

RXO purchase of Coyote Logistics highlights US brokerage market pressures



The acquisition of Coyote Logistics from UPS lifts RXO's top line to about \$7 billion, earnings data shows. Photo credit: Robert V Schwemmer / Shutterstock.com.

William B. Cassidy, Senior Editor | Jun 24, 2024, 9:47 AM EDT

Third-party logistics provider RXO's \$1.025 billion purchase of Coyote Logistics from UPS brings RXO the kind of growth that otherwise wouldn't be available in a weak truckload market, while making it the third-largest US brokerage.

The deal, announced Sunday, frees UPS from a subsidiary that had been a drag on earnings and revenue in its Supply Chain Solutions division, cutting its last direct ties to long-haul for-hire trucking. UPS had broadcast its intention to sell Coyote, which it acquired in 2015, in January.

"As UPS positions itself to become the premium small package provider and logistics partner in the world, the decision to sell our Coyote Logistics business allows an even

greater focus on our core business,” UPS CEO Carol B. Tomé said in a statement.

The deal is the biggest to date in the US trucking field this year and is part of a reshaping of the non-asset brokerage market that has of late been marked by the sale of Transfix’s brokerage unit to NFI Industries earlier this month and the shutdown of Convoy last year.

Brokerages of all sizes have come under pressure since the collapse of the truckload spot market in 2022 sent the transactional rates they depend on back to 2020 levels. Opportunities for organic growth are rare in a two-year downturn in freight demand.

The acquisition of Coyote, which had \$3.2 billion in revenue last year, “will immediately increase the scale of our brokerage business, providing customers with more capacity across a wider array of power lanes,” RXO CEO Drew Wilkerson said in a statement.

RXO had \$3.9 billion in total revenue in 2023, an 18.1% decline from 2022, company reports show. With Coyote’s revenue added, its combined 2023 revenue would have been \$7.1 billion.

Coyote’s customer base will help diversify RXO’s vertical customer mix and boost the number of shippers that do more than \$1 million in business with RXO by approximately 80%, Wilkerson said.

The deal shows the strategic DNA inherited from XPO, which grew rapidly through acquisitions from its founding in 2011, is still working at RXO, which was spun off by XPO in 2022.

An end to ‘end-to-end’?

The sale by UPS reveals another side of acquisitions, however. UPS has now sold two trucking operations, asset-heavy UPS Freight and asset-light Coyote, within three years. Collectively, UPS had paid \$3.1 billion for the two companies between 2005 and 2015.

UPS Freight was sold for \$800 million to TFI International in 2021 and has since been rebranded TForce Freight.

Neither Overnite nor Coyote integrated well with UPS’s core package business.

“Coyote was a bad fit for UPS from the start,” Satish Jindel, president of SJ Consulting Group and ShipMatrix, told the *Journal of Commerce* Sunday. But that’s not how it looked in 2015.

Back then, the Coyote acquisition was the latest in a rash of buyouts aimed at creating end-to-end solutions for increasingly complex supply chains. Coyote gave UPS a truckload “node” in its business and reduced its purchased transportation costs.

But attempts to create end-to-end solutions, from Yellow’s acquisitions in the 2000s to XPO’s rapid expansion in the 2010s, have proven difficult to execute. UPS rival FedEx is reorganizing and rebalancing its own air express, ground and trucking business.

The sale of Coyote also comes amid falling package volumes. Daily package volumes at UPS dropped 3.2% year over year in the first quarter, according to the company. “Private fleets” such as Amazon and Walmart are taking away business, Jindel said.

“UPS needs to focus on regaining business lost during its struggles with the Teamsters last year,” Jindel said. UPS and the Teamsters agreed on a new five-year contract in July 2023, but tensions leading up to that agreement accelerated shifts in the marketplace.

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