

FedEx explores divestment of Freight business

Analysts say spinoff would provide most value to shareholders



[Eric Kulisch](#) · Wednesday, June 26, 2024



FedEx Freight is the largest less-than-truckload carrier in the United States. (Photo: Jim Allen/FreightWaves)

FedEx [is conducting a strategic analysis](#) of the company's less-than-truckload segment and its relative value to the company, suggesting that FedEx Freight could be sold or spun off so the company can focus on its parcel and logistics business.

“With the recent completion of the FY 2025 planning process, we have turned our focus to the next phase of our long-term stockholder value creation plans. As a part of this work, our management team and the board of directors, along with outside advisers, are conducting an assessment of the role of FedEx Freight in our portfolio structure and potential steps to further unlock sustainable shareholder value,” CEO and President Raj Subramaniam said Tuesday on a call with analysts following the announcement of fourth-quarter results. “We’re committed to completing this review thoroughly and deliberately by the end of the calendar year.”

FedEx Freight is the corporation's (NYSE: [FDX](#)) best-performing segment, with operating margins of 20% each of the past two years compared with margins of 11.8% for Ground and 2% for Express in 2023. During the fourth quarter, operating income increased by \$58 million, as focus on revenue quality and cost management overcame the soft demand environment and drove higher yields.

FedEx Freight is the largest LTL carrier in the nation and is extremely efficient, with an operating ratio of 80% – second only to Old Dominion Freight Line (ODFL).

Satish Jindel, the founder and president of parcel transport consultancy ShipMatrix Inc., predicted in an interview that FedEx will spin off the Freight subsidiary.

The best option for maximizing shareholder value is creating an independent company with FedEx Freight, the largest LTL carrier in the nation, and issuing shares to current investors, he argued.

“You will have the greater shareholder return with a spinoff to the public market, not a sale,” because the next-largest carriers – ODFL and Saia – don’t need FedEx Freight and it is too expensive for anyone else to buy, he said.

Jindel urged FedEx founder Fred Smith, in an open letter nearly three years ago, to make Freight a stand-alone company because – by his estimate – it had a market capitalization of \$34 billion compared to \$61 billion for the entire FedEx enterprise.

FedEx Freight's revenue has increased 16.5% since then to \$9.1 billion, and its estimated valuation is now more than \$50 billion, so a spinoff is even more justified now, Jindel insisted.

“No carrier is big enough to be able to buy FedEx Freight,” he said, knocking down speculation that XPO, another large LTL carrier, would bid for the FedEx unit. “And you can't integrate two carriers” because LTL networks are so asset-intensive there would be huge redundancy in terminals.

“The public markets don't have enough choices. That's why you have more people buying the stocks of Saia, ODFL and XPO. The moment they have a choice of a fourth carrier,” they will invest there, Jindel told FreightWaves.

Another major LTL player is ABF Freight System, but its expansion into household goods movement and third-party logistics means LTL is less than half its business now.

Stifel analyst Bruce Chan also said a spinoff of Freight is the most likely outcome. “The division has quietly grown from the family outcast to the most profitable division in the portfolio, and with peer valuations at nearly double that of FedEx, such a move makes sense to us,” he wrote in a research paper.

Markets looked favorably on the prospect of a Freight deal and improved profit figures. FedEx's stock price was up about 14.5% to \$293 in midday trading from Tuesday's close.

BMO Capital Markets analyst Fadi Chamoun said in a client note that FedEx shares could be valued at \$310 to \$338 per share if Freight is divested during the current fiscal year, with the value shooting as high as \$408 per share in fiscal year 2026 if there is a deal.

FedEx rival UPS (NYSE: [UPS](#)) in 2021 sold its LTL unit to Canada-based trucking company TFI International.

In related news, FedEx is in the process of consolidating Express and Ground into one integrated air and ground operating network. Subramaniam said future segment results will be reported under FedEx Corp. FedEx Freight will now include FedEx Custom Critical, a premium service that previously was included in the Express organization.

(Correction: An earlier version of this story incorrectly inflated FedEx Freight's revenues. They were \$9.1 billion in the prior fiscal year, not \$19 billion.)