

## Company Update

## Acquires Westport Axle—Augments Its High Margin, Value-Added Services Offering

- Universal Truckload Services (UACL, \$28.88) announced today that it has agreed to acquire Westport Axle Corporation**, a Louisville, Kentucky based value-added warehousing and component distribution services provider to manufacturers of Class 4 through Class 8 vehicles, as well as RVs and super-duty trucks. Westport generated \$58.4 million in operating revenues in 2012 and \$66.0 million for the nine month period ended September 30, 2013. The strong y/y revenue growth—an implied 50% increase y/y—is the result of contract wins over the past few years as well as a build-out in existing locations. A small, but not insignificant, portion of Westport's revenue is generated from machining and distributing steering knuckles and axle components for the automotive industry. The transaction is expected to close in late December of 2013.
- Westport further broadens the company's customer base, moving into the manufacturing of medium and heavy-duty trucks.** Universal's previously acquired LINC Logistics operation had primarily provided services into the auto industry, but also branched out into the agricultural and off-road equipment space. The acquisition of Westport brings another leg to its customer base and broadens the end markets that the company serves. As such, new customers have been brought to Universal, which opens up a wider base in Value-Added Services for the company to cross-sell its other, more transactional, service offerings.
- The company most likely paid a high-single digit multiple for Westport.** Per company management, the sale of Westport was run as a process—but management believes they paid a good price for the target. With a \$123 million purchase price (to be financed by increasing its senior credit facility up to \$300 million) and the assumption that Westport's margins are similar to LINC Logistics' stand-alone operations, we believe Universal paid ~9.0x trailing twelve month EBITDA.
- The deal should be additive to cash-flow, with some EPS accretion—dependent upon purchase accounting.** The solid revenue growth and new customer base should give rise to some revenue synergies and an obvious acceleration to our currently forecasted 2014 revenue growth. However, with little margin guidance given and no pro-forma statements released (expected within the next two to three weeks), we are hard pressed to update our numbers at present. On the surface, the deal could be accretive to EPS by \$0.16 per share; however, purchase accounting may drive that below an annual \$0.10 per share in accretion, even when duplicative administrative infrastructure is removed (note: no further operational synergies are expected). Debt-to-EBITDA is estimated to end the year north of 2.0x, up from 1.2x as of the end of 3Q13 due to the Westport acquisition.
- Reiterating our Buy rating.** Our current 12-month target price of \$33 (or 15.0x our current 2015 EPS estimate of \$2.20) provides over 14% upside potential over the coming year from the most recent trading price. With potential EPS accretion (after purchase price accounting is finalized) in the sub \$0.10 range, we may be inclined to favorably revise our 2014 and 2015 EPS estimates upward, as well as increase our target price to a hypothetical \$34 (or 15.0x a hypothetical 2015 EPS estimate of about \$2.25), which would provide ~18% upside potential over the coming year. Lastly, we note that we view this acquisition as being in line with the company's communicated strategy of growing its Value-Added business line (through customer wins and acquisitions), which should give the company a more stable and higher margin profile (as opposed to growing its transactional business) over time.

Price is intraday, 12/2/2013.

## Target Price Methodology/Risks

Our target price is \$33 (or 15.0x our 2015 EPS estimate of \$2.20).

Risks to target price: Prolonged economic recession; inability to recruit/retain agents and/or owner-operators; failed

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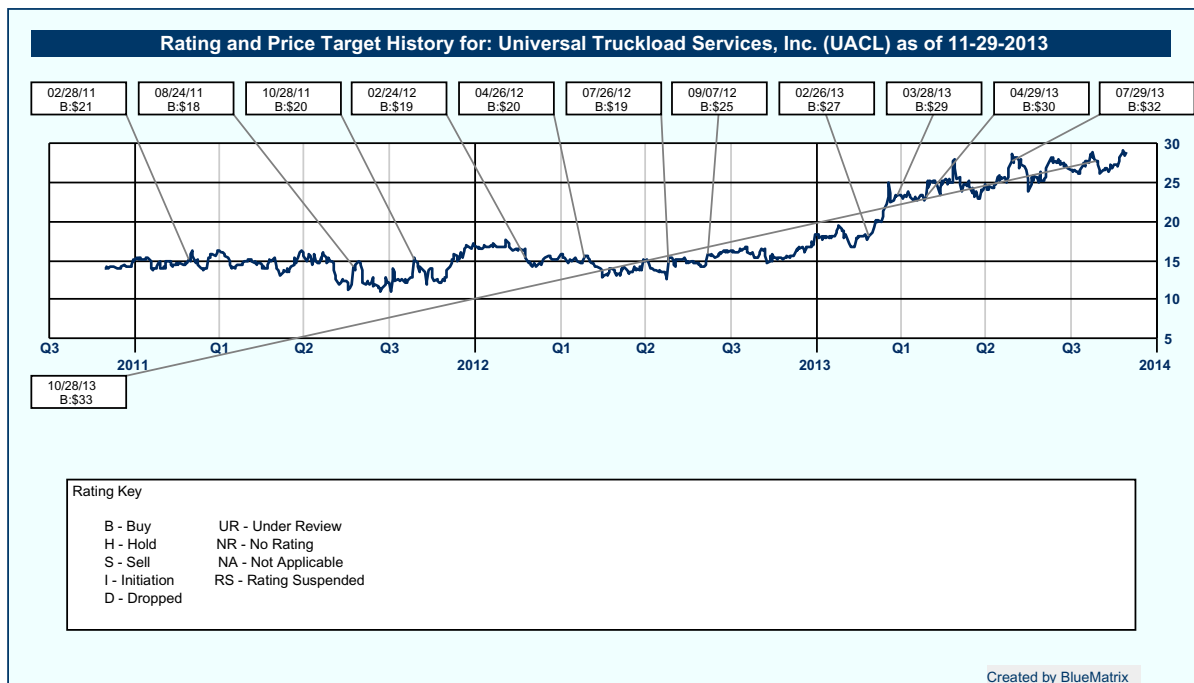
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acquisitions; severe accidents causing insurance and claims costs to spike; and slow-downs or extensive shut-downs to the automotive production industry.

**Important Disclosures and Certifications**

I, John G. Larkin, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, John G. Larkin, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. For our European Conflicts Management Policy go to the research page at [www.stifel.com](http://www.stifel.com).



**For a price chart with our ratings and target price changes for UACL go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=UACL>**

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Stifel research analysts receive compensation that is based upon (among other factors) Stifel's overall investment banking revenues.

Our investment rating system is three tiered, defined as follows:

**BUY** -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

**HOLD** -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

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Of the securities we rate, 47% are rated Buy, 50% are rated Hold, and 3% are rated Sell.

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 16%, 7% and 3% of the companies whose shares are rated Buy, Hold and Sell, respectively.

### **Additional Disclosures**

Stifel is acting as exclusive financial advisor to LINC Logistics Company in its sale to Universal Truckload Services, Inc.

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### **Additional Information Available Upon Request**

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