



- **XPO- we see potential for very strong 2019 free cash flow:** Our long-held positive stance on XPO has been predicted on accelerating revenue and free cash flow growth. Indeed, organic growth accelerated to +10.4% in 4Q, and free cash flow has tripled in two years- from \$211M in 2016 to expected \$625M this year. In the context of this free cash trajectory, an exact tripling of equity value in a little over a year is highly explainable, if not conservative, as it implies little in the way of multiple expansion (i.e. equity value has increased almost exactly in-line with free cash flow). Our 2019 free cash forecast of \$750M implies 20% yoy growth, with upside to 35% growth (to \$835M) if current organic growth rates are sustainable- which we think is a realistic outcome given macro backdrop, e-commerce exposure, and the company's growth investments. From this standpoint we see a relatively quick trajectory to our \$133 price target, which represents 40% add'l upside.

Figure 2: XPO upside FCF walk for 2019

FCF, 2018E	\$625M	>As per company guidance
Incremental ebitda margin	234	>10% revenue growth/14% incremental margins
interest expense	16	>assuming some debt paydown
cash taxes	(22)	>100% capex depreciation
capex	(20)	>DB estimate
<b>FCF, 2019E</b>	<b>\$833M</b>	<b>&gt;vs. DB est. of \$750M and +33%</b>

Source: Deutsche Bank, Company filings

- **UPS- Downgrading to Hold (lowering PT to \$115):** Following 4Q capex guidance- which was worse than even the most bearish expectations- we have reduced confidence in UPS' ability to control burgeoning capex, with capital intensity expectations more than doubling as a % of sales in just the last 12mo- a significant feat for a business with \$70B in annual sales. Some of this reflects fast-growing e-commerce volumes, though we feel much of it is catch-up from significant under-investment over the last decade-plus. As such we see a lack of positive catalysts to justify a Buy rating. UPS shares won't start working in our view until mgmt. can articulate a sound strategy to strike the right balance between price and volumes vis-à-vis Amazon, and talk more concretely about the long-term/structural capital needs of the business as mgmt. "leans in" to higher B2C shipments.
- **ODFL and CNI:** We remain comfortable with our relative Sell ratings on ODFL and CNI, with the former being more controversial than the latter (albeit less so post 4Q results). With respect to ODFL, consensus EPS estimates for next year went up by 10% on the back of 4Q results, but shares are down 5% since the release (S&P +1%)- indicative of the multiple compression that we feel was warranted on the back of moderating incremental margin assumptions. We note our Sell rating on ODFL reflects our relative value framework rather than any structural or secular concerns, which is indicative of mgmt's strong track record of generating high incremental returns (albeit low fcf conversion).