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Mr. Frederick W. Smith, the market has created a great opportunity for you to generate huge shareholder value by spinning off FedEx Freight. Of all the operating units of FedEx Corporation, the less-than-truckload unit is best positioned to benefit in the future due to market changes related to e-commerce, the move to more in-shoring, and barriers to entry.

Given the investors response to two publicly traded primarily LTL carriers, Old Dominion Freight Line (ODFL) and Saia, FedEx Freight could be spun-off as a publicly traded LTL carrier at a market cap of over $34 billion.

As a benchmark, Saia is on track to generate $2.15 billion in revenue for 2021 with an operating ratio of about 84 percent. Its stock is trading at price-to-earnings (P/E) ratio of 40 for a market cap of $8.9 billion, which amounts to 4.1 times revenue. And ODFL is estimated to achieve $4.9 billion in revenue in 2021, but with a much better operating ratio of 74 percent. Hence its stock is trading at P/E ratio of 43 with a market cap of $40 billion, which amounts to 8.3 times revenue.

FedEx Freight is on track to achieve $8.2 billion in revenue this calendar year with an operating ratio of about 86 percent. Using the relationship of revenue to market cap for Saia and ODFL and given its much larger revenue, on a stand-alone basis FedEx Freight should get valued at $34 billion (although there are other financial measures considered for valuation). It is greatly undervalued as part of FedEx, since the parent company with CY 2021 revenues estimated at $87 billion has a market cap of only $63 billion, or 80 percent of annual revenue.

In contrast, its closest competitor, UPS, is estimated to have 2021 revenues of $94 billion and has a market cap of $182 billion, or two times the revenue. Moreover, the quarterly earnings of UPS since its sale of UPS Freight in April 2021 illustrate that its parcel and other supply chain businesses have not been hurt from lack of LTL service.

A great proxy for this approach is the spin-off of GXO from XPO Logistics last summer. Since GXO was spun-off on Aug. 3, its stock price has increased by 44 percent, beating the S&P 500 hands down with its increase of 5 percent over the same time period. And on a combined XPO/GXO basis, the stock has appreciated from $135 prior to spin-off day to $181 now for a 34 percent increase in market cap, thereby affirming Brad Jacobs decision to spin-off GXO to enhance shareholder value.

And, just as Brad Jacobs has remained chairman and CEO of XPO and chairman of GXO, Mr. Smith could continue as chairman and CEO of FedEx Corporation and Chairman of “FWS (Frederick William Smith) Freight.”

Few people know that Mr. Smith originally had no interest in the LTL market. However, as part of assisting FedEx with its acquisition of RPS in 1997, this author urged Mr. Smith and Alan Graf, Jr. of Federal Express to also take interest in the LTL industry and Viking Freight (which was the best LTL carrier on the West Coast) with the acquisition of Caliber System, the parent company.

The Viking acquisition turned out so good that within three years, Mr. Smith acquired American Freightways for $1.2 billion in 2001 to offer full 48 state coverage. Then, in 2006, FedEx acquired Watkins Motor Lines LTL business for $780 million. The combined price paid for the three LTL carriers was less than $2.5 billion.

And, with FedEx Freight valued at over $34 billion as a standalone company, the investments in the three LTL carriers will amount to a grand slam win for Mr. Smith. In addition to generating a huge return for its shareholders, with Mr. Smith being the largest single shareholder, even his investment in FedEx will be worth many times more. While not being a founder, he will make the list of LTL legends for having created the most valuable LTL carrier in the history of the industry.

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