Jefferies Virtual Industrials Conference
Fireside Chat with Matt Fassler of XPO Logistics
Conducted by Hamzah Mazari, Managing Director, and Mario Cortellacci, Equity Analyst, Jefferies Financial Group
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1. **Hamzah Mazari, Jefferies:** To kick off, Matt, thank you for joining us. Congrats on the logistics spin-off, GXO. The first question is, now that the spin is officially behind you, how do you think about the top two or three strategic priorities for XPO as a standalone company over the next few years?

2. **Matt Fassler, XPO:** First of all, thank you for having us back to your conference, and for your congratulations on GXO. We're very happy to have accomplished the spin. We're excited to take XPO forward, and we think about that in terms of two simple priorities.

3. Number one, we're continuing to build on our technology investments at XPO, and this would be manifested most strongly in our two largest service lines, which are our LTL business and our truck brokerage business. Together, these two businesses are more than 90% of our EBIT. Consequently, they warrant the majority of our focus as an enterprise. In LTL, our efforts are focused on driving pricing and productivity. We expect to generate at least $1 billion of adjusted EBITDA in North American LTL in 2022, and our technology is driving that. And then, within our truck brokerage business, our XPO Connect digital freight marketplace — which is our automated digital brokerage platform — is at the center of everything that we do in truck brokerage. It helps us drive market share, productivity and margin expansion.

4. And our second main priority is to achieve an investment-grade credit rating. We have, over our life as a public company, been extremely agile and focused when it comes to capital allocation. Effective capital allocation has been one of our hallmarks. Right now, our focus on capital allocation comes in the form of deleveraging XPO in our pursuit of an investment-grade rating in due course. GXO achieved an investment-grade rating prior to the spin. For XPO, that will come through the paydown of debt and the growth of EBITDA, and all in the context of continuing to invest in our business. We're going to continue to be very opportunistic when it comes to capital allocation, but the pursuit of investment-grade is our foremost priority today.

5. **Hamzah Mazari, Jefferies:** Great. And maybe you could talk about how you're thinking about the trucking cycle today. What sort of organic growth are you envisioning there? And can you remind people of your Q3 guidance as part of that? Any views as to the cycle would be helpful.

6. **Matt Fassler, XPO:** When people talk about the trucking cycle, generally they're talking about the truckload cycle. We have exposure to that element of trucking, primarily through our brokerage business. But, our biggest presence in trucking — our biggest EBITDA driver across the enterprise — is LTL, and specifically North American LTL. Clearly, the current environment's a good environment. We have good demand drivers from consumer sectors and now, more recently, from industrial sectors. Our view is that the industrial recovery still has a long way to go, which is a positive for us. There are

some capacity constraints in the market, and there are also labor constraints — that's true not only in transportation, but across the entire service economy.

7. All of this is a good environment for providers of transportation, including 3PLs like XPO. It has been strong for a little while, and there's really no sign of it breaking; we have good visibility into the business over the remainder of the year. But, we're not depending on the environment. We're very focused on our idiosyncratic drivers of profit growth within both LTL and truck brokerage.

8. As for guidance, we don't typically guide to quarters. We did that for a moment in time during the depths of the pandemic when that was the scope of our visibility. We guide to the full year. We issued new guidance in July, when we raised our adjusted EBITDA guidance for XPO as a consolidated company. We also raised our guidance for XPO as a standalone transportation company post-spin — and within that guidance, we embedded adjusted EBITDA in the range of $574 million to $614 million for the second half of this year, with a midpoint at $594 million. And that does reflect growth from where we were in the second half of last year, including growth in LTL. That's coming from a combination of revenue and operating leverage.

9. **Hamzah Mazari, Jefferies:** Great. And talking about your LTL operating ratio, it's improved. Do you think there's a lot more room to go, say, in getting to the 70% level?

10. **Matt Fassler, XPO:** We've improved our adjusted operating ratio in LTL by about 1,200 basis points over the past five or so years. We've made enormous progress in the profitability of the business since we acquired it from Con-way back in 2015. With all that progress, we now have the second-best LTL adjusted OR in the space. In the second quarter, our adjusted OR, excluding real estate, was 81.1%. That's an all-time record for us, and we have aspirations to improve it more and lead the industry in OR.

11. We're also driving pricing in LTL. The pricing environment has been very good. I don't want to say it's been just cyclically good because the pricing environment in LTL has been good through a range of economic cycles and through a range of freight cycles. But, I'm talking about XPO's idiosyncratic pricing drivers, where we can drive price in excess of the market rate. The key for us is using our data. By understanding our own data better and bidding more intelligently with our algorithms, which use that data, we can achieve a tremendous amount of optimization in pricing. That's a high operational priority in the company and a big potential opportunity for us. Also, we're continuing to drive efficiency through route optimization and labor optimization. So, those are the main technology tools that we're going to use to drive the OR from here.

12. **Hamzah Mazari, Jefferies:** And then, switching gears, I know you said when we first spoke that XPO doesn't really sit still. When you think about XPO RemainCo now, how are you thinking about future M&A? Is the focus internal, or are you going to look at M&A at the same time?

13. **Matt Fassler, XPO:** We're rational when it comes to capital allocation. Right now, the highest priority and best use of our money is paying down debt. We've raised the funds, and have committed those funds, to pay down approximately $1.5 billion of debt over the next couple of months. That will take our leverage to the pro forma levels that we discussed. We're already there on a net debt-to-EBITDA basis. But we'll have taken out our notes with 2023 and 2024 maturities. We won't have another maturity until 2025. We're committed to pursuing investment-grade, and we don't want to do anything that would take us off that track. But, we'll be opportunistic.

14. **Hamzah Mazari, Jefferies:** Now, I'm going to turn it over to Mario to run through questions that are coming in over Zoom.

15. **Mario Cortellacci, Jefferies:** Great. Thank you. Matt, can you talk about some of the biggest risks to the business today?

16. **Matt Fassler, XPO:** Right now, we're in a robust time of economic growth. That's good for our business, it's good for our customers and there's a very nice virtuous cycle of consumption that's spilling over into production, which is very good for us. Obviously, we would like to see that continue. Life is better when that's the backdrop. That being said, we spend a lot of time working on productivity initiatives that will help us across a variety of macro conditions. Getting LTL pricing right means getting it right relative to the opportunity and the environment that we're in. The initiatives we're working on —

like LTL pricing and brokerage automation — are not dependent on a robust environment. The work we're doing on LTL productivity, on linehaul optimization and on pickup-and-delivery optimization, are independent of the macro.

17. Secondly, anyone in a service business, including 3PL transportation, is coping with the reality of higher costs, especially labor and fuel. The good news is that we're in the kind of pricing environment that enables us to charge for our services in a way that can essentially pass along those costs. Also, think about the technology work that we've been doing in brokerage — we're able to get a much faster ramp for our salespeople. We're able to get much better price discovery, both in terms of speed and comprehensiveness, to overcome some of those challenges on the cost side and deliver on our profit targets.

18. **Mario Cortellacci, Jefferies:** Great. And the next question is, could you give us a sense of what inning you're in, in your technology journey? And then, give us a sense of what the remaining benefits are?

19. **Matt Fassler, XPO:** The beauty of technology is that it evolves. Depending on the initiative, we're somewhere between the second and fourth innings. For example, once upon a time, our XPO Smart productivity tools were nascent in North American LTL. Now that technology suite has been rolled out across that business and we're going to continue to innovative with XPO Smart going forward.

20. With our digital freight marketplace, XPO Connect, APIs are really important. We're in the early innings in the deployment of APIs in brokerage. With brokerage, you're always trying to move the most loads with the highest gross margin per load, and to get the most efficiency out of your people. In LTL, you work on price. You're trying to move the most volume with the optimal number of people and at the lowest price, with the least amount of rolling stock — all while using your service centers most efficiently.

21. **Mario Cortellacci, Jefferies:** Got it. The next question is around brokerage. How do you view Uber Freight as a competitor within the brokerage business? And are you concerned from a competitive risk standpoint?

22. **Matt Fassler, XPO:** We have a lot of respect for Uber. We've made tremendous advances with our digital freight marketplace at XPO, and we've done so while making a really nice profit. By the time we reported Q2 earnings, we had 475,000 downloads of Drive XPO, our XPO Connect truck driver app. That's a massive number of downloads, up three-fold year-over-year, and obviously points to the driver community of our carrier base making use of our software. The XPO Connect numbers are continuing to trend up strongly in terms of driver usage and customer usage. We've shown that we're able to run at lightning speed toward the digitization of our brokerage business, and we're going to continue to do that, with numerous benefits for our customers and for our own business. And, we're doing this notwithstanding what anyone else is doing, like Uber.

23. What we know is that larger enterprises that have the capability to invest in a digital platform are going to take share from those that don't have that capability. They're going to have the best price discovery. They're going to have the easiest interface for their customers. They're going to facilitate ease of doing business, which has a virtuous cycle for customers. And they're going to drive superior productivity. XPO is a leader here, which in part explains why our loads were up 38% in the second quarter year-over-year. That's the best load growth in the industry that I saw. Our net revenue was up 47% and our adjusted EBITDA growth was even higher than that. So, the quarter that we just exited, coming off a very strong multi-quarter period for brokerage, was exceptional. And there's a lot more to come over the course of this cycle and throughout future cycles.

24. **Hamzah Mazari, Jefferies:** I think we have one more minute. So, I'll ask for your thoughts on the CFO change.

25. **Matt Fassler, XPO:** Sure. David Wyshner is an amazing colleague, and he's obviously extremely experienced at executing spin-offs. He had done one at Wyndham and he worked with us here as an integral part of our process. David got an opportunity to serve as the CFO of Kyndryl, which is going to spin out of IBM. This is his third time in a row working on a spin, so I guess you could say he's developed a specialty within overall CFO expertise. He's with us through the beginning of September.

26. Our incoming CFO, Ravi Tulsyan, is also great. Ravi's not a new colleague; he's been treasurer since joining the company in 2016, and he’s David’s deputy CFO. Ravi’s an exceptional financial leader and he’s deeply embedded in the organization. So, this is as seamless a transition as you're ever going to see.

27. **Hamzah Mazari, Jefferies:** With that, I think we're out of time. So, Matt, thank you for joining us and best of luck with the rest of your meetings.

Edited for clarity

Non-GAAP Financial Measures

As required by the rules of the Securities and Exchange Commission (“SEC”), we provide reconciliations of the non-GAAP financial measures contained in this transcript to the most directly comparable measure under GAAP, which are set forth in the tables posted in the investor relations section of our website.

XPO’s non-GAAP financial measures used in this transcript include: adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) and adjusted EBITDA margin on a consolidated basis; and net revenue, adjusted operating income, adjusted operating ratio, adjusted EBITDA and adjusted EBITDA margin for our North American less-than-truckload business.

We believe that the above adjusted financial measures facilitate analysis of our ongoing business operations because they exclude items that may not be reflective of, or are unrelated to, XPO and its business segments’ core operating performance, and may assist investors with comparisons to prior periods and assessing trends in our underlying businesses. Other companies may calculate these non-GAAP financial measures differently, and therefore our measures may not be comparable to similarly titled measures of other companies. These non-GAAP financial measures should only be used as supplemental measures of our operating performance.

Adjusted EBITDA includes adjustments for transaction and integration costs, as well as restructuring costs and other adjustments as set forth in the attached tables. Transaction and integration adjustments are generally incremental costs that result from an actual or planned *acquisition, divestiture or spin-off and may include transaction costs, consulting fees, retention awards, and internal salaries and wages (to the extent the individuals are assigned full-time to integration and transformation activities) and certain costs related to integrating and converging IT systems. Restructuring costs primarily relate to severance costs associated with business optimization initiatives. Management uses this non-GAAP financial measure in making financial, operating and planning decisions and evaluating XPO's and each business segment's ongoing performance.*

We believe that adjusted EBITDA and adjusted EBITDA margin improve comparability from period to period by removing the impact of our capital structure (interest and financing expenses), asset base (depreciation and amortization), tax impacts and other adjustments as set out in the tables on our website that management has determined are not reflective of core operating activities and thereby assist investors with assessing trends in our underlying businesses. We believe that net revenue improves the comparability of our operating results from period to period by removing the cost of transportation and services, in particular the cost of fuel, incurred in the reporting period. We believe that adjusted operating income and adjusted operating ratio for our North American less-than-truckload business improve the comparability of our operating results from period to period by (i) removing the impact of certain transaction and integration and restructuring costs, as well as amortization expenses and (ii) including the impact of pension income incurred in the reporting period.

With respect to our financial targets for the last six-month pro forma XPO 2021 adjusted EBITDA, a reconciliation of these non-GAAP measures to the corresponding GAAP measures is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that we exclude from these non-GAAP target measures. The variability of these items may have a significant impact on our future GAAP financial results and, as a result, we are unable to prepare the forward-looking statement of income and statement of cash flows prepared in accordance with GAAP that would be required to produce such a reconciliation.

Forward-looking Statements

This transcript includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including our future growth prospects for adjusted EBITDA in our North American less-than-truckload business. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target," "trajectory" or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include the risks discussed in our filings with the SEC and the following: economic conditions generally; the severity, magnitude, duration and aftereffects of the COVID-19 pandemic and government responses to the COVID-19 pandemic; our ability to align our investments in capital assets, including equipment, service centers and warehouses, to our customers' demands; our ability to implement our cost and revenue initiatives; our ability to successfully integrate and realize anticipated synergies, cost savings and profit improvement opportunities with respect to acquired companies; matters related to our intellectual property rights; fluctuations in currency exchange rates; fuel price and fuel surcharge changes; natural disasters, terrorist attacks or similar incidents; risks and uncertainties regarding the expected benefits of the spin-off of our logistics segment,; the impact of the spin-off on the size and business diversity of our company; the ability of the spin-off to qualify for tax-free treatment for U.S. federal income tax purposes; our ability to develop and implement suitable information technology systems and prevent failures in or breaches of such systems; our substantial indebtedness; our ability to raise debt and equity capital; fluctuations in fixed and floating interest rates; our ability to maintain positive relationships with our network of third-party transportation providers; our ability to attract and retain qualified drivers; labor matters, including our ability to manage our subcontractors, and risks associated with labor disputes at our customers and efforts by labor organizations to organize our employees; litigation, including litigation related to alleged misclassification of independent contractors and securities class actions; risks associated with our self-insured claims; risks associated with defined benefit plans for our current and former employees; and governmental regulation, including trade compliance laws, as well as changes in international trade policies and tax regimes; governmental or political actions, including the United Kingdom's exit from the European Union; and competition and pricing pressures.

All forward-looking statements set forth in this transcript are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us or our business or operations. Forward-looking statements set forth in this transcript speak only as of the date hereof, and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events, except to the extent required by law.