Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #8 | October 2021

> **"One person said to me, 'I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.' Well, that's a reasonable thing to do. But how many people have that kind of discipline? Not one in 100."**
> **– Charlie Munger**

In this issue:

Companies in this issue: ArcBest (ARCB), FedEx (FDX), Old Dominion (ODFL), Saia, Inc. (SAIA), United Parcel Service (UPS), XPO Logistics (XPO), Yellow Corp (YELL)

Deep Dive

Old Dominion Freight Line

(Ticker: ODFL; Disclosure: None)

Old Dominion is a great business I've simply overlooked—and underappreciated. Having missed the boat…er, truck…for too long I thought I'd do a deeper study of the company. What I found was a wonderful, relatively simple business operating in a tough industry. ODFL has gotten ahead by figuring out how to move freight from Point A to Point B (and beyond) in an efficient manner. The family-controlled business built its capabilities intentionally, rationally, and methodically over several decades. The capital intensive nature of the business might not seem as exciting or profitable as other segments of the freight industry, but it serves as a formidable protective barrier to entry.

ODFL is a company worth understanding and deserves a spot on the Watchlist.

INDUSTRY OVERVIEW:

The freight industry is as old as civilization. The number of points and the technology have changed dramatically over the millennia. But the basic need for haulers of freight hasn't. Instead of horses or camels, today we move our stuff on ships, trains, airplanes, trucks, bicycles, and more. The entire freight segment of the US economy is worth about $1 trillion.

If you're shipping a lot of heavy items long distances the best method is probably a train (about $60bn annually). Trains can move a ton of freight almost 500 miles on a gallon of fuel and are about 3-4x more efficient than trucks. But trains aren't going to pull down your street anytime soon. They're the bulk movers.

More precise deliveries require trucks. If you're a shipper with enough cargo for an entire trailer load, you'll likely contract with a full truckload carrier. That market is about $200 billion a year. Truckload freight, generally, is one load going from Point A to Point B. Bonus points if you can find a return load. Competition here is fierce and open to anyone with a CDL and a truck.

We finally arrive at the less-than-truckload or LTL market. Worth about $42 billion a year in the US, LTL for-hire[1] has important differences compared to TL. The very nature of the business means many more points of pickup and delivery. This introduces vast complexity compared to a two-point system and requires capital investment in service center infrastructure and logistics capabilities.

While ODFL and other LTL carriers compete to some degree with pure, asset-lite logistics companies, that is an entirely different market. Connecting the supply and demand for moving freight doesn't require much capital. *Actually moving that freight* requires a lot of capital. It's this last fact that sets the stage for barriers to entry in LTL.

The chart below illustrates the sheer size of the US freight market. Included in the remainder category is air cargo as well as the value of other trucking, such as private truckload, and things like pipelines. The entire market is subject to the cyclical gyrations of the overall US economy, an important fact to keep in mind when looking at ODFL.

[1] In a conversation with an industry expert, I found that the total LTL market figure of $80bn comes includes private fleets and not-for-hire carriers. The relevant market ODFL serves as a common carrier is the for-hire market.

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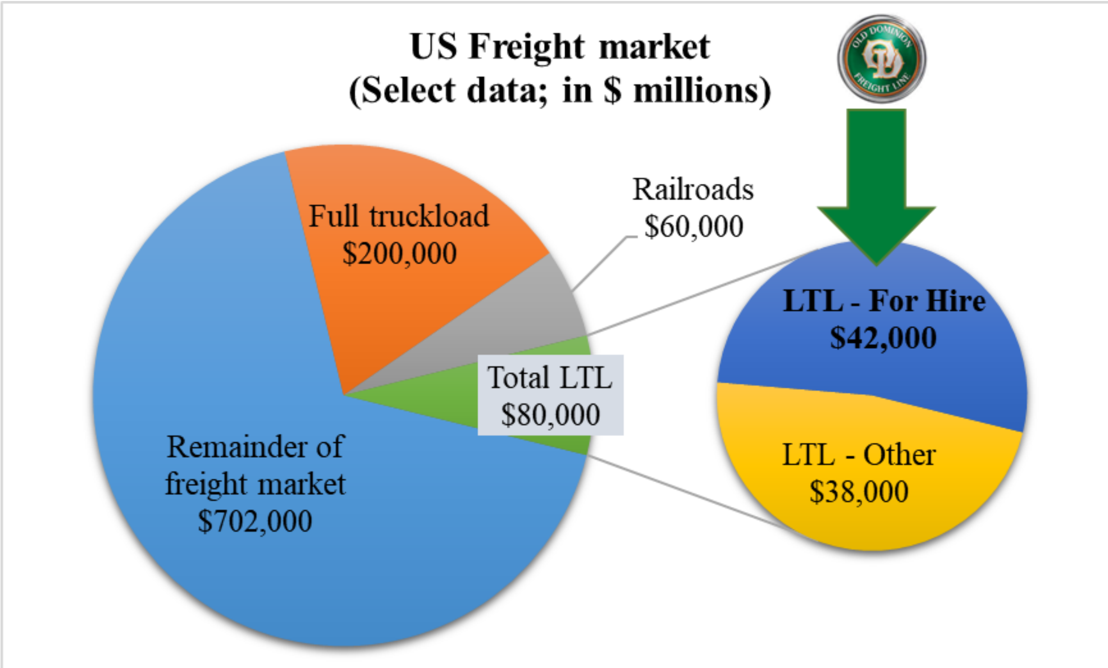
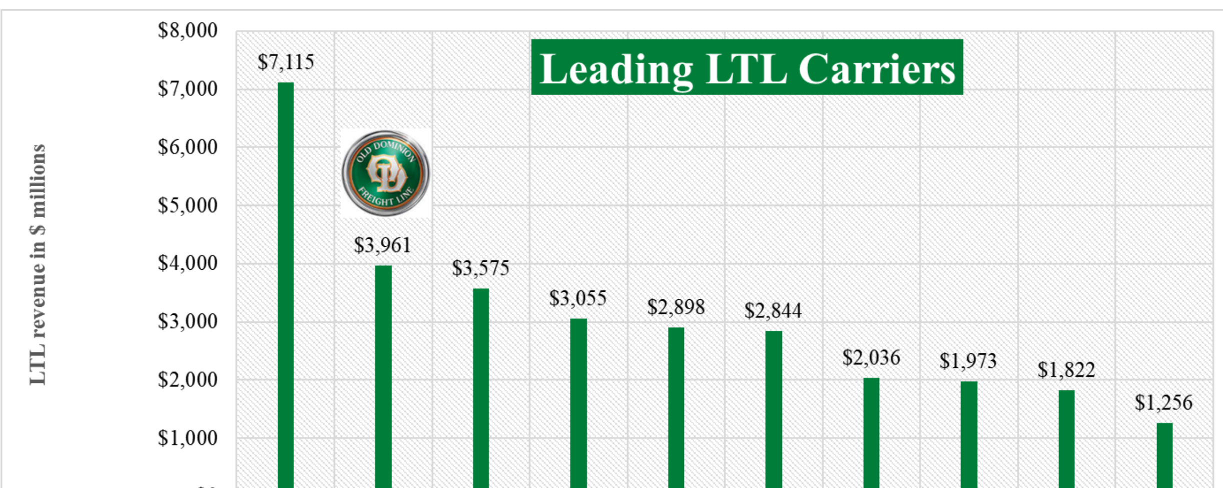


Sources: Statista and SJ Consulting Group



	FedEx Freight	Old Dominion	XPO Logistics	Estes Express Lines	UPS Freight	YRC Freight	ABF Freight System	R+L Carriers	Saia Motor Freight Line	South-eastern Freight Lines
Market Share ($80bn)	16.9%	9.4%	8.5%	7.3%	6.9%	6.8%	4.8%	4.7%	4.3%	3.0%
2020 Revenue	$7,115	$3,961	$3,575	$3,055	$2,898	$2,844	$2,036	$1,973	$1,822	$1,256

Notes: 1. This chart contains LTL revenue only. ODFL total revenue includes a small amount from other sources.
2. UPS reached a deal to sell UPS Freight to TFI in January 2021.

- ODFL occupies the #2 spot in the LTL industry behind industry leader FedEx.
- FedEx has other businesses besides LTL, of course, and it has a union workforce.
- XPO Logistics just completed a spin-off of its global logistics business. The XPO that remains will be focused on the US LTL industry and appears to have a solid chance to take share from rivals and create a strong trio with FedEx and ODFL over time. XPO has a fair amount of debt on its balance sheet.
- As noted in the chart below, UPS sold its freight business in January 2021.
- YRC, formerly Yellow Roadway Corp. and now simply Yellow, is a poorly-managed competitor that recently got into hot water for taking a $700m CARES Act loan.
- ABF is a division of ArcBest, which has a sister operation in asset-lite operations.
- Saia, at #9 on the list, appears well run for its size and could be a competitor to watch.
- Estes, R+L, and Southeastern Freight Lines are the only private LTL carriers in the top ten.

Industry stability can be observed in the concentration in the top competitors over the past five years.

	2020	2019	2018	2017	2016
Total LTL market revenue	$42,105	$42,999	$42,636	$38,611	$34,944
Market share:					
FedEx	16.9%	17.3%	17.2%	16.4%	17.0%
Old Dominion	**9.4%**	**9.4%**	**9.3%**	**8.6%**	**8.4%**
XPO Logistics	8.5%	8.9%	9.0%	9.4%	9.9%
Estes Express Lines	7.3%	6.6%	6.5%	6.4%	6.2%
UPS Freight	6.9%	7.0%	6.3%	6.7%	6.8%
YRC Freight	6.8%	7.1%	7.4%	7.9%	8.4%
ABF Freight System	4.8%	4.9%	5.0%	5.0%	5.4%
R+L Carriers	4.7%	4.6%	4.0%	4.1%	4.2%
Saia Motor Freight Line	4.3%	4.2%	3.9%	3.6%	3.5%
Southeastern Freight Lines	3.0%	2.9%	2.9%	2.9%	
Holland					3.0%
All others	9.3%	8.9%	9.8%	9.5%	8.5%
Total LTL Market	100%	100%	100%	100%	100%
Top 5	48.9%	49.3%	48.4%	47.5%	48.2%
Top 10	72.5%	72.8%	71.5%	71.0%	72.6%
Top 25	90.7%	91.1%	90.2%	90.5%	91.5%

Source: SJC Consulting.

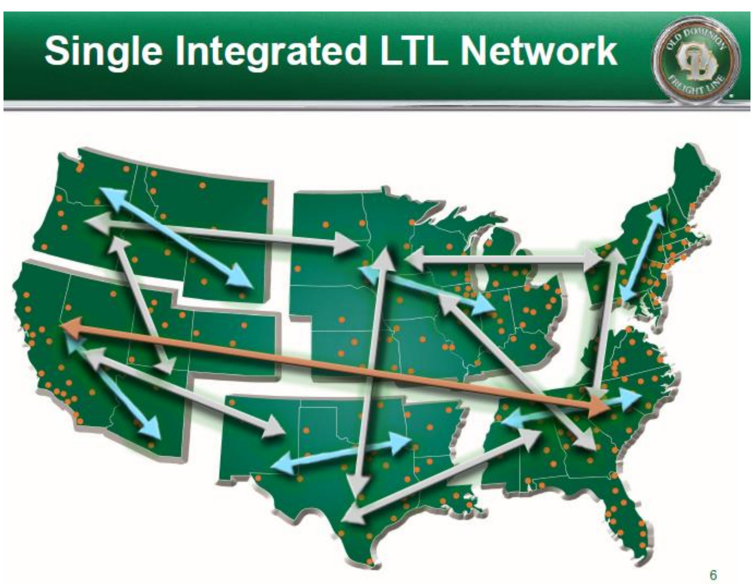
BUSINESS MODEL:

The business model of an LTL company is simple to understand but hard to execute well. Unlike truckload shipments with one truck going from Point A to B, LTL features countless points of pickup and delivery. On the plus side, this complexity introduces favorable network effects at scale.

ODFL and its large peers have invested billions to blanket the United States with service centers. These service centers are fed with pickup and delivery (P&D) operations managed locally within a service territory. Shipments are collected during the day and brought to the local service center for sorting and rerouting. Shipments are moved between service centers via linehaul operations.

An appropriate visual/analog for an LTL system is a branching circulatory system. Every day the pulse of operations collects shipments in the periphery to deliver to the main lines for distribution elsewhere into another periphery. As the network grows so does the value of each service center in a classic network effects-type arrangement. The key to the system is coordination of resources and maximizing density over time.

One can see both the challenges such a network presents but also the formidable barrier to entry it poses. LTL companies that do it right (like ODFL) have married a capital intensive operation (mostly land, service centers, and trucks) with significant investments in technology to create a moat. Building a system takes decades and lots of learning to do right. In other words, it's not subject to overnight disruption from Silicon Valley.



Source: ODFL presentation. Orange dots represent service centers within various regions. Arrows represent linehaul operations between regions and centers.

KEY VARIABLES-METRICS:

Even with its complexities, LTL is just like full truckload in that it's all about getting a shipment from Point A to Point B. Both try to move a lot of volume efficiently and accurately. The way each company designs and operates its system determines how profitable it is.

Key metric #1: How much total unit volume was moved through the system?
A certain level of volume is necessary for a carrier to have national scale and the ability to benefit from economies of scale or network effects. Volume is measured in tons and in shipments.

Key metric #2: How much tangible capital is required to move that volume?
Key capital requirements are tractors and trailers, and service centers which allow for sorting/routing of shipments. The industry has minimal working capital requirements. A key decision within a system is how much trucking volume to outsource. This has the advantage of lowering capital requirements but at the expense of control and lower margins.

Key metric #3: What is the operating ratio / EBIT margin?
The industry measures efficiency with the operating ratio, which is simply operating expenses divided by revenues. So lower equals better. EBIT margin is what's leftover and could be a more intuitive way to think about it. There's a lot packed in this ratio, which includes the carrier's ability to price its service and its decision on how much volume to move internally.

I chose not to include service center metrics. How many service centers and how they're used are a key design of an LTL system, but they largely factor into the key metrics above.

Other common industry metrics:

- *Claims ratio:* I hesitated to put this in as a fourth key metric, because it's important but in the end factors into pricing/margins. ODFL has a ridiculously low 0.10% claims ratio compared to a "good" industry target of 0.50%.
- *Number of service centers:* A basic number of service hubs are needed to operate a national system, but more doesn't necessarily equal better. They also vary in the number of doors (i.e., size). The key is whether a shipment can be moved in the time required, and that takes into account the pickup and delivery route network.
- *Revenue per hundredweight:* Pricing is dependent on volume too. A carrier must price its service according to the items it ships. If it does a good job pricing that will show up in operating margins. Ditto for revenue per shipment.
- *Revenue per intercity mile:* An interesting metric but again largely dependent on other factors in the system, the carrier's reputation, and pricing power in the market.
- *LTL weight per shipment:* Again, an interesting metric but incorporated in pricing/margin.

- *Average length of haul:* This factors into costs as the longer the average haul the lower the cost (generally). But again, a well-designed LTL system will take this into account and will price its service based on where the shipment is going.
- *Fuel/labor costs:* These are largely market based and not controllable. Fuel is generally a pass through. The labor market is competitive, although the best carriers attract/incent employees to stay for the long run and find ways of using technology to be more efficient.

We can see the three key metrics at work in the strategies of ODFL and three other near-pure-play LTL carriers, **Saia, Inc. (Ticker: SAIA; Disclosure: None)**, **Yellow Corp (Ticker: YELL; Disclosure: None)**, and **ArcBest (Ticker: ARCB; Disclosure: None)**. See chart below.

The strongest correlation is seen between the level of capital intensity and margins. As more volume is brought in house by investing in an owned fleet, purchased transportation goes down, and EBIT margins go up. The effect of reducing outsourcing is more than linear because of the advantages gained in efficiencies and accuracy of shipments. This also manifests itself in a degree of pricing power because on-time deliveries free of damage are extremely important to shippers, and the cost of freight is generally a fraction of an item's overall value.

2020 - Select Metrics	ODFL	Saia	YRC	ARC
LTL Total tons	8,770	4,842	9,845	3,036
Revenues / avg. tangible capital	$1.24	$1.44	$3.46	$3.52
Purchased transportation % revenues	2.4%	7.8%	14.2%	12.0%
EBIT margin	23%	10%	1%	3%
Pre-tax ROIC	28%	14%	4%	11%
On-time rate	99%	97%	Unknown	Unknown
Cargo claims rate	0.10%	0.66%	Unknown	Unknown

OLD DOMINION HISTORY:

Today ODFL is one of the largest and most profitable companies in the LTL market. It's taken decades and generations of one family to get it there.

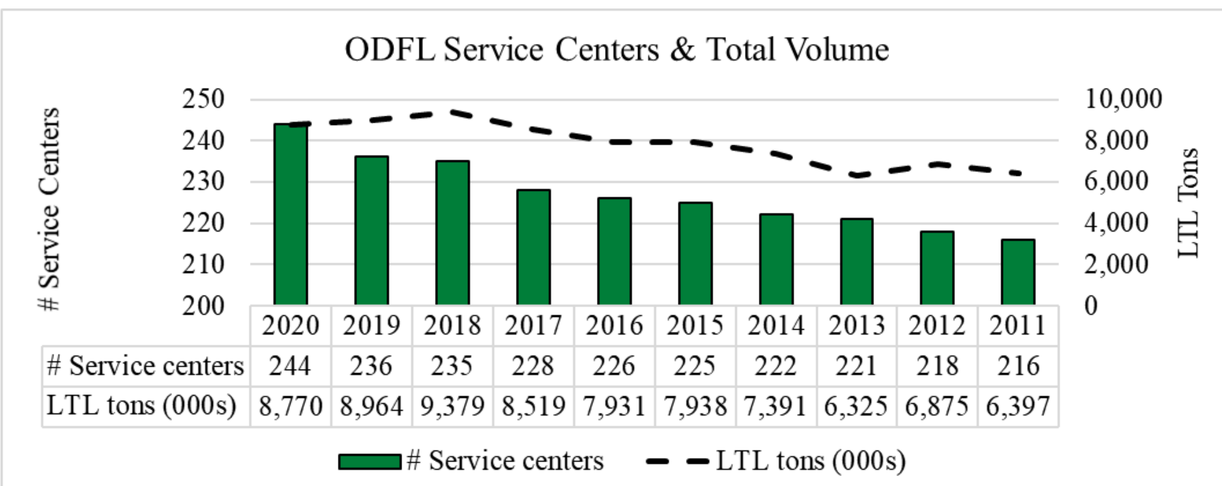
- **1934:** ODFL is founded by Earl and Lillian Congdon, who operate a single truck over the 100-mile route from Richmond, Virginia to Norfolk, Virginia. Congress shortly thereafter regulates the trucking industry via the Motor Carrier Act of 1935, which requires rate-filing and operations within limited territories.

- **1950:** Earl Congdon dies, and Lillian takes over as president of the company. Her sons, Earl, Jr. and Jack join her. The business is expanded to North Carolina.

- **1970s:** The company expands up and down the Eastern Seaboard with several acquisitions.
- **1980s:** Congress partially deregulates the industry, which allows for nationwide operations. ODFL expands further westward. The company places an emphasis on building density and profitability.
- **1991:** ODFL goes public.
- **2000s:** ODFL acquires other outfits and expands to the west coast. David Congdon, Earl Jr's son, assumes a leadership position.
- **2010s-today:** Several more acquisitions add capacity. Longtime employee, Greg Gantt, is named president and CEO, while David becomes chairman.

ODFL FINANCIAL ANALYSIS:

Putting the spotlight on ODFL we find a company with a dialed-in recipe for success. Over the past twenty or so years ODFL has invested heavily building out a network of service centers across the United States to handle increases in volume. This work went uninterrupted during the Great Recession of the late 2000s, a strategy its competitors largely shunned (to their detriment).



	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
# Service centers	244	236	235	228	226	225	222	221	218	216
LTL tons (000s)	8,770	8,964	9,379	8,519	7,931	7,938	7,391	6,325	6,875	6,397

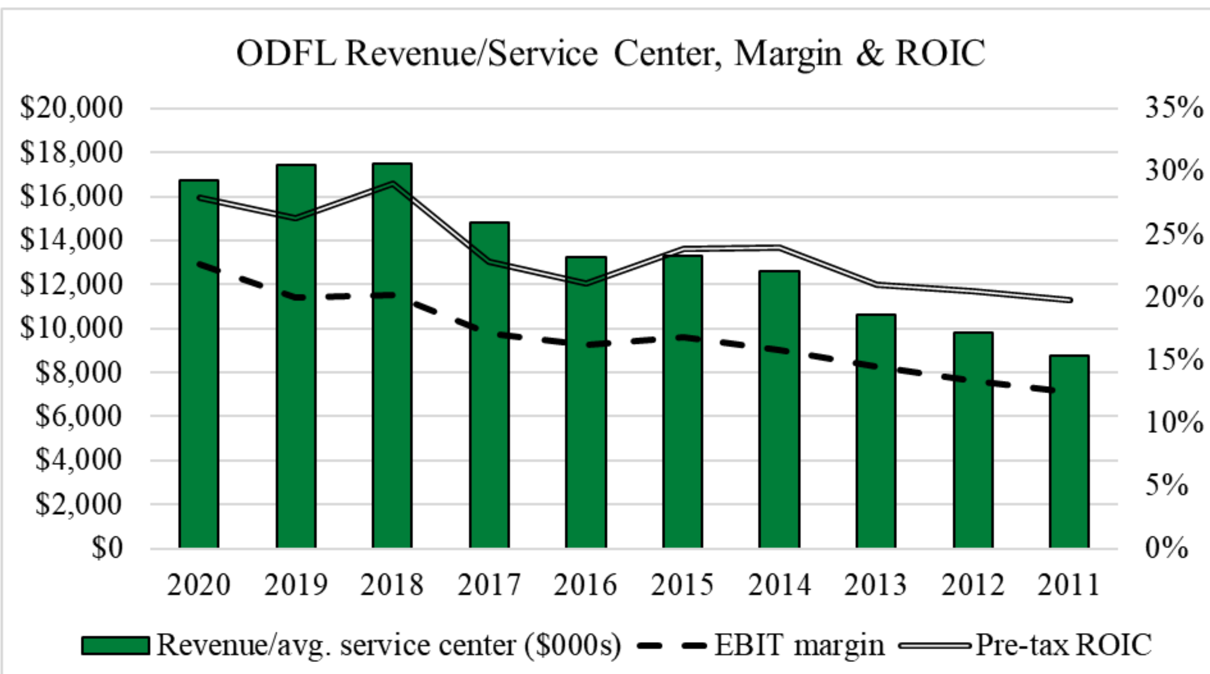
The company has also invested a great deal into technology, creating an entirely paperless process throughout its system, and giving it an edge in maximizing the efficiency and profitability of its network.[2] ODFL's rich data set also allows it to price extremely effectively, considering many different factors like size, weight, distance, and complexity applied to *each*

[2] A technological tailwind that will help ODFL is the advent of dimensionalizers, machines which use lasers to very accurately measure the size of shipments, how/where they're place on trucks, and how carriers price the shipment. https://www.freightquote.com/blog/rise-of-the-machines-how-dimensionalizers-are-revolutionizing-ltl/

shipment. ODFL has a history of holding firm on pricing and will not sacrifice profitability simply to maintain volume in its system.

ODFL has relationships and contracts with major shippers. Contracts typically run one to two years. About 20-25% of revenues come from third-party logistics ("3PL") companies. While this business can be transactional, ODFL has relationships with 3PL companies who know the company isn't interested in making lowball offers for spot rates. ODFL's largest customer accounted for about 5% of revenue and the largest 5, 10 and 20 customers accounted for about 15%, 22%, and 30%, respectively. Revenue is heavily tied to industrial output; however, the rise of e-commerce is proving to be a tailwind for the industry moving those goods across the country.

Revenue per service center and operating margins increased significantly as ODFL put more volume through its system. The result was higher returns on capital despite operating with greater capital intensity.



We can see the level of capital intensity in the chart below. The gradual increase in PP&E per dollar of revenue reflects ODFL's continued investment in service centers, and to a lesser degree reducing the average age of its equipment. The bulk of the improvement in EBIT margin over the past decade is from operating supplies/expense, which fell from 18.9% of revenues to 9.3%.

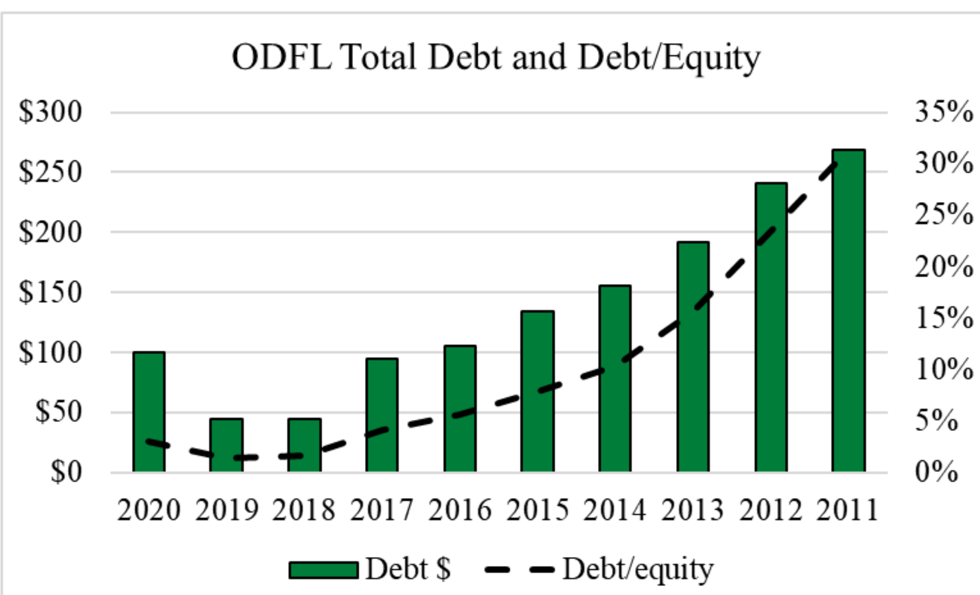
Change in category as % revenue '11-'20

Salaries, wages, and benefits	0.4%
Operating supplies and expenses	**-9.6%**
General supplies and expenses	0.1%
Operating taxes and licenses	-0.4%
Insurance and claims	-0.4%
Communications and utilities	-0.2%
Depreciation and amortization	1.7%
Purchased transportation	-0.9%
Miscellaneous expenses, net	-0.8%
Total operating expenses	-10.2%

Core capital requirements:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Avg. core working capital / revenue	$0.03	$0.03	$0.04	$0.04	$0.03	$0.05	$0.05	$0.04	$0.04	$0.05
Avg. PP&E / revenue	$0.73	$0.70	$0.64	$0.69	$0.71	$0.63	$0.59	$0.63	$0.59	$0.56

Analysis of core business:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenues	$4,015	$4,109	$4,044	$3,358	$2,992	$2,972	$2,788	$2,338	$2,135	$1,883
Tangible capital (excl'd cash)	$3,265	$3,226	$2,998	$2,640	$2,397	$2,196	$1,982	$1,706	$1,513	$1,272
Revenues / avg. capital	$1.24	$1.32	$1.43	$1.33	$1.30	$1.42	$1.51	$1.45	$1.53	$1.59
EBIT margin	23%	20%	20%	17%	16%	17%	16%	14%	13%	12%
Pre-tax ROIC	**28%**	**26%**	**29%**	**23%**	**21%**	**24%**	**24%**	**21%**	**20%**	**20%**

Because of the strong ROIC generated by the business, ODFL reduced its debt over the decade. ODFL's balance sheet is in superb shape with very little intangibles or goodwill and a net cash position.



CAPITAL ALLOCATION:

Over the past decade ODFL returned about one-third of its $3.7bn in net income to shareholders in the form of share repurchases and, starting in 2017, dividends.

Management's primary focus has been building the business via organic investments in growth spending, which totaled almost $2bn over the last ten years. The value of these investments can be seen in a rolling 3-year average of incremental returns, which is quite striking (see table below). The company's longer-term plan includes adding another 35-40 service centers.[3]

	2020	2019	2018	2017	2016	2015	2014
Rolling 3-year capital invested	$625	$828	$802	$658	$692	$683	$710
Rolling 3-year EBIT	$331	$335	$319	$135	$145	$213	$207
Incremental return	**53%**	**40%**	**40%**	**20%**	**21%**	**31%**	**29%**

ODFL has done this all the while *shrinking* its debt load by $185m and *increasing* cash by $726m. It's incredible what can be accomplished with an underlying business earning great returns on invested capital.

Of note simply for its absence is acquisitions. Management has eschewed buying other LTL carriers in its more recent history because ODFL already has the geographic coverage it needs, and because they've seen the spotted record of the past across the industry. ODFL hasn't ruled out acquiring specific service centers from competitors if/when they become available.

Management's comments to the Street speak to the company's longer-term vision for continued investment in the company. Note the subtle pushback to the Street in the first paragraph (see below). This is a confident management team that knows what it's doing.

ODFL Capital Allocation 2011-20		
Sources		
Net income	3,741	*89%*
Issuance of shares	48	*1%*
Change in deferred taxes	129	*3%*
Change in other LT liab.	274	*7%*
Total sources	**4,192**	*100%*
Uses		
Growth capex	(1,959)	*57%*
Share repurchases	(1,026)	*30%*
Debt repayment	(185)	*5%*
Dividends	(116)	*3%*
Change in other assets	(178)	*5%*
Total uses	**(3,464)**	*100%*
Change in cash	726	
Unaccounted	2	

[3] Q2 2021 earnings call.

Excerpts from July 28, 2021 conference call:

[Question on excess capacity in the system.]

Jason, let me say this. We talk about the 15% to 20% or 20% to 25%. **We talk about those numbers really for your benefit. The data truth[4] that's not necessarily how we look at it.** We look at it on a need basis, we look at where we know that we're outgrowing our capacity, and those are the places that we try to address first. Now obviously, when we expand the location or build a new location, whatever, we're building capacity. And we know, okay, we're 50%, 70%, 80% of capacity in that place. And we'll roll it up to come up with the number for you guys.

But honestly, we look at it on a case-by-case basis. We look at it on a market-by-market basis, where we're bursting at the seams and where we're growing. And maybe where we just haven't done quite the job from a marketing standpoint or from a sales standpoint. We know we're on the low side, and we know we can improve in those markets, and those are the ones that we target for growth or for expansion, if you will. So I hope that makes sense, and I hope that answers your question.

…

So we think it's been a good program for us in the past, but again, our first priority is to continue to invest for growth. And that's what we've seen over the long term, and that's what we continue to expect. And Greg mentioned that 50% growth and keep coming back to this, I know we start thinking about short-term trends and things like that, but over the next 10 years, we've talked about in the past 10, **but over the next 10, we continue to expect that the industry will grow above GDP.**
We continue to have plans to expand our service centers and take advantage of market share opportunities and grow our shipment counts significantly over the next 10 years. **So it just takes continued execution of our business model. It's been successful in the past, and we think that it will continue to be successful for us into the future, producing very strong returns.**

As I previously said, providing superior service at a fair price and having capacity to stay ahead of our growth curve are 2 key pillars to our long-term strategic plan.

MANAGEMENT/OWNERSHIP:

Key executives at ODFL include:

- David Congdon (64), executive chairman of the board.
- Greg Gantt (65), president and CEO, who has been with the company since 1994.
- Adam Satterfield (46), CFO, who has been with the company since 2004.

Major shareholders include David Congdon (5.2%), John Congdon (4.5%), and Earl Congdon (2.1%).

[4] I think this should have said "to tell you the truth" but that's how it was transcribed. I don't have the original audio.

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VALUATION:

- ODFL appears overvalued at a current market value of about $33bn. See table below.

- As a gut check on valuation the current NOPAT provides a going-in return of just 2.1%. Growth would have to be almost 8% to get a 10% return. Even with today's tailwinds continuing for years that seems optimistic.

- But ODFL does have good growth prospects stemming from those tailwinds (e-commerce, population growth, underinvestment by competitors), and plenty of headroom in market share to capture from competitors.

Old Dominion Freight Line - Valuation (as of Oct. '21)				Notes
Share price	$286			
Shares out (millions)	118			
Surplus cash	$632			Net cash position
Enterprise value ($mil)	$33,257		% EV	
Sustainable revenues	$4,577			TTM Q2 '21 revenues
Margin	20%			Assumed cyclical avg.
EBIT	$915			
Tax rate	25%			Assumed higher long-run rate
NOPAT	$687			
Cash return			***1.0%***	
Cash return (buyback + div)	$343	50%		Assumed payout ratio; actual in 2020 was 44% '18-'20.
$ Available for investment	$343			
Organic growth return			***0.9%***	
Organic growth	3.0%			Est. approx. GDP growth
Adjustment for current IV/MV[1]	3.2			
Incremental revenues	$137			
Capital required per $1 rev.	$0.75			
Capital req'd for organic growth	$103			
$ Available for active	$240			
Active reinvestment return			***1.1%***	
Value creation factor	1.5			
Active value creation	$360			
Total return			**3.1%**	

1. Adjusts for an assumed required 10% rate of return. I.e. if intrinsic value = market value the whole organic growth return would be realized. In an overvalued scenario the underlying company return does not translate to a return to the investor.

- I've tried to be conservative and use what I think might be a cyclical EBIT margin of 20%. Upping that to 25% (for permanent improvements/continued efficiency gains) puts the going-in return today up 60bps. Put the value creation factor at 3x and it adds 100bps. I'd rather not have to count on those things happening.

- A valuation of around $11bn or $100/sh. would provide a 10% return and get me interested.

RISKS:

- **Regulatory:** The trucking industry was regulated several decades ago. Rate regulation seems unlikely to hurt ODFL as it already competes favorably with less-profitable competitors (who wouldn't be able to survive structurally lower rates). But some sort of return on investment regulation like railroads is a possibility. It's unlikely today given market fragmentation, but if two or three companies come to dominate the LTL space then Congress or regulatory agencies might step in.

- **Governance/management:** The Congdon family is still heavily involved in the business and have large economic interests in the company. Current management appears to be well-bred and bought into the company's philosophy and culture. But moving ahead ten or twenty years the company could lose sight of its roots.

- **Capital allocation:** ODFL is clearly generating more cash than it can profitably reinvest internally. ODFL has used share repurchases as a primary mechanism to return capital. However, current share prices appear elevated even under the most optimistic scenarios. Large repurchases at current levels could destroy shareholder value.

SUMMARY/CONCLUSION:

"What shippers really want is their freight picked up on-time, delivered on-time, damage-free, at a fair price." [5]

The above quote from an industry publication speaks to the simple job of an LTL carrier. Simple but not easy. Providing that service across a complex network is challenging. Old Dominion Freight Line created a system that allows it to excel at the job of moving freight and has been rewarded for its efforts. The company has generated consistent pre-tax returns on capital north of 20% (and nearing 30%) over the past decade. Management pursues a strategy of organic investment in its network that's allowed more volume to move more efficiently and more profitably.

ODFL has created a profitable system that not only gives shippers what they want but shareholders too. Here's my shareholder-revised quote to add to the one above:

"What shareholders want is their capital invested at good rates of return in a competitively advantaged business by long-term-focused, owner-oriented management."

Now we just need shares to come back to earth.

Stay rational! -Adam

[5] https://talkbusiness.net/2017/05/old-dominion-leads-ltl-industry-abf-value-down-shippers-say/

P.S. Saia (Ticker: SAIA; Disclosure: None) is going on the Watchlist is a company to follow. It has some of the same characteristics of ODFL in its earlier days and seems to have good management. (As an interesting aside, a Saia board member is John Gainor, who served as CEO of International Dairy Queen—a BRK subsidiary—from 2008-17.)

SUMMARY FINANCIALS:

Old Dominion Freight Line (ODFL) Balance Sheet ($mil; FYE 12/31/xxxx)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	401	404	190	127	10	11	35	30	13	76	5
Short-term investments	330	0	0	0	0	0	0	0	0	0	0
Accounts receivable	454	408	468	416	334	345	348	258	220	218	181
Prepaids & other	57	55	48	41	38	25	50	45	42	38	36
Total current assets	1,243	867	706	585	383	382	433	333	275	332	223
PP&E, net	2,914	2,969	2,755	2,404	2,241	2,023	1,743	1,543	1,379	1,127	964
Goodwill	0	0	19	19	19	19	19	19	19	19	19
Intangibles	0	0	0	0	0	0	0	0	0	0	0
Other LT assets	212	160	65	60	53	42	40	37	39	35	34
Total assets	4,369	3,996	3,545	3,068	2,696	2,467	2,236	1,932	1,713	1,513	1,240
Accounts payable	69	70	79	74	89	67	45	37	45	42	29
Accruals & other current liab.	305	296	278	227	199	192	175	160	141	123	104
Current maturities of LTD	0	0	0	50	0	26	36	36	39	39	37
Total current liabilities	373	366	357	351	289	285	256	232	225	205	170
Long-term debt	100	45	45	45	105	107	120	156	201	230	234
Other non-current liabilities	350	242	215	206	179	154	146	123	107	87	76
Deferred taxes	220	262	248	190	273	235	221	189	153	135	91
Total liabilities	1,043	915	865	792	845	782	742	700	687	657	571
Shareholders' equity	3,326	3,081	2,680	2,277	1,851	1,685	1,494	1,232	1,026	857	669
Total liab. + SH equity	4,369	3,996	3,545	3,068	2,696	2,467	2,236	1,932	1,713	1,513	1,240
Diluted shares out (avg in mil)	*118.5*	*120.6*	*123.0*	*123.6*	*124.7*	*128.1*	*129.2*	*129.2*	*129.2*	*128.6*	*125.8*
3:2 split in 2020; 3:2 in 2010											

Old Dominion Freight Line (ODFL) Income Statement ($mil; FYE 12/31/xxxx)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenue	4,015	4,109	4,044	3,358	2,992	2,972	2,788	2,338	2,135	1,883
Salaries, wages, and benefits	2,054	2,122	2,076	1,802	1,652	1,570	1,381	1,171	1,067	956
Operating supplies and expenses	373	473	497	382	323	354	433	385	379	355
General supplies and expenses	110	124	119	108	87	89	83	70	59	50
Operating taxes and licenses	117	117	112	100	92	93	83	72	68	63
Insurance and claims	42	53	44	42	38	37	36	31	30	28
Communications and utilities	32	30	31	28	28	27	26	23	20	18
Depreciation and amortization	261	254	230	206	190	165	146	127	111	91
Purchased transportation	98	90	96	85	74	116	129	106	95	63
Miscellaneous expenses, net	21	29	21	30	24	22	29	14	23	24
Total operating expenses	3,108	3,290	3,227	2,782	2,508	2,474	2,347	1,999	1,849	1,648
Operating income	907	819	817	576	484	498	441	338	285	234
OPM %	22.6%	19.9%	20.2%	17.1%	16.2%	16.8%	15.8%	14.5%	13.4%	12.4%
Net income	673	616	606	464	296	305	268	206	169	139
Diluted EPS	*$5.68*	*$5.10*	*$4.95*	*$5.63*	*$3.56*	*$3.57*	*$3.10*	*$2.39*	*$1.97*	*$1.63*

Old Dominion Freight Line (ODFL) Common-Sized P&L ($mil; FYE 12/31/xxxx)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenue	4,015	4,109	4,044	3,358	2,992	2,972	2,788	2,338	2,135	1,883
Salaries, wages, and benefits	51.2%	51.7%	51.3%	53.7%	55.2%	52.8%	49.5%	50.1%	50.0%	50.8%
Operating supplies and expenses	9.3%	11.5%	12.3%	11.4%	10.8%	11.9%	15.5%	16.5%	17.7%	18.9%
General supplies and expenses	2.7%	3.0%	2.9%	3.2%	2.9%	3.0%	3.0%	3.0%	2.8%	2.7%
Operating taxes and licenses	2.9%	2.8%	2.8%	3.0%	3.1%	3.1%	3.0%	3.1%	3.2%	3.4%
Insurance and claims	1.1%	1.3%	1.1%	1.2%	1.3%	1.3%	1.3%	1.3%	1.4%	1.5%
Communications and utilities	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	0.9%	1.0%
Depreciation and amortization	6.5%	6.2%	5.7%	6.1%	6.3%	5.6%	5.3%	5.4%	5.2%	4.8%
Purchased transportation	2.4%	2.2%	2.4%	2.5%	2.5%	3.9%	4.6%	4.6%	4.4%	3.4%
Miscellaneous expenses, net	0.5%	0.7%	0.5%	0.9%	0.8%	0.7%	1.0%	0.6%	1.1%	1.3%
Total operating expenses	77.4%	80.1%	79.8%	82.9%	83.8%	83.2%	84.2%	85.5%	86.6%	87.6%
Operating income	22.6%	19.9%	20.2%	17.1%	16.2%	16.8%	15.8%	14.5%	13.4%	12.4%
Net income	16.8%	15.0%	15.0%	13.8%	9.9%	10.3%	9.6%	8.8%	7.9%	7.4%

Old Dominion Freight Line (ODFL) Capital Allocation	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net income	673	616	606	464	296	305	268	206	169	139
Growth capex	40	(220)	(351)	(164)	(218)	(272)	(199)	(157)	(262)	(155)
Acquisitions	0	0	0	0	0	0	0	0	0	0
Divestitures	0	0	0	0	0	0	0	0	0	0
Issuance of shares	0	0	0	0	0	0	0	0	0	48
Share repurchases	(364)	(241)	(163)	(8)	(130)	(114)	(6)	0	0	0
Change in debt	55	0	(50)	(10)	(29)	(25)	(36)	(49)	(30)	(11)
Dividends	(71)	(55)	43	(33)	0	0	0	0	0	
Change in core working capital	(41)	62	(3)	(72)	28	67	(72)	(30)	15	(6)

Unit Volume:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
LTL tons (000s)	8,770	8,964	9,379	8,519	7,931	7,938	7,391	6,325	6,875	6,397
LTL shipments (000s)	10,869	11,491	11,748	10,736	10,148	10,129	9,073	7,942	7,765	7,256
Key Ratios/Metrics:										
# Service centers	244	236	235	228	226	225	222	221	218	216
Tons/avg. service center (000s)	37	38	41	38	35	36	33	29	32	30
LTL shipments/avg. service center (000s)	45	49	51	47	45	45	41	36	36	34
Revenue/avg. service center ($000s)	$16,730	$17,448	$17,467	$14,793	$13,266	$13,300	$12,586	$10,650	$9,837	$8,776

Avg. gross PP&E / revenue	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenue equipment	$0.47	$0.45	$0.42	$0.46	$0.48	$0.42	$0.39	$0.41	$0.40	$0.40
Land and structures	$0.53	$0.47	$0.41	$0.44	$0.43	$0.39	$0.37	$0.40	$0.38	$0.37
Other fixed assets	$0.12	$0.11	$0.11	$0.12	$0.13	$0.12	$0.11	$0.11	$0.10	$0.10
Leasehold improvements	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PP&E, gross	$1.12	$1.04	$0.95	$1.02	$1.04	$0.93	$0.87	$0.92	$0.88	$0.87

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Full time employees	19,779	20,105	21,279	19,183	17,543	17,931	16,443	14,073	13,016	12,022
Tons/employee	443	446	441	444	452	443	449	449	528	532

WHAT'S COMING NEXT ISSUE:

I might discontinue this section going forward. I'm not sure it provides much value. But please let me know if you'd like a heads up on what I'm thinking about looking at (and any companies you think I should look at). Bottom line: any/all feedback is greatly appreciated!

Watchlist

As of October 6, 2021

WATCHLIST					Count: 18		
Company Name	**Industry**	**Ticker**	**Date of Last Mention**	**Price @ Last Mention**	**Current Price**	**Market Cap**	**See Issue #**
AAON, Inc.	Building Products	AAON	3/3/21	$75.00	**$67.19**	**$3,521,006,074**	1
Berkshire Hathaway	Conglomerate	BRK.B	3/9/21	$257.61	**$276.26**	**$624,327,391,500**	1
Hingham Institution for Savings	Banking	HIFS	3/9/21	$275.00	**$353.74**	**$757,841,832**	1
Monarch Cement	Building Products	MCEM	4/7/21	$102.00	**$112.00**	**$293,929,328**	2
International Flavors and Fragrances	Foods/Seasonings	IFF	4/23/21	$144.00	**$136.13**	**$34,648,448,653**	3
McCormick	Foods/Seasonings	MKC	4/14/21	$88.00	**$79.36**	**$21,223,776,675**	3
Bank7	Banking	BSVN	5/24/21	$17.64	**$21.22**	**$192,049,269**	4
Plumas Bancorp	Banking	PLBC	5/24/21	$29.73	**$32.48**	**#N/A**	4
Auburn Bancorp	Banking	AUBN	6/24/21	$34.95	**$33.89**	**$117,256,910**	5
Waste Management	Waste Management	WM	8/12/21	$149.96	**$149.77**	**$63,089,040,282**	6
Republic Services	Waste Management	RSG	8/12/21	$120.06	**$121.42**	**$38,654,262,483**	6
Waste Connections	Waste Management	WCN	8/12/21	$126.65	**$124.76**	**$32,513,342,352**	6
Boston Beer Company	Alcoholic beverages	SAM	9/8/21	$559.40	**$510.00**	**$6,263,712,900**	7
Constellation Brands	Alcoholic beverages	STZ	9/8/21	$216.97	**$212.24**	**$40,632,478,867**	7
Anheuser-Busch InBev	Alcoholic beverages	BUDFF	9/8/21	$58.45	**$55.00**	**$92,808,338,126**	7
Heineken	Alcoholic beverages	HEINY	9/8/21	$53.55	**$51.77**	**$51,563,750,818**	7
Old Dominion Freight Line	Trucking	ODFL	10/6/21	$288.73	**$288.44**	**$33,404,265,526**	8
Saia, Inc.	Trucking	SAIA	10/6/21	$242.24	**$242.65**	**$6,390,078,025**	8

Notes:

1. *Plumas market cap was approximately $190mm.*
2. *The color coding comes from a conditional formatting setup in Google Sheets to quickly scan to see price movements. They do not necessarily indicate appropriate valuation. See the legend in the full sheet online.*

Click here to see the latest Watchlist and Suspect List on Google Sheets.

Watchlist Investing Newsletter

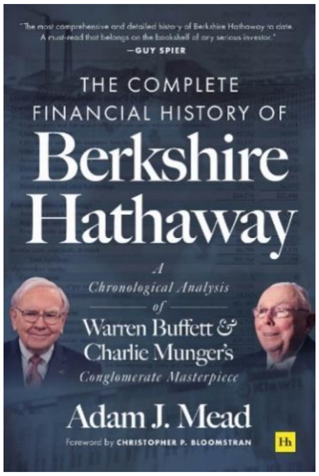
Patiently finding and following great public companies to own at the right price.

Issue #8 | October 2021

About

After nearly two decades as an individual investor, a decade in commercial credit at various banks, and a few years managing money for friends/family in the background, I decided to go full-time managing money for clients in 2020. Watchlist Investing is an extension—albeit separate and distinct—of what I do day-to-day as a practicing capital allocator. Inverting the margin of safety principle, I hope to add value to readers above and beyond the nominal cost of the newsletter.

My investing style is influenced by my background growing up in a family of business owners. I followed suit selling firewood through high school and founding a welding business in college. Looking at stocks as businesses is natural to me. My investing approach rests on fundamental value investing tenets, but it's adapted to suit my style. I'm 100% certain I'm not the best investor or analyst, but I hope to improve over time.



Between 2016 and 2021, I wrote a book on Berkshire Hathaway. *The Complete Financial History of Berkshire Hathaway* was and is my passion project. I hope it brings new shareholders up to speed on the company and provide a fresh look to longtime shareholders, in addition to serving as a resource/reference book. It can be purchased here. I also created www.theoraclesclassroom.com as an extension of the book, which includes an archive of a lot of BRK material.

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