

ArcBest Corporation

Shift to core LTL leads beat; See better-than-seasonal 1Q Op Ratio; PO \$141

Reiterate Rating: UNDERPERFORM | PO: 141.00 USD | Price: 128.07 USD

Shift away from spot freight leads to improved margins

ArcBest posted adj. 4Q23 EPS of \$2.47, above our \$2.23 estimate and the Street's \$2.21. Asset-Based (LTL) adj Operating Ratio was 87.7%, 110 bps better than 3Q (vs ODFL's (Old Dominion) 120 bps worse, SAIA's 160 bps worse) and 70 bps better than our projection as culling of lower-priced spot loads led to improved margins. LTL Tons/Day declined 7% year-year (in-line with BofAe) and LTL Revenue/Hundredweight (cwt) increased 7% year-year (above our +6% target). Core pricing on its LTL-rated (non-spot) freight was up double digits, as it renewed contracts at 5.6% higher rates in 4Q23 as the carrier focused on pricing to offset the impact of its new Teamster labor contract (+13% wage increase in Year 1). Asset-Light (Truck Brokerage, Managed Transportation) adj Operating ratio was 100.3%, deteriorating 230 bps year-year, yet 50 bps better than our forecast, as it remained loss making for the second consecutive quarter. Asset-Light Rev/Shipment was down 24% year-year, as low rates continue to pressure margins.

See better than seasonal 1Q24 LTL Operating Ratio

January operating metrics indicate revenue and tonnage deceleration as weather (137 service center closures in Jan vs 57 on average) led to year-year declines. January LTL Tons/Day declined 18% year-year (vs. ODFL's -5% and SAIA's +3%; although it noted within its -18%, core LTL growth was +6%), and Revenues/Day declined 7% year-year (we were +6% for 1Q24, now +3%). Based on historical seasonality, ArcBest's Asset-Based Operating Ratio typically deteriorates 400 bps sequentially 1Q vs 4Q. We believe margins may outpace seasonality (we target 300 bps worse) as lower costs and better yields offset the impact of lost density. Revenues were \$1.1 billion, down 12% year-year and \$19 mil above our estimate. Adj Operating Income was \$82 mil, down 1% year-year and \$9 mil above our forecast. Adj. Operating Ratio was 92.5%, improving 90 bps year-year and 70 bps better than our projection (ABF Freight OR was 87.7%).

PO to \$141

We remain Underperform on ARCB's shares and increase our PO to \$141 (from \$115) on 13.0x our revised 2024 EPS estimate (from 11.0x). We move toward the mid-point of its 10x-17x historical range, as we are encouraged by its pricing/mix focus as well, yet relatively prefer growth carriers XPO, SAIA, and ODFL. We raise our 2024 and 2025 EPS estimates 4% and 5%, to \$10.85 and \$13.35, from \$10.40 and \$12.75, respectively.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.63	7.88	10.85	13.35	15.20
GAAP EPS	11.69	7.90	10.85	13.35	15.20
EPS Change (YoY)	68.1%	-42.2%	37.7%	23.0%	13.9%
Consensus EPS (Bloomberg)			10.20	12.64	NA
DPS	0.44	0.48	0.52	0.56	0.60
Valuation (Dec)					
P/E	9.4x	16.3x	11.8x	9.6x	8.4x
GAAP P/E	11.0x	16.2x	11.8x	9.6x	8.4x
Dividend Yield	0.3%	0.4%	0.4%	0.4%	0.5%
EV / EBITDA*	5.9x	9.1x	7.2x	6.1x	5.6x
Free Cash Flow Yield*	10.2%	3.3%	1.9%	5.3%	6.6%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 06 February 2024 03:13PM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	115.00	141.00
2024E Rev (m)	4,440.8	4,426.9
2025E Rev (m)	4,648.8	4,653.0
2026E Rev (m)	NA	4,872.2
2024E EPS	10.40	10.85
2025E EPS	12.75	13.35
2026E EPS	NA	15.20
2024E DPS	0.48	0.52

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Stock Data

Price	128.07 USD
Price Objective	141.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-3-7
52-Week Range	82.18 USD - 132.40 USD
Mrkt Val (mn) / Shares Out (mn)	3,154 USD / 24.6
Free Float	93.3%
Average Daily Value (mn)	27.08 USD
BofA Ticker / Exchange	ARCB / NAS
Bloomberg / Reuters	ARCB US / ARCB.OQ
ROE (2024E)	18.9%
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".

LTL: Less-than-Truckload

iQprofileSM ArcBest Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	21.3%	10.3%	13.5%	14.9%	14.9%
Return on Equity	33.4%	16.2%	18.9%	18.8%	17.5%
Operating Margin	8.9%	5.8%	8.0%	9.2%	9.7%
Free Cash Flow	323	103	60	168	209

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%	0.6%	-3.1%	-7.5%
Interest Cover	NM	28.4x	38.8x	47.7x	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,324	4,427	4,427	4,653	4,872
% Change	33.8%	-16.8%	0%	5.1%	4.7%
Gross Profit	473	258	352	426	471
% Change	55.8%	-45.4%	36.3%	20.9%	10.7%
EBITDA	578	370	472	551	602
% Change	42.3%	-36.0%	27.6%	16.7%	9.2%
Net Interest & Other Income	(3)	7	(1)	(2)	2
Net Income (Adjusted)	348	194	259	312	348
% Change	60.2%	-44.2%	33.6%	20.4%	11.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	348	194	259	312	348
Depreciation & Amortization	105	112	120	125	131
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	60	168	209
% Change	21.7%	-68.0%	-41.6%	179.6%	24.3%
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	208	260	354
Trade Receivables	592	482	482	482	482
Other Current Assets	239	140	132	132	134
Property, Plant & Equipment	811	915	1,145	1,319	1,488
Other Non-Current Assets	694	685	685	685	685
Total Assets	2,494	2,485	2,651	2,880	3,143
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	1,502	1,814	2,163
Total Equity & Liabilities	2,494	2,485	2,651	2,880	3,143

* For full definitions of iQmethodSM measures, see page 6.

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 211,452

Quarterly Earnings Estimates

	2023	2024
Q1	1.58A	1.91E
Q2	1.54A	3.07E
Q3	2.31A	3.20E
Q4	2.47A	2.68E

Targets \$325-\$375 million in 2024 Net CapEx

ArcBest targets 2024 Net CapEx of \$325-\$375 million, which includes \$155 million in revenue equipment purchases, \$130 million in real estate expenditures, and \$40-\$90 million in technology and dock equipment upgrades. It expects to grow its door count 4% year-year to 9,510 in 2024 from 9,163 in 2023 (8,864 in 2022, 8,729 in 2021). The three owned terminals ArcBest acquired in the Yellow Corp auction (Des Moines, Springdale, Columbus) represent 77 doors of the 347 ABF plans to add in 2024. It increased its share repurchase program to \$125 million on February 5 (we had targeted \$60 million in 2024 repurchases, now \$100 million).

GAAP EPS was \$2.01/sh and included after tax adjustments of \$8.3 mil innovative technology costs (\$0.34/sh), \$2.4 mil in purchase accounting amortization (\$0.10/sh), a \$4.7 mil change in fair value on contingent consideration (\$0.20/sh), a \$7.1 mil legal settlement (\$0.29/sh), \$1.8 mil life insurance proceeds & changes in cash surrender value (\$0.07/sh), and a \$0.2 mil tax benefit from vested RSUs (restricted stock units \$0.01/sh).

January LTL volumes pressured by weather-related impact

January Consolidated Revenues/Day declined 13% year-year as shedding of spot business (shifting mix from spot to core) and harsh winter weather led to larger-than-expected service center suspensions (137 centers closed vs 57 on average in the past 10 years). In its LTL segment, Revenues/Day declined 7% year-year (BofAe +3% in 1Q). In January, LTL Tons/Day declined 18% (BofAe -10.5% in 1Q) and LTL Shipments/Day declined 9% (we target -6% in 1Q24). The majority of its decrease was from its spot business, as core-LTL-rated (non-spot) Tons/Day and Shipments/Day were up 6% and 8%, respectively. Given its improved mix, Revenue/CWT and Revenue/Shipment were up 13% (we target +13.5% in 1Q) and 2% (BofAe +8% in 1Q), respectively.

Asset-Light Revenues/Day declined 15% year-year in January as Shipments/Day increased 11% and Revenue/Shipment declined 23%. Purchased Transport accounted for 89% of Revenues (from 86% in 4Q) as it employed third-party capacity to address demand given more challenging weather conditions.

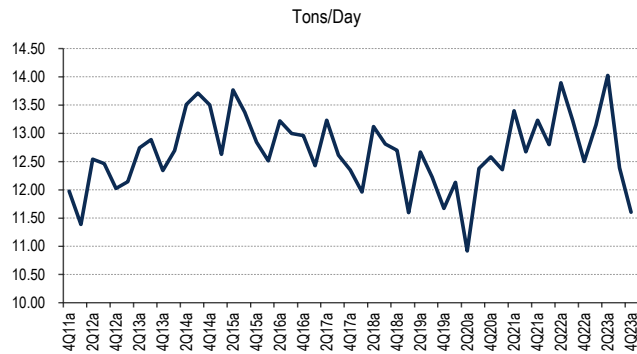
Brokerage ops pressured by low rates, muted volumes

Asset Light Revenues were \$413 million, down 14% year-year and \$7 million above our target. Asset Light adj Operating Loss was \$1 million, \$2 million better than our target, for an adj Operating Ratio of 100.3% (50 bps better than our target). Shipments/Day increased 12%, accelerating from +4% in 3Q, better than our -4% target and aided by a lower base. However, Revenue/Shipment declined 24% year-year, worse than our -17% target as lower rates pressured its brokerage pricing. The company continues to see Asset-Light as a long-term strategic focus, as it aims to provide an integrated suite of logistics service offerings to shippers.



Exhibit 1: ARCB Tons/Day

Tons/Day were down 7.2% year-year, slightly below our -6.7% target.

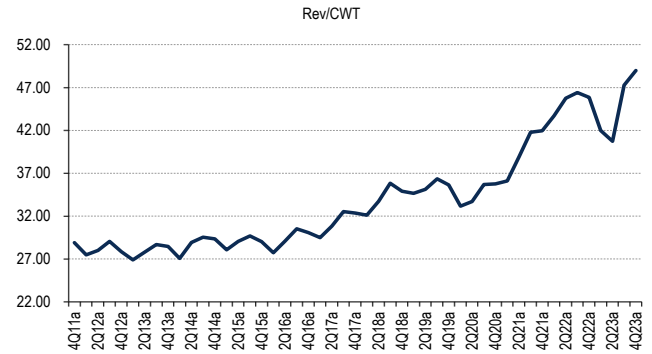


Source: Company reports.

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Exhibit 2: ARCB Revenue/Hundredweight

Revenue/Hundredweight up 6.8% year-year, slightly above our +6.4% target.

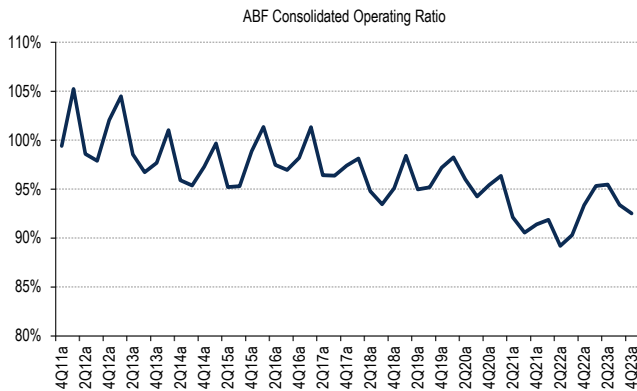


Source: Company reports.

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Exhibit 3: ARCB Consolidated Operating Ratio

Operating Ratio was 92.5%, 70 bps better than our target.

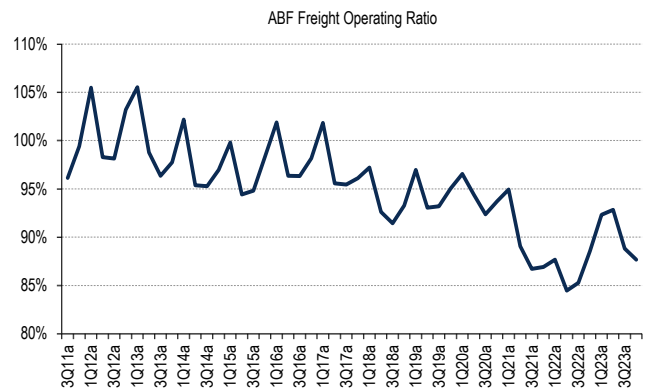


Source: Company reports.

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Exhibit 4: ABF Freight (LTL Asset-based) Operating Ratio

LTL Operating Ratio was 87.7%, 70 bps better than our target.

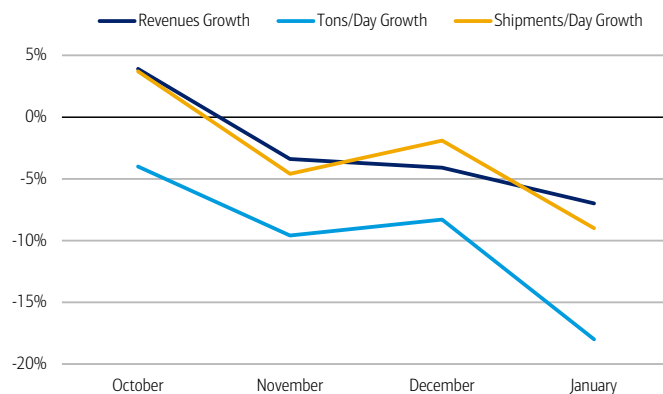


Source: Company reports.

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Exhibit 5: ARCB LTL Revenues & Volume Monthly Trends

January LTL Tons/Day declined 18% due to weather impacts.

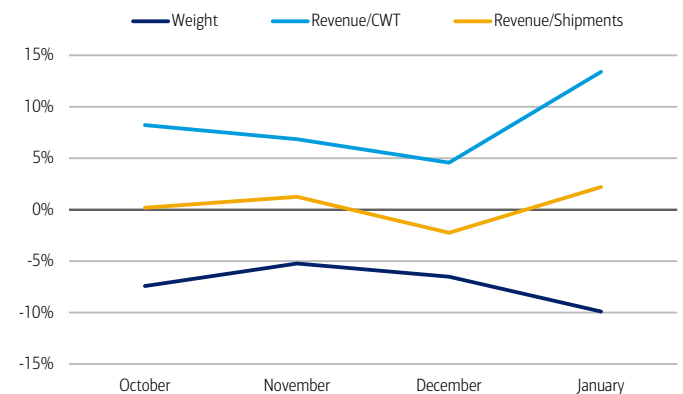


Source: Company reports.

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Exhibit 6: ARCB LTL Mix & Yields Monthly Trends

January Revenue/Hundredweight up 13% given lower mix of spot loads.



Source: Company reports.

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Price objective basis & risk

ArcBest Corporation (ARCB)

Our \$141 price objective is based on a 13x 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
	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
	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
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	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



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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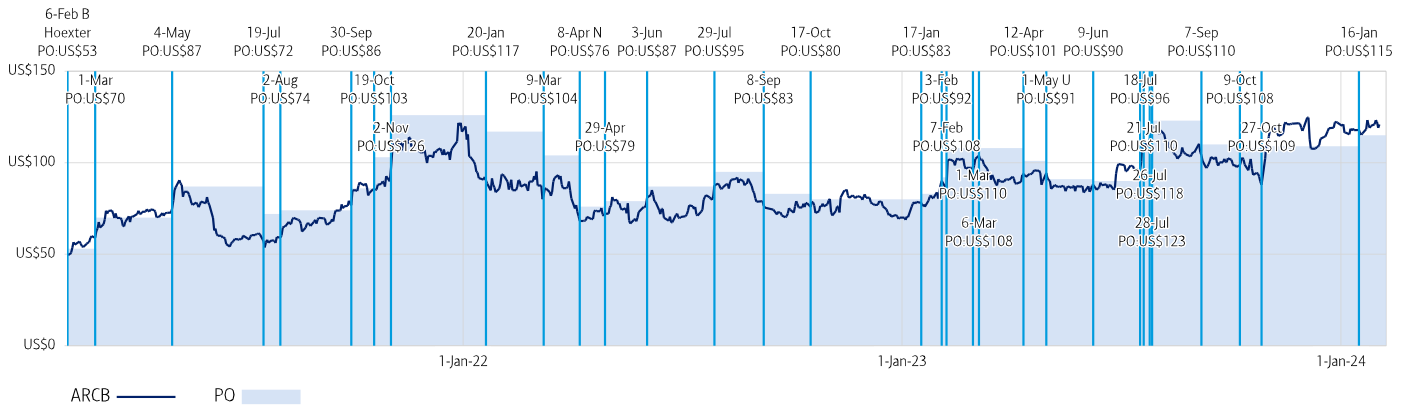
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Disclosures

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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