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New Rec: ArcBest Corp. (ARCB: $49.25) Sept. 16, 2018

Position: Source of funds **Downside potential: 27%**

$MM	Q3 18e	Q4 18e	Q1 19e	Q2 19e	2018e	2019e
Revs	821.4	751.8	741.7	817.6	3,066.6	3,161.9
EPS $	1.12	0.69	0.54	0.95	3.30	3.00
Y/Y Gr	101%	70%	45%	-16%	143%	-9%
PE	n/a	n/a	n/a	n/a	14.9	16.4
Cnsns Revs	814.7	767.8	743.0	836.8	3,070.0	3,240.0
Cnsns EPS	1.10	0.75	0.39	1.13	3.26	3.48

Shares Out: 27M **Market Cap: $1.3B** **FYE: Dec.**

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Concept:
1. Bulls expect ARCB revenues to increase Y/Y in 2019. However, ARCB is losing volume share. Revenues over the last few quarters have increased only due to price increases. If pricing power abates, ARCB's fundamental problems could be exposed.
2. ARCB is under investing in its core business, indicating that management may be skeptical about ARCB's longer-term prospects. Profitability in its brokerage business, 30% of revenue, has declined.
3. ARCB faces a competitive threat from Amazon Logistics, which does not appear to be recognized by the "street". This competition could erode ARCB's market share, revenue and profitability.
4. ARCB has substantial potential pension liabilities that are not well understood. These off-balance sheet obligations could easily wipe out ARCB's equity in the not very distant future.

Summary: Fort Smith, Arkansas, based ArcBest Corporation (ARCB) provides LTL (less-than-truckload) and logistics services. The company is the 7th largest LTL provider in the US with a market share of about 5%. The LTL segment, ABF Freight, which is asset heavy, accounts for 70% of revenues and 80% of EBITDA. Within LTL, 30% of the business is based on base tariffs subject to annual rate adjustments. The remaining 70% of the LTL business is a combination of spot pricing and prices negotiated individually with customers at various times throughout the year.

The asset-light arm, which consists of a logistics group called ArcBest and a roadside assistance and commercial fleet maintenance management service called FleetNet, generates the remaining 30% of revenues, but just 20% of EBITDA.

ARCB shares are up 38% YTD, far outperforming its peers. The majority of the outperformance came in May, when the company announced that it had signed a new five-year contract with the Teamsters Union, which represents 82% of the employees of ABF Freight. Bulls argue that this new agreement raises annual wage and benefit costs at a lower rate (~2%) than feared previously, and thus could improve future operating ratios (which is defined as operating expenses as a percentage of operating revenues).

Bullish optimism regarding ARCB's outlook appears to overlook several of ARCB's problems. ARCB's revenue growth in the last year has benefited from price changes it implemented in August 2017. The new shipping rates were based on both space and weight to ensure that the rapidly growing volumes of lighter but bulkier e-commerce shipments were still profitable to carry. However, shipment volumes have actually decreased since the rate increase, and daily shipments were actually down 6% Y/Y in Q2 18, and were down 2% Y/Y in the first two months of Q3 18 (i.e., in July 2018 and August 2018).

More recently, a higher proportion of ARCB's business appears to be transactional. Industry observers have noted that LTL pricing has increased since Fall 2017 due to demand arising from Hurricanes Harvey and Irma as well as from higher economic activity resulting from the corporate tax cuts. Facing these higher costs, shippers seem inclined to pay higher spot prices (which we estimate were up ~30%-50% Y/Y in Q2 18) rather than sign contracts at the higher rates, betting that the demand-supply imbalance could be resolved in their favor over the next few quarters. In our opinion, this could be a smart bet as Y/Y increases in spot prices have started to falter, as we discuss later. Given that the company also appears to be losing market share, inability to generate price increases would pressure ARCB's operating income and cash flow.

Next, ARCB is a high cost LTL provider. Its operating ratio in Q2 18 was 92.6%. Operating ratios for competitors Old Dominion Freight (ODFL) and SAIA were 78.7% and 90.3%, respectively, in the quarter. Despite similar salary, wage and benefit expenses in the quarter as its peers, ARCB's purchased transportation expenses as a percentage of revenue (11.3%) in Q2 18 were markedly higher than those of ODFL (2.5%) and SAIA (8.0%). The latter two have noted that they have tried to minimize purchased transportation costs by better utilizing their network and assets. ARCB may be using purchased transportation as an alternative to hiring union workers, since it may be costly to terminate them if demand weakens in the future.

ODFL and SAIA have spent more on expanding and improving the service center network and upgrading to newer, more fuel-efficient fleet in the last few years than has ARCB. Perhaps, this is why they have been able to more efficiently utilize their network to minimize transportation costs. ODFL and SAIA have spent an average of 14% and 13%, respectively, of revenues on capex in the last three years (2015-2017) compared to 6% for ARCB. Moreover, ODFL and SAIA have signaled that their Y/Y capex would increase 45% and 22%, respectively in 2018, well above the 7% Y/Y increase forecast by ARCB. ARCB's conservative spending plan suggests a lack of confidence in its long-term revenue growth prospects, which we share.

Third, ARCB appears to be losing market share because it has reduced LTL service terminal capacity. Over the last ten years, the number of ARCB's service terminals is down 12% from 279 to 245. ODFL has increased terminals in the same timespan by 19% and gained share. ARCB's LTL revenue per terminal of $8.1M in 2017 is the lowest in its peer group, well below the average figure of $12.4M.

Fourth, LTL trucking demand could be approaching a peak. In response to rising transportation costs, shippers are bringing more freight handling in house, increasing the number of trucking fleets they utilize, and redesigning their supply

chains to minimize transportation costs. For instance, Hormel noted in its FQ3 18 (period ended July 29) earnings call on August 23 that it is maximizing truck utilization and minimizing frequency of delivery. Dollar General is expanding its private fleet and expanding and diversifying its carrier base to reduce freight costs. Moreover, industry observers note that freight softens seasonally in July. Finally, ARCB anniversaried the implementation of the space-based cubic minimum charges in August 2018, which should pressure future yield increases.

Fifth, profitability of the ArcBest asset-light segment declined Y/Y in Q2 18 because of increased purchased transportation costs. Historically, the results of this segment have been volatile because of the company's lack of control over purchased transportation costs. Even as the company attempts to grow this segment, the inability to control purchased transportation costs is likely to affect segment earnings. We note that the company is attempting to grow revenue while limiting its own investment. If this happens, incremental margins, and operating margins, should decline.

Sixth, the Amazon Relay program, launched in the fall of 2017, threatens to reduce ABF's regional LTL trucking business. The regional LTL business ships to destinations up to 1,000 miles away from the pickup origin and accounted for 60% of 2017 ABF Freight tonnage. Amazon Relay, which has ordered 55k trailers and has already taken delivery of 10,000 trailers, is hiring independent truckers with fleets of 10-40 trucks each to move goods in Amazon trailers between points that are 500 miles or less apart. This arrangement is attracting truckers by offering them higher rates, shorter routes, and less onerous physical handling responsibilities versus what national and regional operators offer. AMZN aims to increase internal share of AMZN's shipping business from 21% today to 65% in the next few years, displacing existing carriers and brokers. If this effort were successful, ABF Freight's regional LTL business is likely to lose business.

Finally, ARCB faces a not well-understood and significant pension problem, unlike its non-union peers, such as ODFL and SAIA. The company contributes ~$80M annually to the Central States, Southeast and Southwest Areas Pension Plan (Central States) as mandated by its Teamsters contract. ARCB is the largest contributor to the plan and its contributions make up ~13% of Central States annual contributions. This plan is in a 'critical and declining status' and had a $25.7B deficit in January 2018, which would increase by about $2B per year if current trends continue. It is projected to run out of money in the 2024-2026 time frame. Under the terms of the new agreement with the Teamsters Union, ABF Freight's contribution obligations generally will be satisfied by making the specified contributions when due until June 30, 2023, and the company is currently not recognizing any liability. However, if the Central states Pension Plan continues on this path, the liability could be about $40B when the money runs out. If

legislative action is not undertaken to remedy the status of Central States, which will depend on politics, resolution of the insolvency at that time may include higher contributions by employers and retiree benefit cuts. ARCB's liability could be 13% of $40B, or ~$5B, which is substantially larger then the company's equity of $0.7B. Hence, shareholders could theoretically be wiped out.

The "street" expects revenue increases in 2H 18 and in 2019, primarily from LTL price increases, and projects revenues of $1.583B and $3.24B, respectively. Some bulls think that revenue could reach $3.33B in 2019. Y/Y price increases in the ABF Freight segment are expected to be around 15% in 2H 18 and around 8% in 2019. We forecast 12% and 2% price increases in 2H 18 and 2019, respectively. Our 2019 assumption may be generous if the economy slows down. We also think that ARCB should continue to lose share, and forecast of $1.573B and $3.162B, respectively, in 2H 18 and 2019. Our EPS projections for 2H 18 and 2019 are $1.81 and $3.00, respectively, compared to consensus of $1.85 and $3.48. The differences between our estimates and consensus is due to the revenue differences mentioned earlier and our expectation of higher operating ratios in 2H 18 and 2019, compared to "street" projections. We detail these in the valuation section.

ARCB shares have traded at an average multiple of 13X two-year consensus forward earnings over the past three years. Over that time, the P/E ratio on two-year forward consensus EPS has ranged from 7X to 22X, with an average of 13X. Since we expect earnings to decline Y/Y in 2019, we apply a multiple of 12X to our 2019 EPS estimate of $3.00 to obtain our initial price target of $36.

Share Borrow Information:

Total Supply	Short Interest	Available to Borrow	Date:
10.65M	1.43M	9.83M	09.06.2018

OWS Estimates/Prime Brokers

Background:

ArcBest (ARCB) originated in 1923 as a local freight hauler called OK Transfer in Fort Smith, Arkansas. In 1935, OK Transfer acquired Arkansas Motor Freight (AMF) and assumed its name. In 1956, AMF acquired Best Motor Freight and adopted the moniker Arkansas Best Freight System, or ABF Freight. Following a name change to Arkansas Best Corporation, the company became public in 1972. The company's stock price fell by 75% in the 1987 stock market crash. In 1988, a 28-year old New Yorker named Emanuel Pearlman, who had been in the takeover business for 48 hours, attempted a hostile takeover of Arkansas Best. Arkansas Best found a white knight in a New York-based private

equity firm named Kelso & Company, and became private. Four years later, in 1992, Arkansas Best again became a listed company.

ARCB is organized into three segments: Asset-Based (ABF Freight), ArcBest (asset-light logistics), and FleetNet (commercial fleet maintenance and roadside assistance). Table 1 below shows the breakdown of revenues by segment. The company's customer base is fragmented. In 2017, no customer accounted for more than 5% of revenues, and the ten largest customers generated 12% of total revenues.

Table 1: ARCB revenues by segment

(Amounts in $000)	2015	2016	2017
Asset-Based	1,916,579	1,916,394	1,993,314
ArcBest	590,436	640,734	706,698
FleetNet	174,952	162,629	156,341
Other & eliminations	(15,062)	(19,538)	(29,896)
Total	2,666,905	2,700,219	2,826,457
% of total revenues			
Asset-Based	72%	71%	71%
ArcBest	22%	24%	25%
FleetNet	7%	6%	6%
Other & eliminations	-1%	-1%	-1%
Total	100%	100%	100%

Source: Company reports

In Table 2, we show operating income by segment. ABF Freight generates the substantial majority of the company's operating income. The profit margins of the asset-light businesses (ArcBest & FleetNet) are comparable to those of ABF Freight.

Table 2: ARCB operating profits by segment

	2015	2016	2017
Asset-Based	62,436	33,571	51,878
ArcBest	20,792	6,864	18,801
FleetNet	2,954	2,425	3,324
Other & eliminations	(10,686)	(13,890)	(20,493)
Total consolidated operating income	75,496	28,970	53,510
% of total operating income			
Asset-Based	83%	116%	97%
ArcBest	28%	24%	35%
FleetNet	4%	8%	6%
Other & eliminations	-14%	-48%	-38%
Total	100%	100%	100%

Operating margin			
Asset-Based	3%	2%	3%
ArcBest	4%	1%	3%
FleetNet	2%	1%	2%
Total	3%	1%	2%

Source: Company reports

ABF Freight operates in the LTL market. LTL refers to providers that generally transport shipments of less than 10,000 pounds, while TL (or Truckload) refers to providers generally transporting shipments greater than 10,000 pounds.

The TL segment is the largest portion of the "for-hire" truck transportation market. Truckload carriers primarily transport large shipments from origin to destination with no intermediate handling. Although a full truckload can weigh over 40,000 pounds, it is common for truckload carriers to haul two or three shipments exceeding 10,000 pounds each at one time making multiple delivery stops.

Because truckload carriers do not require an expansive network to provide point-to-point service, the overall cost structure of truckload carriers is typically lower and more variable relative to LTL carriers. However, the lack of a network subjects their drivers to extended periods away from home thus resulting in higher driver turnover and periodic driver shortages. The truckload segment is comprised of several major carriers and numerous small entrepreneurial players. At the most basic level, a truckload company can be started with capital for rolling stock (a tractor and a trailer), insurance, a driver and little else. As size becomes a factor, capital is needed for technology, infrastructure and some limited facilities. LTL carriers may sometimes participate in the truckload market as a means to fill empty miles in lanes that are not at capacity.

Capital requirements are significantly higher in the traditional LTL segment versus the truckload segment. In the LTL sector, substantial amounts of capital are required for a network of service facilities, shipment handling equipment and revenue equipment (both for city pick-up, delivery and line haul). In addition, investment in technology has become increasingly important in the LTL segment largely due to the number of transactions and number of customers served on a daily basis. ABF Freight picks up approximately 20,000 shipments per day, each of which has a shipper and consignee, and sometimes a third party payor, all of whom need access to information in a timely manner. More importantly, technology plays a key role in improving customer service, operations efficiency and compliance, safety and yield management. As a result of the significant infrastructure required to operate an LTL carrier, the LTL segment is more concentrated than the truckload segment with the largest LTL players in the national and regional

markets. Driver turnover in the LTL sector is low relative to the truckload sector, although LTL carriers can also face periodic driver shortages.

LTL carriers typically pickup numerous shipments, generally ranging from 100 to 10,000 pounds, and consolidate them at carrier-operated service facilities within a certain radius and then transport the shipments from the origin facility to the carrier-operated destination facility and then deliver the shipments to the ultimate destination. As a result, LTL carriers require expansive networks of pickup and delivery operations around local service facilities and shipments are moved between origin and destination often through an intermediate distribution or "break-bulk" facility.

Depending on the distance shipped, the LTL segment historically was classified into three subgroups, Regional (average shipment distance is typically less than 1,200 miles, one or two days of travel), Interregional (average shipment distance is usually between 1,200 and 1,500 miles, 2 to 3 days), and National (average shipment distance is typically in excess of 1,500 miles, 3 to 5 days). Over time, there has been a blurring of the three subgroups as individual companies are increasingly serving multiple markets. Today, most LTL carriers, including ABF Freight, service all three subgroups.

In 2017, annual LTL revenues were $40B. FedEx Freight was the largest LTL carrier with a share of about 16%, followed by XPO Freight (9%), Old Dominion (8%), YRC Freight (8%), UPS Freight (6%), Estes Express Line (6%), ABF Freight (5%), R+L Carriers (4%), SAIA (3%) and Holland (3%).

ARCB has 13,000 employees, of whom 66% belong to the International Brotherhood of Teamsters (IBT) union. The union employees are primarily part of the ABF Freight segment. 82% of that segment's employees are unionized. A new collective bargaining agreement, the ABF National Master Freight Agreement (the '2018 ABF NMFA') was implemented on July 29, 2018, effective retroactive to April 1, 2018, and will remain in effect through June 30, 2023.

The major economic provisions of the 2018 ABF NMFA include restoration of one week of vacation which begins accruing on anniversary dates on or after April 1, 2018; wage rate increases in each year of the contract, beginning July 1, 2018; ratification bonuses for qualifying employees; profit-sharing bonuses upon the Asset-Based segment's achievement of certain annual operating ratios for any full calendar year under the contract; and changes to purchased transportation provisions with certain protections for road drivers as specified in the contract. The 2018 ABF NMFA and the related supplemental agreements provide for contributions to multiemployer pension plans frozen at the current rates for each

fund, continuation of existing health coverage, and annual contribution rate increases to multiemployer health and welfare plans maintained for the benefit of ABF's employees who are members of the IBT. Under the 2018 ABF NMFA, the contractual wage and benefits costs, including the ratification bonuses and vacation restoration, are estimated to increase approximately 2.0% on a compounded annual basis through the end of the agreement.

As a condition of its union contracts, ARCB contributes to 25 multiemployer pension funds (MPPs). The Pension Benefit Guaranty Corporation (PGBC) defines an MPP, also sometime referred to as a Taft-Hartley plan, as "a collectively bargained plan maintained by more than one employer, usually within the same or related industries, and a labor union". More details regarding MPPs are available at https://www.ifebp.org/news/featuredtopics/multiemployer/Pages/default.aspx. The key feature to remember about these plans is that the contributors to the plans are jointly and severally liable. If one of the contributors goes bankrupt, the other contributors are liable for the amounts that the bankrupt contributor is unable to pay. This is known as the "last man standing" rule, as explained below.

About 20% of these MPPs, primarily covering participants in the coal, trucking, manufacturing, service, retail and food industries, are currently so underfunded that they are considered to be in 'critical' or 'critical and declining' status. The funding ratio of these plans (market value of assets/liabilities) is just 60%. Such plans are likely to become insolvent in the next 5-20 years, and are likely to cut retiree benefits. Two plans, Central States and United Mine Workers of America 1974 Pension Plan (UMWA Plan) are considered to be in an even worse 'death spiral' condition. These plans are so cash flow negative that they are shifting assets from long-term growth investments to cash to pay benefits.

The MPPs are supposed to be backstopped by the PGBC multiemployer program, which is funded from premiums paid by participating MPP employers and interest income from US Treasury debt. There is no taxpayer funding. As of 2017, the PGBC multiemployer program had a $65B deficit. Employer premiums have more than tripled in the last ten years to $28 per participant for 2018, but the maximum PGBC payout has stayed relatively low and is currently $1,251 per year.

A report issued by the US Chamber of Commerce in December 2017 stated:

> "As contributing employers to these plans failed, funding levels plummeted. Remaining employers see their long-term viability threatened by ever increasing pension liability brought on by employers that went bankrupt, liquidated, or otherwise went out of business. When employers stop contributing to a pension fund, all remaining employers are required to pick up the slack and assume proportionate liability for the payments owed to the exited employer's 'orphan' employees. As employers leave the pool of contributors, each remaining employer's percentage of the growing funding deficit gets larger. This is known as the 'last man standing' rule

(emphasis ours) and was established to protect plan participants from the consequences of employer withdrawals. The 'last man standing' rule has rendered multiemployer plans unstable as nobody wants to be the last man standing. This provides incentive for even healthy employers to leave, and puts the PBGC in the role of the ultimate 'last man.'"

In June 2018, in another report highlighting the crisis, the US Chamber of Commerce noted:

"Plan insolvency will obviously exacerbate the problems faced by contributing employers. If a plan goes insolvent but does not terminate, businesses could be required to pay contributions in perpetuity—meaning a permanent strain on their finances. However, if an insolvent plan does terminate, the financial situation for employers becomes even more drastic. Contributing employers could be assessed with immediate withdrawal liability; could be part of a mass termination; and/or could be subjected to minimum funding rules, which would require even higher contributions and possible excise taxes. Any one of these scenarios could drive an employer into bankruptcy.

In addition to the threat of an individual plan becoming insolvent, there is a significant concern that such an outcome will cause other plans to fail—what is known as the 'Contagion Effect.' The financial solvency of a number of multiemployer plans is dependent upon only one or two contributing employers, and these businesses also contribute to several other plans. If one plan failure causes a major contributing employer to be unable to make continued contributions to other plans, those plans could fail as well. Again, this is uncharted territory; however, it is reasonable to foresee that if a contributing employer becomes financially distressed by one plan failure, it would have a detrimental effect on the other plans to which that employer contributes."

About 60% of the ARCB's contributions, which totaled $158M in 2017, were made to plans in 'critical and declining' status, 1% were made to plans in 'critical' but not 'critical and declining' status and 6% were made to plans in 'endangered' status, as defined by the Pension Protection Act of 2006. About half of the company's annual contribution goes to the Central States Plan, which is projected to become insolvent by 2025. We discuss this plan in further detail later.

On July 9, 2018, in accordance with the agreement reached between ABF Freight and New England Teamsters, ABF Freight's multiemployer pension plan obligation with the New England Teamsters and Trucking Industry Pension Fund (the 'New England Pension Fund') was restructured under a transition agreement effective on August 1, 2018. The New England Pension Fund is a multiemployer pension plan in 'critical and declining' status to which ABF Freight made approximately 3% of its total multiemployer pension contributions (or about $5M) in 2017. The New England Pension Fund was previously restructured to utilize a 'two pool approach', which effectively subdivides the plan assets and liabilities between two groups of beneficiaries. In accordance with ABF Freight's transition agreement with the New England Pension Fund, ABF Freight agreed to withdraw from the original pool to which it has historically been a participant ('Existing Employer Pool') and transition to the direct attribution liability pool ('New Employer Pool'), which does not have an associated unfunded liability.

ABF Freight's transition agreement with the New England Pension Fund triggered a withdrawal liability settlement that satisfies ABF Freight's existing potential withdrawal liability obligations to the Existing Employer Pool and minimizes the potential for future increases in withdrawal liability under the New Employer Pool. ABF Freight will transition to the New Employer Pool at a lower pension contribution rate than its current contribution rate under the Existing Employer Pool, and the new contribution rate will be frozen for a period of 10 years.

ABF Freight recognized a one-time pretax charge of $37.9M to record the withdrawal liability in June 2018, which equals the present value of the future withdrawal liability payments, discounted at a 4.5% interest rate. The discount rate was determined using the 20-year U.S. Treasury rate plus a spread, which is the rate that would be available to ABF Freight for long-term financing of a similar maturity. The withdrawal liability will be settled through the initial lump sum cash payment of $15.1M, which was paid on August 31, 2018, plus monthly tax-deductible payments to the New England Pension Fund over a period of 23 years with an aggregate present value of $22.8M, which was recorded in other long-term liabilities as of June 30, 2018.

ABF Freight has 4,100 trucks and 20,000 trailers. The company has 245 service centers in North America. ABF Freight's service centers are located primarily in the eastern half of the US, and in Texas and California.

Discussion:

1. ARCB have risen 38% YTD and 76% Y/Y, far outperforming peers and the general market. Earnings have increased in the past few quarters, driven by revenue per shipment, and investors appear to be optimistic about future pricing growth.

Price increases over the last year have been generated primarily by implementation of volume based pricing in August 2017, as well as from strength in spot pricing. The benefit from the former has anniversaried, and recent spot pricing data suggest that Y/Y spot price increases are losing steam.

Effective August 1, 2017, to better reflect the increasing proportion of e-commerce driven larger and bulkier but lighter shipments in its shipment mix, ARCB implemented space-based pricing, which uses freight dimensions (length, width, height) to determine the applicable cubic minimum charges (CMC), that supplement weight-based metrics, where appropriate. This boosted revenue per

shipment (Table 3). The benefits from this change should anniversary in Q3 18, and are likely to be minimal in future quarters.

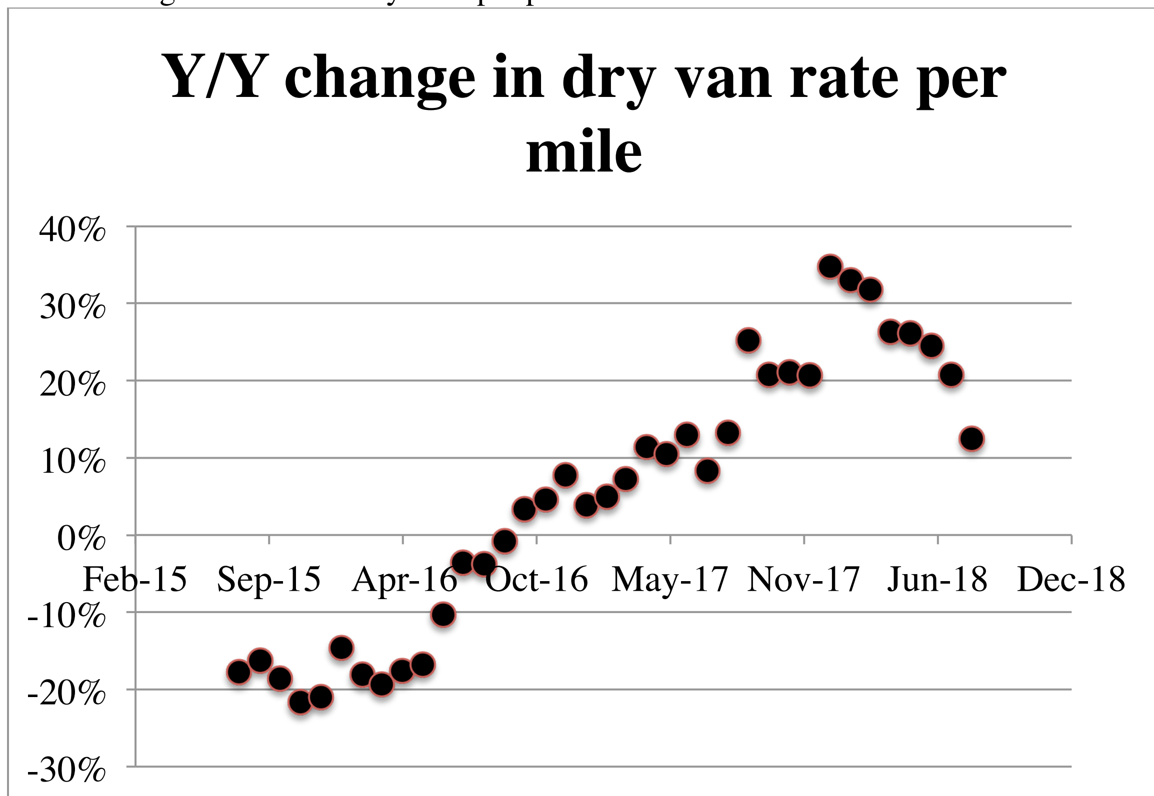
Table 3: ARCB shipments and revenues per shipment trend

(Amounts in $000)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Asset-Based revenues	464,356	514,537	517,417	497,004	482,115	559,239
Workdays	64.0	63.5	62.5	61.5	63.5	64.0
Billed revenue per shipment	355.86	378.18	389.79	404.25	412.14	436.52
Y/Y revenues per shipment	0%	2%	5%	12%	16%	15%
Shipments	1,316,918	1,370,497	1,315,498	1,215,433	1,183,256	1,297,399
Shipments per day	20,577	21,583	21,048	19,763	18,634	20,272
Y/Y Asset-Based shipments per day	6%	4%	-1%	-8%	-9%	-6%

Source: Company reports

Moreover, because of hurricane-related demand last fall and demand generated by higher economic activity from corporate tax cuts which took effect earlier in 2018, a higher proportion of business appears to have moved to spot pricing, which also increased revenue per shipment in the last three quarters. Shippers are taking action to reduce costs, as we describe later, and appear to be unwilling to sign contracts at current prices. Y/Y changes in spot pricing appear to be coming down sharply, as Figure 1 below indicates. While the spot prices below are truckload (TL), industry participants told us that the trend for LTL rates is similar. Note that spot prices were up 25%-35% Y/Y in 1H 18, but have started to decline since. Y/Y dry van spot prices are down 2% Y/Y so far in September.

Figure 1: Y/Y change in truckload dry van spot prices



Source: Truckstop.com via Bloomberg

A shortage of truck drivers has also contributed to pricing strength. However, the industry is taking several steps to alleviate this shortage. One is the increasing use of automatic transmission vehicles, which are not only more fuel-efficient but also easier for drivers to learn than manual transmission trucks. An executive at a training school told us that the vast majority of trucks rolling off assembly lines today outfitted with automatic transmissions, and that he foresees pretty much all new trucks being automatic over the next 3-5 years. The industry is also lobbying for 18-20 year-old Commercial Driver License (CDL) holders to be permitted to make interstate deliveries. Such drivers can only make intrastate deliveries today.

If truckers were expecting spot price increases to accelerate, very high demand for used trucks would likely ensue given that new trucks have a 10-month backlog due to shortages of truck parts and components. We would expect used truck prices would soar. However, as Figure 2 below shows, this does not appear to be the case. While used truck prices were ~5% higher Y/Y in May 2018, the pricing trend appears to be stable, and prices are actually 15% below 2014 levels, when truck orders previously peaked.

Figure 2: Used Class 8 truck price trend

Source: Truckinginfo

2. Customers are taking steps to alleviate their freight costs. These steps should also pressure spot prices.

On its FQ3 18 earnings call on August 23, Hormel Foods noted that it was maximizing weight per truck, and minimizing miles and frequency of deliveries to save on freight costs. Dollar General (DG) has been expanding its private fleet of trucks, and is diversifying its carrier base to obtain more competitive prices. To stem the number of truck miles to its stores, DG recently opened new distribution centers in Alachua, Florida, and Janesville, Wisconsin, and is constructing new distribution centers in New Amsterdam, NY and Longview, TX. Food distributor US Foods is maximizing the use of its own trucks to make pickups, and is avoiding using costly third party delivery.

These efforts appearing to be bearing fruit already in some instances. For example, J&J Snack Foods reported on July 31 that freight cost increases had started to slow relative to a year ago, in part because of the company's efforts to optimize its manufacturing to reduce transportation costs.

3. ARCB appears to be losing share, and seems reluctant to reinvest in its business. Competitors are spending far more on capex and service terminals. ARCB should continue to lose share, and when price increases slow or reverse, profitability could plummet.

In Table 1, we show Y/Y LTL shipment data for ARCB and its competitors, SAIA and ODFL. Note that ARCB's shipment volumes have declined Y/Y in recent periods, in contrast to strong growth at its peers.

Table 4: Y/Y changes in shipments for ARCB, SAIA and ODFL

	2015	2016	2017	1H 2018
ARCB	2.4%	2.7%	-0.4%	-7.7%
SAIA	-4.0%	-0.7%	5.2%	6.3%
ODFL	11.6%	0.2%	5.8%	10.9%

Source: Company reports

We think one reason for this loss of share is because ARCB has invested far less in its business than peers. For instance, over the past ten years, the number of service centers for ARCB is down 12%, while SAIA and ODFL have grown their service centers in the same timeframe by 5% and 19%, respectively. ARCB's service centers also appear to be relatively unproductive. LTL revenue per service center for ABF Freight was $8.1M in 2017, versus $8.7M for SAIA and $14.7M for ODFL. Ten years ago, in 2007, the figures were much closer: $6.3M for ABF Freight, $6.5M for SAIA, and $7.3M for ODFL.

Below, in Table 5, we show capex as a percentage of revenues for ARCB, SAIA and ODFL. Note that, in the past three years, ARCB has invested just 5.6% of its revenues in capital expenditures, versus 12.5% and 13.6%, respectively, for SAIA and ODFL.

Table 5: Comparison of capex for ARCB, SAIA and ODFL

(Amounts in $000)	2015	2016	2017
ARCB sales	2,666,905	2,700,219	2,826,457
ARCB capex	159,017	151,637	149,951
ARCB capex % of sales	6.0%	5.6%	5.3%
SAIA sales	1,221,331	1,218,481	1,378,510
SAIA capex	112,700	152,400	217,000
SAIA capex % of sales	9.2%	12.5%	15.7%
ODFL sales	2,972,442	2,991,517	3,358,112
ODFL capex	462,059	417,941	382,125
ODFL capex % of sales	15.5%	14.0%	11.4%

Source: Company reports

This relative underinvestment is expected to continue. In 2018, ARCB plans to spend $160M, up 7% Y/Y on capex. SAIA plans to spend $265M, up 22% Y/Y, and ODFL plans to spend $555M, up 45% Y/Y. Therefore, we think ARCB could continue to lose share.

Perhaps because its workforce is unionized, ABF Freight appears to be relying on higher cost third parties (purchased transportation) to handle incremental demand to a larger extent than peers, as shown in Table 6. This may be an indication of a lack of confidence in its long-term prospects.

Table 6: Comparison of purchased transportation as a % of LTL revenues

(Amounts in $000)	2015	2016	2017
ABF Freight revenue	1,916,579	1,916,394	1,993,314
ABF Freight purchased transportation	196,560	198,872	206,457
% of revenue	10.3%	10.4%	10.4%
SAIA revenue	1,221,311	1,218,481	1,378,510
SAIA purchased transportation	70,611	56,329	81,482
% of revenue	5.8%	4.6%	5.9%
ODFL revenue	2,972,442	2,991,517	3,358,112
ODFL purchased transportation	116,300	74,051	84,747
% of revenue	3.9%	2.5%	2.5%

Source: Company reports

4. In the fall of 2017, Amazon Logistics (AMZL) embarked on a program called Amazon Relay, which uses independent contractors for runs up to 500 miles (one way). ABF Freight's regional business accounted 60% of its tonnage in 2017. Thus, Amazon Relay, if successful, could displace a meaningful portion of ABF Freight's business.

According to industry participants, AMZL has ordered 55k trailers, and has taken delivery of 10,000 already. It anticipates that in three years, after it has taken delivery of all the 55k trailers, the Relay program would ship 65% of AMZL's business, up from 21% today. This includes shipments of AMZN products and third party products sold on AMZN's web site. It is offering independent truckers with fleets of 10-40 trucks $1,800 for a round trip of up to 1,000 miles, plus fuel costs, which are paid via AMZN cards. Participants in the Relay program need to maintain high (at least 80%, but preferably 90%+) on-time/load-acceptance ratings to remain in the program.

The economics of Amazon Relay seem favorable for independent truckers. They get $1.80 per mile plus fuel, which is at the high end of the $1.30-$1.80 per mile (including fuel costs of about 30 cents per mile) that some brokers pay. Moreover, because of the higher rates they get, Amazon Relay truckers can pay drivers better wages than the 40-42 cents per mile that the national and regional operators pay.

Industry participants think AMZN will be successful in attracting truckers for other reasons as well. They note that Amazon Relay truckers would get to spend more time at home than other over-the-road truckers. They don't have to buy, lease or maintain trailers. Finally, the shipments are drop and hook, which means that the driver does not have to touch the trailer, just hook and unhook it.

In its 2017 10-K, ARCB noted that regional LTL, which it defined as tonnage moving 1,000 miles or less, constituted approximately 60% of tonnage in 2017. Given AMZL's ambitions with respect to growing Amazon Relay, LTL regional carriers such as ABF Freight and freight brokers are likely to lose share.

5. ARCB's Central States pension problem is little understood and worse than thought.

We noted earlier that the Central States pension plan is likely to be insolvent in 7 years. ARCB is the largest contributor to the plan, and its payments constitute 13% of total employer contributions to that plan (Table 7).

Table 7: Contributions to Central States pension plan

(Amounts in $M)	2015	2016	2017
Total employer contributions to Central States	582.3	586.7	612.4
ARCB contributions	77.5	77.9	78.2
ARCB contributions % of total employer contributions	13.3%	13.3%	12.8%

Source: Company reports, US Department of Labor filings

The Central States pension plan is deteriorating rapidly, as Table 8 shows. The funded percentage (the ratio of assets to liabilities) has been declining rapidly both on actuarial and market value bases. The plan deficit has soared and totaled $25.6B at the end of 2017. The plan paid out $2.8B in benefits and received employer contributions and withdrawal liabilities of $0.8B in 2017. Thus, the deficit would increase by $2B annually on the current course, and the deficit at the time of insolvency would approach $40B, theoretically putting ARCB's potential liability to over $4B. ARCB's equity is only 0.7B.

Table 8: Funded status of Central States pension plan

(Amounts in $000)	2015	2016	2017
Value of Liabilities	35,062,805	39,046,355	41,246,554
Actuarial Value of Assets	16,781,284	16,425,642	15,591,063
Market Value of Assets	16,126,208	15,267,533	15,011,652
Funded Percentage (Actuarial Value)	47.9%	42.1%	37.8%
Funded Percentage (Market Value)	46.0%	39.1%	36.4%
Actuarial deficit	(18,281,522)	(22,620,713)	(25,655,491)

Source: US Department of Labor

Earlier, we noted that the 'last man standing' rule implies that the contribution of each remaining employer gets larger in proportion to its contribution, as failing employers exit. The next two largest contributors to the Central States pension plan are YRC Inc. and Jack Cooper Transport Company, each of which contributes 5% of total employer contributions. These two

companies are substantially more levered than ARCB, and their ability to keep contributing could be significantly affected if trucking industry conditions deteriorate. If this were to occur, ARCB could see a sizable liability increase and it may be forced to issue equity to its retirees, which could result in significant dilution of existing shareholders.

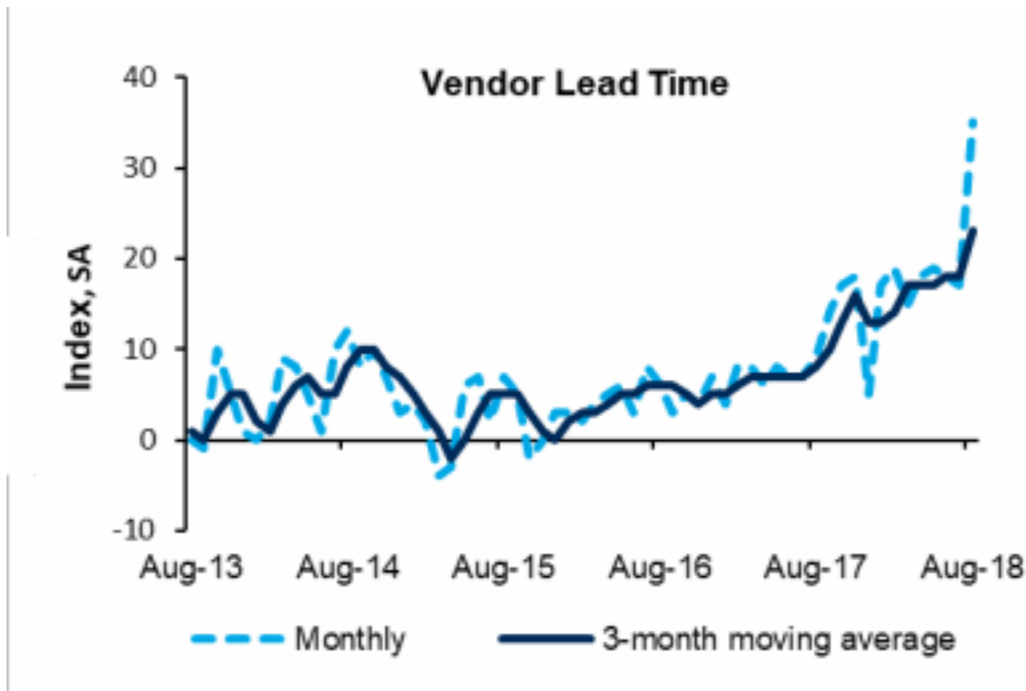
We note that in July 2011, YRC Worldwide, another unionized LTL carrier, was forced to recapitalize by issuing shares to the Teamsters Union, in part because it was unable to contribute to Teamster pension plans, including Central States, from Q3 2009 to May 2011 as a result of significant deterioration of its financial condition.

Some MPP employers are holding out hope for action from Congress. A Joint Select Committee on Solvency of Multiemployer Pension Plans has been established, composed of equal numbers of House and Senate members from each party, tasked with recommending legislation by November 30, 2018, designed to improve the solvency of multiemployer pension plans and the Pension Benefit Guaranty Corporation (PBGC). Given the polarized political climate, and budget constraints, expecting decisive action that might offer substantial help from Congress and taxpayers is probably unrealistic.

6. Manufacturers are building inventory in response to vendor lead times, transportation bottlenecks and higher input costs, or inflation. Because at least some of the inventory building appears to be driven by fear, any realization that end markets have slowed and that there is too much inventory in the channel would adversely impact demand for ARCB.

Figure 3 below shows manufacturing vendor lead-time index as tracked by the Federal Reserve Bank of Richmond. Note that lead times have soared recently, exacerbated by shortages of skilled workers. These have led to component shortages that have been noted by manufacturers as diverse as Caterpillar (heavy machinery), Boeing (aerospace), Flex (contract electronic manufacturing) and Lennox (HVAC equipment). In response, many companies such as Idex, a manufacturer of fluid and metering technologies such as pumps, valves and meters, are building inventory of key components, just in case future shortages occur.

Figure 3: Vendor Lead Time Index



Source: FRB Richmond

The downside of such inventory building is that it may not be completely demand driven. If demand should ease, companies could find themselves stuck with too much inventory, resulting in a manufacturing slowdown. This would pressure demand for trucking services, and thus trucking rates.

7. The current agreement with the Teamsters runs out in 2023, and the Central States Pension Plan is expected to become insolvent in 2015. Since ARCB's long term situation vis a vis its pension obligations depends a great deal on what happens to the trucking industry longer term, we thought it would interesting to appropriate to understand how industry observers foresee the trucking industry evolving over the next ten years.

A bullish perspective is presented in https://www.ccjdigital.com/trucking-revenue-could-top-1-trillion-annually-within-5-years-ata-report-projects/?utm_medium=single_article&utm_campaign=site_click&utm_source=in_story_promotion. The author argues that manufacturing, consumer spending and international trade should drive industry growth.

On the other hand, a more pessimistic view is taken in this article: https://www.ccjdigital.com/changing-economy-will-strip-truck-freight-in-the-coming-decades-says-trucking-

forecaster/?utm_source=daily&utm_medium=email&utm_content=09-14-2017&utm_campaign=Commercial%20Carrier%20Journal&ust_id=ecbcc3ecb148bd97fcf3f9e25e1ce5d9&utm_term=newsletter-2-daily-position-3?utm_source=daily&utm_medium=email&utm_content=09-14-2017&utm_campaign=Commercial%20Carrier%20Journal&ust_id=ecbcc3ecb148bd97fcf3f9e25e1ce5d9&utm_term=newsletter-2-daily-position-3. The author makes the case that growth of automation and more efficient supply chains should challenge the trucking sector.

As it is a cyclical business, trucking has historically invited skepticism from investors. Recent strength in transportation may have had a lulling effect on this investor skepticism. However, if pricing strength can't go on forever, while we can't predict the exact moment, there is likely more downside than upside in trucking in coming years.

8. Recent results.

ARCB reported Q2 18 results on July 31. Revenues of $793M exceeded consensus of $788M, and adjusted EPS of $1.12 (excluding the $38M charge for the New England Pension Fund withdrawal) beat "street" estimates by 11 cents.

ABF Freight revenue of $559M was $11M above "street" estimates. Adjusted operating income of $41M was $7M above expectations. ABF Freight's operating ratio (operating expenses/revenues) in Q2 18, excluding the charge related to the New England Pension Fund), was 92.6%, which was down 300 basis points Y/Y and the lowest operating ratio in over a decade. ABF Freight's Q2 18 operating ratio appears to have benefited from price increases from the space-based initiatives as well as some one-time items such as price savings from a new health care agreement negotiated in August 2017.

ArcBest, the logistics arm, posted Q2 18 revenue of $200M, above "street" estimates of $196M. However, operating income of $3.7M was lower than bullish expectations of as much as $7M. The company blamed lower Y/Y shipments and higher purchased transportation costs resulting from tight truck capacity for the shortfall.

FleetNet's revenue of $47M was higher than consensus of $40M. Operating income of $1M was also higher than consensus of $0.8M.

DSO at the end of Q2 18 was 35 days, flat Y/Y. The company had net debt of $22.3M at Q2 18 end. Book value was $25.04 and tangible book was $18.31.

We show ARCB's free cash flow (FCF) generation in Table 9. Note that the company finances a portion of revenue equipment (tractors and trailers) purchases through notes payable and capital leases. More than half of its capex is financed this way. In Table 9, we show both FCF and SCF (which removes the impact of working capital) on an adjusted basis (i.e., including capex that is financed).

Table 9: ARCB FCF generation, Sustainable cash flow (SCF) = net income + D&A - net capex

(Amounts in $000)	2015	2016	2017	1H 2018
Net Income	44,854	18,652	59,726	11,187
D&A	93,042	103,053	103,068	53,673
Pension settlement expense	3,202	3,229	4,156	1,085
SBC	8,029	7,588	6,958	3,544
Other items	4	(20,582)	(21,993)	50,073
CFFO	149,131	111,940	151,915	119,562
Capital Expenditures	(78,425)	(68,271)	(65,781)	(24,763)
Proceeds from property & equipment sales	6,639	8,804	4,279	2,074
Capitalization of internally developed software	(8,512)	(10,472)	(9,840)	(5,997)
Capex financed with notes payable & capital leases	(80,592)	(83,366)	(84,170)	(14,407)
Adjusted FCF	(11,759)	(41,365)	(3,597)	76,469
Adjusted SCF	(22,994)	(31,600)	7,282	21,767
Total capex	(160,890)	(153,305)	(155,512)	(43,093)
Acquisitions, net of acquired cash	(29,813)	(24,780)	-	-
Proceeds from subsidiary sales	-	2,780	2,490	-

Source: Company reports

Note that FCF and SCF have been weak over the last three years. While FCF and SCF appear to have improved in 1H 18, that is because the majority of spending related to new tractors is expected to occur in Q3 18. ARCB expects capex to total $160M in 2018.

9. Financial Assumptions.

a. ABF Freight.

Table 10 shows Y/Y changes in shipments per day and revenue per shipment in recent quarters. In its August update, ARCB reported that daily shipments were down 2% Y/Y in July 2018 and August 2018. While we expect that ABF Freight would continue to lose share because of reasons cited earlier, it benefits from easy comps starting in Q3 17. We forecast flat daily shipments Y/Y in 2H 18 and 1% Y/Y growth in 2019. The "street" assumptions in Y/Y daily shipment growth for 2H 18 and 2019 appear to be similar to ours.

Table 10: ABF Freight daily shipment count & revenue per shipment data

	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Workdays	64.0	63.5	62.5	61.5	63.5	64.0
Y/Y Asset-Based shipments per day	6%	4%	-1%	-8%	-9%	-6%
Y/Y revenues per shipment	0%	2%	5%	12%	16%	15%

Source: Company reports

As noted previously, revenue per shipment has increased at double-digit rates since the implementation of space-based pricing in August 2017 and higher spot rates resulting from higher economic activity resulting from the corporate tax cut in 1H 2018. The space-based pricing benefit anniversaried in August 2018 and we think the tax cut benefit will anniversary in Q1 19. Spot rates already appear to be weakening (Figure 1). Accordingly, we forecast 12% growth in Y/Y revenue per shipment in 2H 18 and 2% growth in 2019. The "street" appears to assume 15% Y/Y revenue per shipment increases in 2H 18 and 8% growth in 2019.

We assume operating ratio of 94% in 2H 18 and 95% in 2019. The "street" is in line with OWS for 2H 18, but is 70-90 basis points below OWS in 2019. The difference is because the "street's" assumptions of revenue per shipment in 2019 are higher than OWS.

b. ArcBest (asset-light logistics).

Table 11 shows Y/Y changes in shipments per day and revenue per shipment in the last two quarters. Prior to 2018, ARCB used to report different metrics.

Table 11: ArcBest daily shipment count & revenue per shipment data

	Q1 18	Q2 18
Workdays	63.5	64.0
Y/Y Revenue per shipment	23.8%	16.2%
Y/Y Shipments per day	-5.9%	-6.0%

Source: Company reports

In its August update, ARCB noted that overall revenue (i.e., Revenue per shipment times number of shipments) was up just 2% Y/Y in July 2018 and August 2018, and noted that higher revenue per shipment Y/Y was offset by lower daily shipments. This appears to be a significant slowdown from 1H 18. We forecast 8% Y/Y increase in revenue per shipment in 2H 18 and 5% in 2019. We forecast 5% and 2% Y/Y declines, respectively, in daily shipments in 2H 18 and in 2019. The "street's" forecasts for ArcBest appear to be similar to ours in 2H 18, but a bit higher in 2019.

We assume operating ratios of 98% in 2H 18 and in 2019, in line with recent performance. The "street" appears to be 80 basis points below us both in 2H 18 and in 2019.

c. FleetNet.

We assume Y/Y revenue growth of 8% in 2H 18 and −3% in 2019 because of difficult comparisons in 1H 19. The "street" is in line with us in 2H 18, but assumes 3% growth in 2019.

We assume operating ratios of 97.5% in 2H 18 and in 2019, in line with recent trends. The "street" estimates are similar to ours.

d. Other items.

Our net interest expense assumption is $3M for 2H 18 and $6M for 2019, in line with "street" expectations. Our assumed tax rate is 22.5% for 2H 18 and 23% for 2019. The "street" is in line with us for 2H 18 but assumes 25%-26% for 2019. Our assumed diluted share count of 26.8M for 2H 18 and 26.9M for 2019 is in line with recent trends and is similar to consensus.

10. Valuation & risks.

Table 12 shows our revenue and EPS estimates, based on the foregoing assumptions, along with those of the "street". The primary reasons for our estimates being lower are our lower revenue per shipment estimates and our operating ratio assumptions for ABF Freight.

Table 12: Comparison of OWS and "street" estimates for ARCB

(Amounts in $M)	OWS estimates	"Street" estimates
2H 18 net sales ($M)	1,573	1,583
2H EPS ($)	1.81	1.85
2019 net sales ($M)	3,162	3,240
2019 EPS ($)	3.00	3.48

Source: Company reports

ARCB shares trade at about 14X 2019 consensus today. Over the past three years, the P/E ratio on two-year forward consensus EPS has ranged from 7X to 22X with an average of 13X. As we expect annual earnings to decline after 2018, we apply a 12X multiple to our 2019 EPS estimate of $3.00 to obtain a target price of $36.

YRCW, which, like ARCB, has Teamster workers and significant pension liabilities, trades at 7X 2019 consensus EPS. YRCB has higher leverage and a more checkered past. Competitors SAIA and ODFL, which are union-free and have no pension liabilities, trade at 20X and 23X 2019 consensus EPS.

Because of its pension liabilities and union workforce, ARCB is unlikely to be an acquisition target. The chief risk to our recommendation is that prices accelerate. The recent spot rate action suggests that this is unlikely.

11. Financial projections.

a. Quarterly projections.

	Q1 18	Q2 18	Q3 18e	Q4 18e	Q1 19e	Q2 19e	Q3 19e	Q4 19e
ABF	482,115	559,239	588,457	535,952	521,243	583,444	605,049	536,911
ArcBest	181,933	199,987	202,445	187,098	188,536	205,787	210,092	191,145
FleetNet	47,759	46,792	43,525	42,036	45,371	42,113	43,525	44,137
Other	(11,806)	(12,668)	(13,000)	(13,250)	(13,500)	(13,750)	(14,000)	(14,250)
Total revs	700,001	793,350	821,427	751,836	741,651	817,594	844,665	757,943
ABF	13,402	41,303	41,192	26,798	21,738	35,895	37,191	22,364
ArcBest	3,165	3,707	4,049	3,742	3,771	4,116	4,202	3,823
FleetNet	1,521	1,029	1,088	1,051	1,134	1,053	1,088	1,103
Other	(5,363)	(4,961)	(6,000)	(6,250)	(6,500)	(6,750)	(7,000)	(7,250)
Total OI	12,725	41,078	40,329	25,340	20,143	34,313	35,481	20,041
Interest inc	526	714	500	500	500	500	500	500
Interest exp	(2,059)	(2,013)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Other, net	(2,201)	(1,123)	-	-	-	-	-	-
Pretax inc	8,991	38,656	38,829	23,840	18,643	32,813	33,981	18,541
Inc Taxes	(963)	8,698	8,737	5,364	4,084	7,343	7,611	4,060
Net Income	9,954	29,958	30,092	18,476	14,559	25,470	26,370	14,481
Diluted Shs	26,596	26,700	26,750	26,800	26,850	26,900	26,950	27,000
Dil. EPS	0.37	1.12	1.12	0.69	0.54	0.95	0.98	0.54

Y/Y change

	Q1 18	Q2 18	Q3 18e	Q4 18e	Q1 19e	Q2 19e	Q3 19e	Q4 19e
ABF	4%	9%	14%	8%	8%	4%	3%	0%
ArcBest	19%	14%	3%	3%	4%	3%	4%	2%
FleetNet	19%	28%	10%	5%	-5%	-10%	0%	5%
Other	85%	92%	54%	57%	14%	9%	8%	8%
Total revs	8%	10%	10%	6%	6%	3%	3%	1%
ABF	n/a	80%	89%	49%	62%	-13%	-10%	-17%
ArcBest	190%	-37%	-47%	-16%	19%	11%	4%	2%
FleetNet	49%	38%	25%	41%	-25%	2%	0%	5%
Other	46%	30%	2%	-4%	21%	36%	17%	16%
Total OI	n/a	59%	66%	52%	58%	-16%	-12%	-21%
Interest inc	92%	151%	45%	29%	-5%	-30%	0%	0%
Interest exp	57%	45%	17%	4%	-3%	-1%	0%	0%
Other, net	29%	113%	-100%	-100%	-100%	-100%	n/a	n/a
Pretax inc	n/a	60%	61%	49%	107%	-15%	-12%	-22%
Inc Taxes	-82%	n/a	-6%	2%	n/a	n/a	-13%	-24%
Net Income	n/a	90%	103%	72%	46%	-15%	-12%	-22%
Diluted Shs	4%	2%	1%	1%	1%	1%	1%	1%
Diluted EPS	n/a	87%	101%	70%	45%	-16%	-13%	-22%

As % of sales

	Q1 18	Q2 18	Q3 18e	Q4 18e	Q1 19e	Q2 19e	Q3 19e	Q4 19e
ABF	69%	70%	72%	71%	70%	71%	72%	71%
ArcBest	26%	25%	25%	25%	25%	25%	25%	25%
FleetNet	7%	6%	5%	6%	6%	5%	5%	6%
Other	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Total revs	100%	100%	100%	100%	100%	100%	100%	100%
ABF	2%	5%	5%	4%	3%	4%	4%	3%
ArcBest	0%	0%	0%	0%	1%	1%	0%	1%
FleetNet	0%	0%	0%	0%	0%	0%	0%	0%
Other	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Total OI	2%	5%	5%	3%	3%	4%	4%	3%
Interest inc	0%	0%	0%	0%	0%	0%	0%	0%
Interest exp	0%	0%	0%	0%	0%	0%	0%	0%
Other, net	0%	0%	0%	0%	0%	0%	0%	0%
Pretax inc	1%	5%	5%	3%	3%	4%	4%	2%
Inc Taxes	0%	1%	1%	1%	1%	1%	1%	1%
Net Income	1%	4%	4%	2%	2%	3%	3%	2%

b. Annual projections.

	2016	2017	2018e	2019e
ABF	1,916,394	1,993,314	2,165,763	2,246,647
ArcBest	640,734	706,698	771,463	795,559
FleetNet	162,629	156,341	180,112	175,146
Other	(19,538)	(29,896)	(50,724)	(55,500)
Total revenues	2,700,219	2,826,457	3,066,614	3,161,853
ABF	37,247	54,289	122,695	117,188
ArcBest	17,177	19,108	14,663	15,911
FleetNet	2,425	3,388	4,689	4,379
Other	(13,890)	(19,889)	(22,574)	(27,500)
Total OI	42,959	56,896	119,472	109,978
Interest inc	1,523	1,293	2,240	2,000
Interest exp	(5,150)	(6,342)	(8,072)	(8,000)
Other, net	2,944	(271)	(3,324)	-
Pretax inc	42,276	51,576	110,316	103,978
Inc Taxes	17,972	17,680	21,836	23,098
Net Income	24,304	33,896	88,481	80,880
Diluted Shs	26,138	26,228	26,711	26,925
Diluted EPS	0.93	1.29	3.30	3.00

Y/Y change

	2017	2018e	2019e
ABF	4%	9%	4%
ArcBest	10%	9%	3%
FleetNet	-4%	15%	-3%
Other	53%	70%	9%
Total revenues	5%	8%	3%
ABF	46%	126%	-4%
ArcBest	11%	-23%	9%
FleetNet	40%	38%	-7%
Other	43%	13%	22%
Total OI	32%	110%	-8%
Interest inc	-15%	73%	-11%
Interest exp	23%	27%	-1%
Other, net	n/a	1127%	-100%
Pretax inc	22%	114%	-6%
Inc Taxes	-2%	24%	6%
Net Income	39%	161%	-9%
Diluted Shs	0%	2%	1%
Diluted EPS	39%	156%	-9%

As % of sales

	2016	2017	2018e	2019e
ABF	71%	71%	71%	71%
ArcBest	24%	25%	25%	25%
FleetNet	6%	6%	6%	6%
Other	-1%	-1%	-2%	-2%
Total revenues	100%	100%	100%	100%
ABF	1%	2%	4%	4%
ArcBest	1%	1%	0%	1%
FleetNet	0%	0%	0%	0%
Other	-1%	-1%	-1%	-1%
Total OI	2%	2%	4%	3%
Interest inc	0%	0%	0%	0%
Interest exp	0%	0%	0%	0%
Other, net	0%	0%	0%	0%
Pretax inc	2%	2%	4%	3%
Inc Taxes	1%	1%	1%	1%
Net Income	1%	1%	3%	3%

c. Financial metrics.

(Amounts in $000, except per share amounts)

Debt	249,632
Equity	668,515
Tangible book ($)	18.31
Market value	1,314,953
Cash	227,320
DSO	35
DIO	n/a

	2017a	2018e	2019e
EBIT (adjusted)	56,896	119,472	109,978
EBITDA	159,964	222,472	214,978
Free cash flow	(3,597)	31,481	20,880
Surplus cash flow (NI+D&A-capex)	7,282	31,481	20,880
Capex	155,512	160,000	165,000
EV/EBITDA	8.4	6.0	6.2
EV/(EBITDA-capex)	300.4	21.4	26.8