



Inside Freight

A Large LTL Bankruptcy

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NEMF Files Chapter 11. This afternoon, New England Motor Freight (NEMF) and 10 related entities unexpectedly filed for Chapter 11. We spoke with NEMF, which is planning an orderly wind-down of its operations, and we expect freight will very quickly shift to other LTL carriers. NEMF generated approximately \$400M of revenue in C17, representing around 1% of the total LTL market and around 8% of the Northeast market. This marks the largest LTL bankruptcy since Consolidated Freightways abruptly closed its doors in September 2002.

Background on NEMF. NEMF was founded over 100 years ago and is currently the nation's 19th largest LTL carrier. It's a regional, unionized LTL carrier with operations primarily in the Northeast and Mid-Atlantic. NEMF maintained a network of ~35 terminals, around 1,300 trucks and nearly 1,500 drivers. Note that NEMF's employees are represented by the International Association of Machinists union, unlike most of other unionized LTLs represented by the Teamsters (including YRCW, ARCB and UPS Freight).

What Does this Mean for the Other LTLs? While this is a sad day for NEMF and its employees, it should be positive for tonnage and pricing for the rest of the LTLs, especially those with more Northeast exposure. In Exhibit 2 in the full note, we roughly estimate the revenue and EPS boost for each LTL carrier based on their overall market share and presence in the Northeast. We estimate the biggest EPS benefits as a percent of 2019 EPS for YRCW (its New Penn regional subsidiary serves the NE), followed by ARCB and SAIA. The bankruptcy could also help out YRCW while it's in the middle of negotiating a new labor contract. And we also think SAIA is well positioned to purchase some of NEMF's real estate as it continues its NE expansion.

Positive for the LTL Stocks. LTL stocks have rallied YTD following stronger than expected 4Q earnings, upbeat pricing commentary, and the rebound in the ISM index (56.6 in January vs. 54.3 in December). We expect NEMF's announced bankruptcy will further boost sentiment on the group and drive near-term outperformance as it should support a modest uptick in tonnage and strong LTL pricing this year including general rate increases. Open the full note for a look at historical stock performance following prior LTL bankruptcies.