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Interest in US LTL M&A activity seen rising as 2025 approaches

The highly consolidated LTL sector could get tighter in 2025, but smaller acquisitions are more likely than big mergers, SJ Consulting Group says. Photo credit: Tverdokhlib / Shutterstock.com.

William B. Cassidy, Senior Editor | Oct 23, 2024, 4:42 PM EDT

As the US less-than-truckload (LTL) sector continues its post-Yellow restructuring, interest in mergers and acquisitions is expected to rise, putting additional pressure on LTL pricing, particularly if the freight market strengthens in 2025.

TFI International, Canada's largest transportation holding company and owner of TForce Freight, the sixth-largest US LTL carrier, is considering long-term acquisition opportunities.

By late 2025, "[w]e could look into a [USD] $4 billion to $5 billion dollar deal in the US," TFI CEO Alain Bédard told investment analysts during a third-quarter earnings call Monday.

That deal could be in LTL or "logistics," Bédard said, and would be a stepping stone toward a potential split of the multimodal transportation company sometime beyond 2025.

"It's just a matter of time," Bédard said. "We have to get to a certain size, and once we get to that size, I think that this is where we're going to go."

Several companies have either completed or expressed interest in LTL acquisitions in recent months. That includes DC Logistics, which acquired the former Mountain Valley Express in California, and Jack Cooper expressing interest in purchasing Standard Forwarding.

Knight-Swift Transportation Holdings, which acquired two regional LTL carriers in 2021, purchased Dependable Highway Express (DHE) in July and is now looking to buy a northeastern company that would complete a national network.

Bédard's comments and long-term vision for TFI underscore the growing importance of LTL to investors, shippers and transportation providers.

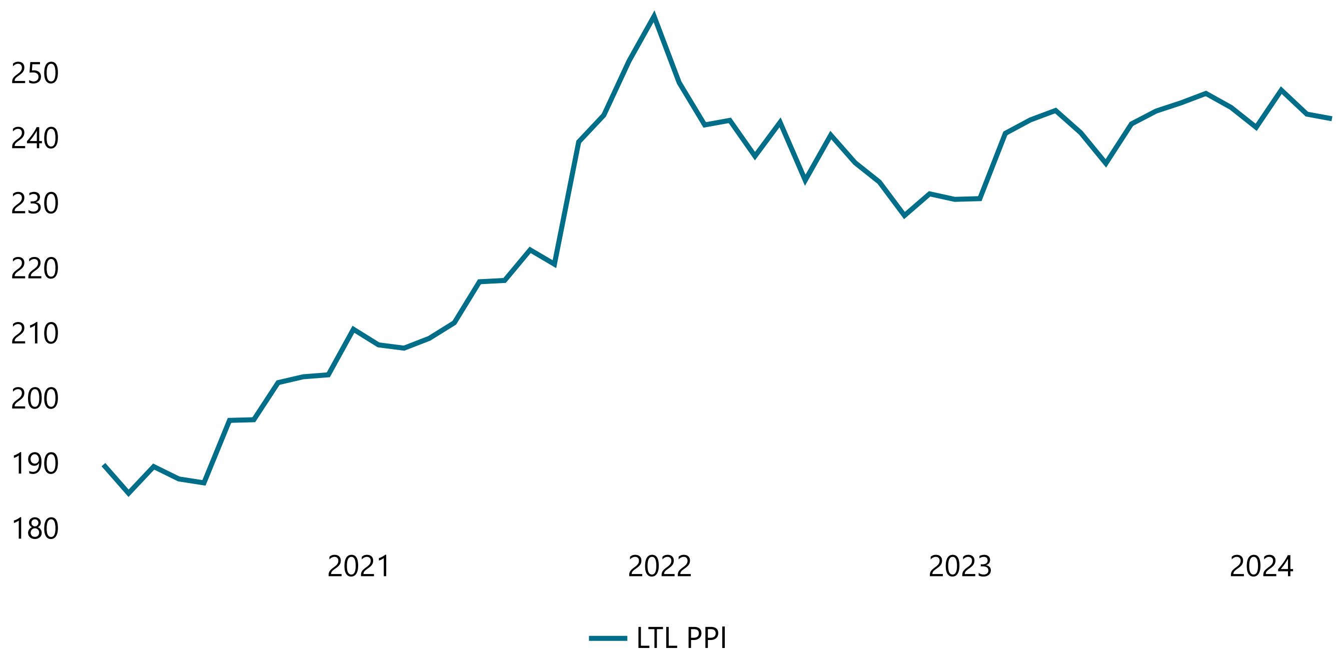
The cargo injected into the market by Yellow's exit raised volumes and rates at the remaining carriers, even as the underlying market shows little growth. The remaining carriers have pricing power that would be increased by further consolidation.

"Even though it's a soft freight market, it's better for the LTL providers than for parcel and truckload carriers," said Satish Jindel, president of transportation research and consulting firm SJ Consulting Group. "The LTL carriers are still getting 2% to 5% rate increases."

That drives interest in LTL acquisitions from investors and from companies such as TFI and Knight-Swift Transportation Holdings, Jindel said. Lower costs of capital following US interest rate cuts may also make it easier to finance acquisitions.

US LTL PPI up 5.2% in September from Yellow's July 2023 collapse

Producer price indices based on selling prices for trucking services



Source: US Bureau of Labor Statistics data, JOC analysis

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LTL pricing is finding a plateau, however. The US long-distance LTL producer price index (PPI), a measure of all-in shipper LTL costs, rose 7% following Yellow's collapse in July 2023 through this July. But the PPI was essentially flat year over year in September.

Small carrier consolidation

Jindel expects more LTL acquisitions in 2025, but at the smaller end of the spectrum, not among the largest carriers.

"It used to be that terminals were the main barrier to entry into the LTL market, but now it's terminals, technology and talent," he said. "They are finding it's difficult to have all three."

It is also difficult for large carriers to find "the right partner," as Knight-Swift CEO Adam Miller said at the Journal of Commerce Inland Distribution Conference in Chicago earlier this month.

"We hope in 2025 we can start the process in the Northeast and maybe have something done in 2026, but that's our hope," Miller said.

One reason finding companies to purchase is difficult is the high level of consolidation in LTL. The top 25 carriers ranked by revenue commanded 92% of total LTL sector revenue of $56.6 billion last year, according to SJ Consulting Group.

TFI has the added complication of being a unionized company. The only other sizable union LTL carrier is ArcBest's ABF Freight System.

In addition, $4 billion to $5 billion will not buy as large an LTL operator today as it would have in 2020. "They'd have to spend significantly more to get a large company," Jindel said.

Montreal-based TFI said it will continue to make "tuck-in" acquisitions in LTL and other modes, as it did when acquiring cross-border LTL specialist Hercules Forwarding in March.

"We will always invest between [USD] $200 million to $300 million on tuck-ins of some kind" each year, said Bédard.

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