objective is based on a 34x target multiple on our 2024 EPS estimate. Our target is above the company's 20-year historical one-standard deviation range of 13x-27x forward earnings, adjusted for outlier periods, and the top of its 3-year range of 28x-34x. We are at the top of its historical range given the seminal event in the LTL industry as YELL declared bankruptcy, ODFL's sustained share gains, above-inflation cost pricing, and a robust free cash flow yield. It continues to post superior operating performance relative to peers and the favorable dynamics of the LTL industry.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Additionally, increasing LTL competition could limit Old Dominion's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. A return to industry pricing competition, last experienced en masse in the 2008 Great Recession, could weigh on investor views on the health of the industry, and thus OD's leading multiple. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

#### **Saia Inc. (SAIA)**

Our \$498 price objective is based on a 31x target multiple on our 2024 EPS estimate. Our target remains above its 14x-23x one-standard deviation 10-year trading range as it continues to benefit from ramping EPS. Our target multiple is above the top end given its leading service, ability to win share, and disruption in the LTL market which can aid premiere carriers, which should more than offset a soft freight environment.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Our price objective is also threatened by increasing competition, which could limit Saia's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. The less-than-truckload

industry is competitive, with a large number of national and regional companies vying for business.

**XPO, Inc. (XPO)**

Our \$102 price objective is based on a 31x P/E multiple on its 2024e EPS, above the upper end of peer range at 8x-24x, as we look for it to close the premium gap to best-in-class peers as it executes on its Network 2.0 growth plan and its purchase of Yellow real estate.

Downside risks to our price objective are a downturn in the global economy, which could reduce volume and pressure margins, while also potentially having a disproportionate impact on XPO's earnings given its leveraged capital structure. Long term inability to secure a sale of its Europe operation may also be a downside risk to our price objective. Its inability to improve cargo claims, insource linehaul, obtain tractors/trailers at pace it desires, and failure to improve pricing on its improved service levels would be a downside risk to targets/valuation. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

**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.

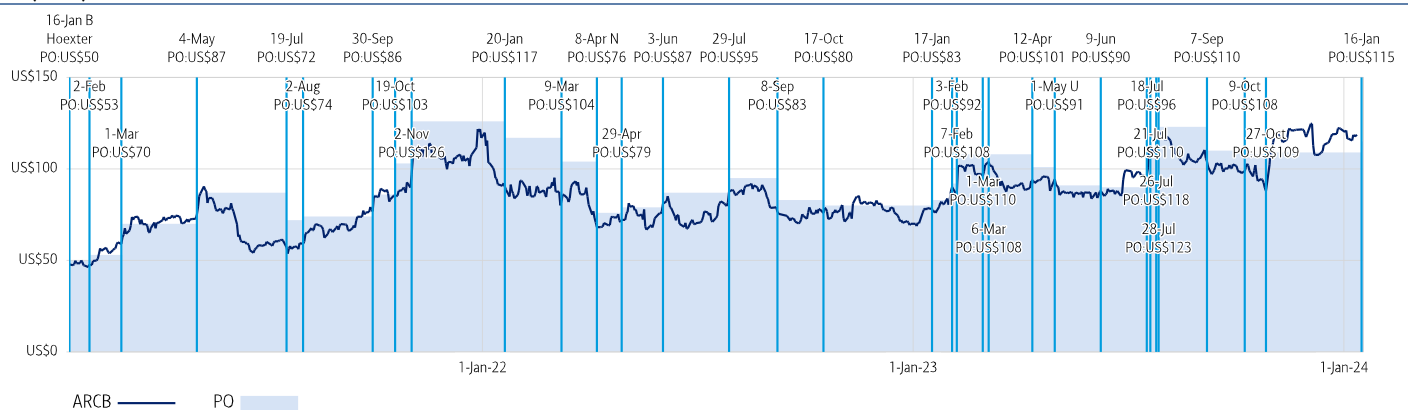
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
<b>NEUTRAL</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
<b>UNDERPERFORM</b>				
	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
	World Kinect	WKC	WKC US	Ken Hoexter

## Disclosures

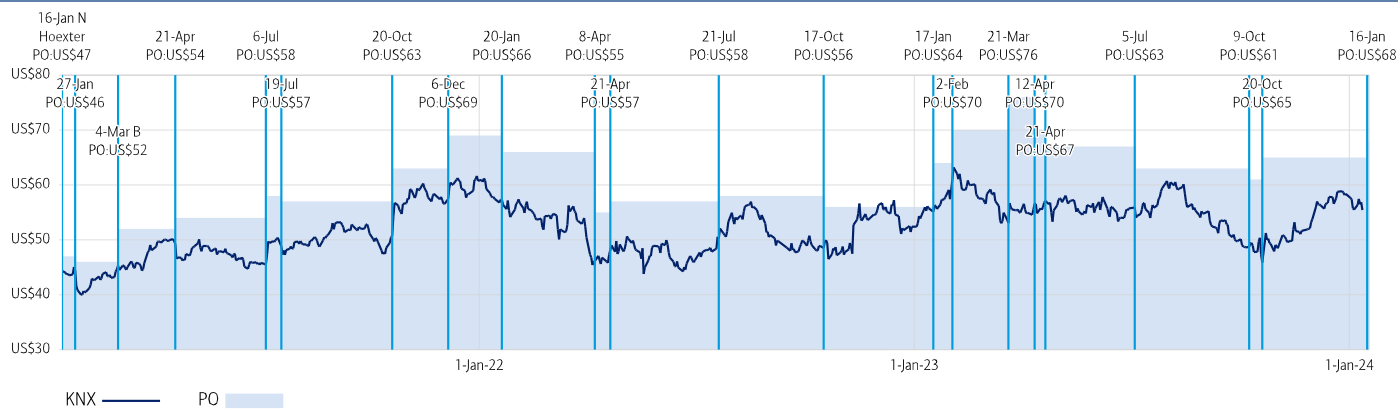
## Important Disclosures

## ArcBest (ARCB) Price Chart



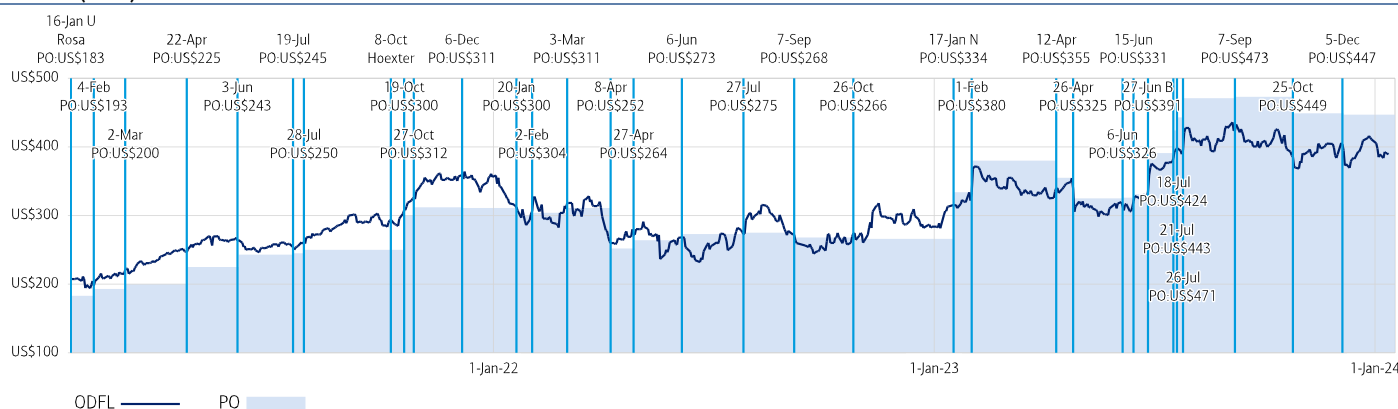
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Knight-Swift (KNX) Price Chart**

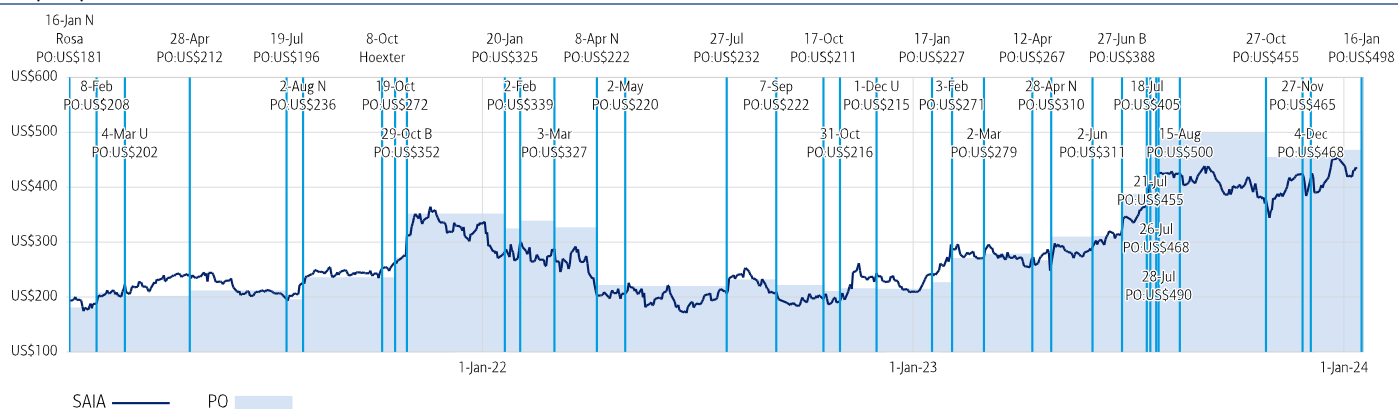
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Old Dominion (ODFL) Price Chart**

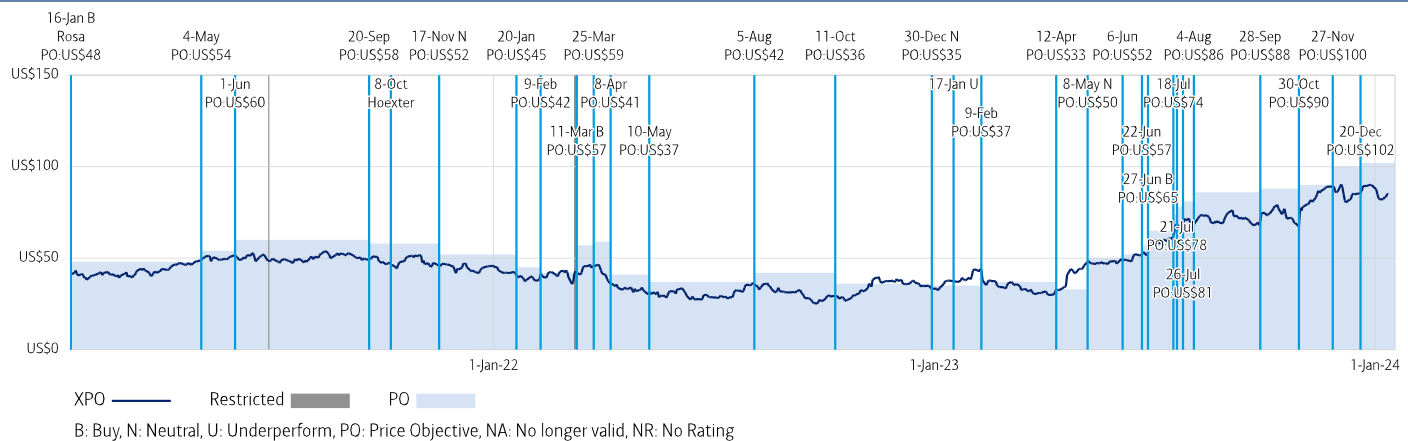
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**Saia Inc. (SAIA) Price Chart**

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**XPO, Inc. (XPO) Price Chart**

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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