ArcBest Corporation

(ARCB – $25.94 – Peer Perform)

High Expectations

Analyst Day Takeaways. Yesterday, ARCB hosted its first-ever Analyst Day in NYC. Mgmt didn't provide any near-term updates on tonnage or pricing trends, but focused on the company's long-term growth initiatives. Over the next 3 years, ARCB expects to grow consolidated rev. 10% annually and nearly double its consolidated EBIT, while materially growing free cash flow.

Large Focus on Truck Brokerage. ARCB stated a new multi-year goal for half its rev. to come from its fast-growing non-LTL segments, including Panther, truck brokerage, warehousing, ABF moving, and FleetNet. This is up from 29% of rev. currently as ARCB sees big cross-selling opportunities and the largest addressable market in truck brokerage. This should drive higher overall returns, cash flow and thus valuation.

Not Much Focus on LTL. ARCB didn't focus much on its LTL segment yesterday. Overall, mgmt sees potential for more margin improvement to around a 95% OR from 96.5% currently as it will continue to see lower-end labor inflation in its Teamster contract.

Long-Term Targets Seem Optimistic. More than 80% of ARCB's rev. is comprised of its LTL and expedited (Panther) segments which are both historically quite cyclical. So even with continued strong growth in its other Asset-Light segments, it seems tough to count on consolidated rev. growth of 10% annually at this state of the cycle. We think ARCB's underlying assumption of 3%-5% economic growth is probably too optimistic. Similarly, ARCB's expectations to generate $100M of free cash flow on avg. the next 3 years seems like a stretch relative to its historical avg. below $50M annually.

Retain Peer Perform. ARCB's strategy to diversify away from LTL seems right and its long-term targets provided yesterday would imply significant upside potential to EPS and the stock. However, with continued weak tonnage trends and our expectation for LTL pricing to slow, we see near-term risk to estimates. Our unchanged 4Q and C16 EPS estimates are 4% and 9% below Cons. Applying a slightly below avg. historical 12x average P/E to our C16 EPS of $2.20, we see fair value around $26.