REFINITIV STREETEVENTS

EDITED TRANSCRIPT

XPO.N - Q2 2021 XPO Logistics Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2021 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q21 revenues of over $5b and adjusted diluted EPS of $1.86.

CORPORATE PARTICIPANTS

Bradley S. Jacobs *XPO Logistics, Inc. - Chairman & CEO*

David B. Wyshner *XPO Logistics, Inc. - CFO*

Mark Andrew Falzon Sant Manduca *XPO Logistics, Inc. - CIO of Logistics*

Matthew Jeremy Fassler *XPO Logistics, Inc. - Chief Strategy Officer*

CONFERENCE CALL PARTICIPANTS

Amit Singh Mehrotra *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Christian F. Wetherbee *Citigroup Inc., Research Division - MD & Lead Analyst*

Jason H. Seidl *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Ravi Shanker *Morgan Stanley, Research Division - Executive Director*

Ryan Patrick Gunning *Jefferies LLC, Research Division - Equity Associate*

Scott Andrew Schneeberger *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Stephanie Lynn Benjamin *Truist Securities, Inc., Research Division - Associate*

Todd Clark Fowler *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

PRESENTATION

Operator

Welcome to the XPO Logistics Second Quarter 2021 Earnings Conference Call and Webcast. My name is Rob, and I'll 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, 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 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 webcast.

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

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, operator. Good morning, everybody. Thanks for joining our call. With me today in Greenwich are David Wyshner, our CFO; Matt Fassler, our Chief Strategy Officer; and Mark Manduca, the Chief Investment Officer of GXO, our planned logistics spin-off.

As you saw yesterday, we delivered the highest revenue and adjusted EBITDA in our history. It was the highest company-wide and in each of our Transportation and Logistics segments. We generated over $5 billion of revenue and over $0.5 billion of adjusted EBITDA. It was the third consecutive quarter we reported record revenue and adjusted EBITDA. Not only did we solidly beat all expectations, we surpassed a great first quarter with an even better second quarter. It gives both our segments a powerful springboard for profitable growth as separate public companies.

Customer activity has more than come back from 2020, and we're executing extremely well across the business. Yesterday, we raised the midpoint of our 2021 EBITDA guidance for the combined company by more than the second quarter beat, and we raised the pro forma EBITDA guidance for both XPO and GXO. Every area of the business is showing strength. In North American LTL, we're continuing to expand our operating margin, primarily through company-specific technology initiatives. As a result, our second quarter adjusted operating ratio ex real estate gains was our best operating ratio yet.

In truck brokerage, we're continuing to outperform the industry. This is due in no small part to the rapid adoption of our XPO Connect digital platform by customers and carriers. Our Logistics segment delivered the second consecutive quarter of double-digit organic revenue growth. The new contracts we talked about on our last earnings call have been followed by more wins in the second quarter and a constant inflow of new opportunities. I'm confident that the spin-off of this business will unlock the full potential of both GXO and XPO.

After we ring the opening bell at the New York Stock Exchange on Monday, GXO will start trading as the largest pure-play contract logistics company in the world. This is a business with a rare combination of attributes. GXO is an industry leader with massive revenue tailwinds, double-digit EBITDA growth, long-term contractual relationships with blue-chip customers and importantly, a 28% return on invested capital. XPO will be a pure-play transportation company with an LTL business that's on track to generate at least $1 billion of adjusted EBITDA in 2022, and a booming truck brokerage business with a fast-growing digital platform.

I want to take this opportunity to thank David for his service as Chief Financial Officer. As we announced yesterday, David will be leaving in September after a seamless handoff to Ravi Tulsyan, our Deputy CFO. David has made many significant contributions to XPO's success as a member of our executive team. I particularly want to thank him for his strong leadership during COVID and throughout the spin-off process. I have no doubt David will continue to be successful in this next step of his career.

And now he'll take you through the numbers. David?

David B. Wyshner - *XPO Logistics, Inc. - CFO*

Thank you for those comments, Brad, and good morning, everyone. Today, I'd like to discuss our second quarter results, our balance sheet and liquidity and our updated outlook for 2021. I'll be presenting most numbers on a status quo pre-spin basis with post-spin breakouts between XPO and GXO where appropriate as we anticipate the completion of the spin-off on Monday.

In the second quarter, we generated revenue of $5 billion and adjusted EBITDA of $507 million. The revenue number reflects a year-over-year increase of more than 40%. Adjusted EBITDA nearly tripled compared to our Q2 results last year when COVID was at its worst. And both revenue and adjusted EBITDA are higher than we expected at the beginning of the quarter.

Our record adjusted EBITDA reflects strong growth and continued execution across our business. In this case, it's also useful to compare our results to the second quarter of 2019, which takes COVID out of the base period. On a 2-year stacked basis, our revenue and our adjusted EBITDA are both up double digits.

Breaking down our 44% year-over-year revenue growth in the quarter, our U.K. logistics acquisition in January contributed 4 points of growth, foreign exchange contributed 5 points and fuel prices contributed 4 points. As a result, our organic revenue growth in the quarter was 31%. This top line growth translated into even stronger adjusted EBITDA growth of 195%, and our EBITDA margin rebounded to 10%.

COVID had a much more limited impact this year compared to last. As a consequence, our second quarter results this year with $0.5 billion of adjusted EBITDA in the quarter are much more representative of our earnings power.

As Brad mentioned, both of our segments made a strong contribution to our growth and achieved record levels of quarterly adjusted EBITDA. In our Logistics segment, adjusted EBITDA doubled in the second quarter. And in our Transportation segment, adjusted EBITDA was up year-over-year by 168%.

Operating conditions in the quarter were favorable with robust consumer demand and a rebound in industrial activity. The global microchip shortage did impact our transportation operations. We estimate that it reduced our EBITDA by around $10 million in the second quarter. On the other hand, our results benefited from the operating leverage inherent in our business and the cost reduction actions we took last year. Matt and Mark will review our segment detail in a few minutes.

Our adjusted earnings were $1.86 per diluted share, which is a quarterly record for us. We generated $366 million of cash flow from operations in the second quarter, spent $110 million on gross CapEx and received $26 million of proceeds from asset sales. As a result, we generated free cash flow of $282 million. This exceeded our expectations for the quarter, driven by our strong earnings as well as some CapEx and working capital timing that worked in our favor. Maintaining strong liquidity continues to be a top priority for us as an organization. Our cash balance at June 30 was $801 million. This cash, combined with available debt capacity under committed borrowing facilities, gave us nearly $2 billion of liquidity at quarter end. We had no borrowings outstanding under our ABL facility.

We used $128 million of cash in the quarter to repurchase the remaining 3% of our European operations held by public shareholders. While this transaction wasn't required for the GXO spin-off, it's an economical, simplifying, cost-saving cleanup of our capital structure that we've wanted to do for some time.

Our net leverage at June 30 was 2.4x LTM-adjusted EBITDA, down from 3.1x in March. Our free cash flow and our EBITDA growth are helping us achieve meaningful deleveraging. Our steady progress on this metric is important in the context of our commitment to move XPO toward an investment-grade rating following the spin-off of GXO.

We've stood up GXO with an investment-grade capital structure. Earlier this month, GXO completed an offering of $800 million of long-term debt with a weighted average interest rate of 2.2%. We've also put in place an undrawn $800 million revolving credit facility for GXO. Most of the proceeds from the GXO debt offering will be sent to XPO, and GXO will retain about $100 million of cash post spin. Shortly after the spin, XPO will use the cash it receives from GXO as well as the nearly $400 million from our recent equity offering and cash on hand to repay all of our outstanding 6.125% notes due 2023 and the 6.75% notes due 2024, a total redemption of $1.5 billion that should reduce our annual interest expense by $100 million.

Following the spin, XPO's net leverage will be roughly 2.8x 2021 pro forma adjusted EBITDA, and we will have no significant debt maturities until 2025. We believe our debt paydown will move XPO closer to investment grade. From a housekeeping perspective, let me clarify the financial information that is and will be available about GXO and post-spin XPO. GXO's historical and pro forma results are available in the Form 10. In addition, in August, GXO will file its own 10-Q and will also provide supplementary detail on its historical pro forma EBITDA by quarter. XPO will file an 8-K next week with pro forma financial information reflecting the spin-off as required. In addition, in the third quarter, we intend to provide additional details about XPO's historical results with logistics classified as a discontinued operation. And for modeling purposes, since the spin-off is of the Logistics segment, a high-level way to understand XPO's historical results adjusted for the spin is to look at the combination of our Transportation segment and corporate results.

Turning to the outlook we issued yesterday. We updated our full year guidance in light of our strong second quarter results and the favorable economic trends we see today. Our outlook assumes these trends will continue and the market impacts of COVID will remain muted. On a combined basis, we've increased our full year adjusted EBITDA guidance by $45 million at the midpoint since early May. We now expect that we would generate $1.875 billion to $1.915 billion of adjusted EBITDA this year if there was no spin, with year-over-year growth revised upward to 29% to 33% in our Logistics segment and 35% to 37% in Transportation.

On a pro forma basis, as if the spin had happened on January 1, our outlook translates into $605 million to $635 million of pro forma 2021 EBITDA for GXO, and $1.195 billion to $1.235 billion of pro forma EBITDA for XPO. These figures take into account the separate corporate costs of each company.

In the third quarter, our year-over-year growth metrics will normalize compared to the outsized growth we reported for Q2. We expect that GXO's and XPO's adjusted EBITDA in the third quarter will both be in the mid-20s as a percentage of their respective full year pro forma EBITDA outlook. We expect about $5 million of gains from LTL real estate sales in Q3 versus $26 million in last year's third quarter. LTL real estate gains in Q4 will be higher than they were last year. So our back half seasonality will look a little different this year compared to last. In total, we expect $55 million to $60 million of gains from LTL real estate sales this year versus $77 million last year.

On the cash flow front, on a combined basis, our outlook is for full year free cash flow of $650 million to $725 million, excluding spin-related outlays. We also continue to target approximately $675 million of gross capital expenditures and $525 million of net CapEx for the combined company. Of these amounts, we estimate that GXO will have roughly $245 million of CapEx and stand-alone XPO will have about $430 million of gross CapEx and $280 million of net CapEx. Our depreciation and amortization, interest expense and tax expense will be split among GXO and XPO as a result of the spin. We provided the details in our earnings release.

And as a result of our recent primary equity offering of 2.9 million shares, we now forecast having roughly 114 million diluted common shares outstanding on average this year and roughly 116 million diluted common shares on average in the second half.

We said in May that we were proceeding towards the spin-off of our Logistics business with the wind at our back. Our record second quarter results have borne that out. We've continued to grow our revenue and execute against our business plan, while we've readied our businesses for the spin transaction, and we've continued to serve our customers without missing a beat. As a result, GXO and XPO remain strategically well positioned to meet customer needs and capture profitable growth opportunities in logistics, LTL and brokerage. We remain enthusiastic about our prospects as a leader in the markets we serve, and we look forward to completing the GXO spin-off on Monday.

Lastly, on a personal note, I'm incredibly grateful to have had the opportunity to work with Brad and everyone at XPO as a member of the company's senior leadership team. Helping to shepherd XPO through the pandemic and prepare for the GXO spin-off has been very gratifying. I know that Ravi, Baris and their finance teams are well positioned to drive XPO's and GXO's future progress, and I wish them every success.

I'll now turn things over to Matt.

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

Thanks, David. I'll review the second quarter operating results for our Transportation segment, and then Mark will cover Logistics. The strength we saw in LTL reflects the backdrop of improving demand, a healthy pricing environment and importantly, the impact of our own operating initiatives, all of which have significant runway ahead.

Our LTL revenue growth accelerated sharply. We grew revenue by 37% year-over-year. If we exclude fuel, we grew revenue by 31% year-over-year. It's true that we've cycled the worst of the COVID impact in 2020, but we also gained ground on an underlying basis as revenue per day ex fuel grew 10% from Q1, outpacing typical seasonality. All told, these were our strongest growth rates in LTL since we acquired the business in 2015. We grew tonnage per day by 23% year-over-year. Our sequential increase in weight per day also outpaced typical seasonality. Shipments per day rose 17%. Here too, we outpaced the typical seasonality. And it's notable that the acceleration in growth for our largest vertical, industrial and manufacturing, outpaced the pickup in retail and e-commerce. Based on comparisons to the period prior to the pandemic, there's still room for our industrial customers to regain ground as production continues to gear up.

At the same time, LTL is becoming more central to the consumer ecosystem, as the growth of e-commerce creates more demand for the staging of smaller quantities of goods closer to consumers. Our weight per shipment increased 6%. This compares to a 1.3% increase in the first quarter. Our 1.4% sequential increase in weight per shipment exceeded the typical seasonal trend, and the pickup was broad-based across verticals. Yield, excluding fuel, rose 4.5% year-over-year. Price increases on contract renewals were 8% and accelerated from Q1 with the underlying impact of the increase offset in part by higher weight per shipment. Revenue per shipment, excluding fuel, grew 10.7%, accelerating sharply from the 5.5% growth we had in Q1. This reflected the acceleration we saw in both yield and weight per shipment and helped create the operating leverage we realized this quarter.

Our LTL adjusted operating ratio was 80.6%. Excluding real estate gains, our adjusted OR improved to 81.1%, which was 1,030 basis points better than the second quarter a year ago. Our adjusted OR ex real estate gains also improved sequentially, in this case by 320 basis points. And we tripled our adjusted operating income dollars ex real estate with a year-over-year increase of 201%.

The strong demand environment comes with some industry-wide challenges. Labor remains constrained across the service economy. In the U.S., we're addressing this with a series of initiatives. For example, our commercial driver training schools are set to yield a record number of graduates, totaling nearly 1,000 driver candidates for XPO. We were successful in accelerating our truck driver recruitment in Q2 with net hires for the 4 weeks in June at double the number in the prior 8 weeks. Higher truckload rates drove a meaningful increase in our purchased transportation costs year-over-year, both in dollars and as a percent of revenue. We mitigated the rate impact by using our in-house capacity to manage the increase in activity with our own fleet, which in turn increased trailer utilization. We're also using our tech to optimize routes to the lowest cost mode. As a result, we reduced our reliance on third-party linehaul even though we drove substantially more tonnage through the network.

Pricing remains our biggest opportunity in LTL. We automated 90% of local RFPs in the second quarter, and we're beginning to add more variables to our pricing algorithms, which we'll be refining further over the next 12 months. We also remain focused on route optimization. In pickup and delivery, pounds per hour improved by 7.4% year-over-year. And on the linehaul front, we launched new control tower solutions to all terminals. We remain on track to deliver at least $1 billion of adjusted EBITDA in LTL next year, driven by both revenue growth and continued improvement in our adjusted OR.

Turning to our truck brokerage business. We continue to gain share in a dynamic marketplace. Our loads in the quarter increased by 38% versus a year ago, accelerating from 23% growth in the first quarter. And once again, we sharply outpaced the market. On a year-over-year basis, we generated a 101% increase in revenue and increased net revenue by 47% as gross margin per load increased year-on-year.

Our digital brokerage platform, XPO Connect, is helping us drive tremendous volume at excellent margins. Carrier and customer adoption of XPO Connect continues to surge. We reached 475,000 cumulative downloads of our Drive XPO mobile app in Q2, representing 20% growth quarter-over-quarter and tripling the cumulative number of downloads year-over-year. In Q2, we topped 85,000 registered carrier accounts on the platform, up over 40% year-over-year. Average weekly usage by carriers nearly doubled in the quarter, up 87%, and the number of customer accounts on the platform is up by more than 6x from Q2 last year.

We're also securing brokerage volumes through API technology at a profitable clip. Transactions driven by APIs and similar interfaces increased by more than 8x in Q2 versus the prior year, as XPO Connect talked directly to our customers' systems. Our brokerage profitability was very strong, and we leveraged our 47% net revenue growth into stronger adjusted EBITDA growth in brokerage.

The combined impact from these lines of business is a very strong performance overall by our Transportation segment in the second quarter. Year-over-year, we increased Transportation revenue by 50% and increased adjusted EBITDA by 168% to a new quarterly record. And our adjusted EBITDA margin for the Transportation segment was a robust 12.3%. After the spin, XPO will be a transportation pure play. And as David said, we raised our full year pro forma guidance for XPO adjusted EBITDA to a range of $1.195 billion to $1.235 billion. This increases our 2021 EBITDA target pro forma for the spin by $20 million at the midpoint from our June 9 trading update. This includes adjusted EBITDA of $574 million to $614 million for the second half of this year.

I want to mention a couple of recognitions that are particularly meaningful. We recently received Intel's 2021 Supplier Achievement award for our COVID response last year, which speaks to our culture as much as our operations. And Gartner named XPO a worldwide leader in their Magic Quadrant for 3PL providers in 2021. That's based on our vision and our ability to execute across both Transportation and Logistics.

Now I'll turn it over to Mark to discuss our Logistics segment and the outlook for its spin-off as GXO.

Mark Andrew Falzon Sant Manduca - *XPO Logistics, Inc. - CIO of Logistics*

Thanks, Matt. As the largest pure-play contract logistics company, our scale puts us at the forefront of the burgeoning demand for logistics services. This is due to 3 secular mega trends: Outsourcing, e-commerce and warehouse automation. These 3 robust tailwinds continue to drive our double-digit growth, and the runway remains significant with a potential addressable market of $430 billion, of which $300 billion is yet to be outsourced.

In the second quarter, we increased Logistics revenue by 34% compared with a year ago, including the Kuehne + Nagel acquisition, which contributed $151 million of revenue in the second quarter. Moreover, our year-over-year organic revenue growth rose to 16%, accelerating from 13% in the first quarter. We saw exceptionally strong growth from our customers in e-com, omnichannel retail and consumer technology.

From 2016 through the end of the second quarter, we've delivered an organic revenue CAGR of over 7%, reflecting the high-growth nature of this business. Moving to profit for the quarter, our adjusted EBITDA of $169 million for Logistics was 104% higher than in the second quarter of last year and 24% higher than in the second quarter of 2019. Our adjusted EBITDA margin increased 310 basis points to 9%. This was an increase of 10 basis points compared to the second quarter of 2019.

On the cost side, we continue to do an excellent job, further strengthening our margin expansion by showing cost discipline and implementing our productivity initiatives. And while the labor market remains tight, we're managing it well due to the pass-through nature of our contracts.

In the last 3 months, we've announced the appointment of an experienced and diverse Board of Directors for GXO. Among other initiatives, our new directors will help us solidify our ESG leadership, which is important not only to GXO, but also our blue-chip customers.

At our Investor Day, we highlighted a number of key environmental goals, including a 30% reduction in greenhouse gas emissions by 2030 versus 2019, carbon neutrality by 2040 and LED lights used by at least 80% of our operations by 2025. Looking forward, our pipeline remains very strong at $2 billion of opportunity and is skewed toward high-growth consumer verticals. We announced a number of new contract wins in the first quarter. And our momentum with new business wins persisted into the second quarter with the likes of Dixons Carphone, a large technology retailer in the U.K.; and Nike, among others. These second quarter wins alone represent annualized revenue of over $300 million in 2022. These contract wins demonstrate how blue-chip customers trust our reliability and value our ability to deliver innovation. And they're great examples of the tremendous potential for profitable growth we're seeing in the logistics landscape, across Europe and North America.

Based on current exchange rates, the GXO pro forma guidance we provided yesterday for the full year 2021, sets a target revenue range now of $7.5 billion to $7.8 billion, and also raises our adjusted EBITDA range to $605 million to $635 million. We expect this to accelerate our performance going into 2022, resulting in a higher adjusted EBITDA target of $705 million to $740 million on 8% to 12% year-over-year organic revenue growth.

As Brad mentioned, this business is growing the top line at multiples of GDP and compounding at double-digit EBITDA growth, while at the same time, producing 28% return on invested capital. And all of us are absolutely delighted to start trading on Monday. Now I will hand back to the operator, and we will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Matt, I wanted to ask about the free cash flow guidance of $400 million to $450 million pro forma for the spin. It just seems a little bit low given what's implied for free cash flow to EBITDA conversion. Is there just some conservatism there? Can you help us with that walk? And just what the right way to think about the conversion is in RemainCo?

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

So Amit, the foundation of that free cash flow guide is consistent with the numbers that we gave you in the Form 10 supplement that we put out on June 9. We gave you numbers at that point for cash taxes, CapEx, cash interest. And we have reiterations of some of those numbers in the press release that went out the other night. A couple of other numbers to keep in mind to bridge to that, we have the real estate gains associated with LTL. Those are both on the profit line and in the net CapEx lines. You want to eliminate that.

To the extent that we raised our EBITDA guidance from June 9, there's a little bit of incremental cash tax, not enough to change the number in the release, but still something incremental from a free cash perspective. And then obviously, when we're in revenue growth mode, as we are and have been this year, there's some working capital drag, and we're happy to take that as that accompanies the EBITDA growth that we see. And above that, there's probably a bit of conservatism put into that number. We continue to expect free cash conversion for RemainCo typical with what you saw for XPO previously, if not slightly north of that over time.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Got it. Okay. That's helpful. So high 30%-ish range of EBITDA. Brad, if I could ask a little bit more of a bigger picture question for you. So if I look at XPO today on a when-issued or ex distribution basis, it's implying at $76 per share. That's like under 9x EBITDA. I know it's a very thin market and not a true representation of maybe what the real value is when the distribution actually happens. But just a scenario question for you. If XPO were to just absorb the conglomerate discount that the whole company had prior to Monday spin, what further actions are available to you? You have an incredibly attractive brokerage business. I just think you guys have done an amazing job there, and it doesn't really get a lot of attention.

Obviously, you have a very attractive last mile business that would be attractive to a lot of other players in the space. And it just also seems that investors, I think, based on my conversations, really like or prefer a pure-play LTL company without all the distractions of many other businesses. And so I guess the question is, is there a potential path for XPO to become a pure-play LTL company if RemainCo or the business doesn't get the valuation that you deem appropriate for the whole company or for the RemainCo?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Amit, when we were raising our kids, my wife repeatedly told them the 3Ps: pleasant, polite and patient. And I heard the 3Ps like thousands of times over a long period of time. Patience. I don't think we're going to get the conglomerate discount. I don't know about the first week or 2 of trading. But in terms of the fullness of time, I don't think we're going to get the conglomerate discount. I think that investors understand that about 90% of XPO RemainCo's EBIT is going to be coming from LTL and truck brokerage, and investors know where Old Dominion and Saia and Robinson trade in the mid-teens EBITDA multiples. And the market will look at us compared to them and decide what kind of a relationship our multiple should be. So I'm -- be patient. We haven't even launched it. That when-issued market has no volume, it's -- the index funds, the long-only funds can't trade in it. So let's see how it trades next week. I'm optimistic.

Operator

Our next question is from the line of Chris Wetherbee with Citi.

Christian F. Wetherbee - *Citigroup Inc., Research Division - MD & Lead Analyst*

I wanted to touch on LTL and think about sort of the life post spin for RemainCo. How do you think about sort of the growth opportunities for LTL specifically? It would seem the transport company is going to have a lot of growth potential, particularly from the brokerage side of the house. But how do you think about sort of your approach to the market on LTL? It seems like a growing market above what the sort of broader freight market might be over the course of the next couple of years. Is that something you want to lean into? Or is this more about margin and sort of profit growth without necessarily that tonnage growth?

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

We are leaning into it. We're leaning into it, first and foremost, with our 2 most prominent strategic initiatives. The first is focused on price and optimizing yield and really doing that primarily through proprietary technology that enhances our pricing algorithms and enables us to get the best price from our customers while delivering the best volume and to continue to engineer that.

Secondly, we're going at it to optimize efficiency. We're doing so on the dock. We're doing so in pickup and delivery. We're doing so with linehaul. Those are intense strategic tech efforts that have been delivering results and are going to continue to do so. We have a $1 billion EBITDA target -- $1 billion or more EBITDA target in 2022. Those are the primary tools for us to get there. Above and beyond that, obviously, to your point, it's a very attractive space, becoming more central to the consumer sectors I spoke about earlier. And in fact, the industrial economy has not yet returned to peak. So we think there's going to be good cyclical tailwinds in addition to our secular initiatives. We feel very good about that industry and our growth opportunity -- our profitable growth opportunity within it.

Christian F. Wetherbee - *Citigroup Inc., Research Division - MD & Lead Analyst*

Okay. All right. That's helpful. And then maybe if I could switch gears over to GXO for a moment. Mark, you talked about the business wins in the quarter. You guys have obviously posted a number of relatively high-profile customer acquisitions over the course of the last couple of quarters. I guess when we think about the pipeline of what's in store, do we think what we're seeing over the course of the last couple of months is indicative of the type of pace of growth that can be sustained over a period of time? Or are we seeing the confluence of what is a very strong freight market, significant disruptions in the supply chain and maybe some of the secular tailwinds all coming together to sort of post sort of outsized growth? I guess I just want to get a sense of your confidence level about maintaining this type of sort of customer acquisition rate over the course of the foreseeable future.

Mark Andrew Falzon Sant Manduca - *XPO Logistics, Inc. - CIO of Logistics*

Yes. Great question, Chris. Thank you for that. So a couple of things. So firstly, we're very confident about the 8% to 12% that we talked about for next year, 2022, in terms of revenue growth guide. Remember, that's an organic growth number. Remember, it is the mix of 2 things. It's the 5% to 8% of new business wins alongside 3% to 4% of growth in existing facilities. And clearly, I would say that we're seeing strength in both buckets at the moment, obviously, given our e-com exposure as you referred to.

Let me touch on a couple of things in regards to your question about persistence, what we're seeing on the ground at the moment at the contract level. As a business model, clearly, we're driving a few things that are different in the market. I really think that we're going to create a category here at our level. If you think about what we're seeing, we're seeing customers demand scale. We're seeing customers demand bargaining power in terms of regional pools of labor. We're seeing our customers demand bargaining power in regards to regional pools of real estate as well, and that obviously helps us with our preferred providers.

We're obviously seeing customers talking about our reverse logistics prowess as well, our ESG backbone, our balance sheet, as David mentioned in his comments. And first and foremost, our technology advancement. So this is pervading through all of the contracts that we're signing at the moment. We're clearly no longer seeing a market -- and this hasn't been the case for now many years. We're not seeing a market anymore that prioritizes price. The market has moved on for that. We've seen a secular shift taking place. So we're very confident in our long-term guidance. We would view next year as very much a normal year, and long may the wins continue as we've seen across H1.

Operator

Our next question comes from the line of Hamzah Mazari with Jefferies.

Ryan Patrick Gunning - *Jefferies LLC, Research Division - Equity Associate*

This is actually Ryan Gunning filling in for Hamzah today. Could you just -- kind of following up on the last question. Could you talk about the pathway to getting to double-digit margins in GXO? And do you have like a time frame for that?

Mark Andrew Falzon Sant Manduca - *XPO Logistics, Inc. - CIO of Logistics*

So in terms of margin expansion, it's definitely an output of all the good business that we're writing at the moment. Clearly, we run the business from a return standpoint as any concession business would. But naturally, when you have the tenants that I talked about, particularly in regards to scale, obviously, this business, given the fact that we're writing business in regards to 28% return on invested capital, our cash paybacks of 3 years, that day 1 profitability, business is getting longer and longer as well in regards to our contract value.

So logically, all of the things that I answered in Chris' question would naturally lead to margin expansion in this business. In fact, we're guiding to margin expansion next year implicitly within our 8% and 12% and 14% and 20% guide in the numbers that we've given you today. So that's about 50 basis points in and of itself within that operational gearing that we're pointing towards. So margin expansion is a natural output of what this business is offering, primarily given the tenants that I mentioned in Chris' question.

Ryan Patrick Gunning - *Jefferies LLC, Research Division - Equity Associate*

Great. And then just for my follow-up. Could you just talk about maybe what you're seeing geographically on the logistics side? I know you mentioned some new contract wins, but maybe like in Europe versus North America relative to expectations?

Mark Andrew Falzon Sant Manduca - *XPO Logistics, Inc. - CIO of Logistics*

Yes, good question. So couple of things we've seen in the last couple of quarters. If you go back over the last quarter, we've signed roughly around $2 billion of contract value in one single quarter, and there's been a really good mix of countries across our 27 countries. If you put that into context, that means that we've signed around $5 billion worth of contract value over the course of H1. Like I said, we don't manage this business from a country-to-country perspective. You're seeing, if anything, a trend right now where 1 contract is turning into 3 contracts, 1 country contract is turning into a multi contract -- a multi-country basis. And therefore, we don't think about it in country terms, so to speak, but the contract mixes that we talked about, if you look across the top 20 in terms of new wins, it's a very good mix across our 2 biggest jurisdictions, 2/3 Europe, 1/3 North America. So all regions are doing well right now, seeing very strong top line growth and also margin expansion.

Operator

Our next question is from the line of Jason Seidl with Cowen and Company.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I'll start off with the more high-level question. Brad, you talked about getting back beyond pre-pandemic levels in your different business lines earlier in the call. I was wondering if you could talk about, I'm assuming that was in totality, some of the areas that maybe aren't back and where we can expect them to sort of even add more as they get back to the pre-pandemic levels, whether it be in the back half of this year or in 2022?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Jason, we're back. I mean customers are back and volumes are there. We just came off of a second quarter where we had the best OR of any quarter we've ever had in our history at 81.1%. We just came off a quarter in our LTL business, where our EBITDA ex real estate at $253 million is an all-time record for any quarter. And we're outpacing the typical seasonality on revenue, on tonnage and on shipments. And then if you look at the truck brokerage side of the house, we just had a phenomenal quarter. Year-over-year revenue doubled. It was up 101%. Load count was up 38%. Net revenue was up 47%.

So we're outperforming the market. We're taking share. Positive trends are continuing as we came into July. And XPO Connect is on fire. Massive adoption in XPO Connect continued in the second quarter. We had year-over-year carrier usage up 87%. We had customer usage up 99%. So I feel it's back. It can only get better from here. Now we have to watch this whole Delta virus thing, see how that affects the world. But for the time being, it's back. It's rip-roaring back.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. Fair enough. I'm going to actually dive down a little bit more on the LTL side with my follow-up. You sort of mentioned the seasonality being sort of above normal levels for the quarter. Wanted to sort of see where that started out in the third quarter in terms of the seasonal trends from June to July? And then maybe dive a little bit into the freight network of XPO freight because it's interesting you have 2 competitors out there, one looking to add 9 terminals, open 9 new terminals in the back half of the year, another maybe looking to potentially scale down an operation that they just purchased because there's too many terminals they felt. So just curious where you stand right now with your terminal network? And how you feel about maybe potential expansion or contraction?

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

Jason, it's Matt. I'll take both of those. On LTL, business in July is good, yield growth is continuing, revenue per shipment looks very good, weight per shipment still holding up nicely. In terms of our coverage, we like our coverage. We have 291 terminals. We have good coverage for the U.S. We're able to do anything our customers need us to do. We're very happy with the results that we're delivering. Obviously, we continue to aspire for more. Hence, our target of $1 billion or more of adjusted EBITDA in LTL in 2022. But we feel our network serves us well for our business strategy and for our customers.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. And just to clarify on the July trends. Would you call that normal seasonality?

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

Yes.

Operator

Our next question comes from the line of Todd Fowler with KeyBanc Capital Markets.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

So just on the brokerage side, your net revenue margins have held in relatively well compared to your peers. I'm curious kind of what your expectations are for net revenue margins into the back half of the year? And then with the strong volume growth in the quarter, how do you view that as being sticky? Is a lot of that more transactional business? Or would your expectation be that a lot of that business stays with you if the market normalizes?

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

Net revenue margins are holding up well. Net revenue -- and we really look at net revenue per load or gross margin per load, which was really the key economic metric. That number was very good for us in the second quarter, and it remains very good for us as we start the third quarter. We spoke with our brokerage people a lot about the market and about our customer position, and that business is sticky. Our customer relationships have never been stronger, including our relationships with our key customers. Our load count is at exceptionally high levels. It's holding at exceptionally high levels, and we expect that to be the case through the remainder of this year. We've made massive investments, as you know, in XPO Connect, our digital freight marketplace. That's helping us drive share. It's helping us optimize price. It's helping us drive productivity. And that's really central to our winning business and retaining business.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Good. Okay. That makes sense, Matt. And then, Brad, just for a follow-up, when you think about RemainCo post the spin, we just had the GXO Analyst Day, and so there's some clarity on kind of the focus there. But what do you see as kind of the main areas for focus for RemainCo after the spin as we look out into 2022 and beyond?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Well, we're going to build on the leading positions we've got in LTL and truck brokerage. We're going to continue to focus on innovative technologies. From a financial perspective, clearly, our #1 priority is to deleverage and to meet our target of investment-grade rating. We're going to continue to execute on the LTL side to achieve at least $1 billion of adjusted EBITDA next year. And we're going to continue on truck brokerage to outperform the market, primarily due to XPO Connect. So the future looks bright.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. Got it. So it's really the focus on the growth in brokerage and margin improvement in LTL?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Correct.

Operator

Our next question comes from the line of Scott Schneeberger with Oppenheimer.

Scott Andrew Schneeberger - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Congratulations to David and Ravi. Brad or Matt, I'm going to go to you guys first on truck brokerage, very impressive margins and growth. It's been covered pretty well on the call. But we've seen some M&A in the industry recently. And just kind of curious where you think the industry looks a few years from now, further consolidation, and where XPO plays in that?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Well, there's definitely been some interesting consolidation recently. I think that's a good thing and plays right into how we have envisioned the industry to evolve over time. Some of the transactions were at very healthy multiples and serve to validate what assets in this industry are worth and maybe shows that we're even more undervalued than we thought. In terms of our role in it, our prime goal is to delever, and that's going to be our most important use of cash, but we don't rule out M&A. It's a tool in our toolkit, but it can't conflict with our goal to delever.

Scott Andrew Schneeberger - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Excellent. And following up, Mark, over to you. Curious, how should we be tracking XPO Direct -- GXO Direct going forward? Just a progress report on that. And maybe I think you have some guidance on where that should be in 2021. But just thinking about 2022 and beyond.

Mark Andrew Falzon Sant Manduca - *XPO Logistics, Inc. - CIO of Logistics*

Thanks for the question. So GXO Direct continues to be, as you say, on track. It's growing incredibly fast, as we talked about in the Investor Day. It's got around about $200 million of revenue at the moment. It's an important place to grow customers, particularly for our longer-term plans of moving them towards dedicated facilities. So it's a high-growth engine for us. It's a great place to find new customers and work with them going forward. So it's an important part of our business, but it's by no means the major part of our business. We are very much the Cadillac service of providing dedicated facilities across our 850-or-so warehouses.

Operator

The next question is from the line of Ravi Shanker with Morgan Stanley.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Brad, just to follow-up on your last response. It's been a while since we got an update on your strategic kind of long-term view of the brokerage business, with everything that's going on in this space. Where do you think that business goes over time? Kind of what are long-term sustainable growth and net margins like? What role do you see the new digital entrants playing? Kind of, do you think the business looks the way it has over the last 10 years in the next 10 years?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I think the difference and distinctions between the digital players and the whatever you call the non-digital players has become almost nonexistent. I think the technology that's been embraced by C.H. Robinson and some of the other truck brokers and, of course, ourselves, it's -- we're digital. We're as digital, more digital than the so-called digital ones. I think over time, with respect to margins, I think margins will come down. Having said that, I think profit will go up because I think volume will go up, because I think the amount of transactions, the velocity of transactions is going to increase. I think there's -- it's going to evolve very much like you've seen commodity markets, particularly like the oil market, for example, where it morphed from purely physical markets, to then derivative markets and Wall Street got involved.

I think the players will be different. And I think the connectivity between shippers and the carriers and the brokers in between will become seamless. I think it will be much more digital and much less human-based. I think on the physical truck side, it's a question of time when it will be autonomous. I think that autonomous evolution has slowed down a little bit because of the way that the political winds are blowing, where it's more of an EV focus than an autonomous focus. But the compelling economics of autonomous trucking are extreme. And Adam Smith's hidden hand of capitalism will not allow autonomous trucking to be delayed forever. So -- and that'll take cost out. It will take a huge amount of cost out. So you see costs coming out in the actual brokerage side. You'll see costs coming out on the purchased transportation side. And it will just be more efficient. And brokerages who are -- like ourselves, who are all in on technology will have a great role to play there. And -- but margins should come down with volumes going up, therefore, profit going up.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

That's very, very helpful color. And maybe as a follow-up, either to you or for Matt. You guys have given us 2022 guidance on the GXO side, which is really helpful. How do we think about that on the XPO side? Kind of just maybe your views on how long the cycle will last? And also maybe idiosyncratically, irrespective of the cycle, how much margin growth can you drive there?

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

We're likely to give you guidance for XPO RemainCo at the end of the year, as we typically would. And to your point, there are -- there is more cyclicality. There's economic cyclicality, but more so truck cycle cyclicality and other things related to that. I think the best time to give guidance for this business is going to be at year-end. Obviously, GXO has fantastic visibility to its business based on the contractual nature of that business, and they've given you '21 guidance, '22 guidance, '21 revenue guidance and '22 organic revenue guidance. So obviously, a tremendous basis for evaluating that business as well.

Operator

Our next question is from the line of Stephanie Moore with Truist.

Stephanie Lynn Benjamin - *Truist Securities, Inc., Research Division - Associate*

I wanted to touch on RemainCo or XPO's technology investment strategy as we look to the remainder of this year and next year. I think GXO's was a little bit more apparent and kind of broken out during the Analyst Day and the move towards automation, robotics. But I'd love to hear what RemainCo kind of has planned as it historically has also been a pretty large investor behind new technology. So any color there would be helpful.

Matthew Jeremy Fassler - *XPO Logistics, Inc. - Chief Strategy Officer*

Stephanie, that's right, and we're going to continue to be. So obviously, XPO Connect is our primary technology platform in brokerage. It's our digital freight marketplace. You know how it's helped drive our success in brokerage over the past number of quarters. It's going to continue to do so. It's less about dollar investment there. We've booked a lot of dollar investment there. It's about enhancing that technology, and we're on path to do that.

We continue to roll out XPO Smart within LTL to optimize labor on the dock. It's rolled out, but we continue to harvest the benefits of XPO Smart, and there's the opportunity to continue to enhance that platform as well. And then finally, within LTL, as I mentioned in my prepared remarks, we're very focused on enhancing our pricing algorithms. We're really just beginning to pierce the surface. There's an awful lot of enhancement opportunity for us there. And then our route optimization efforts in P&D and linehaul have very high potential. Those are the highest priority technology investments for us here in RemainCo.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Okay. Well, it's 9:30, and that concludes our earnings call. We're very happy that we reported such a strong quarter, and we raised the outlook for both XPO and GXO. And I want to take this opportunity to give a big thanks to all the employees around the country and around Europe and around Asia, who've worked so hard over the last 8 or 9 months to create 2 industry powerhouses launching next week. So thank you all. Talk to you soon.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect your lines at this time.