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ValueInvestor INSIGHT

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On the Road Again

Truckload-shipper U.S. Xpress may not have quite been ready for prime time when it came public last June, but at a much lower price and with subdued built-in expectations, the stock today may provide an interesting opportunity.

Despite the best-laid plans of their management and investment-banking sponsors, initial public offerings can often land with a resounding thud. That was certainly the case for U.S. Xpress, the nation's fifth-largest truckload shipper, which last June returned to public markets after a decade-long hiatus.

The company, based in Chattanooga, Tennessee, wasn't operating from particular strength out of the gate. It needed the offering proceeds of nearly $250 million to upgrade its aging fleet of trucks without further taxing its stretched balance sheet. Rather than come public on an upcycle, spot-market pricing for truckload shipping was under pressure. As if that weren't enough, U.S. Xpress then whiffed its first two quarterly earnings reports, the first primarily attributed to having to meet unexpected and costly service demands of a large customer, and the second due to an unusual number of inadequately insured accidents. Throw in some tax-loss selling, and by December the shares had fallen below $5, 70% off the $16 IPO price.

In adversity, of course, can lie opportunity. With plenty of bad news behind it, Mitchell Scott of Choice Equities Capital Management today sees USX as an attractive "reversion-to-the-mean" investment opportunity. The company's spending to upgrade its fleet will dampen free cash flow through this year, he says, but should help it lower operating costs going forward. Beyond that, management has passed to a next generation and CEO Eric Fuller is leading a top-to-bottom operational overhaul meant to bring company performance to public-peer standards.

Among many initiatives, as Fuller puts it, to "methodically evaluate our capital allocation, improve our operational execution and target industry-leading profitability," he has replaced two-thirds of his direct reports while implementing a number of programs to improve driver retention. He sharply curtailed an expensive effort to provide cross-border trucking services between the U.S. and Mexico. He has prioritized paying down debt and otherwise reducing interest costs, while also revamping compensation plans to re-

INVESTMENT SNAPSHOT

U.S. Xpress
(NYSE: USX)

Business: U.S. provider of trucking and freight-brokerage services; taken private in 2007, returned to public markets in 2018.

Share Information (@2/27/19):

Price	**8.99**
52-Week Range	4.83 – 16.94
Dividend Yield	0.0%
Market Cap	$434.2 million

Financials (TTM):

Revenue	$1.80 billion
Operating Profit Margin	5.0%
Net Profit Margin	1.4%

Valuation Metrics
(@2/27/19):

	USX	S&P 500
P/E (TTM)	10.8	20.2
Forward P/E (Est.)	5.8	16.5

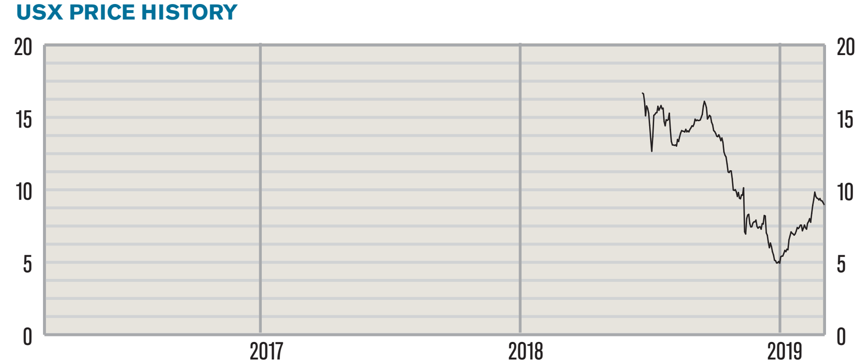
Largest Institutional Owners
(@12/31/18 or latest filing):

Company	% Owned
Zimmer Partners	8.5%
T. Rowe Price	4.4%
BlackRock	3.9%

Short Interest (as of 2/15/19):

Shares Short/Float	5.8%

USX PRICE HISTORY



THE BOTTOM LINE

Mitchell Scott believes the company's broad-based effort to match peers' operating performance will show tangible results by next year. Applying a 12x P/E to his $1.70 2020 EPS estimate, he thinks the shares then can more than double from their current level.

Sources: Company reports, other publicly available information flect an emphasis on closing the roughly 400-basis-point operating ratio – operating expenses as a percentage of sales – gap between USX and its peers. "A lot of what they're doing is just blocking and tackling," says Scott. "But it all adds up."

Bolstered by the supportive freight cycle he expects as the U.S. economy remains reasonably healthy over at least the next 12 to 18 months, Scott estimates that USX by next year can reduce its operating ratio to 92% – high-quality peers are closer to 90% – which with low- to mid-single-digit revenue growth would translate into something on the order of $1.70 in earnings per share. While he says better-quality truckers often trade at P/E multiples of 15-20x, with even a "penal" 12x multiple U.S. Xpress shares would then trade at $20, more than double the current price. VII