

Pays Reasonable Price for Another Last-Mile Acquisition; Reiterate Buy

- **Acquires Optima Service Solutions**—a U.S. last-mile logistics provider based in Atlanta. Optima has a nation-wide network of carriers and technicians that is “eerily” spread out, focusing on electronics (e.g., flat screen television and audio system installations) and appliances (which require plumbing and electrical expertise).
- **Multiple looks reasonable:** XPO paid \$26.6 million for Optima, or 7.2x LTM EBITDA of \$3.7 million. This is slightly better than our modeled assumption that XPO will pay, on average, 8.9x LTM EBITDA for acquisitions—mainly as this was a proprietary deal for XPO (i.e., no bankers and no competition pushing the price up).
- **Little customer and carrier overlap exists.** Prior to the acquisition, XPO had ~2,000 last-mile carriers from its acquisition of 3PD. With Optima, XPO will add another 250 carriers and a wide network of technicians across the U.S.
- **Optima’s EBITDA margin is slightly below previously acquired 3PD.** LTM revenue was \$35.7 million, implying an EBITDA margin of 10.4% whereas 3PD’s EBITDA margin was 11.4% prior to the transaction’s close. This is somewhat reflected in the multiple paid for the business, which is well below the 10.1x paid for 3PD. Interestingly, Optima’s revenue has grown at a 16% CAGR over the past five years, and should fit in nicely with the high growth expected in the company’s last-mile delivery segment.
- **More last-mile acquisitions to come?** Management estimates that Optima was in the top 30 last-mile logistics providers, and that several other similar sized and slightly larger players make up the U.S. last-mile market. However, some of those have an agent model that would be slightly less attractive (unless converted upon acquisition).
- **Our estimates remain largely unchanged.** Overall, this acquisition is generally consistent with our previous estimates and trajectory for the company as well as its last-mile delivery business segment. Our model continues to track the general trajectory of the company hitting its stated goals: \$5 billion in annual revenue in 2016/2017 with 6% EBITDA margins. For more detail on the company’s long-term goals, see our note, [Clearly Defined Strategy for Growth; Takeaways from Meetings with Management](#), published on October 3, 2013.
- **Reiterating our Buy rating.** Our rating is based on our belief that the company will ultimately achieve its long-term goals in combination with the shares’ current valuation level. Our target price remains \$25—derived by discounting our 2016 estimated share price of \$42 (or 20.0x our lowered 2016 EPS estimate of \$2.10) back to November of 2014 at an annual discount rate of 37%—and implies roughly 19% upside relative to last night’s close.

Changes	Previous	Current
Rating	—	Buy
Target Price	—	\$25.00
FY13E EPS (Net)	—	\$(2.37)
FY14E EPS (Net)	—	\$0.02
FY13E Rev (Net)	\$701.7	\$699.4
FY14E Rev (Net)	\$1.59B	\$1.56B

Price (11/15/13):	\$20.97
52-Week Range:	\$26 – \$14
Market Cap.(mm):	1,192.4
Shr.O/S-Diluted (mm):	56.9
Enterprise Val. (mm):	\$1,239.0
Avg Daily Vol (3 Mo):	414,354
LT Debt/Total Cap.:	20.0%
Net Cash/Share:	\$1.18
Book Value/Share:	\$8.03
Dividend(\$ / %)	\$0.00 / 0.0%
S&P Index	1,790.62

EPS (Net)	2012A	2013E	2014E
Q1	\$(0.36)	\$(0.85)A	\$(0.14)
Q2	(0.17)	(1.00)A	(0.06)
Q3	(0.38)	(0.55)A	0.03
Q4	(0.57)	(0.23)	0.11
FY Dec	\$(1.48)A	\$(2.37)	\$0.02

2013 quarterly EPS estimates do not sum to the annual because of the public offering of shares in 3Q13.

2014 quarterly EPS estimates do not sum to the annual because preferred stock, convertible debt, and warrants are not included in 1Q14’s shares outstanding.

Rev (Net)	2012A	2013E	2014E
Q1	\$44.6	\$114.0A	\$293.0
Q2	54.5	137.1A	372.0
Q3	71.0	194.0A	424.5
Q4	108.5	254.4	473.2
FY Dec	\$278.6A	\$699.4	\$1.56B
EV/Revenue	4.4x	1.8x	0.8x

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All relevant disclosures and certifications appear on pages 7 - 8 of this report.

Target Price Methodology/Risks

Target Price: \$25

Our 12-month target price is derived by discounting our 2016 estimated share price of \$42 (i.e. 20.0x our 2016 EPS estimate of \$2.10) back to November of 2014 at an annual discount rate of 37%.

Risks to our target price include the company's inability to achieve anticipated growth through potential acquisitions and "cold starts." Potential to overpay for acquired companies as well as failure to retain talent under a change in control. Integration of acquisitions can become an onerous task and a drain on management's time, leading to an insufficient focus on day-to-day operations and disappointing financial performance. Increased competition in the asset-light brokerage arena, shippers' decisions to bring outsourced transportation in house or deal directly with asset-based carriers. A reduction in freight volumes stemming from the economy slipping into recession. A reduction in available capacity from smaller fleets exiting the industry, or from further consolidation from the larger truckload carriers. Further dilution of the share count from potential future equity capital raises.

Company Description

XPO Logistics, Inc. is a non-asset based transportation service provider offering expedient, single-source solutions for time-critical and service-sensitive shipments through its non-asset based transportation network. XPO serves customers in the U.S, Canada and Mexico with domestic and international freight destinations. XPO's logistics services is offered through three brands: expedited surface transportation through Express-1, Inc., domestic and international freight forwarding services through Concert Group Logistics, Inc., and truckload brokerage services through Bounce Logistics, Inc. With the acquisition of 3PD, XPO Logistics added last-mile delivery to its non-asset based service offerings.

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Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Closing Price 11/14/2013	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of Earnings per Share			Book value	Enterprise value as a multiple of					TTM ROA	TTM ROE	TTM ROIC	PEG ratio ^(d)	Div. Yield	2013E FCF Yld			
								2012A ^(b)	2013E ^(b)	2014E ^(b)		TTM Revenue	2013E EBITDA	TTM EBITDA	TTM EBITDAR ^(c)	TTM EBIT									
																				1715.6%					
Non-Asset-Based Forwarding / Logistics																									
C.H. Robinson Worldwide (CHRW)	Sell	59.92	151.6	9,086.0	850.0	129.7	9,806.2	21.7x	22.1x	20.3x	9.2x	5.3x	12.9x	12.8x	12.4x	13.8x	16.9%	38.1%	27.9%	1.7	2.3%	1.5%			
DSV A/S (DSV-DK)	NC	DKK 162.00	176.0	5,143.4	1,237.5	112.2	6,268.7	NE	NE	NE	4.9x	3.3x	NE	NM	NM	13.7x	7.1%	29.4%	14.8%	NM	0.6%	NM			
Echo Global Logistics (ECHO)	Hold	20.11	24.2	485.8	0.0	53.3	432.4	32.4x	29.1x	23.1x	3.1x	2.7x	11.7x	12.1x	11.4x	17.1x	6.6%	10.6%	10.6%	0.8	0.0%	3.8%			
Expeditors International (EXPD)	Hold	43.23	207.5	8,971.3	0.0	1,310.3	7,687.6	27.5x	25.1x	23.1x	4.1x	4.1x	12.6x	13.0x	12.2x	14.1x	11.4%	16.4%	16.0%	2.3	1.4%	4.9%			
Forward Air Corp. (FWRD)	Hold	41.94	31.7	1,329.8	0.1	98.6	1,231.4	23.6x	23.0x	20.6x	3.2x	2.0x	10.9x	11.4x	9.6x	14.5x	12.5%	14.5%	14.6%	1.9	1.0%	3.0%			
Hub Group (HUBG)	Hold	36.05	37.7	1,357.6	8.7	92.2	1,274.1	19.7x	19.0x	16.6x	2.4x	3.4x	10.5x	10.2x	8.9x	10.8x	7.1%	13.9%	13.9%	1.2	0.0%	1.2%			
Kuehne + Nagel International AG (KNIN-CH)	Hold	CHF 111.80	120.1	14,659.7	52.9	1,109.7	13,836.5	24.3x	22.9x	20.2x	5.5x	1.9x	14.5x	15.5x	10.2x	16.3x	9.4%	25.0%	24.9%	1.3	3.1%	6.3%			
Landstar System (LSTR)	Hold	56.32	46.0	2,592.0	145.0	132.1	2,604.8	20.3x	22.4x	20.1x	6.1x	1.0x	11.9x	11.8x	11.7x	13.7x	12.9%	30.3%	22.6%	1.3	0.0%	5.9%			
Pacer International (PACR)	Hold	7.99	35.9	286.7	0.0	39.7	247.0	NM	27.6x	20.0x	2.3x	1.1x	9.6x	10.1x	4.4x	15.3x	3.9%	7.5%	8.1%	1.3	0.0%	6.8%			
Panalpina Welttransport Holding (PWTN-CH)	Hold	CHF 140.70	23.7	3,638.3	4.6	372.0	3,270.8	NM	NM	31.7x	4.4x	1.9x	19.2x	22.7x	11.1x	27.1x	2.3%	6.1%	6.5%	2.1	1.4%	3.2%			
Roadrunner Transportation Svcs. (RRTS)	Hold	25.08	36.9	925.3	205.8	8.8	1,122.3	21.6x	18.7x	16.0x	1.9x	0.9x	10.7x	11.3x	10.2x	13.2x	6.3%	11.6%	8.6%	1.1	0.0%	-0.7%			
Universal Truckload Svcs. (UACL)	Buy	26.81	30.1	807.9	128.0	5.5	930.4	19.9x	15.2x	13.4x	8.5x	0.9x	8.6x	8.5x	8.3x	10.4x	21.1%	48.7%	30.0%	0.7	1.0%	4.9%			
UTi Worldwide (UTIW)	Buy	15.25	104.8	1,597.5	418.0	178.1	1,837.3	31.1x	NM	24.2x	2.1x	1.2x	14.0x	16.9x	9.6x	NM	0.2%	0.5%	1.0%	1.7	0.4%	-0.9%			
XPO Logistics, Inc. (XPO)	Buy	20.97	56.9	1,192.4	113.9	67.3	1,239.0	NM	NM	NM	2.6x	14.4x	NM	NM	NM	NM	-9.2%	-14.1%	-8.5%	NM	0.0%	NM			
Min				286.7	0.0	5.5	247.0	19.7x	15.2x	13.4x	1.9x	0.9x	8.6x	8.5x	4.4x	10.4x	-9.2%	-14.1%	-8.5%	0.7	0.0%	-0.9%			
Mean				3,719.5	226.0	265.0	3,699.2	24.2x	22.5x	20.8x	4.3x	3.1x	12.3x	13.0x	10.0x	15.0x	7.8%	17.0%	13.6%	1.5	0.8%	3.3%			
Median				1,477.5	83.4	105.4	1,555.7	22.6x	22.7x	20.2x	3.6x	1.9x	11.8x	12.0x	10.2x	13.9x	7.1%	14.2%	14.3%	1.3	0.5%	3.5%			
Max				14,659.7	1,237.5	1,310.3	13,836.5	32.4x	29.1x	31.7x	9.2x	14.4x	19.2x	22.7x	12.4x	27.1x	21.1%	48.7%	30.0%	2.3	3.1%	6.8%			
Stifel Transportation Average				9,071.8	1,627.6	448.2	10,297.6	21.7x	20.2x	17.7x	3.4x	2.1x	9.7x	9.7x	8.1x	14.3x	5.4%	18.1%	9.9%	1.4	0.9%	2.8%			

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest

(b) Stifel estimates for those rated and First Call mean estimates for unrated securities

(c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA for the valuation multiple calculation

(d) 2014E P/E divided by First Call mean or Stifel estimated long-term growth rate

Excludes non-recurring items

Calculations may vary due to rounding

Source: Company data, First Call, and Stifel estimates



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XPO Logistics Income Statement

(figures in \$ millions, except per share amounts)
Fiscal Year End December 31

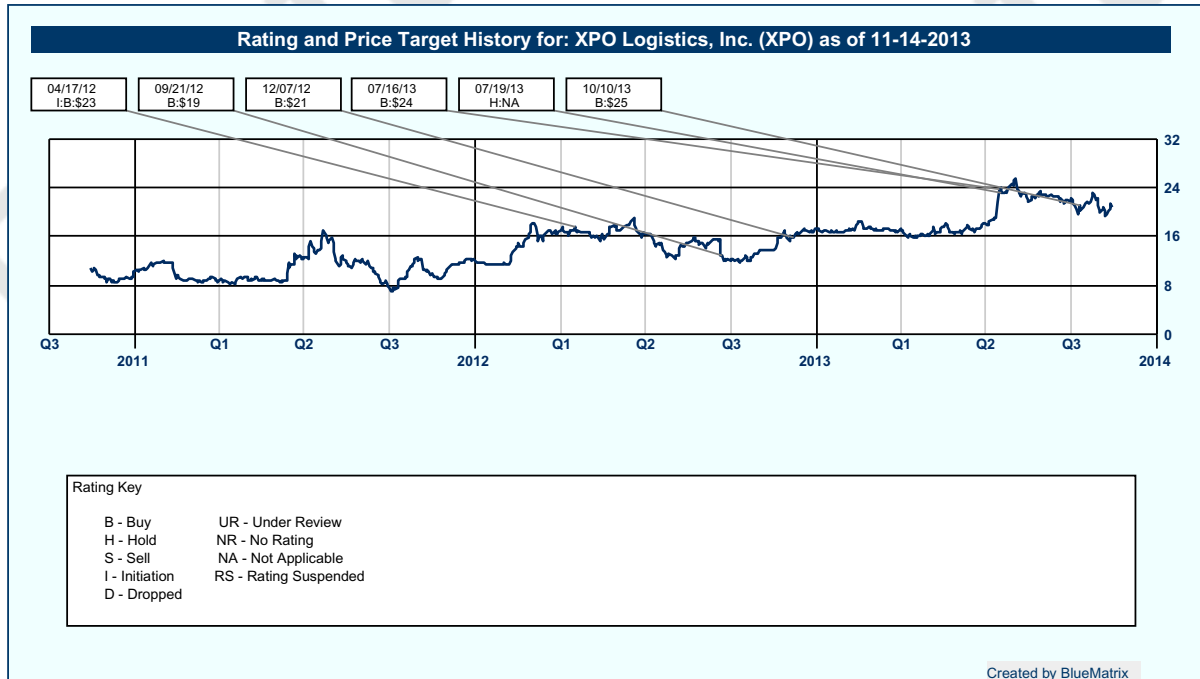
	2012							2013				2014				2013E	2014E	2015E	2016E					
	2005A	2006A	2007A	2008A	2009A	2010A	2011A	1QA	2QA	3QA	4QA	2012A	1QA	2QA	3QA					4QE	1QE	2QE	3QE	4QE
Gross revenues	39.8	42.2	52.8	109.5	100.1	158.0	177.1	44.6	54.5	71.0	108.5	278.6	114.0	137.1	194.0	254.4	699.4	293.0	372.0	424.5	473.2	1,562.7	2,829.5	4,387.7
% change y/y	NA	5.9%	25.1%	107.4%	-8.5%	57.8%	12.1%	7.4%	23.7%	49.8%	146.1%	57.3%	155.8%	151.4%	173.3%	134.4%	151.1%	157.0%	171.4%	118.9%	86.0%	123.4%	81.1%	55.1%
Total Direct expense	30.9	31.4	39.9	91.6	83.4	130.6	147.3	37.8	46.1	61.1	92.8	237.8	97.7	117.8	159.1	204.8	579.4	234.9	299.1	342.7	386.6	1,263.3	2,314.5	3,598.6
Net revenues (Gross profits)	9.0	10.8	12.9	17.8	16.7	27.4	29.8	6.8	8.5	9.9	15.7	40.8	16.3	19.3	34.8	49.6	120.0	58.0	72.9	81.9	86.6	299.4	515.0	789.1
% change y/y	NA	20.0%	19.3%	38.5%	-6.1%	63.7%	8.7%	-6.0%	17.9%	20.7%	118.4%	37.1%	140.1%	128.4%	251.0%	216.5%	193.9%	256.9%	277.1%	135.0%	74.7%	149.5%	72.0%	53.2%
% of gross revenues	22.6%	25.6%	24.4%	16.3%	16.7%	17.3%	16.8%	15.2%	15.5%	14.0%	14.4%	14.7%	14.3%	14.1%	18.0%	19.5%	17.2%	19.8%	19.6%	19.3%	18.3%	19.2%	18.2%	18.0%
Operating expenses:																								
Salaries, wages and benefits	10.2	7.6	9.3	12.7	13.6	12.0	15.2	5.3	6.0	8.9	15.5	35.8	18.0	20.5	27.1	33.2	98.8	35.8	41.7	43.6	42.1	163.1	226.1	317.1
Purchased services	0.0	0.0	0.0	0.0	0.0	2.5	6.7	2.7	1.9	5.2	5.6	15.4	3.8	5.9	8.3	7.7	25.8	8.3	10.6	11.1	10.8	40.8	68.9	112.9
Depreciation	0.0	0.0	0.0	0.0	0.0	1.2	1.0	0.3	0.4	0.7	1.2	2.5	1.5	1.8	5.3	8.0	16.5	8.3	9.2	9.2	9.0	35.8	46.5	49.4
Other operating expenses	0.0	0.0	0.0	0.0	0.0	3.2	5.1	2.7	3.6	4.4	4.4	15.1	4.3	5.2	9.5	6.4	25.3	7.2	9.2	10.0	10.1	36.4	59.2	94.9
(Gain) loss on sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total operating expenses	10.2	7.6	9.3	12.7	13.6	19.0	28.1	11.0	11.8	19.2	26.8	68.8	27.6	33.4	50.2	55.3	166.5	59.6	70.7	73.8	72.0	276.1	400.8	574.4
Operating ratio (gross)	103.0%	92.4%	93.3%	95.3%	96.8%	94.7%	99.0%	109.5%	106.2%	113.1%	110.2%	110.0%	110.0%	110.2%	107.9%	102.3%	106.6%	100.5%	99.4%	98.1%	96.9%	98.5%	96.0%	95.1%
Operating ratio (net)	113.1%	70.5%	72.5%	71.0%	81.1%	69.2%	94.2%	162.4%	139.8%	193.5%	170.8%	168.3%	169.9%	172.5%	144.0%	111.6%	138.7%	102.8%	96.9%	90.2%	83.1%	92.2%	77.8%	72.8%
EBIT	(1.2)	3.2	3.5	5.2	3.2	8.4	1.7	(4.2)	(3.4)	(9.3)	(11.1)	(28.0)	(11.4)	(14.0)	(15.3)	(5.8)	(46.5)	(1.6)	2.2	8.0	14.6	23.3	114.2	214.7
% margin (gross revenues)	-3.0%	7.6%	6.7%	4.7%	3.2%	5.3%	1.0%	-9.5%	-6.2%	-13.1%	-10.2%	-10.0%	-10.0%	-10.2%	-7.9%	-2.3%	-6.6%	-0.5%	0.6%	1.9%	3.1%	1.5%	4.0%	4.9%
% margin (net revenues)	-13.1%	29.5%	27.5%	29.0%	18.9%	30.8%	5.8%	-62.4%	-39.8%	-93.5%	-70.8%	-68.5%	-69.9%	-72.5%	-44.0%	-11.6%	-38.7%	-2.8%	3.1%	9.8%	16.9%	7.8%	22.2%	27.2%
EBITDA	(1.2)	3.2	3.5	5.2	3.2	9.0	2.8	(4.0)	(3.0)	(8.6)	(9.9)	(25.5)	(9.9)	(12.3)	(10.1)	2.3	(29.9)	6.8	11.4	17.3	23.6	59.1	160.7	264.1
% margin (gross revenues)	-3.0%	7.6%	6.7%	4.7%	3.2%	5.7%	1.6%	-8.9%	-5.5%	-12.1%	-9.1%	-9.1%	-8.7%	-8.9%	-5.2%	0.9%	-4.3%	2.3%	3.1%	4.1%	5.0%	3.8%	5.7%	6.0%
% margin (net revenues)	-13.1%	29.5%	27.5%	29.0%	18.9%	32.9%	9.3%	-58.4%	-35.4%	-86.8%	-63.2%	-62.4%	-60.7%	-63.4%	-28.9%	4.6%	-24.9%	11.6%	15.7%	21.1%	27.3%	19.7%	31.2%	33.5%
Interest income (expense), net	(0.2)	(0.2)	(0.1)	(0.4)	(0.1)	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(3.2)	(3.2)	(3.1)	(3.1)	(3.4)	(3.2)	(12.7)	(3.3)	(3.9)	(4.8)	(5.4)	(17.3)	(21.1)	(24.0)
Other income (expense), net	0.0	(0.2)	0.0	(0.1)	(0.1)	(0.1)	(0.1)	0.0	(0.0)	(0.3)	(0.0)	(0.4)	0.1	(0.2)	(0.2)	(0.2)	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)	(0.4)
Profit before tax	(1.4)	2.8	3.5	4.7	3.0	8.1	1.5	(4.2)	(3.4)	(9.6)	(14.3)	(31.5)	(14.3)	(17.3)	(19.0)	(9.2)	(59.7)	(5.0)	(1.7)	3.2	9.2	5.7	92.8	190.3
% margin	-3.4%	6.6%	6.6%	4.3%	3.0%	5.1%	0.8%	-9.5%	-6.2%	-13.5%	-13.2%	-11.3%	-12.6%	-12.6%	-9.8%	-3.6%	-8.5%	-1.7%	-0.5%	0.8%	1.9%	0.4%	3.3%	4.3%
Tax rate	-126.9%	-40.6%	37.5%	40.2%	43.9%	39.7%	48.6%	36.1%	36.1%	37.8%	34.9%	36.1%	-1.6%	-0.4%	34.0%	33.0%	15.3%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Net income (prior to preferred)	(3.1)	3.9	2.2	2.8	1.7	4.9	0.8	(2.7)	(2.2)	(6.0)	(9.3)	(20.2)	(14.5)	(17.4)	(12.5)	(6.1)	(50.6)	(3.3)	(1.2)	2.1	6.2	3.8	62.2	127.5
Preferred dividend	0.0	0.0	0.0	0.0	0.0	0.0	(1.1)	(0.8)	(0.8)	(0.8)	(0.7)	(3.0)	(0.7)	(0.7)	(0.7)	(0.7)	(3.0)	(0.7)	(0.7)	(0.7)	(0.7)	(3.0)	(3.0)	(3.0)
Net income (loss) from continuing operations	(3.1)	3.9	2.2	2.8	1.7	4.9	(0.4)	(3.4)	(2.9)	(6.7)	(10.1)	(23.2)	(15.3)	(18.1)	(13.3)	(6.9)	(53.5)	(4.1)	(1.9)	1.4	5.4	0.8	59.2	124.5
Extraordinary item (net of tax) ⁽¹⁻³⁾	(2.7)	0.0	0.0	0.3	0.0	0.0	(44.2)	0.0	(3.0)	2.8	0.0	(0.2)	0.0	0.0	6.5	0.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	(5.8)	3.9	2.2	3.2	1.7	4.9	(44.6)	(3.4)	(5.9)	(3.9)	(10.1)	(23.3)	(15.3)	(18.1)	(6.8)	(6.9)	(47.0)	(4.1)	(1.9)	1.4	5.4	0.8	59.2	124.5
% margin	-14.6%	9.3%	4.1%	2.9%	1.7%	3.1%	-25.2%	-7.7%	-10.9%	-5.5%	-9.3%	-8.4%	-13.4%	-13.2%	-3.5%	-2.7%	-6.7%	-1.4%	-0.5%	0.3%	1.1%	0.1%	2.1%	2.8%
Average shares outstanding - diluted	6.6	6.7	6.8	7.9	8.0	8.3	8.2	9.5	17.6	17.7	17.7	15.7	18.0	18.2	24.2	29.9	22.6	30.2	30.7	48.2	48.7	39.4	56.2	59.4
EPS - diluted (continuing operations)	(\$0.47)	\$0.59	\$0.32	\$0.35	\$0.21	\$0.59	(\$0.04)	(\$0.36)	(\$0.17)	(\$0.38)	(\$0.57)	(\$1.48)	(\$0.85)	(\$1.00)	(\$0.55)	(\$0.23)	(\$2.37)	(\$0.14)	(\$0.06)	\$0.03	\$0.11	\$0.02	\$1.05	\$2.10
% change y/y	NA	NM	-45.8%	11.7%	-40.8%	180.9%	-107.5%	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.7%	NM	NM	NM	NM	NM	NM	99.1%
EPS - diluted	(\$0.88)	\$0.59	\$0.32	\$0.40	\$0.21	\$0.59	(\$5.41)	(\$0.36)	(\$0.34)	(\$0.22)	(\$0.57)	(\$1.49)	(\$0.85)	(\$1.00)	(\$0.28)	(\$0.23)	(\$2.08)	(\$0.14)	(\$0.06)	\$0.03	\$0.11	\$0.02	\$1.05	\$2.10
% change y/y	NA	NM	-45.8%	25.1%	-46.7%	178.5%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	99.1%

(1) 3Q11 Preferred stock beneficial conversion charge and dividends
(2) 2Q12 excludes \$0.17 per share related to a \$3.0 million non-cash charge valuation allowance for deferred tax assets.
(3) 3Q12 excludes \$0.16 per share related to a \$2.8 million non-cash charge reversal of the valuation allowance for deferred tax assets.

Source: Company data and Stifel estimates

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