



Airfreight & Logistics – Market Weight
 Railroads – Market Overweight
Trucking – Market Weight
 Truck Machinery – Market Weight
 July 1, 2020

YRC Worldwide Inc.

(YRCW – \$1.85 – Peer Perform)

The Cat with 20 Lives – Lifeline from the Government

YRCW To Receive \$700M CARES Act Loan. This morning, YRCW announced that it expects to receive a \$700M loan from the U.S. Department of Treasury under the CARES Act. The loan will be received in 2 tranches including: (a) \$350M to cover short-term contractual obligations and other obligations including pension and healthcare payments; and (b) \$350M for essential capital investment in trailers and tractors.

This Assures YRCW's Medium-Term Survival. We expect YRCW will immediately use this money to make its Teamsters and pension funds whole as it has not been making pension or health/welfare contributions the past few months. So this should assure YRCW's medium-term survival, although this isn't a permanent lifeline as the \$700M loan matures in just over 4 years on 9/30/24.

Much Better Terms This Time Around. The \$700M gov't loan has an interest rate of L+350bp, much better than its current term loan of L+750bp. In addition, YRCW has agreed to grant the U.S. Treasury shares that will constitute 29.6% of total shares on a pro-form basis. In other words, YRCW will issue around 42% new shares to the government (~15M shares). This is still a much better deal for YRCW than its last recapitalization in 2011 when its equity holders had to give up 97.5% dilution in exchange \$240M of convertible debt.

Retain Peer Perform on YRCW. YRCW's stock is trading up over 100% pre-market on the government lifeline. To put the \$700M loan in context, YRCW's market cap as of yesterday was \$69M with total balance sheet net debt of \$739M as of 3/31. YRCW also has over \$400M of operating lease liabilities. Beyond the immediate near-term relief for the stock, we still believe YRCW faces longer-term structural cost challenges. So we believe YRCW will continue to struggle to maintain positive pricing and tonnage momentum at the same time, and thus we expect it will struggle to sustain margin improvement. Retain Peer Perform.

What Does this Mean for the Other LTLs? We believe the other LTL stocks reflect at least some potential for YRCW to go out of business. So with YRCW now seemingly assured to survive this recession, we view today's news as a near-term negative for the other LTL stocks. Longer term, we still believe the non-union carriers should gain share from YRCW over time. But arguably, the \$350M government loan for new CapEx at YRCW could help it narrow its service gap relative to peers. So perhaps the pace of long-term share gains for the other LTLs could moderate some as YRCW refreshes its equipment.

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Trading and Fundamental Data	
52-Week Range	\$1-\$5
Market Cap. (MM)	\$70
Enterprise Value. (MM)	\$1,190
Shares Out. (MM)	35.6
Dividend/Yield	0.0%
Avg. Daily Vol. (000)	1,860
Total Debt to Total Cap	73.1%
Short-Interest Ratio	2.7
% of Float	23.2%
Book Value	-\$13.27
Free Cash Flow Yield	-8.1%

Price Performance	YTD	LTM
YRCW	-27%	-54%
S&P 500	-4%	5%
LTL Index	16%	46%

Source: FactSet/Wolfe Research

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Have a great day!
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