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XPO, Inc. (XPO)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the XPO Q2 2026 Earnings Conference Call and Webcast. My name is Sachi and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [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 the 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 forward-looking statements. A discussion of the factors that could cause actual results to differ materially is contained in the company's SEC filings as well as in its earnings release. 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, except to the extent required by law.

During this call, the company may also 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 or on its website. 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.

I will now turn the call over to XPO's Chairman and Chief Executive Officer, Mario Harik. Mr. Harik, you may begin.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

Good morning, everyone, and thank you for joining us. I'm here with Kyle Wismans, our Chief Financial Officer; and Ali Faghri, our Chief Strategy Officer. This morning, we reported record second quarter results that demonstrate the increasing strength of our earnings power.

Companywide, we reported revenue, adjusted EBITDA, and adjusted diluted EPS at the highest levels in our history. Excluding real estate gains, our adjusted EBITDA was up 25% year-over-year to $425 million, and adjusted diluted EPS was $1.64, up 56%.

In North American LTL, we grew adjusted operating income by 36% on a 15% increase in revenue, highlighting the scalability of our network and the operating leverage in the business. We also brought down our adjusted operating ratio below 80%, which is a new record for us. That's a 300 basis point improvement from the second quarter last year, and it significantly outperformed normal seasonality. The foundation of our outperformance continues to be the superior customer experience we deliver through disciplined execution amplified by our technology.

Notably, we achieved a new service milestone with our damage claims ratio, bringing it below 0.2% for the second quarter in a row, and to the best level in our history. This is a product of operational excellence, investments in capacity, and proprietary technology working together to build customer satisfaction and trust.

Another example is our reputation as one of the fastest and most reliable LTL networks in the industry. With broad geographic coverage and consistently high service levels, this ties directly to our gains in market share.

In short, world-class service is the gateway to expanding our business and translating customer value into shareholder value. To accomplish this, we've engineered our network to support long term growth while running efficiently across different demand environments.

Since 2021, we've increased our trailer fleet by more than 30% and tractor count by more than 20%, and expanded our network capacity with 15% additional doors. We've also invested in our workforce, improving retention while maintaining the ability to scale labor hours with demand. This gives us the capacity to take on substantially more volume in the recovery, while maintaining service quality.

Each of these investments strengthens our operating leverage, enabling us to grow efficiently now and over time. They also reinforce our commercial performance by creating more opportunities to increase wallet share, earn price, and win new business.

In the second quarter, our service quality helped us accelerate contract renewal pricing, and we're continuing to expand revenue streams with high margin local customers and premium services, where we have a meaningful, competitive edge. These are all structural advantages inherent to our business. We're building our network for years of above-market pricing growth and profitable market share gains.

Before I close, I'll spend a few minutes on our proprietary technology and its broad impact across the business. In the second quarter, we used our workforce planning technology to improve productivity by nearly 2.5 points versus last year, which outperformed our quarterly target of 1.5%.

Another example is route optimization, which we discussed on our prior calls. Currently, more than two-thirds of our operations are using this technology for pickup and delivery, and we're seeing measurable results with fewer miles and more stops per hour. We're also seeing encouraging results from the pilot of our trailer loading technology. This application uses AI to assess images of freight placed inside the trailers and provide our dock workers with actionable feedback in real time.

In the second quarter at the pilot sites, load quality improved by more than 40%, while damages were reduced by 50%, contributing to both service quality and operating efficiency. As we grow the business and expand the use of our technologies, the financial, operational and competitive advantages will increase as well.

In closing, the levers we executed on in the second quarter are firmly established as the foundation for outsized value creation. We'll continue to enhance our service, invest in capacity, drive above-market pricing growth, and scale our proprietary technology to operate more efficiently.

Our results reinforce our confidence in the strategy and the significant value it can create, and that value creation is underpinned by two key objectives. Achieving an annual LTL operating ratio in the low-70s or better, and generating billions of dollars of cumulative free cash flow in the coming years.

With that, I'll turn it over to Kyle to walk through the financials. Kyle, over to you.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Thank you, Mario, and good morning, everyone. I'll walk through our financial results followed by our balance sheet, liquidity, and capital allocation. For the second quarter, we grew total company revenue 13% year-over-year to $2.4 billion. In our LTL segment, revenue increased 15% to $1.4 billion, reflecting an acceleration in both yield and volume growth.

Turning to cost in LTL, our expense for salary, wages, and benefits increased 7% year-over-year, or $46 million. Our productivity initiatives continue to help mitigate the impact of higher inflation and freight volumes.

Our costs for fuel operating expense and supplies increased 24%, or $53 million, primarily due to higher fuel prices. While industry truckload rates trended up significantly throughout the quarter, our purchase transportation costs increased by just $8 million. This is because our insourcing strategy is performing as planned, reducing our exposure to truckload rate volatility. Our depreciation expense increased 5%, or $4 million, consistent with our continued investments in the network to support long term growth.

Moving to profitability companywide, we delivered $434 million of adjusted EBITDA. Excluding $9 million of real estate gains in the quarter, adjusted EBITDA increased 25%. Our LTL segment generated $390 million of adjusted EBITDA, and improved margin by 310 basis points to 27.3%. Excluding real estate gains, LTL adjusted EBITDA increased 27%.

Lastly, in LTL, we grew adjusted operating income 36% to $287 million. In our European Transportation segment, adjusted EBITDA was $48 million. And in our corporate segment, adjusted EBITDA was a $4 million loss.

Returning to the company as a whole, operating income increased 37% year-over-year to $271 million. Net income was $162 million, representing diluted earnings per share of $1.36. On an adjusted basis, diluted EPS was $1.70. Excluding $0.06 per share of real estate gains in the quarter, adjusted diluted EPS increased 56%.

Turning to our second quarter cash performance, we generated $207 million of free cash flow, and we had $298 million of cash on hand at quarter end after completing $101 million of net capital expenditures, $70 million of common stock repurchases, and $70 million of term loan repayments.

Combined with available capacity under our committed borrowing facility, total liquidity at quarter end was approximately $898 million. Our net leverage ratio improved to 2.1 times trailing 12 months adjusted EBITDA compared to 2.3 times at the end of the first quarter.

We're driving meaningful increases in free cash flow generation through a combination of strong earnings growth and moderating capital expenditures. We now expect to more than double our free cash flow for the full year compared with 2025. This gives us greater flexibility in accelerating share repurchases while continuing to strengthen the balance sheet through debt paydown. In July, we paid down another $100 million on our term loan to start the third quarter, bringing our year-to-date debt paydown to $200 million.

And with that, I'll hand it over to Ali to talk through our operating results.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

Thank you, Kyle. I'll begin with our LTL performance, where we delivered another quarter of profitable growth and record margins. For the full quarter, shipments per day increased 2.8% year-over-year, while weight per shipment declined 1.8%, resulting in 1% growth in tonnage per day.

Importantly, volumes strengthened as the quarter progressed. Shipments per day increased 0.2% year-over-year in April, 3.3% in May, and 5.1% in June. Tonnage per day followed a similar trajectory, improving from down 1.5% in April to up 0.5% in May, followed by a 4% increase in June.

We saw the improvements continue in July, with an estimated increase above 6% in both shipments per day and tonnage per day on a year-over-year basis and with weight per shipment roughly flat. All three metrics outperformed normal seasonal patterns.

These trends reflect our ability to consistently earn profitable market share through world-class service in any economic backdrop. In the second quarter, this was amplified by a steady improvement in freight demand. Pricing remained a source of strength throughout the quarter. Yields excluding fuel, increased 4.4% year-over-year and improved sequentially, supported by an acceleration in our contract renewal pricing. Revenue per shipment, excluding fuel, also improved both year-over-year and sequentially.

We expect both metrics to continue improving sequentially in the third and fourth quarters as we align more of our pricing with the value we deliver and expand the mix of accretive business.

Notably, given the improving trend we've seen in weight per shipment, we now anticipate revenue per shipment growth, excluding fuel, to accelerate more than we previously expected in the third and fourth quarters. This is a benefit to both revenue growth and profitability.

Turning to our adjusted operating ratio in LTL, we improved OR in the second quarter by 300 basis points year-over-year to a new company record of 79.9%, outperforming normal seasonality by more than 100 basis points. Over the past three years, through a historic freight recession, we've improved OR by nearly 800 basis points, with plenty of runway ahead.

Our European business also delivered another strong quarter of growth on both the top and bottom lines. We reported record revenue in Europe, marking our 10th consecutive quarter of growth on a constant currency basis. Adjusted EBITDA increased 9% year-over-year and we expect that growth to accelerate in the second half of the year.

Before we move to Q&A, I leave you with three key takeaways from the quarter. First, we're consistently earning profitable market share with an expansive network, differentiated by superior service and a commitment to continuous improvement. This is the basis of our value proposition.

We're also driving above-market pricing growth while unlocking structural productivity gains through AI and other initiatives for network optimization. And finally, we expect our second quarter outperformance to accelerate as freight demand recovers. This is the latest validation of our ability to significantly expand margins over time.

With that, we'll take your questions. Operator, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] The first question is from Ken Hoexter from Bank of America. Please go ahead.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Hey. Great. Really great job and congrats on breaking sub-80 and outperforming seasonality again, great to see. I guess maybe just talking about the outlook going forward, Ali, you're talking about accelerating earnings. I don't know if you want to put some parameters on that if you're talking about levels of operating ratio performance or revenues.

And then, Mario, just at the end, you kind of ran through some of the AI stuff. You're running – rolling out and reduced damages 50%, load quality increased 40%. These are massive numbers. Maybe put some numbers or frame the opportunity here for expenses going forward. Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

You got it, Ken. Well, first, starting on outperformance, I'll start with the third quarter OR. We do expect another strong quarter for margin performance here in the third quarter. And as you know, Ken, normal seasonality for us is for OR to increase 200 basis points to 250 basis points from Q2 to Q3, which normal seasonality puts OR for the quarter north of 82%. But we do expect to significantly outperform that and for our OR to be below 81% here in the third quarter.

And that's a strong outcome overall and it implies another very strong quarter of year-on-year margin improvement. And it's driven by a combination of price, accelerating volumes and cost efficiency. And it puts us firmly on track to outperform our full-year target for margin improvement.

In terms of technology, I mean, as you know, we've always been very tech forward in our thinking. And the solution you referred to is a new solution we're launching for all of our dock workers. It was here in pilot in the second quarter, where every time a dock worker is loading a trailer, they actually take photos every third of the trailer. AI analyzes that photo in real time and tells them what they're falling short on loading, whether a certain pallet needs to be strapped to the wall of the trailer or whether they get to use an airbag or if they're not using safe stack bars. So all of that happens in real time, so the dock workers can actually correct what is happening as they are loading the trailer.

And we have seen tremendous success in the pilot so far and we expect to roll this out across the entire network through the back half of the year. But similarly, all the other solutions around P&D, around dock efficiency, about labor planning, all of these have a massive runway ahead of us here in the quarter, we improved productivity by nearly 2.5 points versus an expectation of 1.5 points. And again, the runway is massive ahead of us for all of these solutions.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Thank you, Mario.

Operator: The next question is from Scott Group from Wolfe Research. Please go ahead.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey, thanks. Good morning. So, it seems like you're clearly going to exceed the margin target for the year. I don't know if you have an updated view on that. And then maybe just more importantly, longer term, Mario, I thought I heard you say in the prepared comments like a low-70s OR, I don't know that I've heard you say that specifically before.

So I don't know, what's your – what do you – how do you think about the timeline to get there, that's give or take another thousand basis points of margin improvement. What are the incremental margins assumed with that or pace of margin improvement you think you can do the next bunch of years? Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

You got it, Scott. So first, I'll start for the full year margin outlook. Based on what we delivered so far in the first half of the year and our expectation for the third quarter, we do expect to outperform our initial outlook, which was to improve OR for the full year by 100 to 150 basis points.

And we now expect full year margin improvement to be at least 200 basis points. And obviously, we'll see what the back half has in store for us. But first, Scott, if you look at the volume side, it has tracked well above-seasonality here more recently. And we're seeing both our initiative in gaining market share as well as the positivity we're getting from customers translating to more freight on our trucks.

As Ali mentioned in the opening remarks, we expect July to be above 6% of tonnage growth here. And that means that for the full year, we now expect tonnage to be up a few points relative to when we started the year, where it was more of a flattish expectation.

On the pricing side, the trends have been favorable, and we expect our pricing trend to continue through the rest of the year. And on the cost side, also our execution has been very strong through productivity, when I mentioned earlier on about the AI initiatives as well. So if you break it down, a lot of great momentum across all of these pieces, and that's going to enable us to outperform our initial full year expectation on margin improvement.

In terms of getting to a low-70s and beyond OR, and this is what really gets us excited about the years ahead. If you look at it today, we have a low teens pricing gap and an opportunity that we're going to go get above-market pricing growth. And if you look at it over the last three years, we have been outperforming the market on yield. Call it 2 to 3 points, sometimes a bit more per year.

And that's driven through a combination of, from one perspective, our service product continues to improve, and we expect we can get a point of extra yield associated with that over a long runway, five plus years. And then the other two components are around premium services and continuing to grow with our small to medium-sized customers.

On premium services, if you recall, when we started our plan, we had 9% to 10% as a percent of revenue being accessorial revenue. And our goal was to get to 15-plus-%. And we are currently halfway through that, and we see a massive amount of opportunities as we onboard new customers on these services.

And similarly on local accounts, we are actually accelerating the growth with small to medium sized customers. Here, both as the quarter progressed in Q2 and July, we've seen a further inflection and improvement there, but we're being able to onboard more of these customers who value service, value relationship, and our goal is to give them a delightful experience every time they ship with us, and we're seeing growth there as well. So that's the big opportunity. Scott, if you look at it, that double digit pricing opportunity is what would get us there and beyond over the next, call it five plus years.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Thank you.

Operator: The next question is from Jonathan Chappell from Evercore ISI. Please go ahead.

Jonathan Chappell
Analyst, Evercore ISI

Q

Thank you. Good morning. Ali, you said you expect the 2Q outperformance to accelerate, and then Mario insinuated something for 3Q without putting a pin on it.

I wouldn't think you expect tonnage and shipments to continue to increase by 6% as per July, but if you play out the string on seasonality for August and September from where you're exiting July, what are we looking for from a volume perspective? And I get the revenue per hundredweight and the revenue per shipment increasing sequentially, and where would that put you relative to kind of the normal seasonal trends on 3Q OR progression?

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

Sure, Jon. So from a volume perspective, as Mario noted, July for us was up over 6% tonnage on a year-over-year basis, and that was about, call it, four points better than normal seasonality relative to the month of June. Typically, what we see is tonnage is usually down in that low to mid-single digit range sequentially, as you move from June into July. This year, it was flattish, and so much better than normal seasonality.

Now if you just roll forward that above-seasonal trend we've been seeing through the rest of the quarter, that would put full quarter tonnage for us up somewhere closer to that mid-single digit range on a year-over-year basis. And keep in mind, Jon, this does account for a comp dynamic we have in Q3, where August and September are tougher comps on a relative basis.

However, if you zoom out, that mid-single digit tonnage growth we expect in the third quarter does imply a meaningful acceleration on a two-year stack basis relative to the second quarter. And ultimately, that speaks to the momentum we're seeing from a demand perspective.

Similarly, from a pricing standpoint, as Kyle noted, we do expect both yield and revenue per shipment ex-fuel to increase sequentially here, both in Q3 and Q4. On a year-over-year basis, we would expect our yield to be up in a similar range as Q2. That's even with the improving weight per shipment trend we're seeing here more recently, as we noted, July weight per shipment was flat on a year-over-year basis, that's a great outcome as it points to an improvement in underlying core pricing.

And ultimately that improvement in weight per shipments is a benefit to revenue per shipment, which is why we do now expect our revenue per shipment ex-fuel to accelerate year-over-year here in the third quarter to a greater degree than we initially expected, and ultimately, that's going to be accretive to both revenue and profit growth. And all of that, Jon, is what underpins the OR outlook that Mario referenced earlier, where we would expect our OR to meaningfully outperform seasonality in the third quarter to be below 81% here.

Ultimately, how much below 81% is going to depend on how demand trends through the rest of the quarter, but we do expect another very strong quarter of margin outperformance here in the near term.

Jonathan Chappell
Analyst, Evercore ISI

Q

Thanks a lot, Ali.

Operator: The next question is from Richa Harnain from Deutsche Bank. Please go ahead.

Richa Harnain
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Yeah. Thanks for the time. You know, I was hoping you could talk about the competitive dynamic a bit more. The strong July performance definitely stands out, and I'm wondering if that's – there's some validation in your outlook that, as things start to heat up, maybe the smaller regional players you compete with struggle a bit more because they've already been, operating at really high utilizations and you're getting that spillover freight or, is this truckload coming back into LTL? Is that becoming a more prominent trend that you're seeing in your weight per shipment, kind of improving? Or kind of just like what's going on in the competitive backdrop that's allowing the strong outperformance? Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Yeah, Richa. So, if you look at that, there are a few dynamics there. The first one, as we've always discussed, industry capacity has been down over the last few years, since the last peak in 2021, where we estimate service center count to be down, call it about 10% as an industry, and door count to be down mid-single digit over that same period of time.

Now, when that industry capacity was shrinking, it was at a time when industry demand was meaningfully down. It was down in the mid-teens through the industrial recession that we have seen over the last three years. So what we're seeing this year is a few dynamics. The first one is around having seen pent up effectively demand for the industrial sector, folks have not deployed enough capital in that industrial – purchasing industrial goods across the country. And that's starting to come back. Now, it's still not yet in full recovery territory, because when you look at it, the ISM has been out in that low to mid-50s so far, year-to-date, all expansionary, which is really good, but we haven't seen yet the over 60 type numbers, which is when the market is fully in upswing scenario.

That said, on the demand side, we are getting a lot of positivity from customers. As you know, we do a survey every year before every earnings call, and our customers, we have now doubled the number of customers relative to the beginning of the year that do expect an acceleration in the back half of the year, which is very, very exciting. And we're starting to see that in existing customer demand, starting to see a pickup in overall volume.

Now, when you break it down between retail and industrial, retail continues to be a positive territory. On the industrial side, what changed from last quarter is that we are seeing manufacturing starting to build momentum, and we haven't seen that in more than three years, which is fantastic to see.

Now on the truckload, you referenced truckload to LTL conversion, we are in the early innings of seeing some of that, where, as you know, truckload rates here today are up more than 40% so far, and we are seeing somewhat – we estimate to be somewhere in the low to mid-single digit total tonnage that has moved from LTL to truckload, and we expect that to come back through the back half of the year or going into next year, if those truckload rates stay consistently high, like they have been here so far with the increase year-to-date.

And the last component, I would say we're taking market share. I mean, we're taking market share for two reasons. One is that we historically, a lot of the premium services that we are offering, we were not participants in. So, we had very low market share, and we're growing those, whether it's grocery consolidation, whether it's must-arrive by date, whether it's trade show shipping, whether it's new store rollouts, all of these are for us ramping over time, which is helping us gain market share.

And as I mentioned earlier on, on local and small to medium sized customers, we continue to grow that book of business as well. So all of these, I think, is what is causing that infection in volume that we are seeing here and a meaningful step up versus seasonal trends as well.

Richa Harnain
Analyst, Deutsche Bank Securities, Inc.
Q

Perfect. Thank you.

Operator: The next question is from Stephanie Moore from Jefferies. Please go ahead. Stephanie Moore, your line is open.

Stephanie Moore
Analyst, Jefferies LLC
Q

Thank you. Good morning. Maybe touching on just the overall pricing environment. One, maybe I just misheard it, but I believe you said contract renewals have accelerated, so if you could just touch on that? Again, apologies if I missed that.

But in general, I mean, I think, help us maybe bifurcate, pricing actions that are more so driven by actions that are within your control. And then pricing that might be or improved pricing that's driven by the underlying environment and what it seems to be, just an overall stronger freight environment. Thank you.

Kyle Wismans
Chief Financial Officer, XPO, Inc.
A

Sure, Stephanie. This is Kyle. So you're right. So when you think about contract renewals, they did accelerate. So we're up in the mid to high single digit range. And I think what's important when you look at renewals and you look at the results, is a strong flow through, we're seeing.

So if you look at the second quarter as an example, I mean, obviously that strong pricing that was above-market really translated strong OR outperformance. And we said in the quarter we're 100 basis points better than normal seasonality, and we improved year-over-year by over 300 basis points.

So I think what we're seeing right now is really a productive pricing environment. And we think that's going to continue as the market continues to improve. And as Mario said, we have a lot of different strategies that we're deploying to really continue to drive strong pricing for here in the remainder of the year.

Stephanie Moore
Analyst, Jefferies LLC

Q

I guess, [Technical Difficulty] (00:29:59).

Operator: The next question is from Jason Seidl from TD Cowen. Please go ahead.

Jason H. Seidl
Analyst, TD Cowen

Q

Thank you, Operator. Mario, team, nice job in the quarter and sort of impressive outlook here. A couple of questions, given the better trends that you're seeing, in terms of the demand side, and if we extrapolate them for 3Q and 4Q, where are you guys going to exit the year in terms of available capacity? And also, how should we look at head count given these better trends?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Great question, Jason. So if we first look at it on the capacity side for doors and equipment, I'll start with rolling stock. We're feeling great for rolling stock. I mean if you think about it, we've added more than 30% more trailers, more than 20% more tractors, and that's going to give us the runway for the next few years as we continue to invest in our fleet, to be able to handle any demand environment.

A similar dynamic for the door side, usually in a down cycle as an LTL carrier, having in excess of 30% door capacity is very helpful, because that enables you to be able to take on more volume when the upcycle comes and you can support both your existing customers as well as gain profitable market share gains. And we're feeling great about where we are on that portion of it as well.

And not all capacity, Jason, is created equal, because you can imagine as a network business, you could have certain markets where you are short on capacity and this is where we have done our investments. A lot of the investments we've done, whether it's in the south or the southeast or the southwest, we're all driven in areas where historically we had capacity constraints and now we are actually feeling great about where we are.

If you look at a market like Nashville or Atlanta or in Texas or in the Midwest, I mean, we've done a really good job in complementing our network and adding those mega facilities in those very large markets to be able to support our customers in the context of an upcycle.

On the labor side, on the head count side, we feel very good about where we are right now. From one perspective, we continue to improve productivity, as I mentioned earlier, and that gives us an incremental amount of labor capacity where you can do more with the existing head count that you have.

Now, if you look at over the last few years, we are only down slightly on head count, so relative to where we were in the month of July, we can handle another low-to-mid single digit, more shipments with the existing workforce and by ramping up hours back up. But we've also been proactive in hiring as well, based on what we're hearing from customers and what we're seeing in the demand environment, in some markets, we've already ramp up our hiring efforts and we're seeing very, very good traction so far.

Now, if the industry demand recovery accelerates further from here and we see a hockey stick type demand recovery, we're also confident in our ability to further expand the workforce. As you know, our employee turnover is the best it's ever been and we can spin up more than 130 driver training schools to help support our growth there as well. So, on all aspects of capacity, we're feeling great. We're going to be right there to support our customers and grow with them in the context of a demand recovery.

Jason H. Seidl
Analyst, TD Cowen

Q

That's helpful color. Appreciate the time as always.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Thank you.

Operator: The next question is from Jordan Alliger from Goldman Sachs. Please go ahead.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Hi. Morning. So, it's been a while since weight per shipment, I think, got back to flat or positive. I'm just curious if you could give some thoughts from here. Is your expectation that will move into the positive at this point in time?

And then, just real quickly on just a price follow-up, if we do have that broadening industrial recovery that we're hoping for, given you're already seeing very strong pricing, can price be pushed up even further from here? Thanks.

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

Sure, Jordan. I'll start on weight per shipment and then pass it to Mario to talk about the pricing outlook. From a weight per shipment standpoint, we are seeing encouraging trends.

Here in the second quarter, our weight per shipment improved by about a point on a year-over-year basis relative to the first quarter, also outperformed seasonality as you move from Q1 into Q2. Now, here, more recently, we've seen weight per shipment improve even further.

In the month of July, weight per shipment was flat on a year-over-year basis. That was also better than typical seasonality relative to July and it's ultimately being driven by that improvement in the underlying industrial demand backdrop that Mario referenced earlier.

If you just roll forward what we've been seeing here more recently, it would put weight per shipment down year-over-year in the third quarter. That does factor in a tougher comp that we have in the month of August, which subsequently gets easier in September. However, we do expect weight per shipment to be down less year-over-year in Q3 versus Q2.

Now, Jordan, as you cycle into the fourth quarter, we do see a scenario where weight per shipment starts to inflect positive on a year-over-year basis, entering 2027. Ultimately, that's going to be driven by the demand environment and how much further it improves from here, but we do expect weight per shipment to start to inflect positive on a sustainable basis here over the next few months as we enter the ending of the year.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Jordan, when you look at the industry pricing overall, we are starting to see a more constructive industry pricing environment. As I mentioned earlier, you have a dynamic where you have demand in the early innings of picking up and then you have capacity that has gone out of the market.

So, we do believe that you're going to see an industry overall pricing recover over the quarters and years to come. Now, the way we think about it, I mentioned earlier on the runway that we have above-market to grow our yield performance, which is call it a 2 points to 3 points of outperformance between the premium on service, premium services and growing to small and medium-sized customers.

Now, in a soft macro environment, and as you know, we've been in a trade recession for three-plus years, you see typically LTL pricing be up in that low-single digit. And our expectation is that we would outperform that by 2 points to 3 points on a consistent basis.

As the environment starts picking up, you will see industry pricing go up to mid-single digit and then we'd expect to outperform that. And then, eventually, when the industry pricing gets up to mid-to-high single digit in a full-blown recovery, we'd expect to outperform that by a few points there as well.

So, that's how we think about the trend and we believe we are currently in the early innings of what would be a multiyear recovery with industry pricing going up, demand going up, being constrained by capacity for the players who have not invested in growing capacity.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: The next question is from Chris Wetherbee from Wells Fargo. Please go ahead.

Chris Wetherbee
Analyst, Wells Fargo Securities LLC

Q

Hey, thanks. Good morning, guys. I wanted to ask you about productivity. So, you outperformed productivity target again in the second quarter and you've done that a number of the last several quarters. I guess, as we think forward, what I guess seems to be different is the fact that tonnage is inflecting more positively here. So you're able to get the productivity without the help of volume.

I'd imagine productivity is probably a bit easier as we go with volume growth, but maybe you could help sort of lay out what you think maybe is the right way to think about productivity. Is it still sort of a 1.5 on a year-over-year basis, do you think it can be better kind of in a more favorable demand backdrop?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Well, overall, you're spot on that, Chris. Whenever you see higher volumes, you tend to be more productive, because you have more density in your network.

Now, that said, these things are not linear in terms of how you improve that over time. And for us, our target is a 1.5 point, call it, over the next X number of years, based on all the solutions that we are deploying, our AI capabilities and what we're doing. But we have been outperforming that number.

When you look at the post-Yellow bankruptcy and you saw a uptick in overall freight volumes above-seasonal trends, we also were able to improve productivity meaningfully higher over that period of time. But again, it's not linear. Our expectation is 1.5 point a quarter. And if you zoom out and you look on a multi-year trajectory, we do expect to outperform that as well, given our proprietary technology firing on all cylinders, but also obviously field execution, being very disciplined in how we're executing in the field.

Operator: The next question is from Tom Wadewitz from UBS. Please go ahead.

Thomas Wadewitz
Analyst, UBS Securities LLC

Q

Yeah. Good morning. I wanted to see if you could offer a little bit of a thought on how inflation may affect the business. Obviously, you're seeing good price, good tonnage, great operating leverage, but how do you think about where maybe there are some inflationary pressures?

And I guess, I'm thinking comp and benefits in particular. That's your big expense line. And maybe how that affected in 2Q and how you look forward with that. Also, I guess related to that is just in the driver market, I think we've heard some feedback that some of the tightening in LTL, aside from – is maybe not terminal driven, but more so drivers getting a little tight. I don't know if you see that or if that's a factor in terms of how you look at inflation. Thank you.

Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

Sure. Tom. So you think about inflation. I think overall inflation we see in the mid-single digit range. I think you're right. I think the core of that really is the wage inflation you would expect to see.

And I think beyond that, I think more broadly, you'll see a point or two from vehicular and health insurance as you would expect. I think if you look at where we see that, we'll see that certainly on the [ph] SWB (00:39:26) line we see in the second quarter.

So we saw some inflationary pressure there this quarter. I think beyond that, obviously, something like higher volume shipments will play a factor there. We also did have some incentive comp, but I think the important point there is really the productivity.

And Mario already spoke to productivity, but having 2.5 points of productivity in the quarter really helped us manage that. So when you think about the core inflationary pressure really being on labor, we're always going to look to manage labor and ensure labor is adjusted to the freight we have on the docks. And I think we've been effective in doing that, which you can see in the results.

Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

And in terms of the driver. Go ahead, Tom...

Thomas Wadewitz
Analyst, UBS Securities LLC

Q

Oh, I was just going to say, you mentioned some of the incentive comp or other pressure in 2Q. Would we expect to see that 3Q looking forward as well, or is some of that temporary 2Q?

Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

I think from what you'll see as far as the components that will impact us in the back half, I think you'll see some of the similar components. So certainly the wage and benefit inflation will be there. The higher incentive comp will be there as well.

I think the important point, though, that's contemplated in our outlook for the back half of the year. When you think about the overall OR for the year, improving by more than 200 basis points, we're already taking that into consideration.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

In terms of the driver market, Tom. So we are seeing the hiring markets tighten, and we believe it's a component of that is what's happening in the truckload space where you have capacity that is going out. So you have a lot of the larger fleets and the larger carriers who are now hiring drivers as well.

That said, given our benefits and comp packages for our drivers, and given the fact that we have a very young fleet, I mean, our average truck age is sub-four years. We've been very successful in being able to add drivers in some markets where we needed to, and we're seeing very good traction there as well. But the market is tightening on hiring as well.

Operator: The next question is from Brian Ossenbeck from JPMorgan. Please go ahead.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for taking the questions. Maybe just real quick. Firstly, commentary on fuel. Obviously, you're still swinging around a little bit, probably still will, impact in the current quarter and how are you thinking about that in the outlook?

And then just more broadly, maybe for Mario, can you just talk about the mix seems to be shifting a little bit, just based on the weight per shipment trends inflecting more positive.

Can you just talk more about the 3PL layer, I guess, or that part of the structure, because it seems like others are having problems with that in terms of their pricing. It looks like you're younger industrial flow through than maybe some other companies we've heard of so far. So I wanted to see if there's anything you could point to in terms of why there's a relative difference with some of your peers to the extent you've got visibility on that. Thanks.

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

Sure, Brian. This is Ali. On the fuel side, when you look at our second quarter performance and our ability to outperform seasonality and deliver that 300 basis points of year-over-year improvement really goes back to the strong operational execution that we're delivering tied to our accelerating pricing, the profitable market share gains, the above productivity, target that we're delivering.

Now certainly fuel helps, but I think if you zoom out and you look at over the last three years, we've delivered nearly 800 basis points of OR improvement, in an environment where fuel was down for the majority of that period.

And again, I think that speaks to the strong underlying operational execution that we're delivering. Here in the third quarter, based on what we're seeing with diesel prices, we do expect diesel prices to be down quarter-over-quarter, and subsequently, for our fuel revenue to also be down on a quarter-over-quarter basis. Even with fuel down quarter-over-quarter, we would expect to meaningfully outperform normal seasonality here in the third quarter and for the full year and deliver very strong performance.

Now on the 3PL side, transactional 3PL mix is the smallest part of our business as a whole. And typically what you'll see, Brian, is that carriers will work more with 3PL in softer and volume environments like we've been in over the last few years. But then as demand improves, you'll typically see that come lower.

And that's what we've seen here more recently, as our volumes have accelerated through the second quarter and into the third quarter, we've seen our 3PL mix decline on a sequential basis. Overall, if you zoom out, we're focused on OR accretive freight that fits our network. Ultimately, if it checks those boxes, we're going to pursue it. So we think about that business very similar to the rest of our book.

Operator: The next question is from Ari Rosa from Citigroup. Please go ahead.

Ariel Rosa
Analyst, Citigroup Global Markets, Inc.
Q

Hey. Good morning. Congrats on some nice results here. Guys, I wanted to ask about the performance in Europe. It seems like it continues to improve. Just maybe if you could speak to the sustainability of that, what you're doing differently there.

And then I noticed the transaction and integration costs were somewhat elevated or maybe it was restructuring costs in the quarter, maybe just speak to what that is and if that continues? Thanks.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.
A

You got it. I'll start and I'll turn it over to Kyle on the restructuring side and the near term results. But high level in Europe, we are driving a similar plan to what we drove here in the US in terms of cost control, leaning into sales and hiring more salespeople, growing into new verticals.

For example, we didn't use to do any work in luxury goods or aerospace or healthcare or meaningful work or technology. And all of these are now verticals that we are actively pursuing, and we are on a very, very good trajectory of growth.

As Kyle mentioned earlier, we grew EBITDA in that business here in the second quarter in the high single digit range, and we expect to grow our EBITDA in the high teens, in the back half of the year. So we're seeing a very good acceleration of results driven by the execution of our plan.

Now, ultimately, our goal is to sell that business, but we're patient, we want to get the right price for it. And when the time is right, we're going to sell that business based on that very strong momentum here of operating performance.

Kyle Wismans
Chief Financial Officer, XPO, Inc.
A

And in terms of restructuring costs, I think the majority of the costs we saw in the quarter relate to restructuring in Europe, and what we were doing there is really taking structural cost out. That was really some efforts focused on the salary and the functional support teams. It's really going to help them streamline the operation moving forward.

I think what's important there is you're seeing it flow through into results. As we said, Europe up 9% year-over-year growth in the second quarter, and that growth is going to accelerate in the back half of the year within the European business. It's also important to note that those restructuring spend that we're seeing in the second quarter will step down for the remainder of the year.

Ariel Rosa
Analyst, Citigroup Global Markets, Inc.
Q

Very helpful. Thanks.

Operator: The next question is from Bascome Majors from Stephens, Inc. Please go ahead.

Bascome Majors
Analyst, Stephens, Inc.
Q

Thanks for taking my questions. You've given us a bit of a look forward with the longer term margin target quantified and talking about, the yield spread that you'd expect to maintain and where the market might go if it continues to remain tightened. Can you give us a big picture look at what the cash flow and incremental margin algorithm might look like for the business over the next couple of years?

I mean, I know you don't want to guide demand out that far, but just with all of the changes and acceleration and productivity that we've seen today, just update us on sort of the long term algorithm of the business. Thank you.

Kyle Wismans
Chief Financial Officer, XPO, Inc.
A

Sure, Bascome. It's Kyle. So I want to start with free cash flow. We've been talking just about this year for a second, so if you look at 2026, we started the year thinking we were going to improve free cash flow by 50% on a year-over-year basis. At this point, we're far ahead of that expectation. As we said in the prepared remarks, we now expect it to at least double year-over-year, really driven by two major factors.

So one is continued ability to drive higher income, and the second is CapEx moderating. If you think on long term how that translates, we think our EBITDA conversion is going to continue to accelerate as earnings continue to grow. And we're going to have a moderation in our CapEx profile, as we've seen over the last couple of years, which really means we're going to be able to generate billions of dollars of free cash flow in the coming years, with compounding earnings growth and our ability to really accelerate both our share repurchase program and our debt paydown.

So we're really excited about what cash can do for us and how it translates in the future. I think from the other standpoint, from an incremental margin view, I think over the cycle, we think it can generate 40% incremental margins and we've demonstrated that so far, it's going to depend on the mix of volume and price, but I think over the long term, as Mario talked about, we expect yield to be the bigger driver of the contributor top line growth. And that's going to have very strong growth at the bottom line.

So we also talked about our yield initiatives, whether it's growing local, whether it's growing premium or otherwise. They're really early innings for us, and there's a long runway to grow. So we expect really, really strong incremental margins moving forward, at least in the 40% range through the cycle.

Bascome Majors
Analyst, Stephens, Inc.

Q

Thank you.

Operator: The next question is from Bruce Chan from Stifel. Please go ahead.

J. Bruce Chan
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah, thanks and good morning, everybody. Just want to come back to some of the comments on demand. Mario, you mentioned that part of the volume outlook is coming from market share, which I think makes a lot of sense with your service levels and your sales force investments.

But any sense for how much of that volume outlook is idiosyncratic versus what's coming from the market? And maybe as part of that, any color on what you're seeing by end market would be helpful, too. Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Hey, you got it, Bruce. Well, first, it's coming from the combination of three things I mentioned earlier on. From one perspective, we are gaining market share. From one perspective, we're starting to see a truckload back to LTL conversion, but that's very early innings, and we're starting to see the industrial economy further strengthen as we are heading here into the back half of the year.

So these are the three. It's tough to estimate because in any given month, you have a combination of all of these things that kind of work in your favor. And we believe currently the bigger component is our idiosyncratic market share gain levers, but at the same time, we're seeing the other two starting to contribute as well.

And we're currently, I mean, if you see there is a scenario here where you see both of these levers accelerate meaningfully in the back half of the year, that's not contemplated in our outlook yet, so obviously, we'll see if that industrial economy picks up from here, and you see eventually you start seeing a hockey stick type recovery on the tonnage side. But that's not contemplated in our outlook at this point in time.

Now, in terms of the market share gain, just to kind of give you some color, we spoke about small to medium sized customers. If you look at last year, we were run rating with our very strong growth in that segment of business, we were roughly run rating at about 2,500 new logos, new customers, a quarter in that particular channel. And here in the second quarter, we were at 2,700 to 2,800 customers that we have added. So, a step-up from where we were at the run rate of last year.

Similarly, on premium services, I'm very proud of the team driving those on the sales side and the operations side to execute on them, because we're seeing very strong momentum in those services as well that are contributing to our tonnage growth.

In terms of end markets that we are seeing growth in, so high level, I'd say retail so far this year has been consistently positive, but modestly positive. But still, the consumer is in a healthy place. We're still seeing that demand be in a good place overall.

When I look at the industrial side, last quarter, we spoke about electrical being strong, chemical – industrial for chemical industry being strong, equipment for agriculture being strong, heavy equipments being strong. And now what we have seen here in the second quarter, especially as we progress through the quarter, is manufacturing is starting to build its momentum as well. And if that continues, because that's one of the largest parts of the industrial cycle with industrial complex, we could see, obviously, things further improve in the back half of the year from an overall demand perspective.

But generally optimism of customers is higher. Demand is starting to pick up. Again, it's early innings. So, there is a scenario here, if we continue to see that ISM plays into higher industrial freight, but we see a stronger recovery even in the back half on the tonnage side.

J. Bruce Chan
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thank you.

Operator: The next question is from Ravi Shanker from Morgan Stanley Investment Management. Please go ahead.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. Morning, everyone. Just a couple here, follow-ups. Mario, I think you said you're going to have a double-digit pricing opportunity in the next five years. Can you just talk about what the slope of that looks like and maybe remind us what the expected pricing lag in terms of timing might be relative to TL?

And also, I think you said that you think the network can absorb about mid-single-digit volumes here before you need to start bringing resources back. Sounds like you're going to get there next quarter, unless I'm misunderstanding that comment. And so, can you just talk about when and how much you think that resource addition might actually start to show up? Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

You got it, Ravi. Well, first I'll start on the pricing opportunity. We do expect it to be fairly consistent in terms of outperformance. So we don't see the slope outside of the market pricing and what that does. But in terms of our outperformance or the double-digit opportunity, we see that as being fairly steady in that 2 points to 3 points higher than market average pricing is the way we expect that to roll out over the next five plus years and that will be driven by the three levers I mentioned earlier on.

So, taking a bit more price, given the improvement in service quality and then obviously growing more from a mix perspective with the small-to-medium sized customer and the premium services. And just to quantify them, Ravi, we estimate about 1 point coming from the better service product per year on top of what the market is doing, 1 point would be coming from our premium services growing and us taking market share in those.

And some of these were still very, very early innings. You look at a market like grocery consolidation, we still have a speck of that market, but we have a fantastic pipeline and the business keeps on growing in that segment of business, just as one example of those. But we would expect that as being roughly at a run rate of an incremental point per year on the price side.

And the last component is for the small to medium sized customers. We do expect that to be at a clip of about 0.5 point of incremental price, driven by that portion of business as we continue to grow.

In terms of the network absorbing more volume, so we already have started, in the second quarter, our hiring efforts in some – ramping up hiring in some markets. And we've had great success so far, Ravi, in that. As I mentioned earlier, the benefits we offer between what our network is, the equipment that we have, we've been able to grow in a very, very good way in those markets we want to hire.

And then, obviously, we'll see where the market goes from here. If we start seeing double-digit type tonnage growth, obviously we're going to lean into the markets where we need the incremental folks and kind of go from there to add the people that we need.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Sounds good. Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Thank you.

Operator: The next question is from Christopher Kuhn from StoneX. Please go ahead.

Christopher Kuhn
Analyst, StoneX Group Inc.

Q

Yeah. Hi. Good morning. Thanks for taking my question. I'm just curious how the newer terminals have done that you've opened in the past couple of years and how that might be benefiting your overall performance?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Overall, Chris, the new terminals have been fantastic for us. And the reason why, because we already operate in all of the regions where we added those terminals. So, from the ones we've added, around half of them were relocations where we went from a smaller terminal to a bigger terminal and the other half were incremental adds in existing markets.

But just to kind of give you an example, I always give the example of, for us, the city of Nashville, where we used to have a location southeast of the city and given the amount of freight we used to break every night in that location, we used to handle, call it, 4 million pounds of freight in our overnight shift and we didn't have enough door capacity or yard capacity to manage through that.

So, since then, we used to also every day dispatch about 35 drivers to go up north of the city of Nashville, up an hour north to get to Goodlettsville. So, since then, we opened up a breakbulk location west of Nashville, 250 doors, 50 acres of land, one of the largest [indiscernible] (00:55:51) terminals in the city of Nashville. And that enabled us to expand capacity, improve line-haul efficiency and then the new location in Goodlettsville enabled us to improve our P&D efficiency.

So, what we have seen is a step-up in both pickup and delivery and line-haul efficiency in the markets where we opened up these locations in, while giving us the runway to be able to handle much more customer freight in these markets where we needed it.

So, what we have seen so far, a very quick ramp on productivity and improving of the operational performance from a cost standpoint, but also enabling us to handle more freight for the customers as well. We've executed on those in a very, very strong way.

Christopher Kuhn
Analyst, StoneX Group Inc.
Q

Thanks, Mario. Very helpful.

Operator: The next question is from Eric Morgan from Barclays. Please go ahead.

Eric Morgan
Analyst, Barclays Capital, Inc.
Q

Hey. Good morning, guys. Maybe just a couple quick ones. On line-haul insourcing, I think your slides showed a slight uptick sequentially. I realize it's small, so maybe just noise, but curious if anything to call out there and where you might see that going from here. And on Europe, just given the momentum in that business, any update or progress on strategic alternatives that you'd call out? Thanks.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.
A

Yeah. I'll start on the European side. But as I mentioned earlier, our goal, Eric, is to eventually sell that business. But we are patient on the price we want to get that.

If you look at the capital markets in Europe and generally the economy in Europe, although our business is outperforming meaningfully what we're seeing in the market, that's not the case in Europe.

So in Europe overall, the economy I would say is flattish, slightly slow. But through execution, gaining market share, leaning on price, as Kyle mentioned, leaning on cost control and efficiency, we have been able to outperform the market here.

But at some point, when we get the right price for it, we're going to sell that business and we're going to use the proceeds to further accelerate our capital return to shareholders is how we think about it overall.

Kyle Wismans
Chief Financial Officer, XPO, Inc.
A

And then just quickly on the line-haul miles. So our outsourced miles were in the mid-single digit percentage range of total miles. That's actually the lowest level we've had in our company history. And if you look forward for the remainder of the year, it's the level we expect to be at for the rest of 2026. We're in a great spot there. I think it really reflects what we've been able to do to insulate the P&L from any concern on truckload rates moving forward. So we feel like we're in a really good spot there for the remainder of the year.

Eric Morgan
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: There are no further questions at this time. I would like to turn the floor back over to Mario Harik for closing comments.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

Thank you, operator, and thank you, everyone for joining us today. As you saw, our strategy has delivered another quarter of strong results, driving outsized value creation. And looking forward, we'll continue to grow the business, expand our margins, and deliver higher free cash flow for years to come. With that, I'll ask the operator to please end the call.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.