THE RISE OF BRADLEY JACOBS

SEVERAL ILLUSTRIOUS LEADERS have transformed the US freight transportation industry since the early 1900s. The contribution of these leaders — Jim Casey of UPS, Fred Smith of FedEx, J.B. Hunt of J.B. Hunt Transport, and Daniel Sullivan of Roadway Package System (now FedEx Ground) among them —is well-known to those in various facets of this industry.

Many other leaders also have started transportation and logistics companies in the last decade that have grown at a rapid pace and had successful public offerings. But Bradley Jacobs stands out among the more recent leaders and entrepreneurs for doing something many industry executives and observers viewed as unrealistic.

Although Jacobs was new to the transportation and logistics industry, he was a seasoned roll-up executive who saw an opportunity to consolidate. It started in June 2011, when he acquired majority control of expedited and brokerage services company Express 1. Jacobs had grander ambitions. Soon after taking control, he renamed the company XPO Logistics to reflect new ownership and focus on broader non-asset segments of the industry.

Although Express I was publicly traded with revenue of $177 million in 2011, it had grown at a compound annual growth rate of just 23 percent since going public in 2004 and was hardly known in the industry. In the five years since Jacobs took control, XPO has grown into a $15 billion revenue company, having grown at an impressive CAGR of 143 percent. This compares with 38 percent for FedEx, 12 percent for C.H. Robinson Worldwide and 28 percent for Echo Global Logistics in the first five years after those companies went public.

In addition, while Express 1 focused on the expedited and brokerage business, XPO has expanded into many related segments that include expedited, brokerage (truckload and less-than-truckload), intermodal, drayage, fulfillment/distribution, contract logistics, freight forwarding and last mile for large items. Moreover, its geographic coverage has expanded from the US to global coverage.

In addition to the name change, Jacobs actively promoted his ambitions for XPO. His first industry appearance was at the BB&T conference in Miami in February 2012. Being a small market cap company, his presentation was scheduled in a room with capacity to seat 40 people. Because of his prior success with roll-ups in waste management and equipment rental business, Jacobs drew a much larger crowd with standing room only. I will never forget that 30-minute session.

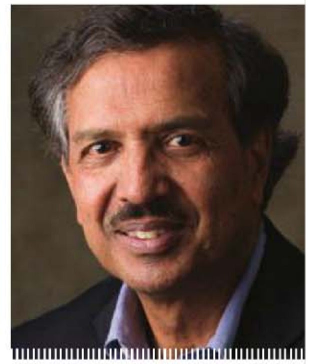
Within minutes into the presentation, Jacobs mentioned his goal of growing his small public company from $177 million in annual revenue to $5 billion by 2016, for a CAGR of 95 percent. I saw faces around me and could read their minds wondering who this kid is to come from nowhere and believe that he could expand his company so rapidly in their industry.

Jacobs added that he intended to achieve such rapid growth via acquisition of brokerage companies for a purchase price of 3 to 4 times EBITDA. This time, the faces showed more disbelief about where he would find such non-asset companies that could be acquired for such low valuation. I found some of my clients staring at me with the look that if there are such companies to be acquired, then why weren't they aware of them.

Soon after that day, Jacobs went on a roll, making one announcement after another and with some being larger than itself. Over the ensuing three years, he completed six acquisitions: 3PD, UX Logistics, Pacer, New Breed Logistics, Norbert Dentressangle, and Con-way (which included Menlo Logistics, Con-way Freight and CFI). In short order, he surpassed the revenue goal announced in February 2012.

After Jacobs exceeded the revenue target and created one of the top 10 global logistics companies in less than five years, people started doubting his ability to manage a company that was no longer non-asset, since it now included asset-based Con-way Freight. Clearly, operating an asset-based company presents new challenges.

Following the close of the Con-way acquisition in November 2015, however, Jacobs moved rapidly to extract waste and focused management on improving operating margins. The impact was immediate. In the very first quarter after acquiring the company, its operating ratio improved from 95.6 percent to 92.9 percent, and then got even better in the second quarter of 2016 with 85.5 percent compared with 92.4 percent a year earlier.



■ Satish Jindel

Even then, many couldn't believe that such improvement was sustainable. So, in the third quarter of 2016, the LTL operation achieved an operating ratio of 87.4 percent compared with 92.5 percent a year earlier. For the first three quarters of 2016, its operating ratio of 88.5 percent is the second best, and close to that of Old Dominion Freight Lines, the darling of the investment community. Yes, there can be hiccups in a quarter or two, but the changes were long overdue and have positioned it for better results than achieved in last 10 years.

Bradley Jacobs

The key to Jacobs' success in a new industry has been his willingness to recognize what he doesn't know, engage with experts for dissenting viewpoints, and reward management for results while holding them accountable. **JOC**

Editor's Note: Jacobs will deliver the keynote address at the JOC's 17th Annual TPM Conference in Long Beach, California, Feb. 26-March 1.

Satish Jindel is president of SJ Consulting Group, a consulting firm focused on the transportation sector with offices in Pittsburgh, Pennsylvania, and Jaipur, India.