XPO WORKER BRIEFING

XPO GLOBAL UNION FAMILY

Why is XPO "spinning off" its logistic business?

Simply put, CEO Bradley Jacobs doesn't believe the market is 'rewarding' the current configuration of XPO with a sufficiently high enough stock price. In Jacobs' mind, splitting the current XPO into two separate companies will make him more – because by the wonders of the market, the 'new XPO' and GXO will be collectively worth more.

Of course, no one actually knows what this new strategy will yield. Let's face it, first Jacobs was going to acquire and buy more companies, and then suddenly he was ready to sell or spin-off any of the businesses, save for the North American LTL operation; now he is creating an entirely new company in GXO. This is a roller coaster ride at best

What will XPO look like going forward?

GXO will get almost all of XPO's warehousing operations ("contract logistics") around the world, leaving XPO with the transportation-related business lines – the less-than-truckload (LTL) business in Europe and North America, the trucking brokerage business, and the last mile delivery and drayage units. By Sales, the new XPO will enjoy about 40% less revenue, while retaining most of the physical assets in the form of trucks, trailers, real estate, etc

Will XPO's leadership change?

Not really. Bradley Jacobs will continue as chair and CEO of XPO (and as chair of GXO), but four members of the board are leaving to join GXO's board. What remains to be seen is whether XPO will right-size CEO Jacobs' pay after this year's investor rebellion on his pay and given that he will be CEO of a far smaller company. He took home over $20 million in cash last year.

What's the downside for XPO?

The move is not without risks. The surviving XPO will be a smaller, less diversified company. Not only will XPO lose around 40% of its revenue base but will no longer carry the same level of exposure to the high growth anticipated in the logistics business. The spin-off also represents a capitulation of XPO's strategy of aggressively acquiring other companies to provide a one-stop shop for a customer's transportation and warehousing needs. It is not yet clear what impact XPO will see in retaining and winning contracts as a result. The stand-alone transportation focus is nothing new and could easily fall flat in customers' eyes.

Although GXO will have taken on debt to distribute nearly a billion dollars to XPO as part of the transaction, GXO could at the onset, have a stronger (and investment-grade) credit rating than XPO.

Interestingly, whilst CEO Bradley Jacobs is championing the move, he recently sold approximately $500 million of his personal shares in XPO.

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What is XPO telling investors?

XPO is being marketed to investors as a technologically leading, 'pure-play' transportation company. Touting dramatic improvement in its LTL operating margins, XPO emphasizes the role of its workforce management tools – XPO Smart – in optimizing labor costs, such as adjusting the mix between permanent and temporary work, over-time and even shifts. XPO Smart has been implemented at 100% of North American LTL docks, but has yet to be fully rolled out in its European operations. Other LTL-profit initiatives include route optimization and better contract pricing analytics.

If there was any doubt as to the company's LTL priorities, XPO executives recently told investors that the priority is to "make money and more money."

Will GXO be profitable?

In a recent analyst call, XPO made this very telling statement: "[Our] secret sauce has always been the world-class people we attract to XPO – not just our 35 most senior executives, but also the 2,500 professionals at the next level with blue-chip industry experience." This would sound good, if XPO only employed 2,535 workers; but it doesn't – it employs tens of thousands of drivers, not counting the thousands of independent contractors that work in the drayage business and last mile delivery.

As XPO splits into two, there are a lot of promotions to be had for executives; however, if there is one clear message from recent investor disclosures it is that one of XPO's advantages is its ability to use technology, such as XPO Smart, to minimize labor costs. And even with the current driver shortage, XPO believes it can continue to significantly expand its profit margins over the next few years.

Drivers Taking Action for a Better Workplace

Workers are not taking this transition sitting down. In Europe, many of the 'new' XPO workforce will be unionized. Meanwhile in the U.S., despite millions spent by the company on systemic union-busting strategies and tactics, XPO drivers in Florida and New Jersey just ratified the first two Teamster-negotiated collective bargaining agreements in XPO history.

XPO misclassifies drivers in its intermodal trucking operations as independent contractors despite continually coming out on the losing end in challenges over employee status in the courts and at government regulators. This year, a judge at the U.S. National Labor Relations Board, in a case regarding XPO operations in California, concluded that the company is misclassifying drivers as independent contractors. Also, a federal court certified that a class action could proceed involving claims by hundreds of drivers who are seeking an injunction and damages against XPO subsidiaries for illegally misclassifying them as independent contractors.

This split has risk attached, but in true XPO fashion, seems to be focused on enriching management while forgetting those that have generated the funds to pursue this change.