

HollAnd

Advisors

Holland Views: XPO Logistics – Price: \$89; MCap: \$8.2bn; EV: \$12.9bn

Picks, shovels and roll-ups

In investing, as in life, pragmatists rule. Stocks that we might have dismissed a decade ago, we today find ourselves offering more benefit of the doubt to especially where an owner-manager is heavily involved. We dismissed many acquisition-orientated businesses earlier in our careers – some for good reason. But when they go right aka in the right hands, roll-ups can deliver huge investor IRRs (Liberty Group, AB Inbev, Teledyne et al).

Eyes wide open

So, with our eyes wide open, we offer a new roll-up to consider, US-based **XPO logistics**. XPO first came to our attention thanks to our work on United Rental (Ashtead's US competitor) – itself a very successful roll-up. XPO was founded by serial entrepreneur/career CEO Bradley Jacobs in 2012. Jacobs (an oil arbitrager early in life) has a phenomenal track record as Founder, CEO (and ultimately seller) of both United Waste and United Rentals. XPO Logistics has a short corporate track record but the brains of the operation, Jacobs, has an exceptional and long pedigree.

Fig.1: More than a one hit wonder

Jacobs' track record in the business world is nothing short of amazing. He started 5 business from scratch and each one has generated at least a billion dollars in profit. Furthermore, he's personally led about 250 cold starts and 500 acquisitions over the course of his career and raised over \$20 billion in capital.

Source: Money Inc

XPO is a global logistics and freight transport roll-up of considerable success (shares up 26% cagr since 2012). We elaborate on and outline the merits of XPO in this note. Crucially Jacobs was very deliberate in targeting a fragmented market with growth opportunities at the outset. He also picked a sector – logistics – that will definitely still exist in 10 years' time. Jeff Bezos would approve.

“I frequently get the question, ‘What’s going to change in the next 10 years?’ And that is a very interesting question.” “I almost never get the question: ‘What’s not going to change in the next 10 years?’ And I submit to you that this second question is the more important of the two, because you can build a business strategy around the things which are stable over time” – Jeff Bezos

We have read interviews and presentations showing Jacobs was thoughtful in targeting the logistics industry, highlighting the potential for scale to sustain higher margins. More recently, Jacobs has also shown that he is that rare thing, an excellent operator and a good capital allocator – He has done no acquisitions since 2015 and bought back 27% of his stock in 2018 shows an attractive trait.

XPO has multiple logistics businesses but its core ‘LTL’ business is the jewel. LTL has a pure-play peer of similar scale (Old Dominion) whose EV is twice that of the entire XPO group. We smell value here, with XPO possibly trading on at little as 8x earnings a few years out.

Internal friction – grist to the mill

Longstanding clients might have heard anecdotes of the internal ‘friction’ that lies within the research process at Holland. One of us is a glass half empty guy, the other is glass half full. The evolution of our thinking on XPO is therefore instructive. We initially thought “*this guy Jacobs is right up our street, the stock could triple*” to becoming disappointed at the ‘Stock Promoter’ aspect of him along with what seemed a less than ideal quality of earnings. We now find ourselves meeting somewhere in between. We still really respect Jacobs’ track record and his clarity of purpose. We also see the value in XPO’s best business (LTL) and the rationale in his roll-up plan. On the assumption that he is a man of integrity, we find our early enthusiasm returning. In short, XPO could be a great investment, for those who invest with their eyes wide open. Let’s also remember the purists who cautioned against Henry Singleton’s unorthodox approach to capital allocation back in the 1970s and missed out on his phenomenal returns.

A pragmatic look at a fascinating business (and its owner)

We have read extensively on Bradley Jacobs and XPO and have run the numbers on the company’s potential earnings power and its peer valuations. We have tried to keep this piece brief and offer this note as a gathering point on our readings/starting block for clients to dig deeper.

Bradley Jacobs, a roll-up maestro?

In [[Appendix 1](#) (hyperlinked¹)], we offer some newspaper profiles and transcript excerpts that give excellent background into Jacobs’. His track record as an arbitrager and his many reincarnations as an Owner Manager are instructive.

Of note:

- The subtle but important similarities with all his previous forays from oil trading to building the United Waste and United Rentals businesses from scratch (as he says himself “*its all just moving stuff*”)
- We are impressed with the clarity in terms of what he set out to do with XPO in 2011 vs. what he has achieved. Early on, Jacobs saw the need for consolidation and how as a capital provider he could create value by consolidating select parts of the logistics supply chain, by greasing it with capital and investing in technology
- Additionally whilst having to accept the need for some ownership of assets in this industry Jacobs’ instinct is (pleasingly) capital light

To view the remainder of this in-depth report, please contact Andrew Hollingworth, Andrew@hollandadvisors.co.uk for a complete PDF copy.

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¹ Our Appendices in this note are long but we try to ease their navigation by including hyperlinks to jump forward and back from the main Exec Summary to the Appendices

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