THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

XPO - Q4 2014 XPO Logistics Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 19, 2015 / 1:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Brad Jacobs *XPO Logistics, Inc. - CEO*

John Hardig *XPO Logistics, Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

Rob Salmon *Deutsche Bank - Analyst*

Allison Landry *Credit Suisse - Analyst*

Chris Weatherby *Citi - Analyst*

Bill Greene *Morgan Stanley - Analyst*

Kevin Sterling *BB&T Capital Markets - Analyst*

Todd Fowler *KeyBanc Capital Markets - Analyst*

John Mims *FBR Capital Markets - Analyst*

Donald Broughton *Avondale Partners - Analyst*

Jason Seidl *Cowen and Company - Analyst*

Casey Deak *Wells Fargo Securities - Analyst*

Jamie Clement *Macquarie - Analyst*

Jack Atkins *Stephens Inc. - Analyst*

David Campbell *Thompson Davis & Company - Analyst*

PRESENTATION

Operator

Welcome to the XPO Logistics fourth-quarter 2014 earnings conference call and webcast. My name is Ellen and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded.

Before the call begins, let me read a brief statement on behalf of the Company regarding forward-looking statements and the use of non-GAAP financial measures. During this call, the Company will be making certain forward-looking statements within the meaning of applicable securities laws, which by their nature involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the forward-looking statements. A discussion of factors that could cause actual results to differ materially is contained in the Company's SEC filings. The forward-looking statements in the Company's earnings release or made on this call are made only as of today and the Company has no obligation to update any of these forward-looking statements, including its outlook, except to the extent required by law.

During this call, the Company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the Company's earnings release and the related financial 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 Investors section on the Company's website at www.XPO.com. I will now turn the call over to Brad Jacobs. Mr. Jacobs, you may begin.

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

Thank you, operator. Good morning, everybody. Thanks for joining our call. With me today are John Hardig, our CFO; Scott Malat, our Chief Strategy Officer and Tavio Headley, our head of Investor Relations.

As you saw last night, we delivered extremely strong fourth-quarter results. We exceeded our year-end targets for an annual revenue run rate of $3 billion and an EBITDA run rate of $150 million. We more than tripled our total revenue in the quarter and we increased our net revenue by more than 5.5 times. We achieved robust organic revenue growth of 39% companywide, led by our truck brokerage business, which grew organically by 59% and we generated $42 million of EBITDA in the quarter, which was ahead of the plan. The beat was broad-based across our operations with noteworthy strength in our truck brokerage and contract logistics businesses.

Last night, we issued our 2015 outlook for an annual run rate at year-end of more than $5.25 billion in revenue and an EBITDA run rate of over $300 million. We are right on track to achieve our long-term targets of $9 billion in revenue and $575 million of EBITDA in 2017.

Two weeks ago, we pre-funded our growth by issuing $400 million of high-yield bonds. We now have approximately $1.5 billion in available capital to execute on the acquisition pipeline. As you know, our most recent acquisition was UX Specialized Logistics, which we completed last week. UX had 2014 revenue of $113 million. We bought it for $59 million, which is about 7 times 2014 adjusted EBITDA of $8.2 million.

UX, which we are rebranding as XPO Last Mile, is highly scalable. They facilitate home delivery and installation of heavy goods where we are already number one in North America. It was founded in 1978 and has long-term relationships with blue-chip retailers and e-tailers. With this acquisition, we gained another 1600 contracted carriers and installers, which adds more density to our last mile footprint.

In summary, 2014 was a busy and productive year for us. We are ahead of plan and we are still in the early stages of our growth. Now I'll turn it over to John to review the numbers. John.

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

Thanks, Brad. I'll cover the performance of our business segments during the quarter, then we will provide our outlook for certain financial measures in 2015. We had very strong performance in the quarter. We increased revenue 223% over last year through our acquisitions of Pacer, New Breed and ACL and by driving strong organic growth across every one of our businesses.

In conjunction with our bond issuance two weeks ago, we pre-announced our expectations for adjusted EBITDA in a range of $39 million to $42 million. I'm happy to report that we came in at the top of the range at $42 million. We modified our external reporting segments to reflect how we are managing our expanded range of services under the XPO umbrella.

Our transportation segment includes our truck brokerage, intermodal, last mile, expedited and freight forwarding businesses. Our logistics segment consists of our New Breed contract logistics business and our corporate segment remains unchanged. On a year-over-year basis, revenue in our transportation segment was up 158% primarily from our acquisitions of Pacer and ACL, as well as organic growth. Transportation net revenue increased on a year-over-year basis by 150%. Transportation net revenue margin was 20% versus 20.6% in the prior-year quarter. The decrease in margin was primarily due to our acquisitions of ACL last mile and Pacer freight forwarding operations, both of which have lower margins than our legacy businesses.

We are very pleased with the performance of our logistics segment. Our New Breed business was hitting on all cylinders during the quarter driven by a high level of activity from our core customers, increased volumes from our seasonal customers during the holiday peak, as well as disciplined operating management and cost controls.

On the corporate side, fourth-quarter SG&A expense increased to $17.8 million from $11.6 million a year ago. Included in corporate expense was $2.7 million of transaction and integration-related costs, $1.8 million of non-cash compensation expense and $1.5 million of litigation costs. We expect our 2015 corporate SG&A expense, excluding one-time transaction costs related to future acquisitions, to be in the range of $55 million to

$60 million. Net interest expense was $16.7 million for the quarter. Interest expense included $3.1 million related to the conversion of $14 million principal amount of the convertible notes to common shares during the quarter. In January, we incurred $3.5 million of interest related to the conversion of an additional $19 million of converts to equity and this will hit our interest line in the first quarter. Following these conversions, the face amount of the convertible notes has been reduced to $88 million. In 2015, we expect interest expense to be in the range of $82 million to $87 million.

Our effective tax rate was 8% for the quarter and 29% for the full year. Excluding the impact of future acquisitions, we expect our effective tax rate for 2015 to be in the range of 15% to 20%. This rate could change materially based on the accounting for 2015 transactions. At the end of 2014, we had $195 million of federal tax NOLs, which means we don't expect to be a cash taxpayer for some time depending on the timing of future acquisitions.

Capital expenditures for the quarter were $23 million. We incurred $8 million of early equipment lease buyouts in connection with our acquisition of New Breed. The rest of our capital expenditures consisted mainly of technology-related spending. Looking ahead, our 2015 CapEx is expected to be about $70 million, the vast majority of which is IT-related.

Depreciation and amortization for the quarter was $34.6 million. In 2015, excluding future acquisitions, we expect D&A to be in the range of $135 million to $140 million.

We ended the quarter with $653 million of cash on our balance sheet, including restricted cash. Earlier this month, we completed a tack-on offering of $400 million of face amount of our existing 7 7/8 senior notes, which were issued at a 6.9% yield to maturity. Following the debt offering, our cash balance is approximately 1.1 billion. Our undrawn accounts receivable facility gives us up to an additional $415 million of liquidity for a total liquidity position of $1.5 billion for acquisitions. Now I'm going to turn the call over to Scott and then we will go to Q&A.

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

Thanks, John. From a macro standpoint, the year concluded on a very positive note. Demand accelerated through the fourth quarter leading to growth across all of our businesses. This put us on a strong trajectory going into 2015. In our transportation unit, we have been in a seasonal slow period as of the Chinese New Year, which is today, and produce season, which typically starts in mid-March. In the last week and a half, things have picked up and we expect it to trend upward from here.

It is clear midway through the first quarter that access to dependable capacity remains top of mind for our customers. The tight transportation market of 2014 was a challenge for the industry, so our deep access to capacity is very compelling to shippers. We currently have 4900 trucks under contract and we work with our network of another 30,000 independent carriers every day.

In intermodal, service levels are improving and we are increasing our pricing. This quarter, we are rolling out our new Rail Optimizer system. This proprietary technology increases visibility across our organization and we expect it to drive significant efficiency. In last mile, the demand for home delivery of heavy goods remains strong. We are growing this business with our existing and new customers and through strategic acquisitions like UX that builds our presence with e-commerce companies and traditional bricks and mortar retailers. Technology is an important differentiator for us in last mile. No one else in this sector invests as much in improving customer satisfaction through innovation.

We have honored all customer commitments in last mile despite rising transportation costs. Our intense commitment to shippers and their end customers, together with our industry-leading service levels, have created a strong differentiation for the XPO brand in last mile. Our margins in this business trended positively through the fourth quarter and has increased again into the first quarter.

Our contract logistics business continues to execute well for its customers. We have opportunities to grow this business organically with new and existing customers and we are looking at several medium to large sized acquisitions in contract logistics to build on this platform.

Our strategic accounts team is continuing to make significant inroads with large customers. In the fourth quarter, we won business with 19 new strategic accounts and now that we are in bidding season, the pace is accelerating. Our profile is much higher in the industry today than it was just a year or two ago. Our penetration opportunity is huge and it is threefold. We can expand many of our existing customer relationships to multiples of their current size by earning a greater share of spend. We can capitalize on our higher profile and broad resources to gain new business and we can leverage our leading positions in fast-growing areas of logistics to capture share as our end markets expand.

In every case, our not so secret sauce is service. We are zealously committed to giving our customers world-class service that is as close to flawless as possible. Our employees prove our commitment thousands of times a day in the way they rise to the challenges inherent in this business like port disruptions or tight capacity or inclement weather. We are cementing the reputation of our XPO brand as a customer service leader.

Another major contributor to our growth is our cold-start program. We opened a brokerage cold-start in Nashville in the fourth quarter and a freight forwarding location in Jacksonville last month. We plan to continue to open cold-starts in talent-rich areas and grow them quickly. In the fourth quarter, the revenue run rate for our brokerage cold-starts was in excess of $270 million.

On the technology front, our IT budget this year is approximately $125 million, which we believe is among the highest in the industry. Right now, we have more than 200 projects under development with a team of over 600 IT professionals. That gives you an idea of the massive importance we put on innovation.

Our M&A pipeline is full with potential acquisitions in all of our lines of business, most notably in contract logistics, last mile and truck brokerage. We see a clear path to acquire at least $1.5 billion of revenue this year.

We are continuing to scale up our business as one integrated company with constant growth and capacity, cutting-edge technology and increasing depth in a broad range of services. These are attributes that resonate strongly with shippers. We have moved into 2015 with a lot of momentum and we are on track to triple the size of our business over the next three years. With that, operator, we will turn it over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rob Salmon, Deutsche Bank.

Rob Salmon - *Deutsche Bank - Analyst*

One of the biggest questions that I have been getting from investors is related to the acquisition pipeline. It sounded from Scott's prepared remarks that you've got a pretty compelling opportunity across several lines of segments. Could you talk a little bit about where your areas of preference are related to the three end markets that Scott had mentioned, as well as how deal valuations are trading, particularly following the recent APL Logistics takeout for roughly 15 times and how they compare relative to the 8 to 10 that you guys have been talking to?

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

Okay, so on the first part of your question about which types of deals are we most interested in, we are interested in building out our platform in contract logistics, last mile, intermodal, truck brokerage, expedites. Those are the main areas that we are active in, but we are also looking in our other fields as well. Contract logistics makes a whole lot of sense for us to acquire more companies because we have this really robust infrastructure in place in High Point that can be leveraged up and there will be a lot of synergy with buying another contract logistics company as a result of the excellent infrastructure that we've got in place already.

Last mile we are also interested in building up and we have a lot of discussions going on. Unlike some of the other modes, both the acquisitions in last mile will mostly be ones in the tens of millions of revenue rather than larger ones because that market is much more fragmented than the others. There's obvious benefits of density that we get when we do last mile.

Intermodal, there is not a lot to buy, so we may not buy a lot there, but we always keep looking around. Truck brokerage, we have a handful of truck brokerage that we are in discussions with. Stars haven't lined up with any of them, but some of them could be interesting.

With respect to -- you said valuations I think was your question and the APL deal. Well, I don't want to comment on someone else's deal; I wouldn't think that is appropriate for us. I would say in general sometimes it is hard to figure out exactly what the real economics are on a deal. We know that from our own case for deals that we have been involved in and we haven't won and they see how (inaudible) or deals that we have won and some of them are reported differently than how we are looking at it. And when you have a corporate carve-out from a parent company, it gets complicated. So you really can't just look at the headline price of the EBITDA; you've got to look at what the economics of the transitional services agreement and all the other agreements that go with it in totality.

Having said that, there is no question that the land of the rising sun has risen in the last few days and has made two bold acquisitions, not just APL, but also [Tole] and that is to be noted. And where that goes from here, I don't know; I am not really plugged into the Japanese market close enough to really know what their plans, if any, are going forward, but they were definitely interesting ones and unexpected ones.

In terms of North American acquisitions, there has been absolutely zero change in valuations in the four years that we have been out there talking to acquisition candidates. The smaller ones are still in the 4 to 8 times range and the larger ones are still in the 4 turns higher than that and a whole bunch in between. So really nothing has changed there.

Rob Salmon - *Deutsche Bank - Analyst*

Perfect. That's really helpful, Brad. Could you guys talk a little bit about the -- in a little bit more detail about the UX Specialized Logistics acquisition? How many new customers were brought on with this transaction and how should we be thinking about the transaction synergy, whether from a revenue or a cost standpoint? I would imagine it will probably be less than what you guys saw with ACL given how dramatic those were, but can you give us a sense of how we should be framing that up?

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

So UX is a company that is just like our last mile logistics. They do the same thing. They work with a lot of e-commerce customers installing appliances, electronics and they have a very strong brand in furniture. They are focused on the East Coast and also some Midwest and then across Canada. So it is very synergistic with what we have today. It adds to our density. It is fast-growing. It is scalable. It is a great team. The team fits in very well with us. It's a very scalable platform and the team works very hard. It fits right in with the XPO culture and it has been a great start since we've gotten going. So it is doubling down on our last mile position where we are already the number one player in that space and it is working out well so far.

Rob Salmon - *Deutsche Bank - Analyst*

Perfect. Thanks for the time.

Operator

Allison Landry, Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

I was wondering if you could talk about what you are seeing in terms of buy rates versus sell rates to customers in the brokerage division. And then maybe if you could give us your view on truckload capacity and carrier pricing for 2015.

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

Yes, I will take the buy rates and the sell rates and then I will send it over to Brad for the view over the year. On the buy rates and sell rates, we have had mid-teens increases in revenue per load this year. Some of that is length of haul, but a lot of that is price and increases still year-over-year. That was in the fourth quarter. Our cost of capacity is up somewhat in the same range to a little bit higher. So our gross margin dollars are up; our gross margin percentage in the fourth quarter was down.

As you head into the first quarter, that flipped a bit where our margin percentage has been increasing in truck brokerage and our gross margin dollars have been declining just because of loosening capacity over the -- in January in a seasonal slow period. And I will turn it over to Brad to talk about this year.

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

Allison, in terms of the outlook for capacity and pricing, the simple answer is I don't know. There's factors that would make capacity loosen and rates come down. There's other factors that could make it tighten and go up. We were at a couple conferences last week and interestingly, or maybe not surprisingly, the shippers were arguing more that capacity is not going to be as tight and rates aren't going to go up as much and the carriers and some of the breakers were arguing just the opposite. So people were either talking their hand or they were bleeding their own biases.

When you look at the factors, on the one hand, it can't be denied, in the last four months, Class-8 orders have been high and when there's only -- I don't know the exact number -- 2.5 million or so trucks on the road and you've got this kind of 30,000 trucks here, 30,000 trucks there coming on, not knowing whether they are maintenance or whether they are gross, it is hard to know exactly what is going on there, but Class-8 orders are up and they haven't been up for the last four months.

Now (inaudible) for capacity is coming on and capital is doing its thing and finding some balance there, but too early to call a trend there. The temporary suspension of the hours of service, the 34-hour restart provision, that helped a little in terms of loosening up some capacity, but not a huge amount. But if it becomes permanent, that is going to be a good guy -- well, depending on which side you are rooting for -- it's going to make capacity loosen a little bit more.

You have -- in the energy sector, you have oil and gas workers who no longer have jobs. Might they become truck drivers? Maybe. How to quantify that, hard to say, but that is certainly in the category of loosening. Lower oil prices also would have the effect of some of the weaker carriers. There's a couple hundred thousand carriers out there and most of them have 5 or 10 trucks. Some of the weaker ones with oil prices going up are getting harder and harder for them to continue. Now they can continue. So that is another thing for capacity loosening. And rates being up because year-over-year they are up, more money to pay drivers and attract more drivers. That is one side of the equation.

The other side of the equation is there is still a driver shortage, big time and it is not getting better. The economy is getting better, however. So that is creating a little bit more freight. That is making it even more tight. The looseness that everyone experienced in January has tightened up a little bit in the last couple weeks, so maybe that was just seasonality and now you're getting the beginning of a season and then you are going to have the produce season coming on in a few weeks. We will probably know a lot, lot more 60 days from now how the year is going to be than now.

Lower fuel oil prices, even though they have gone up something like 50% from the bottom, they are still lower than they were. That is making trucking a more attractive alternative than going intermodal in some of the cases. So that's putting more demand on the road, a little less demand on intermodal. Although intermodal customers don't ship that much, the ELD mandate, that being phased in over the next year or two, that is a serious thing. That is probably the biggest factor in my book because that is going to decrease capacity quite a bit. It is going to decrease utilization. And in a whole host of other government regulations, probably not the least of which is hair follicle drug testing because it used to be urine testing and if someone stayed clean for a few days, they'd pass the test and now they do the hair follicles and it goes back the better part of a year and lots of young people aren't going to be able to get CDL licenses.

So the short answer to your question is I don't know. Many factors would argue one way; many factors argue the other way. It's going to be interesting to see how it plays out. We are trying to serve our customers effectively whether it is tight, whether it is loose.

Allison Landry - *Credit Suisse - Analyst*

Excellent. That was an extremely helpful response. I guess thinking about the organic growth, it was very strong in the fourth quarter. So I was wondering if you could help us think about that rate, the organic growth rate as we progress through 2015. And I realize that acquisitions will obviously have an impact, but sort of holding all else equal, do you think that will still sort of trend towards that 20% or 25% organic growth range that you've talked about in the past, or is that something that you think might be another year out?

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

Organic growth is going to do exactly what we've said it was going to do for the last few years, which is, as we get bigger, now we are at $3 billion, going to $5 billion. Organic growth will still be really super strong, but it's going to come down. You're not going to have 39% organic growth when you are $5 billion. It's not going to happen; it's the law of big numbers. So organic growth will certainly come down, but it's going to be strong and it's going to be strong in our Company because we focus very hard at serving our customers better, earning and getting more of their business and we have a very robust effort going out and penetrating all the new customers that we don't have yet, which is the vast majority of the market. So there's going to be strong, strong organic growth, but it's got to come down. There's no way it can be 39% going forward.

Allison Landry - *Credit Suisse - Analyst*

Okay, great. Thank you so much for the time.

Operator

Chris Weatherby, Citi.

Chris Weatherby - *Citi - Analyst*

Maybe a question just on balance sheet capacity or cash balances. Obviously, it seemed like an opportunistic equity raise back in the fall of last year. Then you followed up with a debt deal just very recently. Kind of curious how you think about more structurally longer term cash availability to keep that dry powder. It seems like you are on the high end of the spectrum now. Presumably there will be transactions this year, but just sort of bigger picture, how much cash do you want to have on the balance sheet at any given time?

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

Thanks for the question. So we feel very good about the liquidity that we have right now against the targets we have for 2015. As I said, we have $1.1 billion of cash on the balance sheet. We have a completely undrawn ABL facility. It is $415 million today, but it has a $100 million accordion that we can flex up and add another $100 million of capacity to and that certainly gives us enough capital to pursue our 2015 plan and budget.

In terms of longer term, we have been very public to say that we are comfortable with debt at a range of call it 3 to 4 times EBITDA. We may go up a little bit above that if there were a really great acquisition to go after on a short-term basis and then we would look to lower leverage after that acquisition. But on a long-term basis, 3 to 4 times and that gives us plenty of capacity to get to our 2017 targets.

Chris Weatherby - *Citi - Analyst*

Okay. When you think about the opportunity, I guess, here in 2015, you talked about $1.5 billion of revenue that you want to be able to acquire over the course of the year, 2015. If you think about multiples that you guys have been able to transact at in the past, it seems like you are talking about sort of a number, maybe acquisitions between $0.5 billion and maybe up to $1 billion worth of activity obviously relative to that cash balance.

Is that the right way to be thinking about the potential opportunity here, or is it too difficult to pigeonhole into a specific target multiple range like that?

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

I think you are looking at it right. The way we have our budgeting done for the year is organic -- the EBITDA from what we know now is about $225 million and we are going to buy another $75 million, so that will get us to a $300 million run rate by the end of the year. In order to buy $75 million of EBITDA, the ranges you said of revenue acquired makes sense depending on which lines of business they'll have different EBITDA margins. So that's about right.

Chris Weatherby - *Citi - Analyst*

Okay. And one final question, just following up on the contract logistics side. Just want to get a rough sense of sort of what the organic opportunity is. How does the pipeline look as we move into 2015? Thanks.

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

The contract logistics organic pipeline?

Chris Weatherby - *Citi - Analyst*

Yes.

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

We have an organic pipeline of both existing and new customers. The existing customers, there's a tremendous opportunity. For one of our larger customers, for instance, we have about 2% of their SKUs that we handle and they are looking for us to increase that. It could be a sizable increase. Across aerospace, across technology and across retailer are three of the areas that are growing the fastest.

In terms of new customers, good pipeline that was brought on with New Breed, but what's exciting is the pipeline that we have brought to New Breed. So we went across all of our customers, our 15,000 customers across XPO. There was about 100 or so that had business that very specifically could be outsourced in the way that New Breed does for very highly complex, highly engineered solutions and we have made introductions, we've had some good meetings. The sales cycle is a little longer for contract logistics. It could last anywhere from a year to a few years of sales cycle, but those conversations have gone well and we have a lot of opportunities.

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

So next week, we have the RILA conference in Orlando and we have a delegation going there from all our different verticals and two of the people joining us will be Kelly Abney and Joe Hauck from New Breed from our contract logistics group because there's a lot of contract logistics being done by the 200 retailers who will be at that conference. We have some great relationships and doing lots of business with some of those retailers and we are going to introduce them to them and they have a lot of great relationships they are doing businesses with with some of those retailers that they would introduce for cross-selling some of our others.

I will say this. New Breed definitely outperformed in the fourth quarter and it really came through. And it's very unusual that you buy a company and they outperform the book that they sold it to you on. It's usually they (inaudible) whatever's in the book. And if you look at the fourth quarter, they outperformed for four reasons. Number one, the customers had higher volumes, especially retail. Number two, the team was very focused on operational efficiencies and cost control. And there is an excellent management team there under Louis's able hands. Number three, we are ahead of plan on getting new business and number four, the weather wasn't too bad. So all these things conspired with each other and New Breed had a really great quarter.

Chris Weatherby - *Citi - Analyst*

That's great color. Thanks very much for the time, guys. Appreciate it.

Operator

Bill Greene, Morgan Stanley.

Bill Greene - *Morgan Stanley - Analyst*

Brad, I am curious if you can talk a little bit about the thought process behind some of the growth rate targets? They seem perhaps a little conservative given some of the color Scott offered around current market trends or whatnot. Is that a fair characterization, or is it just, look, the law of large numbers is kicking in, that's why you see a little bit lower top-line number, which suggests about a 12% to 13% growth rate, which I think is down a bit from 15% to 20%, which I kind of interpret as the long term?

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

Not really. It depends how you look at it. We are on about a $3 billion revenue run rate. We did outperform in the fourth quarter above our plan. The environment was great in the fourth quarter. Everything was at our back. We had -- a lot of it we can take credit for and a lot of it the environment was good. It was a good time to be a broker, it was a good time to be in a lot of our businesses. When we look at the revenue run rate going from $3 billion to $5.25 billion, $1.5 billion of that will come from acquisitions. So going from roughly $3 billion to $3.75 billion is a 25% growth rate.

Now you are right that we are a little bit ahead of plan in terms of where we are coming out fourth quarter, so maybe it is a blended of the two numbers. If you're saying 12% and I'm saying 25%, it is somewhere in the middle of there.

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

The difference of opinion I think with what you are mentioning is what are you using as the base to calculate how much the organic growth is. So we're not giving -- we're not just taking the $831 million of revenue and multiplying it times 4; we are saying fourth quarter was an unusually great quarter, particularly in our truck brokerage business where everybody had a great quarter. It was an unusual quarter that was extraordinary. So we are saying we are really on about a $3 billion revenue run rate to be fair.

Bill Greene - *Morgan Stanley - Analyst*

Okay, all right. That makes sense. And then, Brad, when you look at the long-term revenue guide and you think about getting there, I presume a fair amount of this depends on the timing of the acquisitions. But as a rough guess, does it feel like it should be sort of linear or that it sort of will be faster sooner and then it will tail off as we approach that? So in other words, 2017, you may actually get to some numbers before we actually get to the 2018 total goal. Do you know what I am saying?

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

I do. But the main -- the swing factor there, Bill, is going to be acquisitions and the timing of them. The business itself will grow organically very nicely. We are in verticals that are the fastest-growing parts of transportation and we have great leadership positions in all of them. So we will be growing above average in general there. And then the gap of getting to the numbers sooner, we are on target -- I don't think we are going to get to them late -- will be dependent on when we do the acquisitions, just the timing of acquisitions. But there we let the timing take its own pace. When it is right, it is right; when it's not right, it is not right.

Bill Greene - *Morgan Stanley - Analyst*

Yes, that makes sense. Let me ask one last question just on intermodal. You mentioned that you -- (inaudible) oil, while it does make trucking more competitive, it doesn't seem to be causing a huge shift from intermodal. Do we feel at all like rail service is an impediment to the growth or is it back enough that this isn't really such a concern anymore?

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

Well, I am concerned about rail service because our customers are and we want it to improve and we are doing on our end everything we possibly can to facilitate that. And to a large extent, we are at the mercy of the rails in general and they are doing lots of things as well. They are hiring people; they are buying locomotives. They are investing in CapEx; they are getting their systems in place. They are communicating more. I see a big, big improvement in the communication between all the rails and our operational folks and I think that makes a big difference. And letting customers know the status of their shipments is probably the biggest improvement of them all, even if it's not right on time, letting them know that.

But service kind of bottomed out, I would say, around October, November and it has gotten better since then. I would hope, I can't promise, but I would hope that it is going to continue to get better every quarter through the rest of the year and by the end of the year, service will be like it was a couple years ago. Having said that, I would say, even despite congested rail situation, intermodal has been on fire. Intermodal is increasing. People are signing up for more intermodal. People are still converting their supply chains from over the road to intermodal. So there is a real powerful trend there. Bearing in mind over the road is hundreds and hundreds of billions of dollars. Intermodal is only $15 billion. So little, little conversions from truck to intermodal make big percentage increases in the intermodal business.

So we believe -- look, we are agnostic. We are big in over the road; we are big in intermodal. We just want to serve our customers and present our customers with alternatives that make sense for their supply chain. But I am a big believer in the long-term viability and growth in intermodal.

Bill Greene - *Morgan Stanley - Analyst*

That's great. I appreciate the time. Thanks, guys.

Operator

Kevin Sterling, BB&T Capital Markets.

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

Maybe Brad or Scott, some of the weather we have seen lately in the past couple weeks -- today, it even snowed in Richmond, Virginia, so you know it is cold out there -- are you seeing some capacity tighten up a little?

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

It has tightened up in the last couple weeks, that is for sure across the board. It really was not tight in January. That is for sure also. January (inaudible) was not. But the last couple weeks, it has gotten a light tighter and rates have firmed up and it is starting to feel more hefty out there.

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

Okay. Thanks, Brad. Do you think that is due to some weather or is that maybe just demand picking up after this lull or softness we saw in January?

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

The weather hasn't hurt, but I think a lot of it is just seasonal.

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

Okay. And Brad, you also mentioned ELDs earlier and you obviously -- I think I heard you say that is a big -- going to be an impact to capacity. As you look at your carrier pool, have you thought about the impact to some of your smaller carriers that ELDs could have?

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

It is going to hurt them; there is no question about that. There is nothing positive other than safety, which is great for all of us driving on the roads. But apart from that, there is nothing positive for a small carrier with the ELDs. It is going to hurt their productivity and make it a more challenging business and they are going to have to somehow or another make ends meet and hopefully pass along higher costs.

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

Yes. Okay, and lastly in last mile, the UX acquisition, which I think is a good acquisition, continue to gain scale in this business, but given how small the pool is to find qualified drivers to offer that white glove service, how important is it to do additional acquisitions in last mile if you can kind of grow that business, particularly with the growth rate we are seeing in e-commerce?

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

Well, we are going to grow it anyway even if we didn't do any other acquisitions because we've got a great service offering and we have a number one position and we've invested so many tens of millions into technology that the customer experience is so much better than the alternative. And we have many strategic -- I shouldn't say many -- we have a number, we have a handful of large customers who are talking to us about strategic arrangements so that they can transition their last mile supply chains in response to the e-commerce growth. And we have a unique capability that we can offer there. So the opportunity to grow that organically is very, very substantial. We signed up about $80 million of new business over the course of 2014 and we will get the full benefit of that $80 million this year. So I am very, very bullish on last mile growth.

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

Great. Thanks for your time today and congratulations on a nice quarter.

Operator

Todd Fowler, KeyBanc Capital.

THOMSON REUTERS

Todd Fowler - *KeyBanc Capital Markets - Analyst*

I wanted to ask on your EBITDA margin expectations for 2015, if I take the year-end targets, I'm coming up with about 5.7% EBITDA margins. It sounds like the fourth quarter was a couple of favorable things going on, but basically if I take the run rate around 5% or so, can you help us think about the EBITDA margin improvement that you are expecting? Is that a function of mix? Is that a function of some of the leverage that you are getting? Is it employee productivity? Just kind of some of the main buckets to bridge the gap on the margin side.

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

Sure. The two biggest areas are one in corporate expense. Our corporate expense will stay relatively flat. John said it was $55 million to $60 million, not changing much while we have significant organic growth over that infrastructure. That's finance, it's IT, it's recruiting, it's training, it's the leadership team. You put all that together, we won't need to add in the corporate side of the business as we grow it significantly on top of it.

And then in addition to that, it's employee productivity, especially within truck brokerage where there's three things that are driving our productivity levels right now. It's tenure, it's training and then it's investment in technology. Those three things should continue to drive up our productivity and our margins within truck brokerage.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. So with what we are looking at for contract logistics here in the fourth quarter, is that the right way to think about either the EBIT or the EBITDA margins for that segment going forward, or is there some opportunity to move that margin up as well?

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

We don't know; it's early. There's no plan in place to change those EBITDA margins much one way or the other.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. And then I guess just the last one that I had kind of along the same lines, but, Scott, in your prepared comments, it sounds like that, in the last mile business, that there were some cost pressures and it sounds like that you were maybe incurring some higher costs to meet your service commitments. Did I catch that the right way and then can you talk about what we should expect from either a net revenue margin standpoint or to alleviate some of those cost pressures going forward?

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

On the net revenue margin for last mile, the biggest impact was the acquisition of ACL, which has margins in the, let's call it teens, mid to higher teens percentage. So that on a blended basis takes down your margin. In addition to that, Optima has lower margins than the core white glove service. And then third is, yes, the transportation costs increased in the fourth quarter. We are working to take up price and pass that on, but in this industry, it is very important that we deliver quality service. So if capacity is tighter or capacity is tight, we will go above and beyond and we will service the customer. And that's exactly what we did in the fourth quarter.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. So maybe the answer is to think about mix and then some of the seasonal factors, and that in tight markets we can see some margin compression in that business.

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

It is, but that is a business that service matters more than price. Price always matters. Price matters in every single one of our businesses, but if you were to rank them in last mile service, it's just so important. So as long as we continue to improve that leading service and double down on our capacity. And buying UX brought us another 1600 contract carriers and installers, so it added more density to our last mile footprint. And you put that capacity together, you add the density, and we should be able to get healthy margins in that business.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay, sounds good. Thanks for taking my questions today.

Operator

John Mims, FBR Capital Markets.

John Mims - *FBR Capital Markets - Analyst*

Brad, let me ask you a question on the logistics business. I know it makes a great strategic fit, and you have talked about that. But from some of your peers it always seemed to be a bit of a struggle from a margin standpoint. So when you hit the growth target you are looking for, you get the scale that you see, we move past the noise in terms of acquisitions and integration, etc., what is the longer term operating margin we should expect from that business?

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

I think it really depends on how effective we are continuing to be very focused on cost control. And Louis and his team are really good at that, and they are very laser focused on operational excellence. And I'm just extremely impressed with their ability to track and to execute on that, and that is what it comes down to. In that business, customers aren't looking for us to make a nickel off their back. They are looking for us to be more efficient and more operationally excellent and help save them money.

So we are not really focusing on growing the margins as much as we are focused on pleasing the customer, making more money for the customer and then we will make money by taking costs out and being more efficient and passing some of that along to the customer and keeping some of that for ourselves.

John Mims - *FBR Capital Markets - Analyst*

Sure. No, I get that. But I mean when you look -- internally planning, assuming you get all of that stuff right, is this a longer-term double-digit margin business or is it still going to kind of bounce around mid-single digits like we have seen with some of your other guys, some of the peers?

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

I think you will see the margins in logistics, barring buying someone else, but the margins that we have right now are stable. We are not expecting them to be going up, going down. They are margins that we can live with and our customers can live with as well.

John Mims - *FBR Capital Markets - Analyst*

Okay. And one more on the transport side. With the port strike going on and really more importantly kind of the unwinding of the backlog that we will likely see here for the next couple months and how that coincides with produce season and peak season, can you walk through the four subsegments now and talk about real winners and losers that you see now as far as transport, trucking versus intermodal, versus last mile, versus expedited and just kind of what your outlook is over the next several quarters?

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

Outlook in terms of capacity, John?

John Mims - *FBR Capital Markets - Analyst*

Yes, in terms of capacity, but also just where you are seeing the most positive outlook and who are going to be the winners and losers within those different segments.

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

Oh, okay. Well, so we have two segments. We have transportation now and that incorporates everything, but contract logistics and we have logistics, which is contact logistics and that is our new SEC reporting, which (inaudible) to how we are running the business.

On contract logistics, I think we are going to be big winners there because we are operating at a very high level of the sophistication of contract logistics. We are not doing a lot of pallets in, pallets out kind of stuff. We are doing highly engineered, technology-enabled contract logistics for Fortune 100 companies that have complex supply chain and we do it very well. So I think that business is going to be stable and continue to grow and if and when we do acquisitions of other contract logistics companies, I immodestly say that I'm confident that I think we can raise their margins because the management team and infrastructure that we have in place in North Carolina.

In last mile, I like our positioning. I think because of e-commerce and because of the outsourcing of final mile by the retailers, we've got a lot of wind to our back there too. Intermodal, we have a good position. We are not number one, we are not number two; we are number three. Although we have a leading position in cross-border Mexico, there, we are a little bit at the mercy of the market and it's a little unclear in certain of the trends and we don't know yet, but I like our position and it is certainly going to get better. I don't know whether the rate of betterment will be the same as the other modes or not. I just don't know.

Truck brokerage, we are only going to get better as we get bigger and we have been growing primarily organically there and 59% organic growth in the fourth quarter. Wow, we are just really hitting the leather off the ball there and I expect that to continue for quite a while.

Expedite, completely a crapshoot. Really depends on supply chain disruptions, the port situation, which is horrible for the country, horrible for lots of other parts of the business in the industry, great for expedite. Expedite has been doing very well with the port disruption. So the more disruptions there are like port strikes, like weather situations, expedite will do better. Does that give you the color that you are looking for?

John Mims - *FBR Capital Markets - Analyst*

Yes, that's helpful. Because when you look at the margins you reported on a year-over-year basis within the transport subsegments and I know there is some acquisition noise and Scott had mentioned some mix shift in truckload, but I'm wondering how the huge jump in net revenue margins in expedited from fourth quarter of last year to fourth quarter of this year, the drop in last mile, the increase in truckload, the drop in freight forwarding, given the disruptions that you see now, how all of that plays out from a seasonal basis as we go into 2015.

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

Right, right. Well, what you are describing is the beauty to being multimodal and diversified. So at any one point in time, some of our modes are doing better than others and some of them aren't doing as well as the others and which ones will be doing better or worse will keep changing over the course of the seasons and years and that's the way a diversified model works. It decreases the risk from our point of view quite a bit.

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

And I think, John, big picture, the 36% gross margins you saw, net revenue margins that you saw across the Company in fourth quarter is a relatively good run rate. If you look at all the different factors, there's a lot of different factors that go up and down, but our fastest growth is in truck brokerage where in truck brokerage you might have half that.

John Mims - *FBR Capital Markets - Analyst*

Great. Thanks for the time.

Operator

Donald Broughton, Avondale Partners.

Donald Broughton - *Avondale Partners - Analyst*

Well, since we have seemed to have beaten the intermodal mode fuel shift horse to death, let's ask a more strategic question. At what point in your platform does it make sense for you to expand out into other types of freight forwarding, whether it be ocean freight forwarding, air freight forwarding, customs duty, brokerage, etc.? At what point does it make sense to expand out into those fields?

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

We do freight forwarding. We do it (inaudible) ocean. We do over a couple hundred million dollars a year. It could almost be a company by itself. It's a substantial company, but we are a $3 billion company, so it's a small percentage of our overall business. It has been going well. Freight forwarding revenue in the fourth quarter organically grew 44%. Revenues were up 234%. So there's a lot of growth in our small, relatively small freight forwarding business. We haven't figured out a way to conquer the world in freight forwarding. We don't see an angle. We don't see an edge. In all our other verticals, we have an edge. There is something special about what we are doing. We've got a technology advantage. We've got a size advantage. We've got a training advantage. There is something that we are doing that when we meet with a customer and we explain what we are doing, they go, ah, I get it, let's do that. And we get in the door and we are off and running and we do a good job.

In freight forwarding, we also do a good job, but the larger customers have their deals cut directly with the liners. There is not 200,000 air and ocean liners like there are in truck brokers; there's a couple dozen that have the vast majority of the market. They are very sophisticated. We are not going to be able to help them a lot in terms of offloading the capacity. So there are some great competitors in freight forwarding that have been around for decades and have multibillion dollar networks and great technology. Learned a lot over the years and some doing better than others, but they are worthy competitors, so we don't see how we are going to be number one or number two or even number three there, so we've been a little scared. We've been a little nervous going full bore and getting really big in freight forwarding without having a clear path to why are we special, why are we unique, what are we bringing to the customer that our competitors aren't.

Having said that, we are open-minded. We are open-minded and if the right freight forwarding acquisition presented itself to us, that made sense strategically, made sense operationally and made sense financially from an acquisition price point of view, we would do it. But we are not hungry eagerly going out and trying to do that.

Donald Broughton - *Avondale Partners - Analyst*

Thank you.

Operator

Scott Schneeberger, Oppenheimer.

Unidentified Participant

This is Daniel filling in for Scott. Yes, most of the questions have been asked, but I just want to hit on the IT budget, which looks like it is up pretty nicely from last year. Can you guys go a level deeper there on what you are trying to do and what the benefits could be near term?

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

So you are talking about the technology, Daniel?

Unidentified Participant

Yes.

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

So technology, we've spent roughly about $115 million last year. We will spend roughly about $125 million this year. I love spending that $125 million because that $125 million translates to very powerful solutions for our customers and translates into our employees, our sales reps and our carrier reps being able to do their job more effectively, more easily and gives them a big advantage over their competitors. So when we hire people from competitors, almost always their jaws drop when they see the technology that we have compared to what they had before. Not always, but in almost all cases. That is really important because, from an efficiency point of view, from a productivity point of view, from a customer service point of view, we have over 200 IT projects right this minute that we are in the middle of implementing. And we get thousands and thousands of suggestions from our customers and our employees every single month of what their dream, what their fantasy technology would look like and we are implementing on it. We are prioritizing them, we are putting resources on them, in Cambridge, in High Point and all across the Company and it is really making a big, big difference. So we are happy to spend the $125 million.

Unidentified Participant

Okay, great. Congratulations on a nice quarter.

Operator

Jason Seidl, Cowen and Company.

Jason Seidl - *Cowen and Company - Analyst*

Just one quick question. You talked about the rule of large numbers with slowing organic growth rates and I get that, but how is the hiring environment right now? Is that going to constrain you if it gets a little bit tighter?

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

Hiring for what specifically?

Jason Seidl - *Cowen and Company - Analyst*

Basically for people to work on the brokerage side, on the logistics side.

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

Oh, internally, yes. So the labor market is fine. Contract logistics, we are not hiring huge amounts of executive people; we are hiring hourly and we pay competitive rates and we don't have problems hiring people. In the other modes on the transportation side, we have great training programs. We have great compensation that is competitive. We have technology that enables them to be able to make their bonuses more. So we are an attractive -- we are a growth company. There's lots of opportunities for advancement and we invest a lot in our recruiting programs, and we have big presence on the Internet, particularly for college grads, so hiring has been okay.

Jason Seidl - *Cowen and Company - Analyst*

Thanks for the time, Brad.

Operator

Casey Deak, Wells Fargo.

Casey Deak - *Wells Fargo Securities - Analyst*

Just to go back a little on the strategic side, you have talked in the past about when you are looking for acquisitions, you are looking at brokerage firms that may have a high turndown volume and the ability of you to take that volume in and convert it on your network. So my question is are there similar strategies across the other service lines? Are their value propositions there that when you are out in the market looking for an acquisition, there's a certain characteristic that piques your interest?

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

There are in each case. Start with logistics. We look at our platform and what we can provide for them and how we can leverage our platform with that business. We look at end markets and customers, how complex are the projects, how highly engineered, how much do they depend on technology for their customer. And we look at end markets in terms of verticals. Are they areas where there is fast growth in that outsourcing trend? Are companies in that vertical outsourcing more and more and what is the opportunity set? When we look at last mile, last mile is a lot more like brokerage where there is a turned down market. They don't have enough density, they don't have enough capacity to move things. We have more access to capacity in that business. We have more density because we have more freight, so we look to see what are the business opportunities that they passed up on, how tight are the customer relationships that they have. Like, for example, UX has very strong relationships, decades long relationships with some blue-chip customers, retailers and then e-commerce providers. And from an e-commerce perspective, how can we cover the country nationwide from an e-commerce perspective and add to the density and be able to drive down your cost of capacity in those tertiary markets and not just the big markets across the US.

Casey Deak - *Wells Fargo Securities - Analyst*

All right. That's helpful. Thanks, guys. I'll pass it along.

Operator

Jamie Clement, Macquarie.

Jamie Clement - *Macquarie - Analyst*

You touched on the West Coast port situation as it relates to expedited and I think that is pretty obvious to everybody. Can you talk in maybe a little bit more nuanced terms about some of the ripple effects from the port situation on your other business lines that perhaps some of us wouldn't realize?

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

Well, ripple is a good word. More like a domino than a ripple because the boxes aren't available to load and they are not accepting (inaudible) small boxes in there. It's a mess. The port situation in the West Coast is not America at its finest and it would be really great if Washington would step in and bring some (inaudible) to that. It's very unfortunate.

In a nutshell, freight is just being moved less efficiently and at lower volumes. So in Southern California, we've got three trucks for every load, literally. And I have never seen that before, three trucks for every load. So our reps are saying, if you post a load, you better have 12 phone lines open because it's going to go ring, ring, ring, ring, ring.

Now in our business, that hurts intermodal because there is less intermodal loads coming in internationally. That's only about 12% of our intermodal volume. But it could impact, to your point, as much as say about 20% of our intermodal volume nationally because of that ripple effect of boxes not being able to load. But our diversification, going back to the earlier question, it really helps us mitigate the impact in the ports and again when one mode is off kilter, another mode picks it up.

And the final point I would say there is, not to be just all Dr. Doom on the port situation, because it really is pretty bad, but there is a silver lining and that is when it clears up, and I'm not protecting when it is going to clear up, and eventually it will, there will be a spike in volume and it will be a super spike because there will be a big backlog of freight that has got to get moved really quickly and you will see rates go up. You'll see a big, big tightening. I don't know when that will be.

Jamie Clement - *Macquarie - Analyst*

Has this been a significant enough event where, in looking at your acquisition pipeline, there may be some people that might have been a little bit more convinced to sell perhaps five years earlier than they might have?

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

I don't know about five years, but --

Jamie Clement - *Macquarie - Analyst*

Two years.

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

-- there are some people suffering from it (inaudible). I don't know if that makes them want to sell. Most sellers are selling due to a larger reason. They've got a health problem or when they want liquidity or they are getting up in age or it's owned by a private equity firm or there's partners, some partners want to get out, it's issues that are less specific to the (inaudible) market right now.

Jamie Clement - *Macquarie - Analyst*

Very fair. Thank you very much for your time.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

Just a couple of questions for you, Brad. You referenced earlier the ELD mandate and that could have a negative impact on your smaller carriers. I guess by implication that would seem to mean that the smaller carriers without ELDs aren't really complying with federal hours of service regulations. Do you have a sense for how much the average carrier, small carrier without ELDs is driving above where they normally would if they were to start complying with hours of service?

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

First of all, Jack, we will always squeeze in; no problem there. Second, on the ELDs, we don't know what level of compliance is. They all tell us they are complying. We don't believe they are all complying, obviously. We understand human nature and we have to hear anecdotes, but I don't know what the level of compliance is and I don't know precisely numerically, mathematically, how much capacity it's going to take out when everybody is complying, but it is significant. I am sure it is significant. It is not a minor point.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, okay, that's fair. And then, lastly here, just sort of on the capital structure, you talked -- I think John referenced earlier -- the comfort with being 3 to 4 times levered on EBITDA. I guess when I think about sort of what the capital structure looks like in 2017 on that $575 million in EBITDA, do you think -- is that 3 to 4 times leverage on $575 million, or is it 3 to 4 times leverage getting to $575 million?

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

No, Jack. You got it right the first time. It's the leverage on the $575 million.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, okay. That's what I thought. I just wanted to clear that up. Thanks again for the time.

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

For the record, just for everyone that is new to the story, we have more cash than we have debt at the moment. So we have no leverage on the balance sheet in that sense.

Operator

David Campbell, Thompson Davis & Company.

David Campbell - *Thompson Davis & Company - Analyst*

I just wanted to ask everyone there, of course, but, Scott, you mentioned that, in February, the expedited market seemed to pick up in terms of demand. But that is also when Forward Air bought Towne and Forward Air started raising rates. Is that acquisition a factor in the expedited market? I know it's a small part of your business, but it could be a little bit misleading if the market isn't really that strong, but Forward Air bought Towne and that's the reason it got better.

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

No, I think it got better for a few different reasons. One, look, we were in a seasonally slow period in January. You get into February, today is Chinese New year, so you'll start to see pickup in volumes after Chinese New Year and then you will have produce season in mid-March and you are just coming off the seasonally slowest part of the year. And then along with that, you have the port strikes. I think that's the bigger impact. And you will have people diverting traffic to different ports and just unplanned freight, which leads to more unplanned shipment fleets and more expedite in general. I don't think that the size of the acquisitions you talked about are really rippling through the industry, or are sized to make a material impact for us.

David Campbell - *Thompson Davis & Company - Analyst*

So you think the port strike had more impact in February probably than January?

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

I think it does, yes.

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

It hasn't gotten better. If you look at the photographs -- and people send us these photographs every day -- of 1000 foot vessels with all these containers just parked outside the port, then you look at -- you see these other aerial shots of just bumper-to-bumper-to-bumper trucks. It's worse than Laredo in Southern California. It's a mess. It's a big clot. It's very inefficient.

David Campbell - *Thompson Davis & Company - Analyst*

Yes, all right. And the other last question, most of my questions have been answered, but, Brad, you were talking about freight forwarding earlier and this was in response to a question, your concern about the long-term interest in that business, is it partially because there's a lot of very good competitors with high price targets and then a few big ones with very low profit margins and struggling, but there's no way to turn them around or you wouldn't know how to turn them around. Is that one of your hesitancies?

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

I wouldn't quite say it like that. When I look at freight forwarding -- by the way, I don't want to denigrate freight forwarding. We have a nice little freight forwarding business and it runs well and the numbers are up and to the right and we are all supporting it and we give them resources they want and they are growing very nicely. They do good job and on the customer surveys, we've seen really good results from it. We haven't gone big and long into freight forwarding only because we haven't figured out a strategic plan of how we can create huge amounts of value for our customers and therefore for our shareholders as we have in the other verticals.

In the other verticals, we have really clear strategies of how we have competitive advantages for -- in the marketplace. We haven't figured that out in freight forwarding. Maybe we will some day. We haven't yet. That's the reason. We don't want to just buy things for the sake of buying things. You want to buy things that there is a reason for buying it. There's a strategic compelling logic to buying it. So we haven't quite figured that out in freight forwarding. Maybe we will in the future.

David Campbell - *Thompson Davis & Company - Analyst*

Well, there is also the aspect of how the freight forwarding business integrates with truck brokerage and how it could help --.

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

I don't know that it does much, David. In our business specifically, the people that we talk to in truck aren't the same people who are doing the international freight forwarding. So would there be some advantage? Sure there would be, just like in some of our other verticals get an introduction from somebody who works on the same floor as the person who handles the other vertical. But it's a little bit different -- it's a different part of the supply chain enough, the notion from the ground here, that the nexus isn't as close as it is from -- first, it's intermodal and truck, it is very close and we are talking to customers who the person we are talking to handles both modes and is planning on alternatives based on their outlook there. So there it makes a whole lot of sense to -- there's a lot of synergy there. With the freight forwarding, there isn't as much in our customer base at least. It might be different with others, but not in ours.

David Campbell - *Thompson Davis & Company - Analyst*

Well, thank you very much. I appreciate your answers.

Operator

We have no further questions at this time. I'd like to turn the call back over to Brad Jacobs for closing remarks.

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

Thank you, everybody. We went a little over time, so I won't say any comments other than see you in 90 days. Thanks a lot. Have a great day.

Operator

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