Cowen Virtual Transportation & Sustainable Mobility Conference

Fireside Chat with Matt Fassler of XPO Logistics

Conducted by Jason Seidl, Managing Director

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1. **Jason Seidl, Cowen:** The company successfully completed the spin-off of the logistics business. Can you talk about some of the first steps that XPO is taking as a standalone entity?

2. **Matt Fassler, XPO:** Jason, we have a very well-defined strategy that can be summarized in five areas. First of all, we continue to focus on the high-ROI businesses that are the bulk of our profit mix. Those two businesses, of course, are LTL and truck brokerage, primarily in North America. Together, they comprise over 90% of our operating income. Each of them benefits from secular tailwinds. On the LTL front, it's obviously a wonderful industry with a favorable pricing environment — both today and over the last number of years. We've had continuous yield improvement each and every year since we acquired Con-way in 2015. And in truck brokerage, we benefit from the ongoing outsourcing of brokerage by our customers and also the particular tailwinds occurring to companies like XPO that bring technology to this business at scale.

   Secondly, speaking of scale, we come to each of those businesses with tremendous scale. We're a top-three player in both LTL and truck brokerage in the US. Our massive capacity is a competitive advantage for us.

   Third, we're a company that's driven by technology, including many proprietary elements of our technology platform. That is true both in LTL and in brokerage, where our XPO Connect® digital freight marketplace is increasingly being recognized as best-in-class. Industry adoption rates of XPO Connect® are soaring, particularly in the brokerage

* Edited for clarity.

arena. And in LTL, we're bringing change to that industry, to the benefit of shareholders and customers.

The fourth point is we have multiple initiatives to drive above-industry-average revenue and profit growth. Many of those relate to technology.

Finally, we're extremely focused as a company on deleveraging. We're going to reduce the leverage on our balance sheet. We're targeting 1-2x net leverage by the first half of 2023, down from pro forma net leverage of about 2.7x in the second quarter, adjusted for the spin. In tandem with that, we're pursuing an investment-grade credit rating. We were the 7th best performing stock among Fortune 500 companies over the past decade, and we have significant potential to continue driving dramatic growth.

I would add, by the way, that yesterday we dropped a new investor deck. It's the first we've dropped since completing the spin. It's streamlined, as our company is, and extremely focused on the initiatives that are going to be driving the business going forward.

3. **Jason Seidl, Cowen:** Just like you take out some of the costs of the company, you take out some of the deck.

4. **Matt Fassler, XPO:** There are fewer pages, but they're good pages.

5. **Jason Seidl, Cowen:** I want to follow up on some of the things you said. You mentioned the cutting-edge technology and some of the adoption rates that you have, which you say are soaring. Can you give us any numbers behind them? I know you have in the past.

6. **Matt Fassler, XPO:** Sure. For example, we now have over 500,000 cumulative downloads of Drive XPO®, our XPO mobile app for carriers. That's triple the number of

cumulative downloads we had a year ago. The number of customers we have on the XPO Connect® platform is up manyfold over where it was a year ago. In LTL, it's more about the profit impact of our technology initiatives. We've driven 5% to 7% annual improvements in LTL dock productivity by utilizing our XPO Smart® workforce management tools and analytics, and we see a big upside ahead.

If you think about what's transpiring in brokerage, that business is more and more digitized. There are three benefits associated with that. The first is market share. Our user interface is dramatically improved and highly desirable. It makes doing business with us easier for both customers and carriers, whether they do it in a desktop environment or in a mobile environment. Second, it helps us with cost and productivity. Our salesforce and our carrier reps are far more productive than they had been when XPO Connect® was not as developed as it is today.

And, finally, we have excellent price discovery. The benefits here emerge in our brokerage numbers. In the second quarter, for example, we had over 30% growth in loads. We had very strong gross margin per load. We've had terrific performance in truck brokerage over a number of years. One other important multi-year stat to give you: in truck brokerage, over the past five years, our load count is up more than double our headcount. That helps to quantify the impact of XPO Connect® on our productivity.

7. **Jason Seidl, Cowen:** Ultimately, when you look at loads per day — as the technology continues to be adopted by some of your carriers and some of your customers — where do you think that could ultimately go?

8. **Matt Fassler, XPO:** A lot higher. We're managing the business for profit, and share gain has been a byproduct of that. We've been gaining share. We've significantly outperformed the market in terms of load growth in the first half of the year — our load growth was up 30% — and we did so with a gross margin dollar per load that was

excellent versus historical standards, and enabled us to earn very good money in truck brokerage. Our loads-per-day numbers are moving higher. Of course, a good market helps, but a lot of that is company-specific.

9. **Jason Seidl, Cowen:** That sounds exciting when I think about where you guys can go. You're one of the top five brokers that's out there — especially on the technology side, where you might be toward the top. Looking at that cutting-edge technology, there were some investors, prior to the split, who were a little worried about what was going to happen with some of the people who were employed by XPO pre-spin. Can you talk about how you spun out some of the technology people? Who went to GXO? Who's remaining at XPO? I know Brad's always talked about the people in Cambridge.

10. **Matt Fassler, XPO:** They're no longer in Cambridge. A lot of them went to MIT, but they're no longer in Cambridge. They're in the Leather District in Boston, if you've ever been there; closer to the financial district. We have, post-spin, about 900 technologists working at XPO. We expect to have an average annual technology spend of about $300 million. Both XPO and my former colleagues now at GXO have tremendous tech chops. Mario Harik, our CIO who's based in Boston, stayed with XPO.

XPO is a pure-play freight transportation organization. We primarily use proprietary transportation management systems, enhanced by a core team that's trained in AI and machine learning and has been with us for many years. The beauty of their skill set is that it's transferrable to a whole array of business use cases. All of the big data opportunities to optimize the business represent a fertile ground for them to deploy that skillset. Whether it's in linehaul within LTL, whether it's pricing within LTL, whether it's load matching in brokerage, that's a skillset that's tailor-made to the opportunity set that we have in our transportation lines of business.

11. **Jason Seidl, Cowen:** The short way of putting it is you guys have retained a lot of the key people that you had before. And, going forward, you're going to continue to be a technology leader, and that will help drive some of your growth and profitability.

12. **Matt Fassler, XPO:** Yes. We're extremely focused on that, as we have been since 2011.

13. **Jason Seidl, Cowen:** You mentioned your credit rating — that you're looking for XPO to be investment grade. Talk a little bit about that. How should investors think about your leverage going forward? What steps are being taken to get toward investment grade? Will any of those include any minor divestitures of some business lines that may not be top of mind?

14. **Matt Fassler, XPO:** The plan is to continue to grow adjusted EBITDA, generate free cash and largely deploy that cash to pay down debt. We've already substantially reduced our debt. This quarter, we redeemed two out of our three series of high-yield notes, the notes due 2023 and 2024. If you look at our June balance sheet, pro forma for the spin and what we've done since then, our net debt to adjusted EBITDA ratio — or net leverage — is 2.7x. As I said, we're targeting 1-2x by the first half of 2023. We're moving in the right direction.

15. **Jason Seidl, Cowen:** Let's jump to LTL a bit. Obviously, it's an extremely important part of your business and comprises so much of your EBITDA. The trends in that have been very, very strong for investors and for XPO. Could you talk about current trends you're seeing? Could you give investors a little bit of an update on where we stand and how the marketplace looks today?

16. **Matt Fassler, XPO:** The LTL marketplace is very strong, with three main drivers. One of them is the recovering economy. We're highly levered to the industrial economy within LTL, and the industrial economy is still very much in recovery mode. There are raw

material shortages; unfinished goods shortages. Lots of the industries that we do businesses with are not yet operating at their full potential. So, as they continue to recover, we should continue to see revenue strength.

Secondly, on a secular basis, there's an e-commerce impact or influence on LTL to the extent that retailers and manufacturers are seeking to ship smaller quantities of goods closer to their end-customers, so that does increase the role of e-commerce within LTL.

Third, as I alluded to earlier, the pricing environment is a strong one. Our LTL yields have been up every year since we acquired Con-way in 2015.

17. **Jason Seidl, Cowen:** Let's talk a little bit about some of those connections to e-commerce. That's always been a big driver. Can you talk about some of the trends that we're seeing. Clearly, the comps are difficult on a year-over-year basis for e-commerce.

18. **Matt Fassler, XPO:** We're generally going to mirror the macro. There's been a lot of good news on the consumer front. Many of the consumer-related verticals have had an exceptionally strong performance. Some of the retailers that were putting up 20% growth in the second and third quarters of last year aren't putting up 20% growth today, but the industrial economy has stepped in and is providing good growth.

What we like about this growth is that it seems durable, because we don't think that all of our customers are yet at their full potential. Think about the auto sector, for example. With the chip shortage, that's an industry that's not yet operating at full steam. As that shortage abates over time, we think there are legs to this economic expansion that will increasingly drive activity in our LTL business.

19. **Jason Seidl, Cowen:** What are your customers telling you? We've heard from some of the railroads that this shortage might go all the way through next year.

20. **Matt Fassler, XPO:** I'll leave it to the chip analysts and the auto analysts to prognosticate on when that transpires. We know that we're putting up the numbers today despite the chip shortage. We had an excellent second quarter. We had a record second quarter for revenue and adjusted EBITDA for XPO as a combined company, and record revenue and adjusted EBITDA for our transportation segment. Embedded in that, we had estimated a $10 million impact from the chip shortage. We gave the bullish guidance, knowing where the impacts stood and the pace at which the situation was likely to improve.

21. **Jason Seidl, Cowen:** Let me ask you more of a macro question. Clearly, the macro is strong right now. I'd say that every single company I've spoken to — whether they're LTL or truckload or logistics, or even on the shipper side — is talking about strength well into next year. They're looking at a supply chain that is extremely tight. I would argue that, in my view, it's tighter now that it was earlier in the year, when you look at some of the major port congestion that we've had. What's XPO's take on how long this is going to continue? How would you characterize next year setting up for XPO?

22. **Matt Fassler, XPO:** It's too early to give you any formal comments on next year. There are areas of the economy that are still improving. Consequently, there should be legs to this economic growth. I share the sentiment that there should be strong momentum into 2022.

23. **Jason Seidl, Cowen:** Matt, on behalf of Cowen, I want to thank you for taking the time today. Here's hoping that next year we can do this in person.

24. **Matt Fassler, XPO:** I look forward to it, Jason. Thank you so much, and thanks to everyone who listened in.

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 or a pro forma measure prepared and presented in accordance with Article 11 of Regulation S X, as applicable, which are set forth in the tables posted in the second quarter 2021 earnings release and the September 2021 Investor Presentation 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"), for XPO as a combined company and for our transportation segment, and net leverage.

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 ongoing performance.

We believe that adjusted EBITDA improves 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 pro forma net debt and pro forma net leverage are important measures of our overall liquidity position. Pro forma net debt is calculated as total debt for XPO pre-spin; less cash and cash equivalents; less debt, primarily in the form of finance leases, attributed to GXO Logistics, Inc. ("GXO") which we spun-

off on August 2, 2021; less net proceeds from GXO debt offering and XPO stock offering described in our September 2021 Investor Presentation (which is available on our investor relations page of our website); plus cash provided to GXO in connection with the spin-off. Pro forma net leverage is calculated as pro forma net debt divided by pro forma adjusted EBITDA for the trailing twelve months.

With respect to our projected net leverage, a reconciliation of this non-GAAP measure to the corresponding GAAP measure is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that we exclude from this non-GAAP target measure. 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 and free cash flow, our projected net leverage, and our plan to achieve an investment grade credit rating. 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.