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XPO - Q4 2015 XPO Logistics Inc Earnings Call

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PRESENTATION

Operator

Welcome to the XPO Logistics Q4 2015 earnings conference call and webcast. My name is Cynthia and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded. Before the call begins, let me read a brief statement on behalf of the Company regarding forward-looking statements and the use of non-GAAP financial measures.

During this call, the Company will be making certain forward-looking statements within the meaning of applicable securities laws which, by their nature, involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the forward-looking statements.

A discussion of factors that could cause actual results to differ materially is contained in the Company's SEC filings. The forward-looking statements in the Company's earnings release, or made on this call, are made only as of today and the Company has no obligation to update any of these forward-looking statements, including its outlook except to the extent required by law.

During this call, the Company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the Company's earnings release and the related financial table.

You can find a copy of the Company's earnings release, which contains additional important information regarding forward-looking statements and non-GAAP financial measures, in the Investors section on the Company's website at www.XPO.com.

I will now turn the call over to Brad Jacobs. Mr. Jacobs, you may begin.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, Cynthia. Good morning, everybody, welcome to the call. With me today are John Hardig, our CFO; orgy strategy officer, Scott Malat; and our Head of Investor Relations, Tavio Headley.

As you saw last night, we delivered a very strong fourth quarter. We more than quadrupled our total revenue year-over-year. Organic revenue growth ex fuel accelerated to 8.4% in the quarter.

We increased our organic net revenue margin across all of our transportation businesses in freight brokerage, last mile, expedite and global forwarding. And we generated $218 million of EBITDA in the quarter, more than five times the EBITDA we reported in the fourth quarter of 2014.

Year-over-year organic EBITDA growth in the quarter was a robust 33% companywide. Throughout 2015 we continued to meet or exceed every financial projection we publicly stated. We did this while growing XPO from a North American entity to a top 10 global industry leader.

For 2016, we are on track to deliver at least $1.25 billion of adjusted EBITDA. We now generate about two-thirds of our revenue from asset light businesses and one-third from asset heavy. We have grown our asset light freight brokerage business to over $3 billion globally. We are driving this growth by our proprietary technology platform and improved employee productivity.

We continue to grow both the top and bottom lines in brokerage and we've generated margin improvement in brokerage in 10 of the last 11 quarters. Our last mile logistics business is also an asset light model. As you know, we are the leader in the heavy goods sector of last mile. We arranged approximately 10 million last mile deliveries in 2015 and we are on track to arrange more than 12 million last mile deliveries this year.

We have a number of very large contracts in our pipeline, mainly due to the growth in e-commerce, which is a tailwind for our retail customers. And we are also ramping up a new last mile service in Europe.

Our sales pipeline in our logistics business is also accelerating. During economic uncertainty, companies often look to take out internal costs by outsourcing segments of their supply chain. But demand is also being driven by customer interest in our advanced solutions and our deep vertical experience in retail, e-commerce, aerospace, telecom, food and beverage, chemicals and two new high-growth verticals that came with Menlo ?- high-tech and healthcare.

The entire Con-way integration is going extremely well. In LTL, our service quality has increased from what were already industry-leading levels. Our on-time pickup performance is up. Our on-time delivery performance is up. Our damages and claims have improved. Our line haul productivity has also improved and we continue to offer more next day and two day lanes than any other LTL provider. We cover about 99% of all the ZIP Codes in North America.

Our new LTL leader, Tony Brooks, is doing a fantastic job and he has brought greater urgency and accountability to the table.

We've already taken a substantial amount of unnecessary costs out of the LTL business and we have a large number of initiatives underway for the next waves of profit improvement. We currently have RFPs out on over $1 billion of spend in purchase transportation and other services.

We are optimizing the network, analyzing it lane by lane and making adjustments to improve profitability while maintaining extremely high levels of customer service. And we are also hiring local sales talent and strategic account managers to accelerate our growth.

So we are executing on a high-growth LTL plan. We have a great degree of confidence that we can grow the profitability of our LTL business at a rate that significantly outpaces the industry.

Companywide, given our comprehensive service offering and all the avenues of growth available to us, we are well-positioned to manage the business across a range of economic conditions. We are executing on dozens of major initiatives to ramp up profitability both in North America and in Europe. We have a clear path to $1.7 billion of EBITDA for 2018 and we have a management team that is energized and gets things done.

With that, I'll turn it over to John to review the quarter. John.

John Hardig - *XPO Logistics, Inc. - CFO*

Thanks, Brad. I will cover the performance of our business segments during the quarter, then I'll provide our outlook for certain financial measures in 2016.

We had a very strong performance in the quarter. We increased revenue 302% over last year and increased adjusted EBITDA 418% to $218 million. Revenue in our transportation segment was $2.1 billion during the quarter, up 217% over last year. Transportation net revenue increased by 333%. This growth was primarily from acquisitions combined with strong organic growth.

Net revenue margin increased 730 basis points over the prior year due to our acquisitions and organic margin expansion. Importantly, excluding the acquisitions, organic net revenue margin increased 280 basis points. Adjusted EBITDA for transportation was up 379% to $151 million.

Our less than truckload business contributed revenue of $559 million in the two months of the quarter that we owned it. Yields remain strong. For the entire quarter, revenue per hundredweight excluding fuel surcharge increased 3% over the prior year. Daily LTL tonnage declined 3.6% in the quarter. This was relatively in line with the volume trends the LTL business had been experiencing for the first nine months of the year primarily reflecting soft market demand.

In the fourth quarter, our LTL operating ratio, excluding amortization of intangibles and transaction and integration costs, improved to 95.0 compared to 95.9 last year. Looking at the 2016 year-to-date trends, LTL yield ex fuel has improved further and is up about 3.5% over last year. Tonnage declined on the order of 5.5% year to date, which is the seasonally slowest part of the year.

Turning to logistics, we are very pleased with the performance of our logistics segment in the quarter. Revenue and EBITDA exceeded our expectations. Revenue increased to $1.3 billion from only $167 million a year ago and adjusted EBITDA increased 279% to $99 million.

Our European logistics business was firing on all cylinders driven by an increase in e-commerce activity and the uplift from a large number of new contract starts earlier in the year. Our North American logistics business was also strong led by increased volumes from e-commerce, retail and technology customers and increased scope of work within existing customer facilities.

Corporate SG&A expense increased to $67 million in the fourth quarter from $18 million a year ago. Included in corporate expense was approximately $30 million of transaction-related costs. The remainder of the increase was from higher compensation expense, healthcare costs, legal fees and professional service fees. We expect our 2016 corporate SG&A expense, excluding nonrecurring integration costs, to be in the range of $95 million to $105 million.

Net interest expense was $96 million for the quarter. Interest expense included $11 million of debt commitment fees related to our acquisition of Con-way and $2 million related to the conversion of $13 million principal amount of our convertible notes to common shares during the quarter. In 2016 we expect net book interest expense to be in the range of $370 million to $380 million of which approximately $16 million is non-cash.

Our effective tax rate was 32% for the full year of 2015. We expect our effective tax rate for 2016 to be in the range of 34% to 36%. At the end of 2015, we had $332 million of US federal tax NOLs and approximately $100 million of income tax NOLs in our foreign tax jurisdictions. We don't expect to be a material US federal tax payer in 2016.

Net capital expenditures for the quarter were $113 million. Looking ahead our 2016 net CapEx is expected to be in the range of $475 million to $500 million. Approximately 35% of this amount is related to growth initiatives. Our IT capital investment represents $130 million to $140 million of our 2016 total CapEx.

Depreciation and amortization for the fourth quarter was $173 million. Amortization in the quarter was higher than expected reflecting the most recent estimated values of intangible assets on the Con-way balance sheet. In 2016, we expect depreciation and amortization to be in the range of $730 million to $750 million.

While these non-cash accounting charges will continue to weigh on GAAP earnings, it is important to note that even after one-time integration expense, we expect to be free cash flow positive in 2016. We ended the year with $290 million of cash and $1 billion of liquidity when you consider our undrawn ABL.

Nearly three-fourths of our debt matures in 2021 or later. Virtually all of our debt is covenant light, meaning it limits our occurrence of additional debt but otherwise does not require us to maintain leverage or coverage ratio covenants. So we have a strong balance sheet with significant liquidity.

Now I'm going to turn the call over to Scott to update you on macro conditions and our strategy. Scott.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Thanks, John. North American freight volumes remain soft and capacity is loose. Pricing is holding strong in LTL while industry truckload pricing has decreased. We've been able to expand our truck brokerage margins in this environment by lowering our cost of purchased transportation. That's one of the reasons brokerage is so attractive -- it's a high return business that's in demand in all parts of the cycle.

The main investments we make in brokerage are in technology and talent, both of which are levers for delivering customer service. We have a network of about 38,000 carriers representing approximately 1 million trucks on the road in North America.

Our people use our technology to direct freight to the carriers that have the highest levels of performance. Our brokerage customers consistently rank us at the top of the industry for on-time deliveries and tender acceptance.

One bright spot in the economy is the demand for heavy goods that we serve through our last mile business. Consumer spending on big-ticket items has been growing at a good pace -- furniture, appliances and large electronics are some of the best performing categories for our retail and e-commerce customers.

This is especially true for Internet purchases. For example, online sales of furniture have been showing double-digit growth in recent years. We signed 59 new last mile contracts in 2015 representing $118 million in annualized sales.

In LTL, we are more than offsetting a volume decline with cost savings. In just a few months we've executed on more than a quarter of the $200 million of annual profit improvement that we plan to realize over the next two years. These early savings came mostly through back office rationalization.

We are also running one of the largest over the road bids in the industry, over 500 lanes that represent about $550 million in spend for the line haul portion of our LTL business that gets outsourced to third-party carriers. This business hasn't been rebid in seven years.

We are also kicking off RFPs for other major categories with combined spend of around $2.8 billion Companywide. The first wave of RFPs will address diesel, maintenance, trucks, travel, and office supplies.

Within the network, we are scrutinizing the types of freight we move, the lane density and the cost of that freight. We are organizing sales blitzes that zero in on the lanes where density is low but there is significant share to gain. We are rerouting traffic to improve service levels while taking out cost and we are developing a more robust pricing tool.

Most important for our customers, we are laser focused on improving service levels. We already have a great product in LTL with industry-leading customer service. We have a high quality network covering approximately 99% of all US postal codes with more next day and two day lanes in LTL than anyone in North America.

When our customers were asked in an independent survey to describe our LTL service in one word, the most common answer was reliable. The next most common responses were dependable, professional, excellent and fast. That's a great way to be thought of by customers. We are 100% committed to maintaining or improving the speed and reliability that our customers demand. So that's North America.

Europe continues to be a better story from a macro standpoint. Demand has been strong in Spain and the UK, which are two of our biggest national markets. Macro trends in France have also been growing albeit at a lower level. Our European business continues to perform above expectations and has beaten budget every month since we've owned it.

We are outperforming the market and we won some sizable long-term contracts. In January we signed the largest single European contract in the Company's history to Foodservice Distribution Network for Iceland, a leading grocer in the UK. This business will ramp up throughout 2016.

We are making a big sales push in Europe. We recently added over two dozen new salespeople and we plan to continue to grow the sales team. We changed the incentive plans in the new year to better align compensation with growth and we are taking steps to address unprofitable locations.

Companywide our growth plan is crystal clear. The dialogue we are having with customers is resonating. The cost-saving opportunities in both North America and Europe are significant. We entered 2016 with a lot of momentum and we are on track to continue to meet or exceed our financial targets.

With that, operator, we'll turn it over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rob Salmon, Deutsche Bank.

Rob Salmon - *Deutsche Bank - Analyst*

Brad, you guys had completed your strategic review of the Con-way truckload business earlier relatively recently. Can you give us a sense in terms of what your organic expectations are from an EBITDA improvement story at truckload and how you see the profitability trending in 2016 as we look out?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I don't know yet. We are still getting our arms around it. What I do know is in the fourth quarter in 2015 truckload had about $120 million of revenue ex-fuel which was basically flat year-over-year, which given the external market we are happy with.

And the 35% of the business that is cross-border Mexico is going okay. That's a defensive geography to be in the truckload business. So it's off to a good start this year. The latest forecast I saw was it supposed to beat budget by about $1 million for the year. But it's really too early to tell. To some extent, we are at the mercy of the external market for that.

Rob Salmon - *Deutsche Bank - Analyst*

Understand. And when I'm thinking about the EBITDA guidance for 2016, what sort of -- are there any savings associated with some of these RFPs that's built into the forecast? Or does that represent potential upside as I'm thinking about the targets that you guys laid out?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

It is included in our targets. When you look over the around $200 million in cost savings we've laid out, those are the ones that we've penciled out that are just very clear that make sense. We looked at the market rates and what we think we are going to get and we put that into our opportunity set for this year and our guidance.

Anything that is improving the business or lowering it to levels and costs that were below what our expectations were, that will be upside. There will be upside if we can do a better job with some of those bids.

If we can run the business better, do a better job with pricing, with making sure we are focusing on the most profitable freight, running the business more efficiently. All those things would be part of actually improving the business which is separate from the $200 million in cost savings.

Rob Salmon - *Deutsche Bank - Analyst*

Okay, understand. And I think in the prepared remarks you had mentioned the January tonnage trends for Con-way, John. What was that number? It was down 5%, did I hear that right? And yield up about 3.5%?

John Hardig - *XPO Logistics, Inc. - CFO*

Yes, the tonnage is running year to date around 5.5% negative and the yield ex-fuel is up about 3.5%.

Rob Salmon - *Deutsche Bank - Analyst*

Is part of the tonnage trends which kind of softened, do you think that's more macro or is this the yield initiatives which obviously have strengthened year to date versus the trends that we saw in the fourth quarter?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Well, it's a little bit of different things including macro and other areas. But I would say if you look below the numbers, look at national accounts versus 3PL versus more local accounts, you've seen a decrease in some of our national account business but that's been offset by an increase in business from 3PLs and local accounts. We'd expect that mix to continue to move in that direction that is in line with our strategy.

Rob Salmon - *Deutsche Bank - Analyst*

Got it. And that would drive the underlying profitability improvement that you guys are targeting.

John Hardig - *XPO Logistics, Inc. - CFO*

One of the things, yes.

Rob Salmon - *Deutsche Bank - Analyst*

Appreciate it. I will leave it there and hop back in the queue.

Operator

Christian Wetherbee, Citigroup.

Unidentified Participant

Good morning, gentlemen. This is Prashant in for Chris. I just wanted to start off on the European segment, just picking up on that. With Norbert, given the rationalization and also the wins that you had with contracts, what do the end market exposures look like now and how do you see that developing through the year? And maybe some color on EBITDA contribution and maybe cadence from Norbert and from Europe in general as we look through 2016.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Very diversified across the whole European economy. And if you look at the top 200 companies in Europe, we are doing business with almost all of them. If you look at the top two categories, it would be retail and food and beverage, that's the biggest chunk. But it's everything, everything across Europe, particularly UK, Spain, France, Portugal would be our four biggest places.

Unidentified Participant

Okay. And should we be thinking about this in terms of acceleration? It sounds like you guys are winning some big contracts early on here. Is that built into the 2016 guidance number? Or how should we be thinking about that cadence? Any color you could provide would be great.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

We have built that into the guidance because we are investing in sales and we expect a return on that we are getting that. That's what's been going extremely well. We will grow earnings faster than top line in Europe as we save some, especially on some of the money-losing locations. But we would expect to grow earnings significantly this year.

Unidentified Participant

Great. And just wanted to touch upon leverage and targets. I know we've talked about this before, but just want to get a sense of deleveraging, especially I think this becomes a question that comes up given the softer truckload and LTL environment. How should we think about the timing of deleveraging and where do you see balance sheet leverage as we get towards our 2016 target?

John Hardig - *XPO Logistics, Inc. - CFO*

We expect to -- it is John speaking. We expect to get in the low 4s range in terms of net leverage by the end of this year. Exactly how that unfolds over the next four quarter is going to depend on a couple things. One thing the integration costs at Con-way and how those rollout through the course of the year. But that's what we are thinking about for 2016.

Unidentified Participant

Okay, got it. Thanks, that's helpful. And just one last one sort of more longer-term strategic. There's been a lot of buzz obviously related to Amazon getting involved in transportation and logistics assets. And given your consumer e-commerce exposure, and I can understand if you can't answer specifically to Amazon, but more broadly, what opportunities and what challenges does this present for your business now and to what extent does it present direct competition versus revenue wins?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Probably shouldn't talk about a specific customer in a public conference call, but in general terms the kinds of things that we do for customers are generally non-commoditized. The stuff we are doing and last mile, the stuff we are doing in contract logistics, it's not something that could be easily replicated and it's working for customers.

Customers generally, if they can't fulfill their own commitments to their own customers by outsource providers, they will think about bringing that in-house. But the kinds of things that we are doing for customers in general don't fit into that category. So we look at the rapid growth of certain retailers as a good guy, not a bad guy for us.

Unidentified Participant

Great and then just one last one and I will hop off the queue. Real quick on the tonnage trends to date, I just wanted to get a sense how does this compare to your expectations in 4Q as well also looking back?

John Hardig - *XPO Logistics, Inc. - CFO*

Pretty much on track. In the whole of last year, even before we bought Con-way, they had that trend of volume being down, pricing being up. If you have one or the other to be up and down, that's the right one to be down and the right one to be up.

You saw in the year to date since January 1 an acceleration in that trend. Volumes down a little bit more than it was and prices up a little bit more than it was. And again, if you want to be pushing one lever or the other, clearly you want to be pushing the price one and not the volume.

Unidentified Participant

Of course, got it. Thank you very much for the time gentlemen.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

I'd like to follow up on that last topic. In LTL, clearly there is the economic component. But it sounds like you guys are appropriately managing for margin and price. What type of -- and with national accounts being the area that you are targeting for the pricing and maybe management of customers.

What type of -- I guess cadence is the right word or speed do you want to see that? I guess you don't want to see too much revenue out the door quickly, but obviously it's a margin expansion story. Just conceptually how do you guys think about that?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I want to make sure it's clear that all national accounts aren't bad. Some national accounts are very attractive business and it's profitable business for us. There is a sizable minority of the national account business that loses money. And we are not in business to lose money, we are not a charity, we are not a nonprofit organization.

So we are culling freight from some of those national accounts and replacing it with the 3PL business and replacing it with the small and midsize customers as Scott was talking about before. And that's a measured pace, that's something that doesn't happen overnight. Before we would cull freight we would have a conversation. And we're having lots of conversations with all our customers.

Look, a lot of these big customers that are money losers in LTL are moneymakers for us in other parts of the business. And there's more ways than just stopping the LTL business to get the whole portfolio more positive by getting more business in some of the other modes, for example, and that's something that we've had some good traction with recently.

So the customer relationships are very, very important to us and we want to work that through not abruptly. Even if we were going to terminate a relationship we wouldn't turn it off right away out of courtesy to the customer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

A good follow-up then to that would be what are some of the synergies you are seeing, cross-sell synergies? I'm guessing probably last mile and LTL you see some nice [pairings]. But could you just anecdotally elaborate potentially a little bit?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Cross-selling is a big, big focus for us. It has been a focus for us for a while. It's just become a bigger one now, now that we've got a bigger platform. And we have cross-selling going on within Europe between logistics and transportation.

We have cross-selling going on between Europe and the United States and vice versa. We have cross-selling going on between our big truck customers, our big transportation -- ground transportation customers and other services that we provide that they are not using yet.

That is the essence of our value proposition in customers. We are not just a truck broker, even though we've got $3 billion of freight brokerage globally. We are not just a last mile provider, even though we do more last mile logistics for heavy goods than anybody.

We are not just a contract logistics provider, even though we're the second-biggest contract logistics provider worldwide. We're not just the biggest expediter, etc., etc.

We are a comprehensive provider. We have a full solution. We have a seat at the table with shippers where there is a reason for them to confide in us what their whole supply chain is doing globally and where we can save them money. We look at our role as saving money for our customers and having that comprehensive suite really helps us and cross-selling is a value to the customer as well.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

And I would add to that as well. So if you look at the numbers, they've reset as we added on acquisitions as you get new customers. But there is over 70% of our top customers are using two or more of our services.

Right now about 10% of our revenue is coming from cross-selling. That, again, resets slower when you put in acquisitions and then we would expect it to grow. And that's the opportunity set, to increase that 10% of revenue we are getting from cross-selling.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks, guys. I'll pass it along.

Operator

Brandon Oglenski, Barclays.

Eric Morgan - *Barclays Capital - Analyst*

This is actually Eric Morgan on for Brandon. Thanks for taking my question. I just wanted to ask one more on US demand, just given some of the commentary around softer volumes and what sounds like might be some deceleration in LTL year to date.

Would you say that -- I guess what would you say that the risk is that some of the industrial headwinds kind of bleed into the consumer markets and impact some of those favorable trends you were talking about?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

We haven't seen that yet. We have seen soft industrial, soft manufacturing climate for a long time now, for over a year, and it hasn't gone away and doesn't seem like it is going away anytime soon.

We don't see that in retail. We see strong retail volumes, we see our big customers our big-box customers doing well. We see greater demand for the last mile. We just don't see that softening right now. It's very hard to predict that going forward, but for right now we don't see that.

Eric Morgan - *Barclays Capital - Analyst*

Okay, understood. Is there any way to quantify maybe Con-way, but also all the acquisitions, what the overhead cost redundancy is and maybe how much you've already taken out how much you think you can save longer-term on overhead?

John Hardig - *XPO Logistics, Inc. - CFO*

We are still sticking with our estimate for overall cost savings with the Con-way acquisition and all the things that we are doing globally around procurement and cost savings and driving down cost across the company.

So we said $170 million to $210 million of annual cost savings by the end of next year, and so we are still on track to do that. So that's kind of the number that we are shooting for. That will get us moving in the right direction towards our $1.7 billion target that's out there.

So that what we are shooting for in terms of overall cost. But it's in all areas of the Company. It is around finance and accounting, HR. There's lots of things that we can do to consolidate the back office functions of the Company and we're working hard to do that now.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

The chances that we succeed at taking out $200 million of costs over the next couple years is extremely high. They are very clearly identified projects. We've already taken out $50 million of it -- more than $50 million of it in the first 3.5 months. So we feel very good about that.

Eric Morgan - *Barclays Capital - Analyst*

Great, thanks. And maybe just one more on cash flow this year. I know you commented on it in the opening remarks, but do you have like a ballpark range that you are thinking about achieving this year? And is there a way to think about the bridge between 1.25 adjusted EBITDA to free cash for the year?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Sure. The free cash flow, if you look at the $1.25 billion in EBITDA, John broke out CapEx what of $475 million to $500 million. Interest is $370 million to $380 million, but about $15 million or $16 million of that is non-cash. And then taxes, we are not going to be a big cash tax payer in the US this year. We are not going to pay cash taxes in the US on a federal basis. So let's [take] $25 million in taxes or so.

Working capital is roughly an investment of $70 million to $80 million. You put that together on a normalized basis it's around $250 million to $300 million. Now I would say that we have integration costs this year. The integration costs -- some bled over into first quarter and will continue on through the year -- could be in the range of another $100 million of integration costs. So that will come off of that free cash flow this year.

But certainly our free cash flow -- and seasonally it is typically more down in the first quarter and then it tends to run up through the year, we would expect our free cash flow to accelerate as we move through 2016.

Eric Morgan - *Barclays Capital - Analyst*

Great, I appreciate it.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Brad, a couple of questions for you, one operational and on one big picture, both kind of related. The operating question is I think you sued a couple of your competitors for poaching executives from your organization. Can you give us some more color on what's going on here? Is it getting harder to find talent out there?

And the bigger picture question is, as you know I come from the automotive space where Silicon Valley has taken a big interest recently, maybe to the detriment of some incumbents when it comes to again talent sourcing, technology, investor perception and some other areas.

We are now starting to see Silicon Valley take a big interest in the transportation and freight logistics space as well. What do you think this means for your industry? Do you think there are big changes needed in either culture or the way you operate to kind of fend off that threat?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Okay. Well, first of all, Ravi, thank you for taking up coverage on us. We appreciate that. On your two questions, we are not going to comment about litigation in a public setting, we're just not going to do that.

With respect to talent, we are a magnet for talent. We have waiting lines for jobs that we post. We are very careful who we bring in. We have many more people who want to work here than we have posts open. Having said that, we are hiring. we are hiring in different parts of our Company, namely in sales but also in IT.

With respect to Silicon Valley, there's a lot of startups, mostly around truck brokerage but in other parts of the organization -- part of the industry as well. None of them have gotten a whole lot of traction yet, even though some of them have been around for a while and some of them have attracted some high profile money.

We see quite a large percentage of them through Greenwich sooner or later because it's a little bit of a chicken and egg for them that they really can't get going until they have got either a network or they've got capacity or they've got freight. And a lot of them have technology and an idea but they can't get one foot ahead of the other, so they need to team up with someone like us.

We haven't seen anybody doing -- and we keep an open mind. But we haven't seen anybody doing anything that's new or different or better than what we are doing. A lot of the things that are being touted as revolutionary we and frankly one or two of our competitors have been doing for quite a number of years.

So we don't see a big disruptive threat in the near-term. Long-term, whether it's the current crop of Silicon Valley startups or next wave, I think the whole industry is going to get disrupted, as are most industries, and primarily by significant advances in technology.

We are going to stay right at the cutting edge of that in that's why we spend over $400 million a year on technology and that's why we have about 1,100 full-time equivalent IT professionals on the payroll. IT and technology and development is what we've been all about since day one.

Ravi Shanker - *Morgan Stanley - Analyst*

That's a great response. Thanks very much.

Operator

Allison Landry, Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

So thinking about the normalized free cash flow, Scott, that you had mentioned of $250 million to $300 million for this year, how do we reconcile that with the adjusted free cash flow per share targets that were outlined in the recent compensation agreement? Those seem to suggest 2016 free cash flow of closer to $400 million. So I was wondering, is this a proxy for how you are thinking about EBITDA upside in 2016?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

They line up very closely. So we have signed up for a plan of getting to $6.40 a share of cash flow -- in cash flow, it's an adjusted cash flow number by 2019. That each year has targets that you laid out, but it's based on EBITDA minus interest expense minus CapEx. It does not include taxes, it does not include working capital.

Allison Landry - *Credit Suisse - Analyst*

Okay, perfect. That makes a lot of sense. And then I was wondering if you could comment on the recent changes to the thresholds that would trigger the long-term incentive comp. The magnitude of the haircut to the share price target was larger than the increase in the EPS target. So just curious as to the logic behind that change and how we should interpret that. Thank you.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

We pay for performance. That's our strategy with compensation. We tie people's compensation, particularly their equity compensation, to how the Company performs. And recently we did another tranche of the senior executive employee compensation to do just that.

And we put in yearly equity investing completely dependent on what we want them to focus on, which is EBITDA minus CapEx minus interest. And if people hit those levels they will be rewarded very well. And if they don't have them they will be rewarded okay, but not really well and less than they could get in other places.

There was a complete restructuring of the employment contracts and a lot of puts and takes. And of those dozen or so puts and takes we got -- the Company got more favorable terms on non-compete, on claw backs, severance, a number of different items. And one of the things that was given back to the employees is the [$60] threshold for one of the tranches was reduced.

But you can't look at that out of context all by itself. It would be misleading to do that. If you look at it in the context of the total package, it was absolutely a win-win restructuring that the Board thought through very well. And what do we have now? We've got a senior management team that is it -- already was extremely engaged but is even more engaged and is very committed to delivering on the numbers that we've promised to the Street.

Allison Landry - *Credit Suisse - Analyst*

Great, thank you for the color.

Operator

Kevin Sterling, BB&T Capital Markets.

Kevin Sterling - *BB&T Capital Markets - Analyst*

So you guys have made a lot of changes at Con-way so far. There's been a fair amount of turnover. I heard in your prepared remarks that the service levels which are already good at Con-way have improved. What's the secret sauce here with all these changes and maybe some of the key drivers to already building upon what was pretty good service despite a lot of changes?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I have one secret sauce and its name is Tony Brooks. And we were so lucky to attract a guy who's got -- his background has been mostly on the shipper end of the table and really understands how shippers look at the relationship with 3PLs and with carriers and just a real fireball. He's just a rare bird in the transportation industry.

He has managed four of the largest transportation networks in the industry and he had I think it was the largest spend of transportation in the industry. It was about $2 billion at Sears, and he was 11 years at Roadway.

Tony was an offensive lineman at Miami. He brings that sportsmanlike team competitive attitude to the business and we've completely redesigned the organizational chart. It's much leaner, more efficient, more accountable and it's laser focused on customer service.

You can't just focus on costs, you can't just focus on the numbers. You have to first focus on the customer, making the customer happy, picking up the freight on time, delivering it on time, not damaging it -- all the things that customers value, solving other problems, getting accurate billing, communicating well. All the things that are really, really important to a shipper. And Tony gets that because that's what he's done all his life on that side.

And the team that he has rejiggered around under him in the organization is a great team. I spent three days with them last week in Ann Arbor and it's very impressive. Everyone is extremely focused on pleasing the customer and taking out costs. And taking out costs is part of pleasing the customer because we can serve the customer better if we are not wasting the revenue that they are giving us. So there's a keen focus on having a lean organizational chart.

Kevin Sterling - *BB&T Capital Markets - Analyst*

Got you, no, thank you very much. Kind of shifting gears here, obviously with Norbert and Con-way you've had some big acquisitions. But I haven't heard you mention in a while truck brokerage cold starts. Are you still ramping these up or have they slowed some recently kind of given all the changes within the organization?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

No, we're still doing them. But given the size of the Company at $15 billion they're not as material and as important in needle moving as they were four years ago when we were a couple hundred million dollars. But cold starts are part of the arsenal, part of what we're doing.

Kevin Sterling - *BB&T Capital Markets - Analyst*

Okay. And last question here, I think you said you signed 59 new last mile contracts in 2015. How does that compare to previous years? And then as we think about 2016 and even beyond with the growth in e-commerce, do you expect that number to grow?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Yes, it is accelerating and we expect it to accelerate. But the number of contracts is not as pertinent as the volume. We have a handful of very, very large last mile contracts that are about to get signed or are in the process of being negotiated that can really improve the volume going through that network quite a bit.

So e-commerce is certainly the main driver of that, no doubt about that. But also as an outsourcing trend, retailers are good at selling their merchandise. Their core competency typically -- their core competency typically is not delivering into people's houses and apartments. That something that is a core competency of us.

Kevin Sterling - *BB&T Capital Markets - Analyst*

Got you, okay. Thanks for your time this morning.

Operator

Nate Brochmann, William Blair.

Nate Brochmann - *William Blair & Co. - Analyst*

You kind of answered this in a bunch of different ways to some degree. But kind of wanted to get in your head a little bit. As you think about all these moving pieces and you still have obviously some integration work over at Norbert and obviously a lot of heavy lifting at Con-way. And you've talked about some of the initial results and some of the great customer retention that you've been able to drive.

But how do you really think about it? Obviously there is a lot to tackle. How do you prioritize what you need to tackle? And obviously you have a highly driven team, but also too with some of the new associates that you bring on as part of these organizations might not be used to that culture. How do you drive that culture down without stressing the organization or stressing too many people leaving at once? And also too, in terms of stressing, that there would be disruption for your customers?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Well, I think we do stress the organization. But we don't stress it over much, we don't overstress the organization. But we do challenge the organization to perform at their best and to give their personal best and to be passionate about serving customers. And that is the common culture we have in all of our organizations.

If you want to work here, you'd better be extraordinarily passionate about pleasing customers. It has to be something that's not just a phrase or part of the values up on the wall. It has to be something that's in your heart, it has to be something that's in your gut. Something that you really -- in your personality you enjoy, you get a lot of satisfaction from having pleased customers. And that's what we have. And if that doesn't mesh with someone's personality they don't last here. They just don't last.

Now, in terms of what you were saying about the integration in Europe and the heavy lifting with Con-way, the integration with Norbert is very, very far along. And from an IT, a finance, and an HR, even a branding point of view, by the end of this year we will be substantially complete with the rebranding of all the trucks, all the locations, all uniforms.

And at Con-way too, Con-way we are on track to rebrand about 10,500 tractors, about 30,000 trailers over the course of this year. We'll rebrand about 200,000 uniform components like hats and jackets by September. That is about 18,000 uniform sets. And the XPO building signs are going up and we'll have all 300 facilities in North America rebranded as XPO by the end of June. So we are an organization that does get things done, that does think big and is very good at execution. That's what we are.

Nate Brochmann - *William Blair & Co. - Analyst*

Okay, fair enough and thanks for that. And then just on the longer-term picture of thinking about back to the technology question and any disintermediation. I mean one of the things that I personally have always felt that kind of protects the industry a little bit is that market knowledge in understanding how freight moves and understanding how to help customers will always be part of the equation.

Maybe it becomes a little bit less so with improving technology in terms of that helping you. But to me it always seems that an organization like XPO or some of your other bigger competitors, that that market knowledge in terms of helping customers move freight will always be important. So, like it never -- like technology becomes a standalone solution. How do you -- thinking about it that way, how do you see that in 5 to 10 years?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Well, I actually would take the other side of the equation on that one. I think ultimately technology will replace truck brokerage. I don't think that's going to happen in the next 5 years. I think ultimately if you go out 10, 15, 20 years, I think most of the functions that are done by humans, by people in truck brokerage, will be automated.

And you are already seeing a large number of functions starting with track and trace, starting with carrier procurement and especially with EDI with the big customers, there's not a lot of human interaction. So it's moving in that direction.

Now I don't look at that as all bad. I look at that in some ways as a good thing because who's going to win on that? Who's going to win on that is the companies that have critical mass, that have capacity, that have relationships, that have the connections. It's what I was saying before in the earlier questions.

The whole problem with these new entrants is there's a kind of moat on the top handful of -- around the top handful of truck brokers that have that critical mass. And as it morphs to more and more technology based, I think those big companies are the ones that are going to lead that, including us.

Nate Brochmann - *William Blair & Co. - Analyst*

Okay, thanks for that. I appreciate the time.

Operator

Jason Seidl, Cowen and Co.

Jason Seidl - *Cowen and Company - Analyst*

A couple quick questions for me. You mentioned the Con-way line haul bid and that it hasn't really been out in seven years. What are you expecting to get in terms of the rates? And also, could you remind us what percentage of that line haul business is done by the truckload business you own?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Sure, good morning to you, Jason. So there's about $1.35 billion of line haul in LTL and about $800 million and change of that is done in-house and by our own trucks and our own employees. And they do a great job and most of those drivers have been with the Company for a long, long period of time are very dedicated to the business. And we take care of them very, very well; they are a very important part of our organization now.

And then there's about between $500 million and $550 million of outsourced LTL -- outsourced line haul to third parties that we put on over 100 different carriers. And that's what's out to bid right now.

With respect to what kind of savings we are expecting, we don't know. That's the purpose of an RFP, that's the purpose of a tender. You hold an honest and fair RFP and you see where the numbers come in. And you evaluate people's service performance from the past. And you respect the relationships that you've had and the good relationships and partnerships you've had with carriers in the past and you sort it out in a win-win way.

So, we don't have -- we don't know where we are going to end up on that. All we know is wherever we end up it's going to be the right market. It is going to be market oriented.

Jason Seidl - *Cowen and Company - Analyst*

Okay, Brad, that is fair enough. Moving to LTL, you guys obviously said you'd rather have pricing moving up in the right direction, but given the tonnage declines in the market are you guys surprised to see pricing hold up this well in the marketplace?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Not really, Jason, because look at -- LTL and truckload, as you know, are totally different worlds. So on truckload, we've got 200,000 competitors and most of them have 5 or 10 trucks. In LTL, it's so much more consolidated and the top handful of competitors have the vast majority of the market. And several of them got burned in the last downturn so they are very keenly aware of the trade-off of price versus volume. And people are acting rationally on disciplined. I'm not surprised it's holding up.

Jason Seidl - *Cowen and Company - Analyst*

You said it was up -- the yields were up 3.5% ex fuel. Could you remind us what the weight per shipment was in the quarter?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Give us a second, we'll look it up.

Jason Seidl - *Cowen and Company - Analyst*

Sure.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

In the fourth quarter weight per shipment was 1,338 pounds.

Jason Seidl - *Cowen and Company - Analyst*

Okay, thank you very much, guys. I appreciate the time as always.

Operator

Todd Fowler, KeyBanc.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

I was curious if you had an EBITDA number for the full quarter, if Con-way would've been included for the whole quarter? So the $218 million would've compared to what if Con-way would have closed at the beginning of the quarter?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

I don't have that off the top of -- Con-way added around $68 million, $69 million in EBITDA when you take into account the allocations and what we do in corporate for them.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

So the $68 million to $69 million is just the two months?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

That is the two months, yes and the December month is a weaker month generally because middle of the month things slow down significantly and you are twiddling your thumbs a little bit in the back half of December usually. So it's a significant portion of the quarter.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Yes, and what I'm trying to get at, Scott, is just a sense of how should we think about the cadence of EBITDA going into the first part of 2016? So, trying to get kind of a clean run rate here for the fourth quarter. And then think about some of the seasonal factors with the different business lines, particularly as we move into the first quarter and then the timing of some of the cost savings I guess as well.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

That's a good question because there is a significant amount of seasonality in our business. Our strongest quarters are the second and third quarters followed by the fourth quarter and then last first quarter. So in general our first quarter will be around 19% of the earnings in the year. Fourth quarter is more representative, about 25%, and then the balance is in the second and third quarters.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay, that helps. And then, Brad, just so I understand your comments around LTL. In the prepared remarks you talked about a high growth LTL plan. I guess what I wasn't completely sure about with that, is that basically saying high growth on the EBITDA line and seeing high growth in margin improvements? Or is that actually specifically saying that you're targeting looking to grow the volumes and the revenue within the LTL business?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I was per my early primarily referring to the [first], Todd, but we're also going to grow market share as well. But that's not the focus. The focus is on improve the profitability by taking the cost out and then adding revenue on top of that on a more lean cost structure.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay, that makes sense to me. I just wanted to make sure I understood the comments that you made. And then I guess just the last one that I had is what is the expectation -- you've talked about it a couple of times -- about the integration cost? It sounds like there's roughly can be $100 million of cash costs.

But are we going to continue to have adjustments and add backs throughout 2016 related to integration and rebranding both for Norbert and for Con-way? Or does that start to subside either in the second half of the year -- or when would you I guess expect to see the large adjustments really start to slow down?

John Hardig - *XPO Logistics, Inc. - CFO*

Todd, that $100 million, that is a 2016 number, so that includes rebranding and the other things that you were mentioning. We will see a little bit more of that in 2017 because our plan goes through that year. And in terms of the timing is of those expenses throughout the course of 2016, it's going to be pretty evenly spread through the year for the most part.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay, okay. And I apologize, I am going to ask one more here. On the corporate expenses in the quarter, the $32 million, it seems like the 2016 guidance is for around $25 million a quarter. Is the big step up in the fourth quarter, is that mostly incentive compensation or was there something else going on in the fourth quarter on the corporate line item?

John Hardig - *XPO Logistics, Inc. - CFO*

It was a number of things Todd, so there was some additional corporate expense in there. We also had an increase in professional service fees or audit fees. We had a big chunk hit in the fourth quarter there. We had an increase in healthcare costs and other items.

The other thing as you think about 2016, and the reason our corporate expense is increasing, is we have taken a number of people out of the field that were in some of the businesses that we acquired, put them into corporate so that we really could focus on driving integration with that team and driving cost out of the Company overall.

And so it's really -- the $1.25 billion estimate for EBITDA this year could have had any number of corporate expense related to that. So it doesn't affect the overall cost of the Company, but it's more of a re-class from the field to corporate.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay, that helps, John. I appreciate the time this morning. Thanks, guys.

Operator

Casey Deak, Wells Fargo.

Casey Deak - *Wells Fargo Securities - Analyst*

Just wanted to ask, can you guys give the monthly tonnage trends on a year-over-year basis for fourth quarter and into first quarter so far? And importantly there, what have you seen in February so far given that if you looked back on the year-over-year it looks like a much easier comparison for February?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I don't have the year-over-year handy right in front of me, but January was a little bit weaker than February and February started coming back. To tell you the truth, January was a little bit scary in the sense that it was starting to go down and then it started coming right back and exceeded where it had to be in February. So I don't know whether that's the trend, but certainly we're in a better place now than we were in January.

Casey Deak - *Wells Fargo Securities - Analyst*

So February it feels -- even regardless of the comp on a year-over-year basis, it feels a lot better than January?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Yes.

Casey Deak - *Wells Fargo Securities - Analyst*

Okay. And then to stay with LTL, are you guys -- are you, and if you are, how are you leveraging the LTL network to grow your last mile product?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Well, that is one of the more exciting things we are doing. I don't want to disclose to all our competitors exactly what we are doing there, but obviously we've got a big cross dock network now with about 275 service centers that we got out of -- with the Con-way acquisition.

And quite a number of those can be leveraged for our last mile network to fill out parts of the geography that we weren't in and to get closer to the end customer and get close to our customers' DCs. So there's a lot of planning going on and rolling out going on between Karl Meyer's group and Tony's group on LTL last mile collaboration.

Casey Deak - *Wells Fargo Securities - Analyst*

Okay, so would you expect that that becomes a material gain for you guys this year or is that something more out in the 2017-2018 timeframe?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

It is something that is already happening and will continue to pick up steam every year. And it's one additional way that we can serve our customers better and one additional way that we're just a little bit different than our competitors in terms of having both those products in the mix. And it's resonating well with solving some very concrete problems for some of our larger customers.

Casey Deak - *Wells Fargo Securities - Analyst*

Okay, thanks. And if I switch gears to the truck load operation, you've stated in the past that your plan was to always build leading positions in the markets you're serving and you've gotten there with mostly all of those markets.

Obviously the new TL operation has some scale, but it's not a top-five player in North America. Is that something that you're going to have to build now given the decision that you're going to keep it in the fold? Or how does that play out strategically for you guys?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Well, at the moment, we are not planning on buying anybody. And we don't need to buy anybody, because our goal is to deliver, as we have for the last four years, on the publicly stated financial goals. And to get to $1.7 billion in EBITDA by 2018 we don't have to do another acquisition. All we have to do is to continue to improve the businesses that we've got now and further integrate them and optimize them.

So while we don't like being the 19th anything or 18th anything -- I think we are the 18th largest trucking company according to Transport Topic, something like that -- nevertheless we don't need to do an acquisition in order to hit our numbers.

What we do need to do is every part of our business has to hold up its end of the bargain, has to pitch in what's expected of it. And Con-way -- the XPO Truckload, the former Con-way Truckload, will deliver it's part of the budget. And that's going to be by just running the business well and pay more attention to it and getting in it and showing our drivers lots of love and integrating the sales force with the rest of the organization.

And next week we'll be at a big tradeshow and we'll have a couple people from the truckload organization and we'll be sitting in meetings with retail customers talking about all their needs including truckload. So they can benefit -- that part of the organization can benefit from the great relationships we've got in other parts of the Company with customers who also did truckload.

Casey Deak - *Wells Fargo Securities - Analyst*

All right. Thanks, Brad. I appreciate it.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

Thanks for squeezing me in here. Just a couple follow-up questions for you, Brad. When you think about the split of revenue between asset light and more asset intensive, you gave that earlier in the call. But when you think about it and parse it out based on an EBITDA basis, how would you split your EBITDA stream between asset -- more asset insensitive and more of the asset light business?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

About half-and-half give or take a couple points. And revenue is about two-thirds on the asset light side. And free cash flow is about 77% from the asset light side. So what do we have now, Jack?

What we have in addition to the non-asset based organization that we've built on the global basis and the second largest freight broker in last mile and so forth, we also have 19,000 tractors, 46,000 trailers, 450 cross dock, 750 contract logistic facilities, 10,000 boxes on the rail, 9,000 chassis.

We've got a very solid asset based network that resonates with customers, that gives us a seat at the table with the larger shippers in the world to serve their needs. We also have maintained an asset light complexion of our business that's predominantly asset light and the financial returns are great.

When we look at asset light versus asset heavy, lots of different ways to look at that. Probably the most meaningful way for us to look at it is what percent of our revenue does CapEx represent and it's a little over 3%.

And it's a really interesting exercise when we are talking about the debate about asset light and asset heavy. Take out a list of the top 30 or so transportation logistics companies, put their revenue in one column, put their CapEx in another column, look at it last year, look at it expected for this year, and what percent of their revenue does CapEx represent? And we're at the very low end of that.

So, I think the market got a little over infatuated with the asset nature of the LTL which we had to do if we wanted to be a big player in LTL. But we are still an asset light Company overall.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, thank you for that, Brad. And then, John, I guess this one's for you. Once you include the full EBITDA run rate from Con-way, would you guys expect to be profitable on an adjusted EPS basis in 2016? And if not, when do you think you're going to cross that threshold?

John Hardig - *XPO Logistics, Inc. - CFO*

We do expect to be net income positive on an adjusted basis for 2016. Exactly which quarter that falls in again I think will be mostly dependent on the timing of the integration costs for this year.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, okay, that's helpful. And then last question just going back to Allison's question on the new employment agreement. I get the pay-for-performance aspect of it, but a lot of the reasons why the PSUs were so far out of the money was a result of strategic decisions made by the executive suite, namely to acquire Con-way.

So, in that light, one could argue that if you're paying for performance, it really didn't really match the initial expectations of the employment agreement. So Brad, I was just curious if you could comment on that. That's all I have.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I completely disagree with what you said in the last sentence about the performance hasn't matched what we put in the original employment agreement. The goal we put in the employment agreement was to deliver EBITDA minus CapEx minus interest. So adjusted free cash flow. That is the most important measure for us and that's what we are compensating senior management for.

And we have it every single financial target that we've publicly stated since 2011. I don't know how many other companies can say that. And I believe that, barring some very bad macroeconomic environment, that proud tradition of meeting or exceeding our financial targets will continue.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Thank you again for the time.

Operator

And we have no further questions at this time.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you very much. Well, I appreciate your interest in the Company and following us and support and look forward to talking to you in about 90 days. Bye-bye now. Have a good day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
