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XPO - Q1 2016 XPO Logistics Inc Earnings Call

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PRESENTATION

Operator

Welcome to the XPO Logistics first-quarter 2016 earnings conference call and webcast. My name is Manny, 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 earning 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 tables. 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 investor section on the Company's website at www.XPO.com.

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

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

Thank you, operator and welcome to the call, everybody. With me today are John Hardig, our CFO; our Chief Strategy Officer, Scott Malat; and the head of our Investor Relations, Tavio Headley.

The year is off to a very strong start. We generated $249 million of adjusted EBITDA in our seasonally slowest quarter. That puts us a solidly on track to deliver at least $1.25 billion in adjusted EBITDA this year.

We generated organic revenue growth in the quarter, ex-fuel, of 12%. Europe, which is about one-third of our business, is firing on all cylinders, with accelerating top-line growth and margin expansion.

Both transportation and logistics beat budget again this quarter. Europe generated 16% more adjusted EBITDA as part of XPO than it did a year ago pre-acquisition.

Our North American LTL business was one of the stars of the quarter. We improved the adjusted operating ratio by 270 basis points, coming in at 92.9%, compared to 95.6% a year ago. On a year-over-year basis, we grew adjusted operating income in LTL by 54%.

As of May 1, we are now up to $90 million of profit improvement in LTL on a run rate basis, well on our way to $170 million to $210 million of annual profit improvement by the end of 2017. The three biggest components of that $90 million of profit improvement were taking costs out of the back-office; improved procurement costs; and rebidding the outsourced line haul.

We've instilled a culture of accountability in LTL, with a laser focus on operational excellence. In the first quarter, we increased our efficiency in fleet operations with higher utilization, lower maintenance expense, and more miles per gallon.

We are also delivering on the results that matter most to our LTL customers. In the recent Mastio shippers' survey, which covers 2015, our LTL operations ranked number one among national LTL carriers in the categories of trustworthiness; shipments picked up when promised; shipments delivered when promised; transit times and several others. And since the acquisition, our team has improved on the most important customer service metrics from a year ago, with even better performance for on-time pickup and delivery and damage-free freight. That's LTL, lots of good stuff there.

In transportation in general, North American volumes remain soft in the quarter, while European trends were more favorable. Our fastest top-line growers continue to be last mile and truck brokerage. Our truck brokerage business is gaining share with our existing brokerage customers, as shippers consolidate their freight with fewer 3PLs. This trend plays right to our strength of scale, lane density, service range, and cutting-edge technology.

In last mile, we're also taking share in a fast-growing industry that's being fueled by online sales. Last mile revenue is up 33% from a year ago, and margins are expanding. We've already closed on $30 million of new last mile business this year, and we have another $225 million in the pipeline. It is a fast-growing revenue stream that's being fueled by cross-selling with our customers in other lines of business and by e-commerce.

Stepping back and looking at XPO as a whole, our operations are meeting, or in many cases beating plan, despite a sluggish macro environment. There are a lot of reasons for this. We have a strong franchise in each of our service offerings, and we are well-diversified by geography, by verticals, and by type of service. For example, contract logistics typically performs well in all parts of the cycle, whereas transportation is more cyclical.

In Europe, the macro conditions are more favorable right now than in North America. E-commerce growth, which is on fire world-wide, helps our last mile business in the US and our e-fulfillment business in Europe. Low fuel prices were a positive for trucking, but were negative for inter-modal.

We are also benefiting from many opportunities that are unique to XPO. These include numerous synergies and cost savings from the two major acquisitions we did last year. We have internal initiatives underway around the world to serve our customers even better; continuously improve our performance; compensate and motivate our people; bring down our procurement costs; and expand our global cross-selling.

XPO is on the radar in every industry that requires transportation or logistics. Our significant investments in technology, and our leading positions in so many parts of the supply chain, are clearly resonating with customers. We are not just selling brokerage, or contract logistics, or expedite; we are working closely with customers to identify their supply chain goals and helping them become more efficient taking out costs. Many times, this involves more than one of our services.

So in summary, we are a high-energy, highly disciplined Company, with many of the industry's best operators leading all parts of the business. And this is why we've been able to grow adjusted EBITDA by 8 times from a year ago. And with best-in-class organic growth on top of that.

Now I'll turn it over to John to review the quarter. John?

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

Thanks, Brad. We had a very strong performance in the quarter. We increased revenue 404% over last year, and increased adjusted EBITDA 754% to $249 million, primarily through our acquisitions last year. We also drove solid organic growth on the top line and expanded our margins.

Revenue in our transportation segment was $2.3 billion during the quarter, up 309% over last year. Transportation net revenue increased by 436%, and adjusted EBITDA was up 741% due to acquisitions and strong organic growth. In freight brokerage, we increased revenue by 33% in the quarter, led by organic growth in truck brokerage. Freight brokerage net revenue margin declined to 17.9% from 20.1% last year, due to decreases in expedite and intermodal margins offset by margin improvement in truck brokerage.

In intermodal, our service levels are better than we've seen in several years. However, the market remains competitive against the backdrop of loose truck capacity and low fuel prices. Expedite activity was weaker in the quarter, due to the sluggish economy and mild winter weather that limited services disruption.

In our less-than-truckload business, yields remain strong. Revenue per hundredweight, excluding fuel surcharge, increased 4.2% over the prior year. Daily LTL tonnage decreased 5.4% in the quarter, as declines in national account revenue were partially offset by increases in revenue from local and 3 PL accounts. Our LTL operating ratio, excluding amortization of intangibles and integration costs, improved to 92.9, compared to 95.6 last year. This was 270 basis points better than a year ago.

Looking at April, while LTL tonnage continued to trend down, yield excluding fuel, has improved further from the first quarter. From a profitability perspective, the yield increase more than offset the tonnage decline, and is in line with our profit improvement goals. In last mile, we grew revenue by 33% year-over-year, driven by the start of new contracts won last year, and a 2015 acquisition. We're seeing a higher volume of new business opportunities, driven by growth of e-commerce market and the continuing trend for retailers to outsource last mile delivery.

We closed 29 new contract wins in the quarter. Last mile net revenue margin increased 80 basis points in the quarter as we improved carrier utilization across the larger network footprint. In North American truckload, revenue in the quarter, excluding the impact of fuel, was 2% lower than a year ago, mainly due to fewer loaded miles as a result of the softer truckload market.

Despite the challenging market, we increased margins over the prior year by reducing costs and improving empty mile percentage to 9.1% from 10.1% a year ago. In our European transportation business, we drove strong shipment volume growth broadly across most regions in the quarter, and that trend continued into April. France full truckload had particularly good growth year-over-year, and our LTL business performed consistently well throughout our European footprint. We expanded our margins by putting a strong focus on cost controls and eliminating money- losing sites.

Turning to logistics, our logistics business continues to outperform our expectations. Revenue increased to $1.3 billion, from only $141 million a year ago. And adjusted EBITDA increased 337% to $88 million.

Our European logistics business was again a highlight in the quarter, driven by an increase in volumes from existing customers and new contract starts, especially in our eCommerce and food and beverage verticals. Our North American logistics business also had a strong quarter, led by increased volumes from e-commerce, technology, and food and beverage customers. We're benefiting from a backlog of new contracts signed late last year that are coming online in 2016.

Corporate SG&A expense increased to $45 million in the quarter from $15 million a year ago. Included in corporate expense was approximate $12 million of integration costs. The remainder of the increase was from higher compensation, legal, and rebranding expense. The increase in compensation resulted from increased headcount and higher non-cash equity plan expense linked to the increase in our common share price during the quarter.

For the full year, our expectation for corporate SG&A expense, excluding non-recurring integration costs, remains unchanged in the range of $95 million to $105 million. Net interest expense was $93 million for the quarter, in line with expectations. Net capital expenditures for the quarter was $97 million. Our expectation for net CapEx in 2016 remains $475 million to $500 million.

Depreciation and amortization for the first quarter was $162 million. D&A was lower than expected, reflecting a reduction in the current estimate of Conway asset values and purchase accounting. Purchase accounting for the Conway acquisition is not finalized; however based on current analysis, we expect D&A to be the range of $175 million to $180 million per quarter for the rest of the year.

Typical for the first quarter, free cash flow was negative. From a seasonality perspective, cash flow was lowest in the first quarter, improved sequentially in the second quarter, and is more significant the second half of the year. We ended the quarter with $279 million of cash and approximately $850 million of liquidity, when taking into account the $100 million we had drawn on our $1 billion credit facility at quarter end.

Now, I'll call over to Scott.

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

Thanks, John. I'll break down some of our strategy and initiatives by segment.

Starting with logistics, we've steadily added vertical expertise in supply chain, and as a result, we've opened doors to a broader customer base. We added the salespeople and increased incentive comp. The large deals we closed in 2015 and early this year will continue to drive revenue growth in 2016. We are now working on a larger pipeline that we expect to accelerate growth in 2017 and 2018.

The new business pipeline for our logistics business in Europe is over EUR0.5 billion, which is up about 25% from the first quarter last year. A lot of the new business is coming from e-fulfillment, where we are the leader in Western Europe.

In North America, our logistics pipeline contains over $400 million of potential business; that is up significantly from about $150 million at the beginning of this year. These are active bids, largely in the areas of consumer packed goods, chemicals, food and beverage, high-tech, and healthcare.

In transportation, starting with LTL in North America, industry volumes continue to be soft. The real story, though, is all the levers we have in LTL to create value within the business. We are maintaining price discipline, increasing our sales and service efforts, and right-sizing the cost structure. Our next big wave of savings in LTL is going to come from purchase services, technology, and back office functions.

We are also implementing several network optimization projects for LTL. We are re-engineering our standards, and developing new algorithms to improve the efficiency of our line haul and pick-up and delivery routing. And recently, we rolled out new hand-held devices in North America and Europe that improved dock operations.

Our European LTL team is engaged in similar initiatives for line haul plan optimization, pricing, and pickup and delivery routing. The intermodal industry in North America has been slow over the last year, given low fuel prices and loose truck capacity. Despite this, we've been able to increase our bidding activity, largely through cross-selling, and our sales trends have been improving.

Over the past year, we've taken a lot of costs out of the intermodal network. We also launched our proprietary rail optimizer technology over the last year, which consolidated a lot of systems to give us better visibility across the entire organization. This created efficiencies, while improved customer satisfaction almost immediately, and our on-time intermodal performance is now at record high.

In North American truckload, we put in a new management team, and we are instilling the same sense of urgency that we created at LTL. We're beginning to cross-sell some of these trucks through out brokerage network to get the best return on assets. In general, having trucks and trailers on the road has opened the door for our brokerage team. We've seen far more bids than ever before, and customers want to work with XPO.

Cross-selling is a big deal for our Company. 73% of our top 100 customers already use us for multiple services. Approximately 19% of our sales generated from these customers come from secondary service lines. So, for example, our largest customer, Company-wide, just started doing truck brokerage with us in late 2015; it is already one of our largest brokerage customers.

A major packaging customer from Europe was cross-sold to North America supply-chain and intermodal. A top industrial LTL account was cross-sold to brokerage; that customer was the sixth-largest brokerage customer in the first quarter.

Our best sales people across the organization-- our strategic account managers-- are intensely focused on cross-selling our services to largest customers. Our plan calls for doubling the size of our strategic account managers this year.

Our integration efforts are very far along and are proceeding ahead of plan. In both Europe and the US, we're fully integrated from a management perspective. We've streamlined the entire organization by integrating sales, technology, finance and accounting, HR, and legal teams to run more efficiently. The entire Company has been migrated to one CRM system, which has increased visibility across the organization and enabled cross-selling.

We are running global procurement processes to take advantage of our combined scale. We are on track to re-brand all of the fleet and locations by the end of year, in record time. World-wide, that's 19,000 tractors and 47,000 trailers; that's about 440 cross dock facilities and 750 contract logistics facilities, all with the XPO brand.

We've developed a clear mission and strategy for where we want to take the Company. We've aligned and focused the organization with matching objectives, metrics, and incentives and all the internal functions are working together. This enables us to go to market as one highly integrated organization with critical mass to serve our customers.

So as you can see, we have a lot of initiatives underway to create value. We have world-class operators that continue to execute on our growth plan and outperform the market. We are right on track to meet our near-term and long-term targets.

With that, I will turn it over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rob Salmon, Deutsche Bank.

Rob Salmon - *Deutsche Bank - Analyst*

Good morning, guys.

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

Morning.

Rob Salmon - *Deutsche Bank - Analyst*

The results at Conway were really impressive in a tough marketplace. One thing which caught my eye was the $90 million run rate. I'm curious if that savings that you've already achieved to date -- does that include the impact of the LTL line haul bid that you were doing for outsourced third-party truckload? And can you give us a sense of how that's going already?

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

Yes, Rob. It does. The line haul bid was completed a few weeks ago, and it starts in full force actually this week. It had not been rebid for a number of years, and we kept most of the same carriers, but obviously the market's come down a lot over the last few years. It is a good time to be bidding freight, and we ended up saving tens of millions of dollars now having market-based prices for that line haul.

But that was part of it. That was only part of the $90 million, little less than half of it. We had a lot of back-office synergies, a lot of layoffs in the back office, and we also got some reductions from vendors, particularly in IT, which we appreciate, and that got us to $90 million in six months which is a good start, since we are looking for $170 million to $210 million over two years.

Rob Salmon - *Deutsche Bank - Analyst*

For sure. Does that give you confidence that there might be some upside relative to that number, given the execution to date?

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

Really happy with the start with $90 million, and we feel really good about the $170 million to $210 million, and we feel really good about the $1.25 billion this year, and the $1.7 billion of EBITDA a couple years from now. For the time being, we're going to keep with the $170 million to $210 million; we will revisit it as things progress. Off to a very good start, though.

Rob Salmon - *Deutsche Bank - Analyst*

I appreciate that color.

John, in your prepared remarks, you had mentioned a little bit about the cadence of free cash flow. Can you walk us through the bridge in Q1? I have been getting a lot of inbound questions related to the cash from ops and free cash generation. I realize there's a lot of noise, given some of the integration costs that were probably accrued towards the end of 2015, and we saw the cash outflows. So if you can help us bridge what the free cash flow is in Q1 versus what a more normalized number would be? And which specific line items where that is impacting the accruals on the cash flow statement?

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

Yes, sure, Rob, I would be happy to do that.

We had $7 million of cash flow from operations in the quarter. But we also had a lot of unusual non-recurring items related to our integration of our acquisitions. We had about $50 million of those one-time cash items, and they are made up of things like severance payments. We had some equity that we bought from the Conway employees -- it was kind of a deferred purchase price as part of the transaction. We had management consulting fees. We had rebranding costs in there. So there were about $50 million of those one-time integration-related expenses; and some of that, as you mentioned Rob, had carried over from the fourth quarter. They were accrued there, and then paid out in cash in the first quarter.

As you know -- and I mentioned a little bit in my remarks -- the first quarter is our weakest quarter from a cash flow perspective. We have the weakest EBITDA quarter in the first quarter. We also have a lot of things that are paid in the first quarter that are typically once a year, like, for instance, the bonuses are paid generally in the first quarter, in terms of incentive bonuses. We also have significant pre-paid expenses that are paid out in the first quarter -- things like insurance premiums, and also software licenses, things like that, that are pre-paid in the first quarter but really are effective for us for the entire year.

Rob Salmon - *Deutsche Bank - Analyst*

That's helpful. I'm assuming that the majority of those are showing up in the pre-paid expense as well as the accounts payable lines on the cash flow statement?

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

That's right.

Rob Salmon - *Deutsche Bank - Analyst*

Okay. Scott, you had talked a lot about some solid wins within Europe. Can you give us a sense of what the run rate revenue is? And how you are thinking about that growth potential within Europe, both on the transportation side as well as on the logistics side over the medium term, given some of the cross-selling opportunities you see?

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

Our transportation and logistics revenue have been accelerating. In Europe, transportation is now growing toward the mid-single digits, 4% to 5%, and supply chain -- it's a little faster, more like 5% to 6%, and looks like the likelihood is that it will grow a little faster than that, given the pipeline that we've already executed on, and in addition, the pipeline that's grown from there. Right now, we are working on mostly deals for next year and the year after, so this year is relatively locked in and does look like revenue growth will likely accelerate.

Rob Salmon - *Deutsche Bank - Analyst*

Okay, and you guys -- there were a lot of announcements that I saw pop up during Q1 as well as late in Q4 about business wins. Were those all pretty much at the end of March running at full steam? Or is there still a scalability factor that I should be thinking about?

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

There's still a scalability factor. For instance, Iceland is a contract that we've mentioned in the past that gets rolled up through this year and actually on into 2017. In the beginning of 2017, it will start to get towards the full run rate. Contract logistics for supply chain generally have long sales cycles -- 12 months to 18 months -- and then when you get them started, it could take several quarters to get going. These are complicated, very high-value add, long-term contracts.

Rob Salmon - *Deutsche Bank - Analyst*

Great. Appreciate the color and I will turn it over to someone else.

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

Thank you, Rob.

Operator

Chris Wetherbee, Citi.

Chris Wetherbee - *Citigroup - Analyst*

Thanks; good morning guys.

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

Good morning.

Chris Wetherbee - *Citigroup - Analyst*

I wanted to touch on the organic revenue growth there for a minute. Brad, I know you highlighted last mile, I think up 33%. But could you walk us through some of the other segments to get a sense, in particular intermodal? Just want to get a sense if that is sort of growing at this point. Just run through some of the segments so we get a sense of how they stack up?

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

Intermodal is not growing. Intermodal is one of the businesses we are in that has been experiencing a number of headwinds. So you've got lower-priced abundant truck capacity, together with lower fuel pricing, and those are the things that were driving the conversion from truck to intermodal.

Intermodal is down; that's okay. We do both truck and intermodal, and we are just there to make sure we give the customer the best solution to the supply chain it needs. Sometimes it is going to be over the road. Sometimes it is going to be intermodal.

We have continued SG&A reductions in intermodal, so the bottom-line numbers are not bad. We've significantly reduced spend in IT, in labor and facilities, and we've been leveraging our technology to mitigate the need for headcount increases to support the growth. There is a good pipeline, but I wouldn't say that intermodal is our strongest business line at the moment. Fair amount of headwinds there.

Chris Wetherbee - *Citigroup - Analyst*

Okay, so still get the 12% times. Adding the contribution from intermodal I guess was the point -- that sounds right.

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

12% includes the intermodal.

Chris Wetherbee - *Citigroup - Analyst*

Yes, that makes sense.

Wanted to ask also about the technology platform. As you have been putting together the companies and integrating, I wanted to get a sense of where we are in that process from a technology platform integration. How much of the business is on the system? And how much more do you have to go? Any cost hiccups or any issues that we should be thinking about as you've gone through that? It seems like it's moved relatively seamlessly. I just want to get a sense of where we stand in that process.

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

It has gone extremely well. We've moved over most of our platforms onto our cloud-based technology. LTL is the one that we are working on right now. But I'm excited about a lot of things in technology. Most of them are about optimizing things, so in LTL that's pricing optimization, as well as route optimization on the line haul and the pickup and delivery.

In intermodal we've talked a lot about the rail optimizer; that's led to higher service levels, the better visibility across the organization. We've driven some efficiencies. But we are now building more efficiency tools into the drayage piece of the equation. In last mile, we completely rebuilt the platform, all in the cloud. We are updating the routing for the pickup and delivery right now, and we're also working on LTL integration to be able to move heavy goods through the system.

In contract logistics, we have some great technology to manage labor in North America -- some proprietary technology. We are launching that technology in Europe, and it will drive productivity and labor, which is our biggest cost item. Then in freight brokerage, we've talked a lot about our freight optimizer, which continues to improve. There's a lot more automation going into the system, and also LTL integration.

Chris Wetherbee - *Citigroup - Analyst*

So you've made good progress; LTL is sort of the big one that's in front of you right now?

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

Yes, we launched new hand-helds for LTL in June and July. We are going to improve that software that goes on the hand-held; that will improve the dock operations and improve accessorial collection. We have new pricing models coming out in three phases, which will launch starting in September. The P&D optimization engines are in beta, and they are rolling out in phases starting at the end of this year. So there's a lot coming up, a lot going on, and a lot of opportunity in LTL.

Chris Wetherbee - *Citigroup - Analyst*

Okay, that's helpful.

And then my last question would be on the LTL performance. Obviously a really strong performance in the first quarter, particularly relative to the peers. When I think about the business, if I look at the peer group, most folks were struggling to get to flat EBIT in the quarter. You guys were up, in the neighborhood of $20 million or so. If I think about the typical seasonality of that business, it would seem that you are maybe at run rate a bit higher than that $70 million to $80 million that you've talked about of realized benefits in the full year, in the $90 billion run rate. Just want to get a sense if there are any other seasonal factors I should be thinking about that might decelerate that? Or maybe there could be potentially some upside to what you guys are talking about in LTL this year?

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

Well, operating income is up 54% year over year in LTL. That's great -- 54% operating income improvement on a year-over-year basis, in any business, is a very big achievement. That was mainly due to price, where we've been rock-solid focused on maintaining price discipline. And on cost takeout. I mentioned the cost takeout earlier in the call.

The OR improved 270 basis points, year over year. I think we have the second-best OR now of all the carriers in LTL, and pretty sure -- I'm very sure we have the most improvement in OR this quarter versus the quarter in last year. So LTL is off to a very good start. It shows what focus can you do, when you restructure an organization to be leaner and to have every single service center have a P&L-- they didn't have P&Ls in the service centers-- and reinforced P&L accountability at every single level. And focus the organization on the levers to drive the profitability and maintain the strong pricing discipline.

Of all the different things to be proud about, about what Tony and the team have done in LTL, the thing I'm most proud of them about is, customer service during the integration has gone up, which is unusual. In a complex business like LTL, we had a lot of naysayers saying, what is going to happen to service during integration? I'm extraordinarily proud that our on-time pickup, which was already at industry-leading levels -- Mastio award last year for number one in that -- is still up over last six months. On-time delivery is up, was already at industry-leading level. Damages, coming down. Claims are improved. Line haul productivity has improved. A lot of good things to be very proud about. We are trying to stay humble about it, but there's a lot of things to be proud about in LTL.

Chris Wetherbee - *Citigroup - Analyst*

Okay. So it seems like there's a lot of opportunity there still, also though to come, is my guess?

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

Absolutely. Lots of initiatives. And it's continuous improvements, continuous improvements.

Chris Wetherbee - *Citigroup - Analyst*

That's great. Thanks very much for the time. I appreciate it.

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

Thank you.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks, morning everyone.

Brad, you mentioned e-commerce as a big driver of growth in last mile. We are hearing something similar from the big parcel carriers as well. So I'm just wondering, as more people buy really large and complex things online, are you seeing UPS and FedEx becoming more prominent as part of the last mile business?

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

FedEx is bigger than we are in LTL. We inherited, when we acquired Conway, the second-biggest LTL platform in North America. Of course, we are number one in Western Europe in LTL. But here, we are only number two, and FedEx is bigger than us. We are bigger than the other competitors.

I cannot speak to the growth plans or the numbers or the dynamics of those two competitors -- or any of the competitors, for that matter -- because we are very internally focused on doing everything we can as a team -- as an LTL team -- that involves a large number of people all across the country, to improve our service to customers, take costs out of our system, and just increase the productivity of the business on every level. I really cannot speak to what the competitors are doing. I'm not knowledgeable enough to answer that.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. I was actually asking you about the last mile business, because that's something those guys are starting to talk about now as well.

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

Okay, so last mile is a whole different story. Last mile, we are clearly number one, by a large measure. There are only three other competitors that are over $100 million in last mile. In last mile, big difference between what FedEx and UPS are doing in last mile, and what we do in last mile.

FedEx and UPS are the kings of parcel, of package, of last mile where you drop it off at the postbox or you drop it off at someone's door. We are the king of last mile going over the transom, into someone's house, and installing heavy goods -- assembling and installing heavy goods. So we are focusing on products that are 150 pounds or more, and we are the clear leader in that, in many different levels: in terms of size and, frankly, in terms of customer satisfaction quite a bit as well, in technology, and a lot of different things. But we are not even in the market that UPS and FedEx dominate, which is parcel. We are big customer for both of those companies. We have 750 warehouses around the world that generate a lot of parcels, and we use FedEx and UPS and DHL in Europe as well, but we are not in that business, so we don't compete. We do not see FedEx or UPS active in the last mile for heavy goods. We don't see them doing refrigerators, or stoves, or washing machines, or television sets -- that's really our neighborhood, and that's what we are experts in.

Ravi Shanker - *Morgan Stanley - Analyst*

Right, and that's what I was asking about, because they seem to be saying they're doing a lot more of that, and they are pushing through price increases, and so on and so forth. So I just wanted to know if you are seeing them there. But it doesn't seem like they are crossing over to your world.

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

Not at all.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. Just shifting gears here -- I'm sorry if I missed this, but did you give us your organic EBITDA growth sequentially?

Chris Wetherbee - *Citigroup - Analyst*

It is around 16% organic EBITDA growth in the quarter.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. I believe your organic revenue growth accelerated sequentially, I think from 8% to 12%, but I think your organic EBITDA growth then probably decelerated to 16%. Can you just remind us what puts and takes there are with that number? And how we think about that going forward?

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

In general, we are looking for mid-teens-type organic growth rate over the next several years on an EBITDA basis. In this quarter, we did have some more corporate expenses in the quarter that John talked about in terms of some higher legal expenses than are typical in a quarter, just some more activity going on, but it wasn't that out of the ordinary, and mid-teens EBITDA organic growth rate is great.

Ravi Shanker - *Morgan Stanley - Analyst*

Great. Thanks so much.

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

Thank you, Ravi.

Operator

Brandon Oglenski of Barclays.

Brandon Oglenski - *Barclays Capital - Analyst*

Good morning, everyone, and thanks for getting me on the call here.

I wanted to come back to the first question here on cash flow, because I know your cash flow is below $10 million for the quarter from operations. But I think in the past, we had talked about, normalized for transaction costs, you probably have free cash flow of let's call it, $300 million. How do we think about that relative to the roughly $8 million or $9 million you put up this quarter? And what is -- I think the initial question, I'm not sure if we addressed it -- but how do we think about cash flow in 2Q and the next quarters as we progress through 2016?

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

Sure. As I said in my prepared remarks, we have typically the lowest cash flow quarter in the first quarter. And again, that's because our EBITDA and our cash generated from operations is the lowest, just because that's the way the business runs seasonally. And then we had a lot of integration-related cash flows out that happened in the first quarter. I mentioned about $50 million of those things -- that would be, again, severance; we have some equity that we paid out to the former Conway shareholders; we had management consulting fees; we had IT and finance advisor fees. And then, again in the first quarter, we have heavy use of cash for things like pre-paids, the bonuses paid in that quarter.

And then we had a little bit of tick-up in working capital, because you start to see the business pick up again after a slowdown over the winter, start to pick up in the last very end part of the quarter. So if you look at the rest of the year, most of the cash in this business is generated in the last two quarters of year, and so we will see sequential improvement in the second, over what we saw in the first. We're not going to generate a ton of cash. It will be certainly a lot better than what we had on a free cash flow basis in the second quarter. And then the bulk of the cash we generate for the year, which we think will be $250 million to $300 million, will be in those last two quarters.

Brandon Oglenski - *Barclays Capital - Analyst*

So we should see cash from ops from $250 million to $300 million this year, even with the integration costs?

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

The integration costs will be generally $75 million to $100 million for this year, off of that $250 million to $300 million. And then it will be on a cash basis -- that's integration expense on the income statement -- on a cash basis, it could be higher than that $75 million to $100 million, to account for some of the costs that were booked in 4Q that dragged into this year.

Brandon Oglenski - *Barclays Capital - Analyst*

I'm sorry, I just want to clarify. What should your cash from ops look like at the end of the year if things go to plan?

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

Cash from ops minus net CapEx will be in the range of $100 million, $150 million -- those type of ranges. When you include the integration cost, that could be $125 million to $150 million in cash.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay. Appreciate that.

I don't know if this is actually a right topic for this call, but I have been having this conversation with some of your shareholders. And maybe it's that I'm not that bright, but when we look at the way you guys report your financials now, and you've put the Conway asset-based business into a financial structure that you had previously that I think was more geared for asset-light business, it is just hard for us to ascertain what's going on, on the operating cost structure side at the previous Conway business, because a lot of those expenses get loaded into your purchase tran or your direct operating expense. Is there any way that you guys can think about breaking out your operating ratios similar to other asset-based carriers that we can do easier comparisons on the cost side?

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

Yes, we are always happy -- we will talk about all different ways we can change things. We do give out our operating ratio for LTL, along with all the summary data table of all the different operating statistics. But I definitely would be happy to talk to you about other ways we can change and add more disclosure.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay, I just want to bring it up on the public call, because I know that some of your shareholders are talking about this, too, and it is a little difficult to decipher precisely what's going on.

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

We break it out, and pull out purchase transportation, bring out the net revenues, gross margin, which is a little different than others were. We think we are adding disclosure in how we look at a gross margin and the cost to move a piece of freight. And then we give all the operating statistics again, and the operating ratio. But let's talk about if there's additional information that would be helpful.

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

Tell us what you want; happy to give it to you.

Brandon Oglenski - *Barclays Capital - Analyst*

Thanks, guys.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks very much, good morning.

In the LTL business, pretty impressive yield in the quarter, excluding fuel, over 4%. That's an acceleration from last quarter. I believe you said earlier that April was trending a little bit better than what you saw in first quarter. If you could speak to that, and then take us a level deeper with regard to national accounts and local and 3PL -- just what you are seeing on the pricing front? And maybe some XPO-specific behavior? Thank you.

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

I will take the first part; Scott can take the second part. So in the first quarter, tonnage was down about 5.4%, and price was up 4.2%. So tonnage down 5.4%, price up 4.2%. In April that trend continued, where we are shedding tonnage from the money-losing accounts. There's still a handful of significant money-losing accounts. They're large accounts. But we are building business in the 3PLs, which has been up in the first quarter, which is up in April. We've got some good partnerships with a handful of 3PLs that are really promising, and we are also building the business with the small- and medium-size accounts. So April -- you see the same kind of trend accelerating; you're seeing pricing being firm; you're seeing tonnage coming down.

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

If you take a look at the breakups of the different business segments, our small customers revenue increased in the quarter. Our 3PL revenue increased in the quarter, and increased in March, both of those. When you look at the large customers which is -- there are a lot of large customers we are growing our business with that are profitable, they're doing a good job. But if you look at some of the more challenged-margin customers, we have taken up price, and our revenue in our national accounts' largest customers is down, and that's what's driving the decrease.

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

As Scott said, there are hundreds and hundreds of large national accounts that are just fine. We have a fair price, and a decent operating ratio, and we're actually making a little bit of profit on it. There's a handful, a small handful of large accounts that we are losing, like, $5 million, $10 million,

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in some cases $15 million a year. We need to work through that. We are having conversations of how we can get that to at least break-even. And if we can't, then we are shedding it.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks very much.

Just switching gears a little bit, following up on something said earlier. In corporate expense, you mentioned some elevated legal spend in the quarter. Could you speak to how that trends going forward? And there is noted a litigation settlement yesterday -- if you could speak to that, and just again back to the line item, what we should expect to see on compensation of corporate going forward? Thanks.

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

I will let John handle the part about the trend going forward on the legal SG&A.

In terms of the legal settlement that we announced yesterday, when we acquired Conway last October, there was a pending DOJ investigation of Menlo and the subcontractor that was handling that account. And we are very aware of that, and we took that into account into our assessment of the transaction. Yesterday, we announced that we reached a settlement, that we chipped in $10 million and Estes chipped in $3 million, and all claims are dismissed, gone, finished -- that case is completely resolved. Very importantly, we fervently believe that Menlo did nothing wrong, and it is noteworthy that the government did not require any admission of wrongdoing; and in fact we strenuously disputed that any wrongdoing took place. I will let John answer the part about legal fees in general going forward.

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

Yes, Scott, in the first quarter we did have an additional accrual for litigation or liabilities that we put on the balance sheet, and that hit the corporate P&L. That's not going to continue through the rest of year, so those legal expenses are going to come down, versus what we saw in the first quarter. And again, we maintain that we are going to continue our guidance for corporate expense in the $95 million to $105 million range for the full year.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks very much.

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

Thank you.

Operator

Allison Landry, Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

Thanks, good morning.

In LTL, are you seeing any aggressive competitor pricing behavior on the margin? One of your peers recently talked about that. And then, can you remind us where you are in the process of culling unprofitable freight?

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

Yes, good morning, Allison.

It is so hard to tell what competitors are doing. Just think about all the effort and work and analysis and data extraction that we do internally just to get our arms around about exactly how we want to price each customer, each lane, each contract. It is anecdotal when we hear about other customers and the amount of information -- excuse me, other competitors. And when you think about the amount of information we have about competitors, it is a small percentage of the information we have about ourselves. So I don't want to draw any conclusions based on a scant amount of data.

What we do know is, the market has been soft for about a year now, a little more than a year, in all freight, LTL and truckload, but pricing has been solid. Pricing has been solid in LTL, because you have a handful of carriers that are controlling a lot of the capacity, and got hurt really badly in the last downturn, and just generally are being more rational about pricing. I think people are more informed about the trade-off, when you trade off price for volume, and that price is much more important than volume.

I don't really want to speak about competitors. And frankly, we don't want to whine about competitors. You always hear about competitors taking a piece of business from a salesperson, and they are being aggressive on price. You will always hear that, actually in all parts of the cycle. Our focus is on our own business -- what we can control: our own utilization, our own pricing discipline, and we are happy with that.

Second part of your question, I forgot what it was, Allison.

Allison Landry - *Credit Suisse - Analyst*

I was asking where you guys are in terms of culling unprofitable freight.

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

We don't have a whole lot of unprofitable freight in two of our three categories of customers in LTL. So the small-, medium-size customers, that's generally okay business; and we are growing that business and going to continue to grow it. On the 3PL business, it is not as profitable as the small- and medium-sized customers, but it's profitable. We have a number of partners that we are just clicking with, and who really want to do business with us, and we really want to do business with them. And we've decided we are going to increase the amount of business we do together by a significant amount, and I believe that's going to happen.

On the large national accounts, which accounts for the majority of the business, a good chunk of that business is okay, and it gives us volume, but there's a small chunk of it that's problematic, and we have not worked through it all. We've worked through some of it; we still have more wood to chop on that. Those are important conversations with important customers, and customers that we are doing business with in other verticals, generally, as well. So it is a relationship, and some of those customers are going through hard times themselves, so we don't want to be overly difficult with them. At the same time, we want to at least break even. We think that's a reasonable request. So that's a process that's going to take the balance of this year to go through.

Allison Landry - *Credit Suisse - Analyst*

Okay, that's really helpful.

Maybe turning to the leverage for a second. In terms of the sequential increase in the short-term debt, presumably this was to fund the seasonal working capital needs you talked about earlier. But are you still confident you can chip away at the leverage ratio by the end of the year, now that you drew about $100 million on the revolver?

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

Yes, Allison, we do think we will chip away the rest of the year. As I mentioned earlier, the bulk of our cash is generated in the second half of year, and we are going to be increasing our EBITDA as we go through the course of the year, and we are looking at leverage in the low fours by the end of this year.

Allison Landry - *Credit Suisse - Analyst*

Got it, okay, thank you.

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

Thank you, Allison.

Operator

Kevin Sterling, BB&T Capital Markets.

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

Thank you. Good morning, gentlemen.

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

Good morning.

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

Brad, it sounds like you are getting some traction there at the old legacy Conway truckload business. I think you said you changed management. So is your plan now to continue moving forward with that business? I know you thought about possibly selling it, but it seems like you made some positive changes. And do you see it as value-added part of the XPO structure?

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

In truckload, the market is weak, and freight is soft; there's less freight out there in general. And there is quite a bit of capacity, so it is a competitive market. At this point in time in the cycle -- this is a cyclical business, and these things can change and they do change (technical difficulties). I would point out that loads in April were actually up 2% to 3% (technical difficulties). On the other hand, revenue XPO (technical difficulties) was slightly down because rates per mile were down 2%.

We are seeing the opposite in truckload of what we are seeing in LTL. In LTL, you are seeing volumes down, and pricing up. In truckload, you are seeing volumes up (technical difficulties) but pricing down. We really just got under the hood in truckload, literally (technical difficulties) in the last few weeks, and there is a new management team in place. There is a sense of urgency. We are seeing high bid activity.

We do have a plan to take that $105 million, $110 million of EBITDA up to $140 million-ish of EBITDA by basically blocking and tackling. And we benefit from the fact that 35% of our truckload business is with Mexico, which is generally a higher-margin, longer length of haul, and leveraged to a different cycle. So we are reducing empty miles. I'm happy to see empty miles are down. But miles per day per tractor are also down, so it is difficult market. We have 200,000 competitors in truckload, but all things considered, I think we're doing pretty good job.

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

Great. No, thank you.

Brad, you guys had touched on some nice business wins in Europe. Are those legacy Norbert renewals? Or is that brand-new business wins? And if it is brand-new, what is driving your success there in Europe?

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

It is both. Most of it is customers that Norbert was already doing business with, and we're either renewing or increasing the amount of business or finding business to do with them in countries that we weren't doing business with already. And it is the same management in place. We had tens of thousands of employees there, and we have very low turnover there. We had one, the head of the division there, we separated with, but the two guys who are right under him: Luis Gomez, who runs transport; Malcolm Wilson, who runs logistics, are right there running the same businesses they were.

I sent Troy Cooper over there -- Troy Cooper is our COO -- and he spends the majority of his time in Europe. And they've done a great job at instilling better discipline in the organization, better visibility to the metrics, understanding the financials, doing some of the same things that we're doing over here in terms of identifying the money-losing accounts, and having conversations with those customers to get them to at least break-even. And on the sales side, we had over here in Greenwich a few dozen of the European supply-chain salespeople, led by Jean-Luc Declas, and we also had Eschbach salespeople from supply chain here in North America. We had them all together for a few days, and it was a great meeting, with a lot of cross-selling activity going on, a lot of transfers of best practices, and a lot of travel plans to go cross-border.

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

Great. Last question here -- you talked about some of the weakness you are seeing in intermodal, and that's not surprising, with fuel down, and the softness in the truckload market, and what we've heard from some of the IMCs. So, are you seeing more intermodal-to-truck conversion, from the rail back to the highway? And if so, have you lost any business? Or are you agnostic, given your full suite of service offerings?

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

We are completely agnostic on that. We offer the customer intermodal and over the road, and give options to the customer -- whatever the customer wants to do, that's fine by us. We are just trying to serve the customer in the context of a long-term relationship.

With respect to your question, are we seeing a lot of conversion going from intermodal back to truck. We are not seeing a lot of that. We are seeing some of that, but we are not seeing a lot of that. We play mostly in the contractual business, not the spot business on intermodal. I think you see a lot more of the spot intermodal conversion going back to truck; it's more opportunistic. But on the contract, most of our customers are big customers, and they are managing very large supply chains, and they have a small percent on intermodal for the long-haul, particularly with cross-border Mexico. And they are mainly going with intermodal not just to save cost, but to have long-term access to capacity, which we provide them.

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

Okay; and lastly, Brad, if I recall correctly, a lot of the legacy Pacer business was tagged to the auto industry, and that seems to be doing pretty well. Is that helping you offset some of the other general intermodal weakness?

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

It is helping us, but in general the rail is taking pricing up, and trucking capacity being ample, and truck rates low, it is not enough to offset that whatsoever.

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

Okay, thanks so much for your time this morning. Take care.

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

Thank you.

Operator

Todd Fowler, KeyBanc Capital Markets.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Great, thanks, good morning, everyone.

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

Good morning.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

With the first-quarter results, it sounds like that they trended a little ahead of plan. Was there anything that was unusual in the first quarter that may not be re-occuring into the second quarter? And then, how should we think about the progression of EBITDA into the second quarter, either sequentially, or as we think about it as kind of a percent of the full year?

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

Legal, it was just some higher activity in the quarter, nothing of note, little things, all different pieces. And I think the SG&A for corporate will say the same, as we outlined in the beginning of the year, at $95 million to $105 million. I think you asked on the seasonality of EBITDA -- is that what you asked?

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Yes, on the strength -- I was actually thinking more things that went in your favor. I know that you talked about the legal earlier on the call. I was just trying to get a sense, it seem like from the commentary that 1Q was stronger than what was anticipated. So I was trying to get a sense of anything that impacted 1Q results on the favorable side that may not be re-occuring. And yes, for 2Q I'm trying to think about, how do we think about either a sequential progression off of 1Q? Or how do we think about 2Q relative to the full year?

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

1Q, there's nothing really of note; it really is a low seasonal quarter, as typical. Might be a little higher percentage of the year than -- what is typical might be more like 20%. It's usually 19% to 20%, maybe it's like 20%. Second quarter could be around 26% of the year. Our third quarter will be our strongest quarter, more like 28% of the year. And then fourth quarter will make up the rest.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. That helps.

Then I guess just back to the conversation on the cadence of improvement within LTL. You've got the $90 million here, year to date, and you picked up another $40 million from the last time that you gave an update on LTL. Does that slow down a little bit, now that you are through -- I don't want to say some of the low-hanging fruit, because maybe that's not the right way to term it -- but how do we think about the continued improvement within LTL as you move towards the expected cost savings?

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

It's just what you said: continuous improvement. Continuous means we don't stop at it. We look at every single -- by the way, that's not just in LTL. We have a transformation project globally, and soon we will be announcing a chief transformation officer that we've hired that we are not able to announce it publicly yet, but we will shortly, and is going to be in charge of that project. A very strong operator. And that's the whole plan, is to look at these $14 billion of expenses we've got all around the planet, and making sure that we are paying the right, fair price for the quantity of those services that we're procuring.

And procurement -- we're at very early stage on that. And it is amazing when you drill down into the global organization and you look at just a specific event, like packaging, or trailers, or material-handling equipment. We spend $112 million a year on packaging. We spend $71 million in material-handling equipment. We spend $60 million a year on tires. When you go down the whole list of truck, of tractors, of trailers, of fuel, of office supplies, of temporary labor, of travel management. We have many ways of large spends where we are spending tens or hundreds of millions of dollars a year, and centralizing that, doing that on a global sourcing basis -- enormous opportunity. That's going to take a couple of years to really execute on a complete basis. It's very early stages there.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

I understand that, Brad, but maybe I did not ask the question the right way.

When I think about achieving the $90 million of cost savings right now on the LTL side, relative to the $190 million to $210 million that you've laid out -- I understand that it's a process that you're going to be continuing to improve. I'm trying to think about the magnitude of savings that you will be realizing in the calendar second quarter, the calendar third quarter. I'm trying to think about, does the $90 million, that run rate, kind of slow down a little bit based on what you've achieved to date?

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

That should continue to improve. The overall reported for 2016 should continue to be somewhere in that $70 million to $80 million of reported savings in the year. We'll obviously have had a run rate much higher than that at the end of the year, but on the average, because the $90 million that we just got onto is actually this week. The truckload bid went into effect as of Monday of this week.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. That helps. And then maybe just last small one for clarification.

I think it is very helpful that you've continued to give the operating statistics for LTL, and I know that obviously we don't see all the line items, but it is helpful to have the statistics from a comparison standpoint. But when I think about the OR, the 95.6% previously reported for 1Q of 2015 versus the 92.9%, are there differences in allocation of corporate expenses? I would just think that, given the differences in the Company structure, how comparable are those two numbers between the predecessor company and the way they are currently being reported?

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

They are completely comparable, apples to apples, clean comparisons between the last and this.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Perfect, good job on that. Thank you very much for the time this morning.

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

Thank you.

Operator

Jason Seidl, Cowen and Company.

Jason Seidl - *Cowen Securities LLC - Analyst*

Thanks a lot guys. Morning.

Want to go back again to LTL. I guess it is beating a strong horse here. We gave some numbers for the yields, ex fuel. Is that apples to apples? Because there seems to be a lot of movement around -- looks like you guys are getting rid of some of the national account business -- is that an apples to apples number, or is that an all-in number?

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

Is what apples to apples? Sorry, Jason?

Jason Seidl - *Cowen Securities LLC - Analyst*

Your yields, ex fuel, is that like business to like business, or is that just total?

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

It is total. It is a pure, clear, transparent comparison between last year's quarter and this year's quarter. I don't know how to say it any more clearly than that

Jason Seidl - *Cowen Securities LLC - Analyst*

Okay, and what are you signing new contracts for today, right now in the marketplace?

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

Up about 3.5%

Jason Seidl - *Cowen Securities LLC - Analyst*

Okay. And you talked a little bit about Conway's line haul and that you put it out to bid. What was your average rate increase, or decrease, if you will, on that line haul business?

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

All in all, it was a $550 million spend, and it's now a little over a $500 million spend.

Jason Seidl - *Cowen Securities LLC - Analyst*

So you guys did very--

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

We did okay. We basically got it to market. We got it to today's market prices. It was over the market; now it is at the market.

Jason Seidl - *Cowen Securities LLC - Analyst*

Okay. That's good color.

And looking at the trends in 2Q here -- you know you had a strong 1Q; are you guys projecting profitability for 2Q? Given such a strong 1Q?

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

Yes, we are. We will be net income positive in the quarter.

Jason Seidl - *Cowen Securities LLC - Analyst*

Perfect. Those are all my questions, guys.

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

Thank you, sir.

Operator

Donald Broughton, Avondale Partners.

Donald Broughton - *Avondale Partners - Analyst*

Good morning, gentlemen.

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

Good morning.

Donald Broughton - *Avondale Partners - Analyst*

Real quick, a couple things. If memory serves, you said that when you first acquired XPO LTL, they were spending about $225 million on IT outsourcing, is that right?

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

Yes, but now we are spending less than that, because we've got some reductions.

Donald Broughton - *Avondale Partners - Analyst*

That's what I was going to ask, is -- you said you had intended to both bring some in-house as well as re-bid to achieve some cost savings, and I think I heard you say just a minute ago, that rebid had yielded some cost savings. Can you give us kind of a run rate on where you are, and do you have a goal for what IT outsourcing is going to be for XPO LTL by the end of 2016?

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

Overall, the $225 million has gone down. We took out -- we looked at first, the headcount, and we did do a reduction at the end of last year and early this year. We are right now addressing the contracts, but then at the same time we are investing in technology, we are investing in resources for pricing and for optimization of line haul and the pickup and delivery. So it is still a little over $200 million, but we think we can get it below that.

Donald Broughton - *Avondale Partners - Analyst*

But you don't have a goal, Scott?

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

We said we'd laid it out, somewhere around $30 million, $40 million of cost takeout in technology will be included in the $170 million to $210 million.

Donald Broughton - *Avondale Partners - Analyst*

Okay. Then, on another topic: if it is possible, just so we can get an apples to apples comparison -- we are certainly seeing it throughout the rest of the industry -- on truck brokerage, is it possible to give us on some kind of a same-store sales basis, what net revenue margins are doing both on a year-over-year basis and sequentially?

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

Net revenue margins are around an all-time high, in the very high teens, but we don't have our hopes up that's going to be sustained long-term. Why? Because the majority of our business, the vast majority of our business, is now on contract. There is a huge -- I'm not telling you anything you don't know -- but there's a huge difference between the contract market and the spot market. And a lot of our customers are understandably rebidding their freight to take advantage of the lower prices. So we believe that differential between spot and contract is going to tighten up, and that will come at the expense of margin.

Having said that, I'm not going to apologize for the truck brokerage guys. They are doing a great job, where they've got a very high win rate -- it's about 60% right now. They are doing a lot of cross-selling. Having assets as part of the mix is opening up the door. They are doing drop trailer business, which we were unable to do before. The number of bids that we are processing has literally more than doubled on a year-over-year basis. So a lot of good stuff going on in truck brokerage. But I would say the margins will have to come down over the next few quarters.

Donald Broughton - *Avondale Partners - Analyst*

But you don't have any specific numbers?

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

It was up around 200 basis points year over year.

Donald Broughton - *Avondale Partners - Analyst*

And sequentially, you saw improvement as well?

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

Sequentially, it was about the same as fourth quarter.

Donald Broughton - *Avondale Partners - Analyst*

Great, fantastic, thank you.

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

Operator, we have time for one more question.

Operator

Nate Brochmann, William Blair.

Nate Brochmann - *William Blair & Company - Analyst*

Thanks for squeezing me in at the end; I appreciate it.

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

No problem.

Nate Brochmann - *William Blair & Company - Analyst*

Wondered if -- two quick things.

One, obviously we talked about being there for the customer in whatever mode, and I've always been a big believer on the multimodal solution. Can you talk about, just in terms of the customer acceptance of that, in terms of whether that feels like it is gaining momentum, or that theory is still just for a few selected large customers who really need it and appreciate the value within that supply-chain help?

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

It is the former, not the latter. It is accepted by the large customers in particular, and it is gaining momentum. Of course, you've been writing for that for a couple years now. We completely agree with that thesis; we see it in our business. Last week I was in Orlando, I was on a panel at NASSTRAC, and part of the discussion, I talked about how our conversation with customers is not about selling one specific service offering.

It is about understanding their supply chain on a global basis, and particularly the larger customers that have transportation logistics spends of hundreds of millions of dollars or several billion dollars, and then understanding every part of it, from air, ocean, rail, truck; from Shanghai into someone's apartment building in Manhattan -- figuring out where are the pain points? Where is it not working well? Where can we take out tens of millions of dollars of annual cost from our customers' supply chain spend?

That value proposition is definitely resonating. I had 22 customer meetings after that panel discussion, and it came up in almost every single one of those customer meetings. And we have lots of top-to-top discussions going on with many customers in Europe and here -- and in Asia, for that matter, as well -- about just this subject. It is definitely growing.

Operator, we're going to have to call it quits here. We once again answered un-succinctly and went over the 9:30 opening bell. But we appreciate everyone's attention.

This was a great quarter. We had $3.5 billion of revenue, and $249 million of adjusted EBITDA. We had 11.9% organic revenue growth. We had 28.3% net revenue margin, compared to 21.6% a year ago. So you've got revenue going up, you've got margins going up, higher-than-expected logistics results; you had volume growth in e-commerce and high tech, strong performance in Europe, very strong performance in LTL. Almost across the board, we had great performance.

So thank you to our employees, and we look forward to speaking with the shareholders in another three months. Have a good day.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.