

## ArcBest Corporation

## Yield declines accelerate on transactional freight add, tons beat; Lower PO to \$90

Reiterate Rating: UNDERPERFORM | PO: 90.00 USD | Price: 84.79 USD

## Tons/day ahead of target yet yield declines accelerating

ArcBest posted its mid-2Q update with May Less-than-Truckload (LTL) tons/day up 2% year-year after a 1% increase in April. The +1.7% 2Q-to-date average is ahead of our prior flat target (now +2.4%). The improvement is due to higher-than-expected weight per shipment increases (LTL shipments/day were in line). May shipments/day increased 2% year-year, decelerating from +5% in April, to average 3.4% 2Q-to-date (we hold our +3.3% target,). May weight/shipment declined 1% year-year vs -3% April to average -2% 2Q-to-date (vs prior -3% target, now -1%). Revenue/hundredweight (cwt) was down 12% in May, accelerating down from -10% in April, to average -11% 2Q-to-date (vs our prior target of -10%, now -12%) given a higher spot mix. May revenue/day was down 10% year-year to average -9.6% 2Q-to-date (we hold our -9% target). In Asset Light, revenue/day was down 25% year-year on average 2Q-to-date (we were -28% now -26%) as a 3% year-year avg increase in 2QTD shipments (we were flat, now +4%) was more than offset by a 30% avg decline in 2QTD revenue/shipment (we were -30%, now -31%)

## Committed to dynamic pricing strategy in downturn

ArcBest noted volume trends above peers (+2% 2QTD vs peer avg of -4%) were impacted by the inclusion of transactional spot freight, partly offset by muted U-Pack activity given a slower housing market. It noted it remains committed to its dynamic pricing strategy as it offers its excess capacity to 3PLs at less lucrative rates following the departure of its Chief Yield Officer Danny Loe. Its core LTL freight is seeing volume declines similar to peers yet noted ex-fuel pricing on core LTL is up mid-single-digits. It also noted fuel is a pricing headwind as surcharges on loads ranged from 30.5% to 33.9% 2Q-to-date vs 43.3% to 49.7% in 2Q22 when diesel prices peaked. We continue to see increased margin pressure given its lower share of core LTL freight within its portfolio combined with its move to hold labor capacity into a downturn.

## PO to \$90

We remain Underperform on ARCB shares and trim our PO to \$90 (from \$91) holding at 12x our 2023e EPS estimate. Counter to the price-focused strategy among leading LTLs, ARCB moved to sell its excess capacity at lower rates while holding its (union) labor capacity. We lower our '23e EPS 1% to \$7.50 from \$7.55 on lower LTL yields.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.11	13.63	7.50	10.05	11.90
GAAP EPS	7.98	11.69	8.79	10.05	11.90
EPS Change (YoY)	151.1%	68.1%	-45.0%	34.0%	18.4%
Consensus EPS (Bloomberg)			8.02	10.42	12.67
DPS	0.32	0.44	0.48	0.48	0.48
Valuation (Dec)					
P/E	10.5x	6.2x	11.3x	8.4x	7.1x
GAAP P/E	10.6x	7.3x	9.6x	8.4x	7.1x
Dividend Yield	0.4%	0.5%	0.6%	0.6%	0.6%
EV / EBITDA*	6.0x	4.2x	6.7x	5.7x	5.0x
Free Cash Flow Yield*	12.5%	15.2%	1.0%	5.9%	8.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

09 June 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	91.00	90.00
2023E Rev (m)	4227.0	4247.1
2024E Rev (m)	4435.6	4456.7
2025E Rev (m)	4642.2	4664.5
2023E EPS	7.55	7.50

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## Stock Data

Price	84.79 USD
Price Objective	90.00 USD
Date Established	9-Jun-2023
Investment Opinion	C-3-7
52-Week Range	66.35 USD - 104.87 USD
Mrkt Val (mn) / Shares Out (mn)	2,125 USD / 25.1
Average Daily Value (mn)	19.93 USD
BofA Ticker / Exchange	ARCB / NAS
Bloomberg / Reuters	ARCB US / ARCB.OQ
ROE (2023E)	14.8%
Net Dbt to Eqty (Dec-2022A)	10.7%
ESGMeter <sup>TM</sup>	Medium

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Timestamp: 09 June 2023 03:56PM EDT

# iQprofile<sup>SM</sup> ArcBest Corporation

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	15.8%	21.3%	10.0%	12.4%	13.1%
Return on Equity	24.7%	33.4%	14.8%	16.5%	16.3%
Operating Margin	7.6%	8.9%	5.8%	7.4%	8.2%
Free Cash Flow	265	323	20	126	171

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.4x	1.4x	1.6x	1.5x
Asset Replacement Ratio	0.6x	1.4x	2.1x	2.4x	2.3x
Tax Rate	26.7%	26.1%	26.0%	26.1%	26.4%
Net Debt-to-Equity Ratio	17.3%	10.7%	8.6%	3.2%	-4.2%
Interest Cover	34.1x	NM	27.0x	35.8x	42.1x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,980	5,324	4,247	4,457	4,664
% Change	35.4%	33.8%	-20.2%	4.9%	4.7%
Gross Profit	303	473	248	328	384
% Change	151.1%	55.8%	-47.5%	32.1%	17.2%
EBITDA	406	578	362	430	491
% Change	80.6%	42.3%	-37.3%	18.7%	14.0%
Net Interest & Other Income	(7)	(3)	2	0	0
<b>Net Income (Adjusted)</b>	<b>217</b>	<b>348</b>	<b>185</b>	<b>243</b>	<b>283</b>
<b>% Change</b>	<b>154.1%</b>	<b>60.2%</b>	<b>-46.7%</b>	<b>30.9%</b>	<b>16.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	217	348	185	243	283
Depreciation & Amortization	103	105	114	102	107
Change in Working Capital	(4)	34	(13)	13	13
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	8	(16)	(21)	19	19
Capital Expenditure	(58)	(148)	(245)	(250)	(250)
<b>Free Cash Flow</b>	<b>265</b>	<b>323</b>	<b>20</b>	<b>126</b>	<b>171</b>
<b>% Change</b>	<b>62.9%</b>	<b>21.7%</b>	<b>-93.7%</b>	<b>525.9%</b>	<b>35.2%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	77	158	144	197	314
Trade Receivables	595	592	482	482	482
Other Current Assets	104	239	217	217	218
Property, Plant & Equipment	696	811	928	1,075	1,219
Other Non-Current Assets	641	694	709	709	709
<b>Total Assets</b>	<b>2,113</b>	<b>2,494</b>	<b>2,480</b>	<b>2,681</b>	<b>2,942</b>
Short-Term Debt	63	83	84	84	84
Other Current Liabilities	640	686	619	639	659
Long-Term Debt	175	198	177	164	152
Other Non-Current Liabilities	306	376	249	199	170
<b>Total Liabilities</b>	<b>1,184</b>	<b>1,343</b>	<b>1,129</b>	<b>1,086</b>	<b>1,064</b>
<b>Total Equity</b>	<b>929</b>	<b>1,151</b>	<b>1,352</b>	<b>1,594</b>	<b>1,878</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,113</b>	<b>2,494</b>	<b>2,480</b>	<b>2,681</b>	<b>2,942</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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 235,013

## Quarterly Earnings Estimates

	2022	2023
Q1	3.08A	1.58A
Q2	4.30A	2.06E
Q3	3.80A	2.17E
Q4	2.45A	1.69E

## Price objective basis & risk

### ArcBest Corporation (ARCB)

Our \$90 price objective is based on a 12x multiple on our 2023 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. We believe a multiple below its historical average is appropriate given a turning macro environment, a shifting supply-demand balance in the trucking market, balanced with recent all time records in the LTL market, earnings improvement at ARCB from its integration plan and its focus on its asset-light segments, as well as structural gains at asset-based margins (even relative to non-union peers) as it benefits from the industry's focus on improved pricing for constrained capacity availability.

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, YRC Worldwide, and labor negotiations.

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
<b>BUY</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	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
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
<b>NEUTRAL</b>				
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Saia Inc.	SAIA	SAIA 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
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter



## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<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
	TuSimple	TSP	TSP US	Ken Hoexter
<b>RSTR</b>				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

**IQmethod<sup>SM</sup> 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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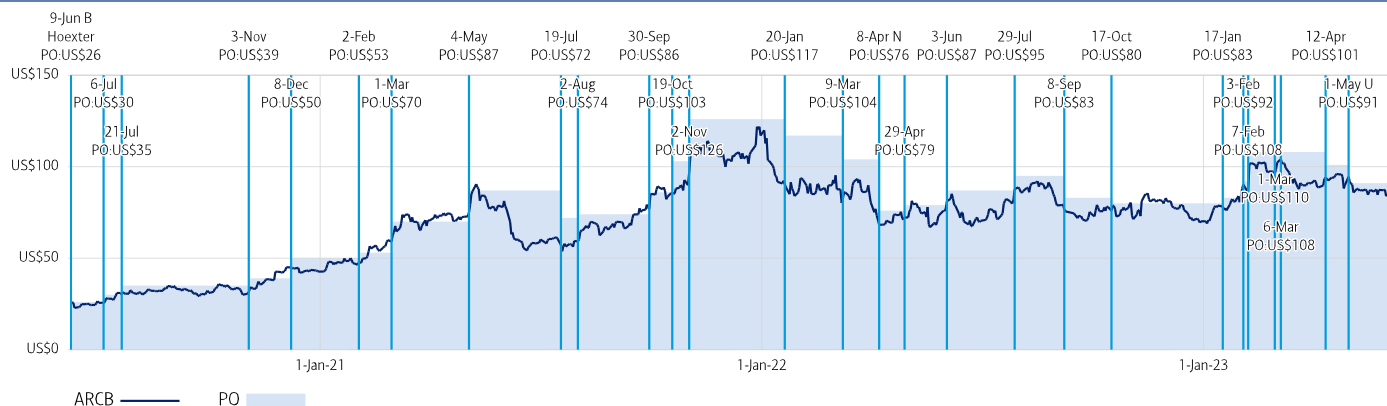
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### ArcBest (ARCB) Price Chart



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 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	68	51.52%	Buy	38	55.88%
Hold	28	21.21%	Hold	15	53.57%
Sell	36	27.27%	Sell	18	50.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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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>
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Neutral	≥ 0%	≤ 30%
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