UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 8, 2023

XPO, INC.

(Exact name of registrant as specified in its charter)

Delaware	001-32172	03-0450326
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

Five American Lane, Greenwich, Connecticut 06831
(Address of principal executive offices)

(855) 976-6951
(**Registrant's telephone number, including area code)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $0.001 per share	XPO	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 7.01. Regulation FD Disclosure.

On February 8, 2023, XPO, Inc. (the "Company") released a slide presentation expected to be used by the Company in connection with certain future investor presentations. Copy of the slide presentation is attached as Exhibit 99.1 to this Current Report on Form 8-K.

The slide presentation should be read together and with the Company's filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

The information furnished in this Item 7.01, including Exhibit 99.1, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Exchange Act or the Securities Act of 1933, as amended, except to the extent that the registrant specifically incorporates any such information by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Exhibit Description
99.1	Investor Presentation, dated February 8, 2023
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 8, 2023	XPO, INC.
	By: /s/ Carl D. Anderson II
	Carl D. Anderson II
	Chief Financial Officer

Exhibit 99.1

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 document to the most directly comparable measure under GAAP, which are set forth in the financial tables attached to this document.

This document contains the following non-GAAP financial measures: adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") on a consolidated basis; adjusted net income from continuing operations attributable to common shareholders and adjusted diluted earnings from continuing operations per share ("adjusted EPS"); free cash flow; adjusted EBITDA (excluding gains on real estate transactions) for our North American less-than-truckload segment; adjusted operating income (including and excluding gains on real estate transactions and excluding gains on real estate transactions and pension income) for our North American less-than-truckload segment; adjusted operating ratio (including and excluding gains on real estate transactions and excluding gains on real estate transactions and pension income) for our North American less-than-truckload segment; net leverage; net debt; and return on invested capital ("ROIC") for our North American less-than-truckload segment.

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, adjusted net income from continuing operations attributable to common shareholders and adjusted EPS include 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, stock-based compensation, 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 these non-GAAP financial measures in making financial, operating and planning decisions and evaluating XPO's and each business segment's ongoing performance.

We believe that free cash flow is an important measure of our ability to repay maturing debt or fund other uses of capital that we believe will enhance stockholder value. We calculate free cash flow as net cash provided by operating activities from continuing operations, less payment for purchases of property and equipment plus proceeds from sale of property and equipment. 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), goodwill impairment charge, tax impacts and other adjustments as set out in the attached tables 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 adjusted net income from continuing operations attributable to common shareholders and adjusted EPS improve the comparability of our operating results from period to period by removing the impact of certain costs and gains that management has determined are not reflective of our core operating activities, including amortization of acquisition-related intangible assets, transaction and integration costs, restructuring costs and other adjustments as set out in the attached tables. We believe that adjusted operating income and adjusted operating ratio improve the comparability of our operating results from period to period by (i) removing the impact of certain transaction and integration costs and restructuring costs, as well as amortization expenses and (ii) including the impact of pension income incurred in the reporting period as set out in the attached tables. We believe that net leverage and net debt are important measures of our overall liquidity position and are calculated by removing cash and cash equivalents from our reported total debt and reporting net debt as a ratio of our year-end reported adjusted EBITDA. We believe that ROIC is an important metric as it measures how effectively we deploy our capital base. ROIC is calculated as net operating profit after tax ("NOPAT"), divided by invested capital. NOPAT is calculated as adjusted EBITDA less corporate costs, depreciation expense, pension income, real estate gains and cash taxes plus operating lease interest. Invested capital is calculated as operating assets less non-debt liabilities.

With respect to our financial targets for the six-year period 2021 through 2027 of North American less-than-truckload adjusted EBITDA CAGR, adjusted operating ratio and ROIC, a reconciliation of these non-GAAP measures to the corresponding GAAP measures is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that we exclude from these non-GAAP target measures. The variability of these items may have a significant impact on our future GAAP financial results and, as a result, we are unable to prepare the forward-looking statement of income and statement of cash flows prepared in accordance with GAAP that would be required to produce such a reconciliation.

Forward-looking statements

This document 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 statements relating to our full year 2023 expectations of gross capex of $500 million to $600 million, interest expense of $185 million to $195 million, pension income of approximately $20 million, effective tax rate of 24% to 26%, and diluted share count of 117 million, and our six-year period 2021 through 2027 financial targets of North American LTL revenue CAGR of 6% to 8%, adjusted EBITDA CAGR of 11% to 13%, adjusted operating ratio improvement of at least 600 bps, and return on invested capital (ROIC) above 30%. 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 our ability to achieve the expected benefits of the spin-off of RXO, 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, including supply chain disruptions due to plant and port shutdowns and transportation delays, the global shortage of certain components such as semiconductor chips, strains on production or extraction of raw materials, cost inflation and labor and equipment shortages, which may lower levels of service, including the timeliness, productivity and quality of service, and government responses to these factors; our ability to align our investments in capital assets, including equipment, service centers, and warehouses and other network facilities, to our customers' demands; our ability to implement our cost and revenue initiatives; the effectiveness of our action plan, and other management actions, to improve our North American LTL business; our ability to benefit from a sale or other divestiture of one or more business units; our ability to successfully integrate and realize anticipated synergies, cost savings and profit improvement opportunities with respect to acquired companies; goodwill impairment, including in connection with a business unit sale or other divestiture matters related to our intellectual property rights; fluctuations in currency exchange rates; fuel price and fuel surcharge changes; natural disasters, terrorist attacks, wars or similar incidents, including the conflict between Russia and Ukraine and increased tensions between Taiwan and China; the impact of the prior spin-offs of GXO and RXO on the size and business diversity of our company; the ability of the spin-off of a business unit 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 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; litigation; risks associated with our self-insured claims; risks associated with defined benefit plans for our current and former employees; the impact of potential sales of common stock by our chairman; governmental regulation, including trade compliance laws, as well as changes in international trade policies, sanctions 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 document 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 document 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.

Strong fourth quarter and full year 2022 performance

Q4 Highlights

- $1.8 billion of revenue, up 3%, and $262 million of adjusted EBITDA, up 38% YoY
- $0.98 adjusted diluted earnings per share, up 53% YoY
- $107 million free cash flow, including gross capex of $167 million
- LTL tonnage up 0.9% and shipment count up 1.5% YoY, both trending ahead of typical seasonality

FY Highlights

- $7.7 billion of revenue, up 7%, and $997 million of adjusted EBITDA, up 23% YoY
- $3.53, adjusted diluted earnings per share, up 82% YoY
- 2.1x net debt leverage at YE 2022, from 2.7x at YE 2021[1]
- 7% improvement in LTL yield, ex fuel, and 40 bps improvement in adjusted operating ratio to 83.9%, ex real estate

Delivered over $1 billion of LTL adjusted EBITDA, exceeding 2022 guidance

[1] 2021 on a previously reported basis, prior to the RXO spin-off
Refer to "Non-GAAP Financial Measures" section on page 2 and Appendix for related information

Fourth quarter 2022 summary of results

REVENUE	$1.83 billion
NET LOSS[1]	$36 million
DILUTED LOSS PER SHARE[2]	$0.31
ADJUSTED NET INCOME[1]	$113 million
ADJUSTED DILUTED EPS[2]	$0.98
ADJUSTED EBITDA	$262 million
CASH FLOW FROM OPERATING ACTIVITIES[3]	$196 million
FREE CASH FLOW	$107 million

BY SEGMENT

NORTH AMERICAN LTL	
REVENUE	$1.09 billion
ADJUSTED EBITDA	$252 million
ADJUSTED OPERATING RATIO[4]	87.1%
EUROPEAN TRANSPORTATION	
REVENUE	$738 million
ADJUSTED EBITDA	$39 million

[1] Net loss and net income from continuing operations attributable to common shareholders; net loss includes: i) a $64 million non-cash goodwill impairment charge related to a change in the company's segment structure following the RXO spin-off; ii) $42 million of transaction and integration costs; and iii) $35 million of restructuring charges
[2] Diluted earnings/loss from continuing operations per share
[3] Net cash provided by operating activities from continuing operations
[4] Excludes a $55 million gain on the sale of real estate in Q4 2022, compared with a $35 million gain in Q4 2021
Refer to the "Non-GAAP Financial Measures" section on page 2 and reconciliations for related information

Full year 2022 summary of results

REVENUE	$7.72 billion
NET INCOME[1]	$184 million
DILUTED EPS[2]	$1.59
ADJUSTED NET INCOME[1]	$408 million
ADJUSTED DILUTED EPS[2]	$3.53
ADJUSTED EBITDA	$997 million
CASH FLOW FROM OPERATING ACTIVITIES[3]	$824 million
FREE CASH FLOW	$391 million
NET LEVERAGE	2.1x
TOTAL LIQUIDITY[4]	$930 million

BY SEGMENT

NORTH AMERICAN LTL	
REVENUE	$4.65 billion
ADJUSTED EBITDA	$1.01 billion
ADJUSTED OPERATING RATIO[5]	83.9%

EUROPEAN TRANSPORTATION	
REVENUE	$3.07 billion
ADJUSTED EBITDA	$169 million

[1] From continuing operations attributable to common shareholders
[2] Diluted earnings from continuing operations per share
[3] Net cash provided by operating activities from continuing operations
[4] Includes $470 million of borrowing capacity and $460 million of cash and cash equivalents as of December 31, 2022
[5] Excludes a $55 million gain on the sale of real estate in full year 2022, compared with a $62 million gain in full year 2021
Refer to the "Non-GAAP Financial Measures" section on page 2 and Appendix for related information

Why invest in XPO?

1

An LTL leader in a bedrock industry with disciplined pricing and deep competitive moat

2

Critical nationwide LTL network coverage, with in-house sources of capacity

3

Data-driven levers of profit growth embedded in proprietary technology

4

High-ROIC business with compelling outlook and well-defined growth strategy

5

Results-oriented leaders with long history of transforming operations

LTL targets for growth, profitability and efficiency, 2021-2027

Revenue CAGR of 6% to 8%

Adjusted EBITDA CAGR of 11% to 13%

Adjusted operating ratio improvement of at least 600 bps

Note: Targets are for North American LTL only and assume 8% to 12% gross capex as a percent of revenue, on average, over the next several years

Note: Refer to Appendix for 2021 base year used to calculate adjusted EBITDA growth and adjusted operating ratio targets; for adjusted EBITDA growth and adjusted operating ratio, base year and all forecast years exclude gains on real estate sales and include incremental corporate costs; for adjusted operating ratio, base year and all forecast years also exclude pension income

Refer to "Non-GAAP Financial Measures" section on page 2 for additional information

Strongly positioned in North American LTL, an industry with rock-solid credentials

XPO is one of the largest carriers in a compelling industry for investment

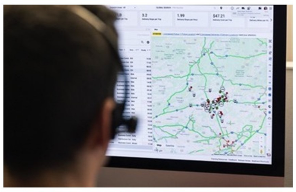
6% less-than-truckload (LTL) industry revenue CAGR in North America

- $51 billion bedrock industry for the US economy; with 76% of share held by top 10 LTL players
- Diverse demand across verticals, with secular growth drivers
- Attractive pricing environment, with industry pricing positive YoY each year for over a decade
- Strong service quality is key gating factor for share gains
- Industry terminal capacity has stayed nearly flat for a decade, while demand had trended up[1]

Sources: Third-party research; company filings
Note: revenue CAGR is for period 2010-2022E
[1] US terminals, includes ARCB, FDX, ODFL, SAIA, XPO and YELL; total number of service centers includes zones with doors

XPO

XPO moves LTL freight over 750 million miles a year for customers

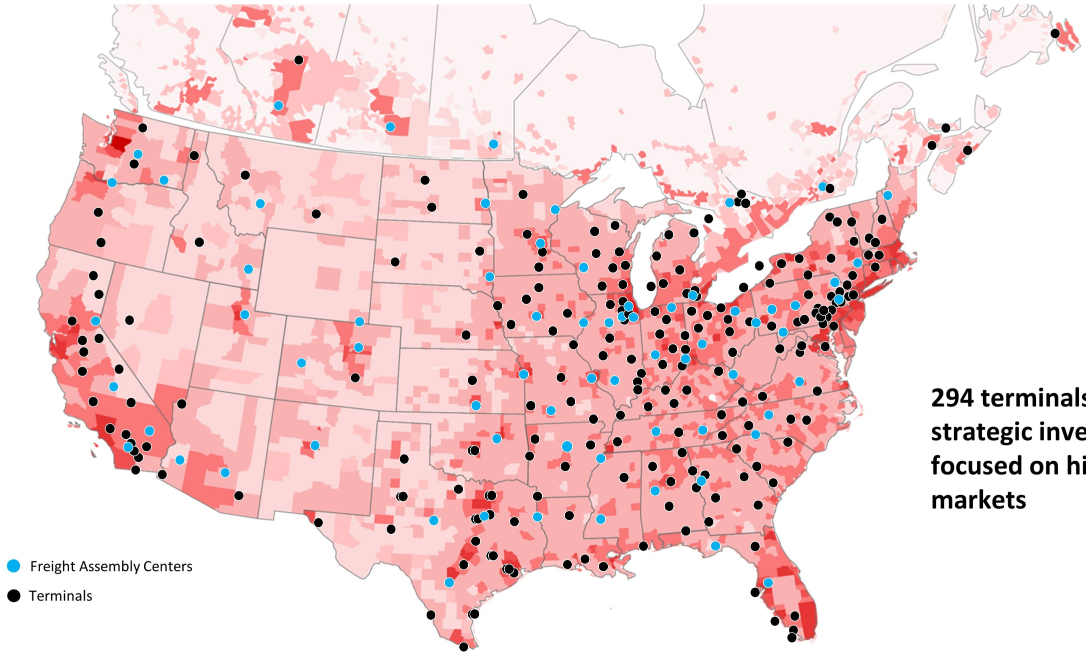


8% 2021 industry share	**$4.6 billion** annual revenue	**18 billion** pounds of freight per year	**620 million** linehaul miles run per year
27,000 accounts served	**>12 million** shipments per year	**294** terminals	**22,000** employees
13,000 drivers	**28,000** trailers	**34%** return on invested capital	**9%** annual revenue allocated to gross capex

Note: Company data for North American LTL segment as of December 31, 2022, unless otherwise noted
Refer to "Non-GAAP Financial Measures" section on page 2 and Appendix for related information

XPO

National scale with hub-and-spoke coverage of 99% of US zip codes



294 terminals, with strategic investments focused on high-demand markets

Note: XPO also provides service to Alaska, Hawaii and the Caribbean (not shown)

XPO

Strategic mix of blue-chip customers and strong base of local accounts

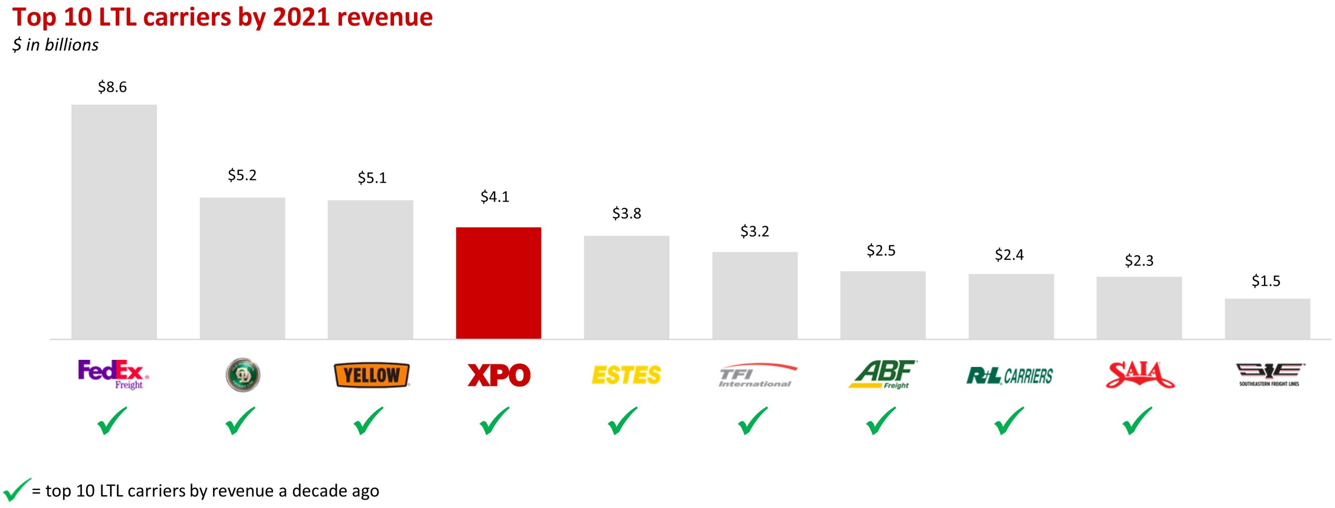
27,000
customers as of December 31, 2022

2% revenue
from largest customer, low concentration risk

16-year
average tenure of top 10 customers

Selected customers of XPO

XPO is well-positioned to gain share in a stable competitive landscape



9 largest carriers were also in top 10 a decade ago

Sources: Third-party research; company filings

LTL growth plan and levers

Executing all parts of LTL 2.0 growth plan with strong momentum

► **Invest in expanding network capacity ahead of demand**	• Expanding linehaul fleet with in-house trailer manufacturing • Investing in network capacity of 900 net new doors • Training drivers in-house at 130 XPO driver schools • Expanding sales organization
► **Provide best-in-class service at scale to gain market share**	• Building a world-class service organization with top satisfaction scores • Incenting terminal teams and dockworkers for excellence • Continually improving service metrics to unlock more volume
► **Optimize pricing and operational efficiency through proprietary technology**	• Increasing win rate and optimizing margin on contractual pricing • Capturing local account business with dynamic pricing • Insourcing more third-party linehaul miles at optimal pace • Boosting productivity of pickup-and-delivery and dock operations

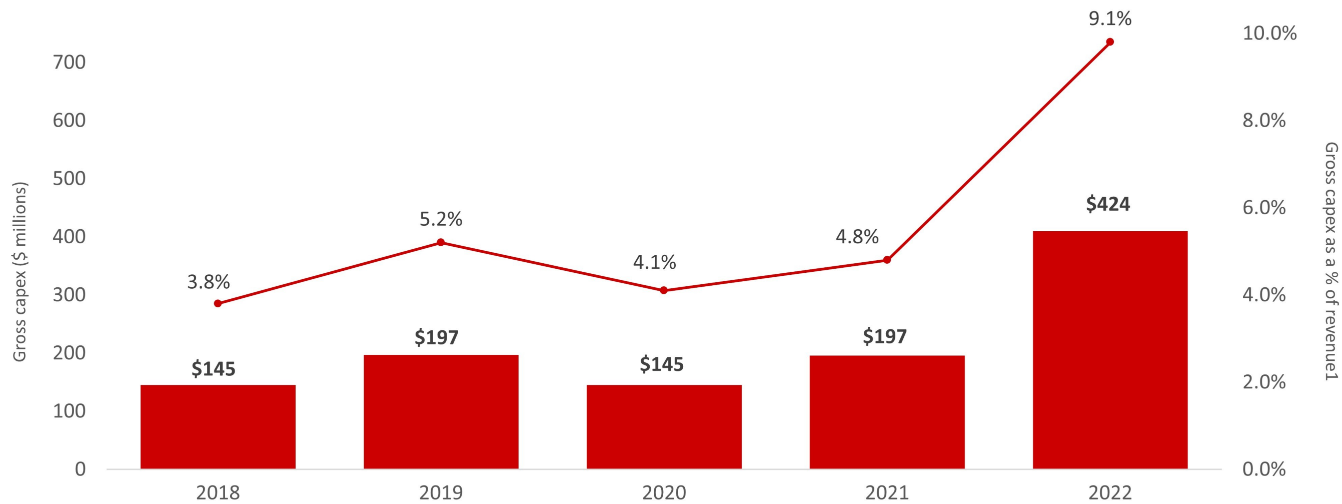
Drivers of 11% to 13% adjusted EBITDA CAGR in North American LTL, 2021-2027

Expected components and contributions

Combination of volume gains + pricing over inflation	▶	**6% to 7%**
Operating costs optimized through technology	▶	**3% to 4%**
Linehaul insourced from third parties	▶	**2%**
		11% to 13%

XPO

Disciplined investing in high-return projects



Tractor age in years As of December 31	2018	2019	2020	2021	2022
	5.3	*5.1*	*5.4*	*5.9*	*5.9*

Growth plan anticipates gross capex of 8% to 12% of revenue on average for the next several years, and ROIC above 30%[2]

[1] Excludes XPO's trailer manufacturing operation
[2] ROIC for six-year period 2021 through 2027

XPO

XPO's in-house capabilities are distinct competitive advantages

Trailer manufacturing facility in Arkansas

- **Expanded linehaul trailer fleet by 4,700 units or 10% in 2022**
- Self-sufficient for critical component of fleet capacity, instead of relying on OEMs
- Added second production line in January 2022 and third line in December 2022
- Maintains OEM parts inventories for maintenance shops in the XPO network

National footprint of 130 commercial driver training schools

- **Trained over 1,700 drivers in 2022, nearly double the 2021 count**
- Unique advantage in combatting industrywide driver shortage
- XPO-trained drivers historically have better safety records and less turnover
- Dockworker-to-driver career paths and upskilling options enhance retention

Valuable ability to control capacity and timing to best meet demand

XPO is winning business as a top carrier for service quality, based on customer experience

17% better employee retention

Highest employee satisfaction score in a decade at YE 2022

66% better damage frequency

YoY Q4 improvement in incidence of shipment damage

47% of drivers have 10+ years tenure

Experienced drivers are the #1 asset for service quality

100+ graduates in field management

Strong leadership training channels leverage talent

54% trainee diversity in field management

DE&I initiatives identify and advance promising candidates

Note: Data points are for full year 2022 unless otherwise specified

XPO


Appendix

European Transportation segment

XPO's unique pan-European transportation platform has leading positions in key geographies

- In France: the #1 full truckload (FTL) broker and the #1 pallet network (LTL) provider
- In Iberia (Spain and Portugal): the #1 FTL broker and the #1 LTL provider
- In the UK: a top-tier dedicated truckload provider, and the largest single-owner LTL network
- Serves a diverse base of customers with consumer, trade and industrial markets, including many sector leaders that have long-tenured relationships with XPO
- Range of services includes dedicated truckload, LTL, FTL brokerage, managed transportation, last mile and freight forwarding, as well as multimodal solutions that are customized to reduce CO_2e emissions

XPO

Financial reconciliations

The following table reconciles XPO's net income (loss) from continuing operations attributable to common shareholders for the periods ended December 31, 2022 and 2021 to adjusted EBITDA for the same periods.

Reconciliation of net income (loss) from continuing operations to adjusted EBITDA

$ in millions (unaudited)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Change %	Years Ended December 31, 2022	Years Ended December 31, 2021	Change %
Net income (loss) from continuing operations attributable to common shareholders	$ (36)	$ 47	-176.6%	$ 184	$ 96	91.7%
Debt extinguishment loss	13	-		39	54	
Interest expense	32	35		135	211	
Income tax provision (benefit)	8	(1)		74	11	
Depreciation and amortization expense	103	96		392	385	
Goodwill impairment (1)	64	-		64	-	
Transaction and integration costs	42	11		58	36	
Restructuring costs	35	3		50	19	
Other	1	(1)		1	-	
Adjusted EBITDA	$ 262	$ 190	37.9%	$ 997	$ 812	22.8%

[1] The goodwill impairment relates to the European Transportation reportable segment

Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

Financial reconciliations (cont.)

The following table reconciles XPO's net income (loss) from continuing operations attributable to common shareholders for the periods ended December 31, 2022 and 2021 to adjusted net income from continuing operations attributable to common shareholders for the same periods.

Reconciliation of adjusted net income and adjusted diluted earnings per share

$ in millions, except per-share data (unaudited)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Years Ended December 31, 2022	Years Ended December 31, 2021
Net income (loss) from continuing operations attributable to common shareholders	$ (36)	$ 47	$ 184	$ 96
Debt extinguishment loss	13	-	39	54
Unrealized loss on foreign currency option and forward contracts	-	-	-	1
Amortization of acquisition-related intangible assets	14	14	54	55
ABL amendment cost	-	-	-	1
Goodwill impairment (1)	64	-	64	-
Transaction and integration costs	42	11	58	36
Restructuring costs	35	3	50	19
Income tax associated with the adjustments above (2)	(19)	-	(41)	(35)
Discrete and other tax-related adjustments (3)	-	(1)	-	(5)
Adjusted net income from continuing operations attributable to common shareholders	$ 113	$ 74	$ 408	$ 222
Adjusted diluted earnings from continuing operations per share	$ 0.98	$ 0.64	$ 3.53	$ 1.94
Weighted-average common shares outstanding				
Diluted weighted-average common shares outstanding	115	116	116	114
Incremental dilutive effect of stock-based awards	1	-	-	-
Adjusted diluted weighted-average common shares outstanding	116	116	116	114

[1] The goodwill impairment relates to the European Transportation reportable segment

[2] The income tax rate applied to reconciling items is based on the GAAP annual effective tax rate, excluding discrete items and contribution- and margin-based taxes

[3] Discrete tax items reflect a tax benefit related to a tax planning initiative that resulted in the recognition of a long-term capital loss offset by tax expense due to valuation allowances that were recognized as a result of the spin-off of our logistics business

Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

Financial reconciliations (cont.)

The following table reconciles XPO's net cash provided by operating activities from continuing operations for the periods ended December 31, 2022 and 2021 to free cash flow for the same periods.

Reconciliation of cash flows from operating activities of continuing operations to free cash flow

$ in millions (unaudited)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Years Ended December 31, 2022	Years Ended December 31, 2021
Net cash provided by operating activities from continuing operations	$ 196	$ 75	$ 824	$ 490
Payment for purchases of property and equipment	(167)	(90)	(521)	(269)
Proceeds from sales of property and equipment	78	60	88	131
Free cash flow	$ 107	$ 45	$ 391	$ 352

Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

Financial reconciliations (cont.)

We believe that net leverage and net debt are important measures of our overall liquidity position and are calculated by removing cash and cash equivalents from our reported total debt and reporting net debt as a ratio of our adjusted EBITDA. The following tables calculate XPO's net leverage and net debt for the periods presented.

Reconciliation of net leverage and net debt

$ in millions
(unaudited)

	December 31, 2022	December 31, 2021 As Reported [1]
Reconciliation of Net Debt		
Total debt	$ 2,532	$ 3,572
Less: Cash and cash equivalents	460	260
Net debt	$ 2,072	$ 3,312

	Year Ended December 31, 2022	Year Ended December 31, 2021 As Reported [1]
Reconciliation of Net Leverage		
Net debt	$ 2,072	$ 3,312
Adjusted EBITDA	$ 997	$ 1,239
Net leverage	2.1x	2.7x

[1] Represents amounts previously reported for the year ended December 31, 2021, prior to the RXO spin-off
Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

Financial reconciliations (cont.)

The following table reconciles XPO's operating income attributable to its North American less-than-truckload segment to adjusted operating income, adjusted operating ratio and adjusted EBITDA for the respective periods shown in the table below.

Reconciliation of North American less-than-truckload adjusted operating ratio and adjusted EBITDA

$ in millions (unaudited)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Years Ended December 31, 2022	Years Ended December 31, 2021
Revenue (excluding fuel surcharge revenue)	$ 851	$ 840	$ 3,631	$ 3,493
Fuel surcharge revenue	242	166	1,014	632
Revenue	1,093	1,006	4,645	4,125
Salaries, wages and employee benefits	521	474	2,079	1,909
Purchased transportation	106	118	499	452
Fuel and fuel-related taxes	103	75	424	282
Other operating expenses	102	123	601	556
Depreciation and amortization	64	58	239	227
Rents and leases	24	21	92	79
Transaction and integration costs	1	-	3	1
Restructuring costs	-	-	5	-
Operating income	172	137	703	619
Operating ratio (1)	84.2%	86.4%	84.9%	85.0%
Other income (2)	15	15	60	58
Amortization expense	8	8	34	34
Transaction and integration costs	1	-	3	1
Restructuring costs	-	-	5	-
Adjusted operating income	$ 196	$ 160	$ 805	$ 712
Adjusted operating ratio (3)	82.0%	84.2%	82.7%	82.7%
Depreciation expense	56	50	205	193
Other	-	-	2	1
Adjusted EBITDA (4)	$ 252	$ 210	$ 1,012	$ 906
Gains on real estate transactions	(55)	(35)	(55)	(62)
Adjusted EBITDA, excluding gains on real estate transactions	$ 197	175	$ 957	$ 844
Adjusted operating income, excluding gains on real estate transactions	$ 141	$ 125	$ 750	$ 650
Adjusted operating ratio, excluding gains on real estate transactions (3)	87.1%	87.7%	83.9%	84.3%

Effective in the fourth quarter 2022, the financial results of the Company's trailer manufacturing operations are reported in the North American Less-Than-Truckload segment and prior period results have been recast to reflect the current presentation

[1] Operating ratio is calculated as (1 – (operating income divided by revenue))

[2] Other income primarily consists of pension income

[3] Adjusted operating ratio is calculated as (1 – (adjusted operating income divided by revenue)); adjusted operating margin is the inverse of adjusted operating ratio

[4] Adjusted EBITDA is used by the company's chief operating decision maker to evaluate segment profit (loss) in accordance with ASC 280

Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

XPO

Financial reconciliations (cont.)

The following table reconciles XPO's operating income attributable to its North American less-than-truckload segment to adjusted operating income, adjusted operating ratio and adjusted EBITDA for the respective periods shown in the table below.

Reconciliation of North American less-than-truckload adjusted operating ratio and adjusted EBITDA reflecting incremental corporate costs

$ in millions (unaudited)	Year Ended December 31, 2022	Three Months Ended December 31, 2022	Three Months Ended September 30, 2022	Three Months Ended June 30, 2022	Three Months Ended March 31, 2022	Year Ended December 31, 2021
Revenue (excluding fuel surcharge revenue)	$ 3,631	$ 851	$ 931	$ 949	$ 900	$ 3,493
Fuel surcharge revenue	1,014	242	274	291	207	632
Revenue	4,645	1,093	1,205	1,240	1,107	4,125
Salaries, wages and employee benefits	2,079	521	538	524	496	1,909
Purchased transportation	499	106	123	134	136	452
Fuel and fuel-related taxes	424	103	107	120	94	282
Other operating expenses	601	102	170	161	168	556
Depreciation and amortization	239	64	60	59	56	227
Rents and leases	92	24	23	23	22	79
Transaction, integration and rebranding costs	3	1	-	2	-	1
Restructuring costs	5	-	2	-	3	-
Incremental corporate costs [(1)]	80	20	20	20	20	80
Operating income	623	152	162	197	112	539
Operating ratio [(2)]	86.6%	86.1%	86.6%	84.1%	89.9%	86.9%
Other income [(3)]	60	15	15	15	15	58
Amortization expense	34	8	9	9	8	34
Transaction, integration and rebranding costs	3	1	-	2	-	1
Restructuring costs	5	-	2	-	3	-
Adjusted operating income	$ 725	$ 176	$ 188	$ 223	$ 138	$ 632
Adjusted operating ratio [(4)]	84.4%	83.9%	84.4%	82.0%	87.5%	84.7%
Depreciation expense	205	56	51	50	48	193
Other	2	-	1	1	-	1
Adjusted EBITDA [(5)]	$ 932	$ 232	$ 240	$ 274	$ 186	$ 826
Gains on real estate transactions	(55)	(55)	-	-	-	(62)
Adjusted EBITDA, excluding gains on real estate transactions	$ 877	$ 177	$ 240	$ 274	$ 186	$ 764
Adjusted operating income, excluding gains on real estate transactions	$ 670	$ 121	$ 188	$ 223	$ 138	$ 570
Adjusted operating ratio, excluding gains on real estate transactions [(4)]	85.6%	88.9%	84.4%	82.0%	87.5%	86.2%
Pension income	(59)	(15)	(14)	(15)	(15)	(58)
Adjusted operating income, excluding gains on real estate transactions and pension income	$ 611	$ 106	$ 174	$ 208	$ 123	$ 512
Adjusted operating ratio, excluding gains on real estate transactions and pension income [(4)]	86.8%	90.3%	85.6%	83.2%	88.9%	87.6%

[1] The Company anticipates allocating incremental Corporate costs of ~$80 million for the full year 2023, beginning with ~$20 million in the first quarter

[2] Operating ratio is calculated as (1 – (operating income divided by revenue))

[3] Other income primarily consists of pension income

[4] Adjusted operating ratio is calculated as (1 – (adjusted operating income divided by revenue)); adjusted operating margin is the inverse of adjusted operating ratio

[5] Adjusted EBITDA is used by our chief operating decision maker to evaluate segment profit (loss) in accordance with ASC 280

Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

XPO

Financial reconciliations (cont.)

The following table calculates XPO's return on invested capital (ROIC) attributable to its North American less-than-truckload segment for the periods presented. We believe that ROIC is an important metric, as it measures how effectively we deploy our capital base. ROIC is calculated as net operating profit after tax (NOPAT), divided by invested capital. NOPAT is calculated as adjusted EBITDA less corporate costs, depreciation expense, real estate gains and cash taxes plus operating lease interest. Invested capital is calculated as operating assets less non-debt liabilities.

North American less-than-truckload return on invested capital

$ in millions
(unaudited)

Select income statement items	Year Ended December 31, 2022
Adjusted EBITDA	$ 1,012
(-) Corporate costs [(1)]	80
(-) Depreciation	205
(-) Pension income	59
(-) Real estate gains	55
(+) Operating lease interest [(2)]	12
(-) Cash taxes [(3)]	83
Net operating profit after tax (NOPAT)	$ 542

Select balance sheet items	As of December 31, 2022
Total assets (excluding intercompany and investment in affiliates)	$ 3,288
(-) Cash	(5)
(-) Goodwill and intangibles	1,024
Operating assets	2,269
Total liabilities (excluding intercompany)	1,119
(-) Short-term debt	18
(-) Operating lease liabilities	417
(-) Long-term debt	27
Non-debt liabilities	657
Invested capital	$ 1,612
Return on invested capital	34%

[1] XPO anticipates allocating incremental Corporate costs annually, with ~$80 million for full year 2023 beginning in the first quarter
[2] Operating lease interest is calculated as period end operating lease assets multiplied by XPO's incremental borrowing rate, net of tax
[3] Cash taxes is calculated as the ratio of the North American Less-Than-Truckload segment's adjusted EBITDA, excluding real estate gains, to XPO adjusted EBITDA, multiplied by XPO's cash paid for taxes
Refer to the "Non-GAAP Financial Measures" section on page 2 of this document

Full year 2023 planning assumptions

The company provided the following expectations for the full year 2023:

- Gross capex of $500 million to $600 million
- Interest expense of $185 million to $195 million
- Pension income of approximately $20 million
- Effective tax rate of 24% to 26%
- Diluted share count of 117 million