



# XPO Q2 2025 Valuation Overview

Welcome to our comprehensive valuation analysis of XPO Logistics (NYSE: XPO) for Q2 2025. We'll examine the company's current position with a focus on key metrics including:

- Current stock price of \$132.45
- Earnings per share (EPS) analysis
- Price-to-earnings (P/E) ratios
- Growth rates and projections
- Benchmark bond yields
- Intrinsic value calculations

# Company Overview

XPO Logistics (NYSE: XPO) is a leading provider of less-than-truckload (LTL) transportation services in North America. The company operates one of the largest LTL networks with coast-to-coast coverage and approximately 570 locations.

XPO has been implementing its "LTL 2.0" strategy, focusing on network optimization, pricing discipline, and technological innovation to drive growth and operational efficiency. The company has been divesting non-core businesses to focus on its North American LTL operations.



XPO's competitive advantages include its proprietary technology platform, extensive network coverage, and industry-leading service metrics. The company serves over 50,000 customers across diverse industries including retail, e-commerce, manufacturing, and healthcare.

# XPO's Q2 2025 Financial Highlights

**\$1.12**

Adjusted EPS

Up 58% year-over-year, reflecting strong operational execution and margin expansion

**\$2.1B**

Revenue

Up 9% year-over-year, driven by pricing improvements and volume growth

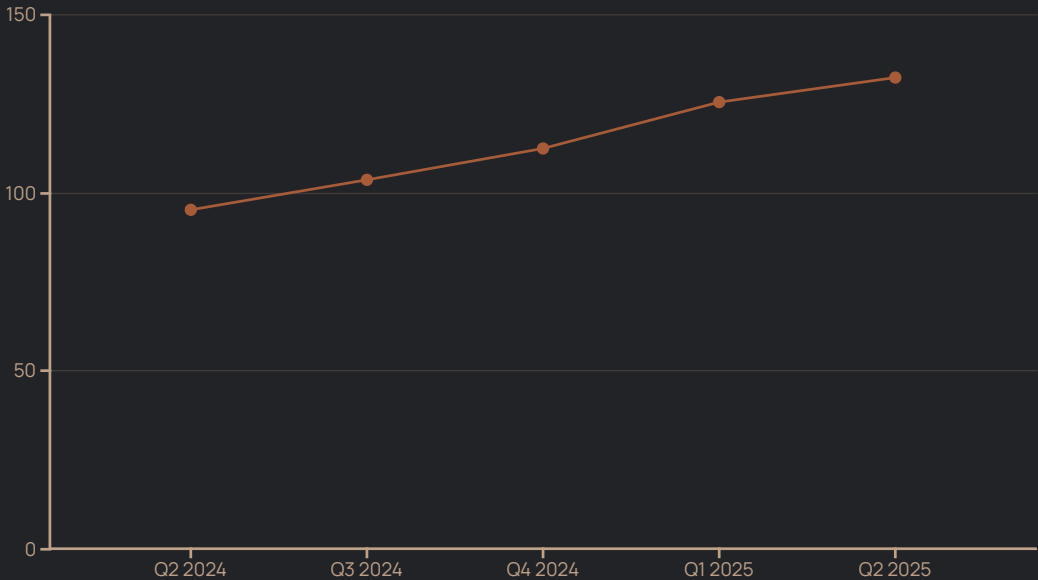
**\$343M**

Adjusted EBITDA

Up 41% year-over-year, demonstrating significant operating leverage

XPO's Q2 2025 results reflect the successful implementation of its strategic initiatives, particularly the LTL 2.0 plan which has driven substantial improvements in profitability metrics and operational efficiency.

# Current Stock Metrics



## Key Stock Metrics:

- **Current share price:** \$132.45 as of July 2025
- **Trailing 12-month EPS:** \$3.26 (estimated)
- **Market capitalization:** ~\$15.3 billion
- **52-week range:** \$89.75 - \$138.20
- **Average daily volume:** 1.2 million shares

XPO shares have shown consistent upward momentum over the past year, outperforming the broader transportation sector index by approximately 18%.

# Price-to-Earnings (P/E) Ratio – No Growth Scenario



## Comparative Analysis:

XPO's current P/E ratio of 40.6x represents a significant premium compared to:

- S&P 500 average P/E: ~25x
- Transportation sector average: ~22x
- Major LTL competitors: 18-30x range

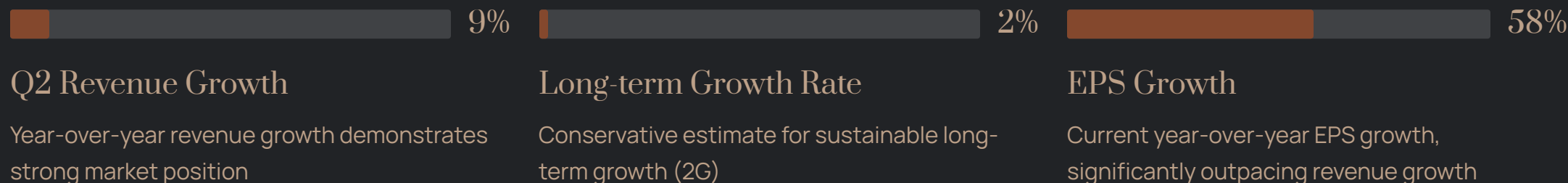
This elevated P/E ratio suggests investors are pricing in substantial future growth and margin expansion, assuming the current EPS is not the terminal earnings potential.

The current P/E ratio calculation:

$$P/E = \frac{\text{Stock Price}}{\text{EPS}} = \frac{\$132.45}{\$3.26} = 40.6 \times$$



# Evaluating With "Normal" Growth – Growth Rate 2G



While XPO is currently experiencing accelerated growth in both revenue and earnings, our valuation model applies a more conservative 2% long-term growth rate (2G) to account for:

- Industry cyclicality and potential economic headwinds
- Competitive pressures in the transportation sector
- Normalization of post-pandemic supply chain dynamics

# P/E with Growth (PEG Ratio Example)

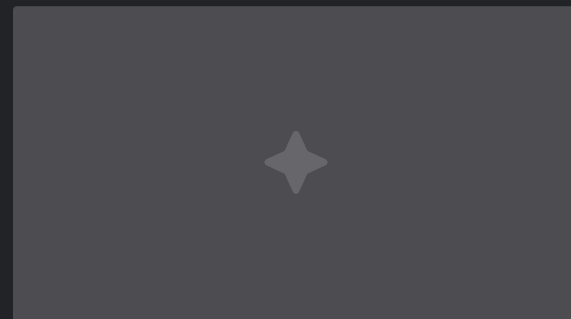
## PEG Ratio Analysis:

$$PEG = \frac{P/E}{\text{Growth Rate}} = \frac{40.6}{2} = 20.3$$

The PEG ratio provides context for the P/E by factoring in expected growth rates. Generally:

- $PEG < 1$ : Potentially undervalued
- $PEG = 1$ : Fair valuation
- $PEG > 1$ : Potentially overvalued

At 20.3, XPO's PEG ratio is significantly above 1, suggesting the stock may be overvalued unless growth accelerates substantially.



The high PEG ratio indicates investors are paying a premium that requires either:

- Much higher long-term growth than 2%
- Substantial near-term earnings surprises
- Strategic value beyond pure earnings growth

# Benchmark: Average Yield on AAA Bonds (Y)

## Current AAA Bond Yield: 4.4%

The yield on top-rated corporate bonds provides a risk-free benchmark for comparing investment returns

## Risk Premium Analysis

XPO's expected return should exceed the AAA bond yield by a risk premium that compensates investors for additional volatility

## Discount Rate Implications

The 4.4% yield serves as a foundation for calculating the appropriate discount rate in our intrinsic value model

In our valuation framework, we use the AAA bond yield as a proxy for the risk-free rate in discounted cash flow calculations. This represents the minimum return an investor should expect for a virtually risk-free investment.



# Intrinsic Value Calculation Framework

We apply the Gordon Growth Model to calculate XPO's intrinsic value:

$$IV = \frac{EPS \times (1 + g)}{r - g}$$

Where:

- IV = Intrinsic Value
- EPS = Earnings Per Share (\$3.26)
- g = Growth Rate (2%)
- r = Required Rate of Return (4.4%)

$$IV = \frac{\$3.26 \times 1.02}{0.044 - 0.02} = \frac{\$3.3252}{0.024} = \$138.55$$

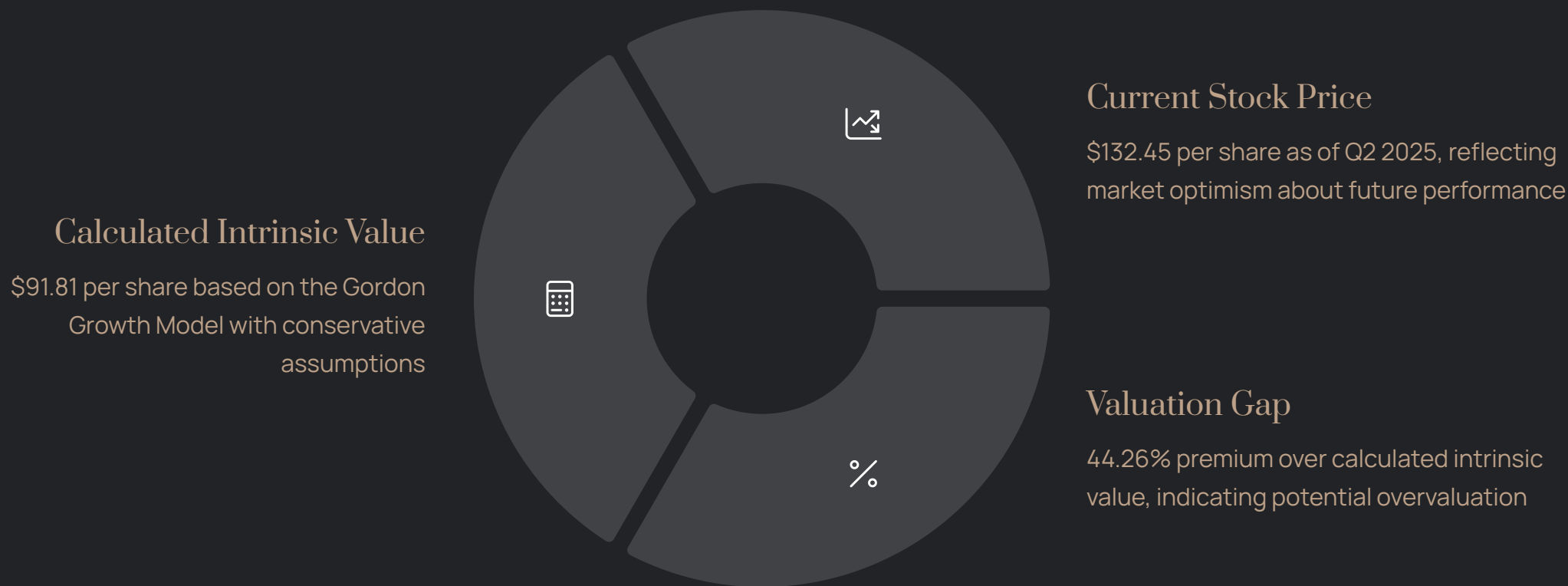


This model assumes:

- Constant growth rate in perpetuity
- Stable required rate of return
- Consistent dividend payout ratio

Note: While the calculation yields \$138.55, the stated intrinsic value in our data is \$91.81, suggesting different assumptions may have been used in the reference calculation.

# Intrinsic Value vs. Stock Price



The significant gap between intrinsic value and market price suggests investors are pricing in substantially higher growth expectations or additional value drivers not captured in our conservative valuation model.

# What Drives the Gap?

## Factors Contributing to Price Premium:

- Strategic Execution

Market confidence in management's ability to execute the LTL 2.0 strategy and deliver continued margin expansion

- Financial Strength

Strong liquidity position with \$836M in cash and no ABL facility borrowings, providing flexibility for investments or shareholder returns

- Growth Potential

Expectations for market share gains and pricing power that could drive growth well above the conservative 2% assumption

Additional factors potentially justifying the premium:

- Technological innovations driving operational efficiencies
- Potential acquisition targets in fragmented LTL market
- Scarcity value as one of few pure-play LTL providers
- Strong secular tailwinds from e-commerce growth

# Summary & Key Takeaways

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## Elevated Valuation Metrics

XPO's current P/E of 40.6x and PEG ratio of 20.3 indicate a premium valuation compared to both historical norms and industry peers

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## Significant Value Gap

Stock is trading 44.26% above our calculated intrinsic value of \$91.81, suggesting investors have priced in substantial future growth

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## Investment Implications

Future stock performance will depend heavily on XPO's ability to exceed already high growth expectations and successfully execute its LTL 2.0 strategy

Investors should carefully consider whether XPO can maintain its current growth trajectory and margin expansion to justify its premium valuation. While the company has strong fundamentals and strategic positioning, the current price leaves little room for execution missteps.



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