Selected Investor Q&As with XPO Executives

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Sections:

North American Less-Than-Truckload (LTL)

1. **What's the to-do list for 2023? Your network is getting denser in 2022. Your pricing and pricing incentives will have stepped up in 2022.**

2. **XPO:** We're extremely excited about the long-term outlook for the LTL business. We're adding capacity. We'll continue to push for yield, and motivate the salesforce for growth. And, we'll keep figuring out ways to charge more intelligently and zig-zag less around the country in linehaul. We think we can bring our total miles down, but that will require more optimization. We have these great XPO Smart workforce planning algorithms, but they didn't anticipate COVID, so we're enhancing our labor management platforms to account for extreme labor shortages. We're working on many other projects like these, including operational excellence tactics. We're going to keep leveraging our fixed costs and keep rolling out our tech tools. With a favorable demand environment, this should drive hundreds of basis points of margin improvement in our network for years to come.

* Edited for clarity

3. **How would you characterize your growth assumptions for LTL this year?**

4. **XPO:** Barring anything drastic happening in the macro, our plan is based on realistic growth assumptions. On the volume side, our Q4 tonnage was down 5% year-over-year, reflecting the embargoes. In January, we outpaced typical tonnage seasonality, and we're continuing to see high demand. We expect low-single-digit tonnage growth this year, which helps us lever fixed costs and gain more adjusted EBITDA flowthrough. We expect our volume growth for the full year to be in the low single digits, trending from a low-single-digit decline in Q1, to flattish in Q2, and then up on easier comps in the second half. We're leaning into sales to build volume progressively throughout the year. Pricing continues to be firm, and we expect high-single-digit yield improvement in the first, second and third quarters this year, with Q4 yield growth tapering down due to the year-over-year comp.

5. **Your capex is forecast to come up quite a bit this year. Part of that was equipment delays from last year, correct?**

6. **XPO:** This year, our LTL gross capex is expected to be 8% to 9% of revenue, up from 5% of revenue last year. The lion's share is for equipment. A portion of the year-over-year increase is related to the delay in getting tractors in 2021, but the majority is for new trucks on top of that. We're adding more doors to the network, and we're adding tractors and trailers. We have full control of our access to trailers because we manufacture them.

   We have a companywide ROIC of over 30%, with North American LTL significantly higher than that.

7. **Is this a pivot in your strategy for LTL? For a while it was about pricing. Now it seems more growth-oriented.**

8. **XPO:** It's the next phase of the strategy. LTL 1.0 was to take a business that was only doing 3% to 4% margin and dramatically expand margin without investing lots of capital to grow the fleet or footprint. We got the organization chart right, and we found ways to take out inefficiencies. We met that margin goal very well. We weren't focused on tonnage growth. Now we believe we're positioned to keep growing margin and also grow the top line. We're going to invest in more doors in a low-risk way, in markets where there's strong demand and we're turning away customers, where we know we'll have customer demand from day one.

9. **ODFL insources purchased transportation and has a capital-intensive model. Do you think their advantage will dwindle over time?**

10. **XPO:** Their strategy has worked for them for a long time, and we respect them. They're a very well-run company that's great at blocking-and-tackling execution. They're an inch wide and a mile deep on running an excellent LTL network. We can do that, and we've been catching up. We're not going to fully catch up in a year or two, but we intend to over time. There will be other LTL companies, too, that strive to close the gap and overtake them. We say, give us time. We have fire in our belly. The competitive free enterprise system is a wonderful thing.

We plan to continue our trajectory of running our business more and more efficiently, but while also growing the top line. We already have one of the few national LTL networks in the US, and our strategy to date has been focused on ROIC, which is really strong. Now we can pivot toward also growing the top line and better leverage our fixed costs, while still delivering high ROIC.

In any given market, there's a spectrum of operating ratio levels per customer. It takes time to curate the customer mix, which is something ODFL has done really well. They price above the market, at about 8% to 10% above where we are on average. There's nothing structural preventing us from closing that gap, but there's an optimal way to do it, and it's not in one fell swoop. We like having a well-run competitor to emulate and hopefully overtake.

11. **You had some challenges in LTL in Q3 last year, and it feels like you've turned the corner. Can you give some proof points of the trajectory you're on now?**

12. **XPO:** In the third quarter, we were relying on purchased transportation, and then we began insourcing linehaul transportation without enough internal capacity of drivers and equipment available. That caused an unfortunate, but temporary, chain reaction. It backed up our linehaul network and we lost efficiency and the capacity to accept more volume from customers.

We implemented the five-point action plan we discussed on our earnings call. Step number one was implementing strategic embargoes to taper the amount of freight in certain parts of the network, in order to improve flow. And, we've seen a tremendous recovery in a relatively short period of time. Within weeks, network flow improved substantially. Customer satisfaction was also up substantially from Q3 to Q4.

On the financial side, looking at the year-over-year change in our adjusted operating ratio, ex real estate, October was the low point, November was better than October and December was better than November. Both December and January outpaced seasonality for us. As for 2022, we expect the first quarter to be a low-single-digit decline in volume, with degradation in adjusted OR, ex real estate gains, of approximately 200 basis points year-over-year in Q1. Yield should be up in the high single digits. We expect volume and adjusted OR to be flat to a slight degradation in Q2, and then we aim to improve the ratio to deliver more than 100 basis points of improvement in adjusted OR, ex real estate, this year.

We're seeing continued strong demand for LTL services. Most of our LTL customer base consists of industrial customers, and they're still on the rebound, which is why we're seeing demand trend up with them in particular. There's some risk on the capacity side, with securing drivers and tractors, but we expect about half the drivers we hire to come from our own driver schools, and we've doubled our in-house production capacity for trailers.

We're also investing more in our LTL salesforce, and we're deploying more sales resources for strategic accounts. We're changing our compensation plans to promote more of that volume growth. Contract renewals accelerated in the fourth quarter vs. the third quarter, and the same trend continued in January. So, we're creating good momentum, and that's expected to build as we go through the year.

13. **Would you say you're in the early innings of aligning the organization to growth mode and further margin expansion?**

14. **XPO:** We're not in the first inning, but we're not in the sixth inning, either.

15. **How much of your growth plan is company-specific?**

16. **XPO:** Many of our initiatives are internal, specific to XPO. Since acquiring Con-way, we've made tremendous financial improvements in the business. Some of that was driven by the market, but most of it was driven by initiatives that are idiosyncratic to XPO. And, there are many process improvements we're continuing to work on, independent of the macro. That said, we have favorable tailwinds in the operating environment that are

giving us the ability to get more price and grow the top line. We've empowered the salesforce to go get market share.

17. **Previously, your LTL strategy was very focused on improving efficiency through technology. Is that still part of your strategy?**

18. **XPO:** Technology has been a major component in our success with margin improvement and continues to be. We have a new pricing tool. Our labor productivity management tools, XPO Smart, can't function at maximum effectiveness in the environment we saw in Q3, but we expect they'll be a big factor moving forward. We also have a new LTL pickup-and-delivery solution in flight that will improve productivity.

19. **How does XPO's overall technology strategy, specifically around pricing, tie into LTL?**

20. **XPO:** LTL and truck brokerage use similar tech stacks — a lot of the underlying data science and machine learning methodologies are applicable to both service lines. In LTL, our dynamic pricing technology allows us to adjust prices up and down in real time, outside of contract renewal cycles, to drive volume behavior. We've launched many network optimization tools to address our linehaul spend. On the dock side, it's about labor planning, execution and productivity. Moving forward, our strategy is focused on higher volume and higher flowthrough, with technology giving us the edge on continued margin expansion. We've deployed a lot of technology into the business, but there's a lot of runway left to go. We're particularly excited about the line of sight we have to existing customer demand in specific markets. This allows us to expand our door count in strategic markets in a low-risk way, because we know the demand is there.

21. **How are your new pricing tools benefitting the business?**

22. **XPO:** Around 25% of our LTL revenue comes from smaller, local accounts — these typically have a very good operating ratio. Dynamic pricing gives us a lot of flexibility. Previously, we would lock in a price that didn't change. Dynamic pricing unlocks that; it changes the price points in real time for local accounts, which lets us drive volume behavior.

The other 75% of our business is based on contract renewals. We have an amazing new tool that largely automates account analysis and pricing negotiation for our pricing experts. It manages to market dynamics at the lane and customer levels. We can set price guardrails during contract renewals.

23. **LTL isn't an easy business to run. Do you have people in place who can run it really well?**

24. **XPO:** Yes, we do. It's a complicated network business. The to-do list is significant. Up until our insourcing error last year we were doing really well, and even then, we had the second best adjusted operating ratio in the entire industry in 2021.

OR improvement is driven by three levers, yield improvement and volume, which give you flowthrough and fixed-cost leverage, and operating efficiency. We have really good people in place to execute on all three levers. We have our arms around the business and, over the next several years, we believe we'll outperform in a major way. That's our goal: to be the number one LTL carrier in North America.

25. **What are your competitive differentiators in the marketplace? Is it your driver schools? Your trailer production capability?**

26. **XPO:** The quality of our people and our technology, our driver training, our trailer manufacturing — all leveraged by scale. There are competitors with driver schools, but as

far as we know, no competitors with 130 driver schools like we have. Our in-house graduates are generally stickier than external recruits, so we're going to ramp that up.

Also, we're not aware of any other LTL carrier with its own trailer production capabilities. It sets us apart. This is the first year we're not selling trailers to third parties, even though beat-up, used trailers are going for elevated prices because of OEM production delays. We're putting all our units into our own network. Our trailer production capacity is a big competitive advantage.

27. **LTL has been a very rational environment; pricing has been extremely good. What's your yield expectation for 2022?**

28. **XPO:** LTL is an industry where you have a limited amount of capacity versus a lot of demand. In the full truckload industry, you can easily become a carrier that operates five trucks, for example. But with LTL, you also need doors, people, material handling equipment, technology, etc. — so you have a limited amount of capacity in the market and only a handful of large, nationwide carriers that can provide that capacity. This creates an industry dynamic where most players act rationally.

For 2022, our expectation is that we'll continue to see a firm pricing environment. High-single-digit yield growth is the industry norm in a tight market. Even in a recessionary environment, we'd probably see low-single-digit yield growth year-over-year. Industrial customers are still very much in recovery mode. They're still short on labor and materials. Retail and other consumer goods sectors are more stabilized. We're investing in XPO-specific pricing technology to help us further materialize yield.

29. **You’ve talked about leaning more toward LTL tonnage growth, and an expansion over the next 24 months with some incremental doors. Can you stretch out that investment over time and grow with the footprint you have today?**

30. **XPO:** We don’t need the doors to grow in 2022. The additional doors we’re adding typically have a six-month ramp to get to full volume. We anticipate roughly 1% volume growth this year from the new doors. Our door expansion is a multi-year strategy of gaining market share and pivoting toward growth. We’re targeting adding 900 net new doors, which is around 6% door growth, by the end of 2023. We’ll add doors in markets where we’re seeing growth in demand. We already cover 99% of all zip codes, so we have to analyze what our customers need in specific markets.

We don’t expect to add a lot of new terminals. Any type of LTL shipment goes on several small journeys, so we’ll add doors at freight assembly centers — where freight goes between pickups and deliveries — and our linehaul network will increase its ability to process more freight. Southern California is a high import market and a big consumer market. Texas is more industrial-focused. In Florida, you have consumer growth. Atlanta is one of the biggest markets in the South, and it’s also the gateway into Florida — once we add those doors, we can increase the amount of freight flowing into Florida. And, we’ll add metro capacity to handle more freight in Atlanta. We’re also looking at some corridors in the Northeast.

31. **From an operational perspective, the post-Con-way phase was in part about getting rid of bad freight. Is that pretty much done?**

32. **XPO:** We'll always be culling less attractive freight. The larger impacts are behind us, though.

33. **You've done a lot with LTL from a margin perspective. Do you feel like your next three-year plan, after the door expansion, will sustain that level of growth? What's the next plan?**

34. **XPO:** We're planning for 3% net new doors per year over the next two years. Beyond that, we'll analyze our network from the perspective of customer demand, and we'll go from there. We're opening doors now in markets where demand exceeds our capacity, as well as corridor demand, which is more about network connectivity.

35. **What's embedded in your outlook for cost inflation in this year's operating ratio?**

36. **XPO:** The lion's share of overall cost is in a few categories. Wages are firm, and it's hard to find drivers and dockworkers in certain markets. There's a lot of demand for the different types of labor that we hire. We're seeing mid-single-digit increases in wages on the labor line, which again, is most of the cost in any LTL network.

Fuel is another major cost component, but we offset that with surcharges to customers. With purchased transportation costs, we typically renegotiate most of those rates in the second quarter. This year, we expect an increase in truckload rates overall, but nowhere near the year-over-year magnitude of last year's increase. That will continue to be a year-over-year headwind for our comp in the first half of this year, but as we get the new truckload rates in, it should be a more normal increase in the back half.

37. **There's some concern out there of seeing capacity coming into LTL. Thoughts?**

38. **XPO:** There's capacity coming into the industry, being driven by a handful of players. There's also been capacity that exited the market. When we think about the additional terminals and doors, it's still a rational level of added capacity. For us, given our scale, adding 6% more doors by the end of next year is a low-risk decision.

The other form of capacity coming into LTL is equipment. Everyone needs tractors, and everyone's getting rationed by the OEMs. We're working with our OEMs to expand our tractor fleet, and as long as there are delays, we'll sweat the assets and absorb the increased maintenance cost. Then there's the drivers - it's difficult to get drivers to come into the LTL industry. It will probably be a perennial labor shortage until autonomous trucks become viable. There's an ongoing dockworker shortage, as well.

39. **How do purchased transportation contracts for third-party LTL linehaul work?**

40. **XPO:** We typically go through the annual bid cycle in an April timeframe, and lock in rates in May or June. This year, we've started carrier negotiations earlier than usual, so the new rates will go into effect a month or two earlier. As we add more of our own capacity over time, we expect to return to insourcing more purchased transportation, looking at 2023 and beyond.

41. **Shouldn't you lean hard on pricing now while you have the favorable environment?**

42. **XPO:** An LTL network must be finely balanced — price, volume and cost must be in balance at all times, and over-indexing on one lever drives disruption in the others. Everything must be done methodically over time. That said, we did increase yield, ex fuel, by a record 11% last quarter.

43. **What are your expectations around insourcing to your network in 2022?**

44. **XPO:** We want to balance insourcing with a little more outsourcing this year, because we’re pivoting toward growth. Purchased transportation is a form of capacity, similar to adding equipment, drivers or doors. Last year, we insourced roughly 2% more linehaul miles using our own assets than we did the prior year. In Q4, we shrunk that from 2% to

1.5%. This year, we expect to add a percentage point of our linehaul miles to third-party transportation. So, we're leaning into outsourcing a bit more right now to make sure we have the capacity we need. In the long run, our expectation is to go back to more insourcing. Initially, when we bought Con-way, about 35% of total linehaul miles were being outsourced. Over the years, we took that down to 22% to 26%.

We expect that, after 2022, as we continue to add capacity, we'll insource more, getting down to the low teens over time. That would happen over a number of years. You typically don't want to insource more than an incremental 2% to 3% per year to make sure you can backfill the capacity.

45. **Where are you in terms of asset deliveries from the OEMs? What are your expectations for capacity additions in 2022?**

46. **XPO:** The OEMs are still constrained, but so far this year has been better than last year. We have a two-OEM strategy to give us flexibility. Overall, we expect this to be a substantially better year for asset procurement than 2021, but there are still shortages. On the trailer side, we have a competitive edge, because we produce them. When we bought Con-way, the trailer manufacturing facility was a small gem in Searcy, Arkansas. We added another production line this year. So, while it's even harder for others to get trailers than trucks right now from the OEMs, we're producing our own trailers and we're on track to double the number of units we put into our network this year.

47. **Are your operating ratio projections dependent on the new capacity you're adding, or is it an upside?**

48. **XPO:** It's a combination. Improvement in the ratio is driven by yield, volume and cost, and the volume lever is driven by capacity. One form of capacity is purchased transportation. We feel pretty good about the purchased transportation market, which is still tight, but

year-over-year we're not seeing the same increases we saw in 2021. In terms of tractor capacity in our own fleet, we have expansion plans and we're feeling okay about securing the units, but that dynamic is still not where it used to be with the OEMs.

49. **Knight's trying to get into the business, mainly through acquisitions. Does that concern you?**

50. **XPO:** Knight is a great operator attracted by a high-ROIC business. We think their entrance is good for the industry. They're a seasoned player and are rational with pricing. It wouldn't affect our plan for door count growth in any case. The growth we're projecting is nominal at about 3% per year, which is lower than estimated GDP growth. And, we're still in an environment where there's more demand than capacity. Ours is a longer-term growth strategy.

51. **What are you seeing with attrition? Is the net result of your hiring efforts and driver schools an increase or a decrease?**

52. **XPO:** We expect our driver school graduates this year to be more than 50% of the total number of drivers we hire, taking attrition and external recruiting into account.

53. **Where can incremental technology be best deployed in the LTL business? Is it more automation in the cross-dock facilities?**

54. **XPO:** We don't think cross-docks will be the first point of automation. Pricing algorithms are interesting. We've hired a number of people from the airline and hotel industries, and they see is a lot of opportunity to bring the LTL industry into the 21st century. Pricing would be number one, linehaul optimization number two. We spend over a billion dollars on linehaul each year. Labor could benefit from optimization as well. We developed some

great models with machine learning, and we’ll increasingly use that tech to make optimal labor decisions.

Pickup-and-delivery optimization is another opportunity. The waste industry, for example, is ahead of LTL in terms of getting more productivity out of trucks on collection routes, and more utilization of capacity. They use dynamic routing. The LTL industry is in the very early stages of exploring applications of AI and machine learning. The industry will be completely different a decade from now. It will be more efficient.

Linehaul will be automated eventually, but not in the next three years, due to the regulatory environment. One of the main challenges of autonomous vehicles is route mapping, but in LTL, you have fixed origins and fixed destinations, so there's opportunity there. The technology is almost there. Autonomous vehicles will also drive fuel efficiency. A robot accelerates and brakes differently than a human driver. Anything that takes out cost is good for the industry and good for our customers.

North American Truck Brokerage

55. **What’s the secret sauce in the way you operate the business that drives margins better than your peers across the board? Is it tech?**

56. **XPO:** Tech’s definitely a major driver. The rapid adoption of XPO Connect by both shippers and carriers is contributing to our above-market revenue and margin performance. In Q4 of 2021, the number of customers registered on XPO Connect increased 41% year-over-year, and registered carriers were up 38%.

We started investing in proprietary brokerage tech from the start of XPO over 10 years ago with Freight Optimizer, and that took us to XPO Connect today. Connect gives our customers real-time pricing and it gives carriers real-time market pricing, which allows us to move with the market on a daily basis. We also give customers data to help them with their decisions. With carriers, it’s about ease of use, and how we help them reduce empty miles and put them closer to the next load, while giving them a fair rate. We make it very easy to do business with us. A carrier can buy a shipment and negotiate with little or no human interaction. They can do that from their house or truck or anywhere through XPO Connect. They also have access to our rewards program and get benefits, like discounts on fuel.

The second piece of the margin answer is our people — we have very good operators and freight technology folks, many of them with deep roots in brokerage. Our average employee tenure, director-level and above, is eight years. They understand the market very well.

57. **There are people who bring a technology background into the freight market, and there are people who bring a freight background and add technology to it. You’re close to a hybrid. What differentiates XPO Connect from some of the other tech?**

58. **XPO:** We have pricing experts who’ve been in the industry for 20 years, and they’re paired with some of the best data scientists in the world — hired from Amazon, Google, Microsoft and other world-class tech companies. The difference is, at XPO, they’re paired with the top operators in brokerage, who understand all the nuances of the truckload market. It allowed us to build a best-in-class platform to serve our customers, onboard quality carriers and also boost employee productivity. It’s noteworthy that, over the last five years, we’ve grown headcount 38%, while our volumes have grown 66%. It’s all about reducing the number of clicks so they can manage more loads per day. That shows you the value of our investment in technology, and we’ll continue to enhance it.

59. **When you speak to truck brokerage customers, how do they view your tech platform relative to what's available in the industry?**

60. **XPO:** Customers love XPO Connect, because we give them a lot of data. We help them map out their routes and their cadence based on cost. Customers tell us that our tech is the best platform out there. But, there are good competitors who have good tech, and we know we can't rest on our laurels. We intend to build on our advantage.

61. **What can be fully automated and in truck brokerage? Where are you on that front?**

62. **XPO:** We expect that to continue. Large customers look to us for API integration. Smaller customers are working with XPO Connect on the internet. Our technology has fueled our growth for the last 10 years, and we're focused on enhancing that as a lever.

63. **What kinds of carriers use XPO Connect?**

64. **XPO:** About 70% of our loads are created and/or covered digitally. The vast majority of our carriers have between one and 10 trucks, with the sweet spot around five to six trucks. So, on the carrier side, XPO Connect users are from small businesses. Their dispatchers can manage their entire fleet with our platform. We work with the largest shippers in the world. They're not going to onboard a small carrier themselves. When carriers interface with us, we give them access to an enormous number of loads through the platform. A big part of our job is to make it easy for carriers to stay in our network. We do that by having a lot of volume available to them.

65. **What will bridge the gap in digital coverage? What will convince the remaining non-digital customers or carriers to convert?**

66. **XPO:** Digital adoption is higher on the customer side. There's more unused runway on the carrier side, but increasingly, they're seeing the benefits. In the fourth quarter of 2021, we had a 74% year-over-year increase in weekly average carrier users on XPO Connect. We want to onboard carriers responsibly. We don't want the first load a carrier books through us to go through the app. We want to know who they are and how they operate before we automate the relationship. Once they're in the system, they can do route planning in our system, knowing they're getting fair market rates.

67. **What's the biggest constraint to digital conversion? Do carriers understand it?**

68. **XPO:** We get to know our carriers, and understand their service preferences and capabilities, and that's when adoption of the platform starts to ramp up. We still have some carriers using flip phones, though, so adoption will continue to be up and to the right for the foreseeable future.

69. **Are your competitors as forward-thinking as you are about technology and pricing?**

70. **XPO:** They're investing in technology, but we've been investing in it longer than anyone in the industry. We have first-mover advantage and a huge head start.

71. **Your brokerage business has been very strong from a margin perspective. Where do you think brokerage can go over time? What's the opportunity?**

72. **XPO:** Our truck brokerage business is in the early stages of growth. We have a long runway of double-digit volume growth ahead of us. Fifteen years ago, brokerage held less than 10% of the for-hire trucking market. Looking at it today, that percent is in the 20s —

it's more than doubled. Brokers are taking share from asset-based carriers because they've got flexible capacity and a lot of it.

We have very strong relationships with our customers. Our top 20 customers grew volume 35% with us year-over-year in 2021. Those same customers are our best reference points for new customers. And, the number of accounts that do over $1 million in revenue with us annually was up 48% in 2021.

One thing we've done that differentiates us is we invest in pools of trailer capacity, but we're still asset-light and leveraging carriers across the network. We've got a superb digital brokerage platform called XPO Connect to manage capacity, and we've got great people. So, for a lot of reasons, we're in the early innings of our growth in truck brokerage.

73. **You're taking share, right? What do you say to someone who says, 'Your business is over-earning because capacity is tight, but the market could turn'?**

74. **XPO:** We've shown we can take share in all markets. If it's a tight market, we take spot business and turn it into contract business. If it's a loose market, we grow volume without pulling down gross margin per load too much. We know how to keep everything balanced. Our current mix is about 70% contract, 30% spot.

We're growing at three times the industry growth rate. From 2013 through 2021, the industry revenue CAGR was about 9%, and we grew at 27%. And, we've got a long runway for more growth. The overall for-hire trucking industry in North America is a $440 billion industry, of which truck brokerage has $80 billion, and we have $3 billion of the $80 billion.

75. **What percentage of your top 10 customers' volume do you have? What could you have?**

76. **XPO:** We do business with just under half of the Fortune 500 companies. We generally shoot for 10% to 20% of volume, but there are instances where we have a much higher share than that. There are thousands of brokers across the US — some operate out of their garage. They may get business through personal relationships, but they don't have XPO Connect. That's part of our competitive opportunity. We add a lot of value, we have a lot of capacity, we have best-in-class technology, along with competitive rates. We have lots of opportunity to go out there and sell, and take share, even a flat market.

77. **How do you differentiate your business compared to C.H. Robinson?**

78. **XPO:** C.H. Robinson is a great competitor. They're the competitor we run up against the most with our larger accounts, and we have a lot of respect for what they've accomplished. We know a lot of very talented people who work at Robinson. Robinson has the largest market share, and that's what we're striving to do. For us, it goes back to our technology and continuing to build our relationships with customers.

79. **Last year, people wanted shorter contractual terms. Are you still seeing that trend?**

80. **XPO:** Most of our large customers are still on annual bids, but we're seeing the trend toward mini-bids with shorter contractual terms. About 40% of our bids are mini-bids. That's definitely an uptick. Those conversations are typically about holding price. Most customers, especially large customers, control when and how their bid cycle goes out.

81. **How do you think about the volume / price opportunity in truck brokerage over the next 12 to 18 months?**

82. **XPO:** If you go back to the beginning of the pandemic, we made the decision to hire talent, while our competitors were generally letting people go. Peak season during 2020 was chaotic. Customers were doing whatever they could to get capacity, and we were doing all different types of things to find solutions for them. When 2021 rolled around, we were rewarded for sticking with them and maintaining our customer service capacity. Now, they come to us for capacity, knowing we can deliver.

We're still getting a lot of volume — year-over-year growth of 29% in 2021. We expect to see double-digit volume increases for the foreseeable future. We're going to continue to take market share, and we're going to do it profitably, and also with a high level of customer satisfaction. Because of our investment in technology, we're giving a fair price to the shipper and getting a fair rate from the carrier, which gives us a good net revenue margin.

83. **Do you feel like the truck brokerage market is changing, in that customers are requiring more trailers and drop trailers? How do you think about power-only, does it fit into your strategy?**

84. **XPO:** Power-only isn't new to truck brokerage. We started working with some of the largest retail and e-commerce shippers seven-plus years ago to develop trailer pools around those customers. It serves us extremely well as part of our service offering. It lets us demonstrate our flexibility to customers, and our ability to align solutions with their needs. We can offer a lot of capacity and look like an asset-based carrier, because we have the trailers in place. The customer doesn't particularly care what the truck looks like on the front end as long as it's picking up and delivering for them. We've definitely seen a

trend in trailer pools, and it's one of the reasons why I believe we're continuing to take share from asset-based carriers.

85. **Five years from now, will the market support 10 big brokers with a digital footprint?**

86. **XPO:** I think you'll see consolidation within the industry. It may be less than 10 major players in the end. We're confident we're going to continue to take share and do it profitably. The first thing shippers are looking for is access to capacity, so the players with the most scale and the strongest technology are the ones who are going to win.

87. **Have you seen any near-term pullback in demand regarding the need for brokerage services right now?**

88. **XPO:** No, we see the opposite. Shippers need truckload capacity, and XPO has a lot of it. We see that dynamic continuing for the foreseeable future. There are so many ships waiting outside American ports, so much demand pent up in the supply chain. We brought in 2,200 new customers in 2021. The truck brokerage market is a good place to be.

Other

89. **You successfully spun out GXO last year. What's your vision for how you want XPO to unfold over the next three to five years?**

90. **XPO:** We're a shareholder-focused company. Over the next three to five years, we want to continue our long-term trend of vastly outperforming the market and the transportation industry. We were the 7th best-performing stock on the S&P 500 over the last decade, and we think we have a shot at being the best-performing transportation stock this year.

In LTL, we'd like to catch up to ODFL and surpass them. In truck brokerage, we have the best-in-class brokerage performance quarter after quarter and year after year. Our truck brokerage business is a gem, but we don't get much credit for it because everyone's focus is on LTL. Over the next year, we'll significantly bring down our net leverage, and we'll do that by growing adjusted EBITDA and using free cash flow primarily to pay down debt.

91. **What do you think is driving undervaluation in your stock?**

92. **XPO:** Right now, our stock is trading at what we regard as an unsustainably inexpensive level and we think there's five reasons for that — each one is a question of communication catching up with the Street, or there's an incorrect perception, or it's a correct perception and we're in the process of making a change. We don't believe our stock is likely to trade at sub-8x adjusted EBITDA or sub-13x EPS for a long period of time. Over time, markets figure things out.

The biggest misunderstanding, in our opinion, is that investors underappreciate our LTL business, which is the largest part of our profit. The investment community is focused on last August, when we made a costly error to insource capacity instead of outsource linehaul transportation. That clogged up the network, we did embargoes to get caught up, and now it's a V-shaped recovery in LTL for us. Customer satisfaction and employee morale levels are back to where they were before prior to Q3 last year. Network flow is also back. But when we speak to investors, we can tell from many of their questions that they think we're still back in August 2021. The Street is thinking maybe there are structural issues that will prevent XPO from resuming its trajectory of great financial performance — we expect to nearly triple adjusted EBITDA in LTL this year, and we've improved adjusted operating margin, ex real estate, by 910 basis points from 2015 when we bought the business, all while generating $3 billion of net cash! Delivering at least $1 billion of LTL adjusted EBITDA this year should put any concerns to bed. By the end of this year, we think our LTL business will be humming.

Another reason we believe our stock is undervalued is that our truck brokerage business is overlooked. In some of our meetings, we've had precisely zero questions on brokerage. That's despite us running the best-in-class truck brokerage business in North America. Every quarter, we've knocked the lights out. We believe we have the highest growth rate and the most margin expansion in the industry. There is top-drawer adoption of our technology, too. We're the "ODFL of brokerage."

The third reason we believe the stock is temporarily depressed is that we had too much net leverage. We've taken it down to 2.7x levered, and we expect to be investment-grade by the first half of next year. We expect to do that by growing our adjusted EBITDA, generating free cash flow and paying down debt.

Fourth, investors are concentrating too much on executive stock sales. Brad has a 10b5-1 plan, but he still owns about 11% of the company. So, investors are saying, 'Why should I be buying if the CEO is selling?' But when you look back over the last quarter century, investors who bought his shares have had the opportunity to do extremely well. Brad's goal is to create value for the company, period, and we're not finished doing that.

And, the fifth reason is that, despite our having spun logistics, many investors still find our business too complicated.

93. **Europe did well in the fourth quarter. How do you see that in 2022?**

94. **XPO:** Europe's performance looks like it's going to be very good this year. They're coming out of COVID, and a high percentage of our European business is industrial, which got hit hard in the pandemic. That's because much of the industrial activity stopped in Europe,

whereas in the US it was merely curtailed. Our leadership positions will help the business as things pick up — we're the number one or number two transport provider in important countries like France, the UK, Spain and Portugal. There's not a lot of synergy there with the rest of our businesses, but the numbers are up and to the right.

95. **In America, you have some non-brokerage businesses, including last mile, which has become more competitive in recent years. Can you talk about them?**

96. **XPO:** We don't mind competitor entrants in last mile, because they're not adding capacity. They're buying existing mom-and-pops. It's still a very fragmented industry. We prefer sophisticated competitors who understand what money they're making and behave rationally. About 70% of our transportation business in North America is LTL and truck brokerage.

97. **Where does ESG fit into your business? What are the initiatives you're most focused on?**

98. **XPO:** On the trucking side, it's partly fuel efficiency to reduce the environmental impact. As we get more efficient, less carbon will be dispersed. We're also looking at alternative power technologies, and doing an early-stage pilot with Daimler electric trucks. All-electric vehicles in commercial trucking are further out. The weight of the battery limits the kind of loads the truck can carry. And the charging time is still too high to use these trucks on an overnight shift. But, we do believe the fleet will be electrified over time. There are many other things we're working our way through on the sustainability side of ESG. We're also very involved with initiatives on diversity and inclusion at the business unit level and within the company as a whole.

There's also a strong ESG tie-in to automation in solving the roughly 25% of truck capacity that travels empty on highways. If we can automate the industry more, and get it to connect more machine-to-machine, that would reduce a huge amount of needless pollution.

99. **What about the industrial recovery?**

100. **XPO:** The industrial recovery is still in the early stages of recovery, nowhere near where it'll be in the future. Auto's still picking itself up off the floor. These sectors need capacity badly, because they're ramping up. The main hindrances are chip and labor shortages, but for the time being, trends are very much in the right direction. Regarding the economy in general, there will be some pressure to contain inflation, so if there's a sudden, large spike in interest rates, that could end the post-COVID recovery party.

101. **How is absenteeism trending for you? We've heard varying dynamics, but it seems like February has been a bit better than January.**

102. **XPO:** January was bad, but February has been much better. We're not quite out of the woods with absenteeism, but it's improved significantly from where it was. It's been a wakeup call for a lot of industries. Long-term, supply chain operations are going to be much more automated and tech-based, machine to machine. There's so much room for improvement along the chain — so much unused trucking capacity, for example. A quarter of the truck capacity that goes by on a highway isn't being used. There's no quantum computer screen that shows every single load that needs to be moved from point to point, and the most efficient capacity to use to move each load. There's still quite a lot of progress to be made on technology in our industry.

Non-GAAP Financial Measures

As required by the rules of the Securities and Exchange Commission ("SEC"), we provide reconciliations of the non-GAAP financial measures contained in this transcript to the most directly comparable measure under GAAP, which are set forth in the tables posted in the fourth quarter and full year 2021 earnings release and the February 2022 Investor Presentation posted in the investor relations section of our website.

This document contains the following non-GAAP financial measures: adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") on a consolidated basis for the year ended December 31, 2021; adjusted EBITDA and adjusted operating ratio (or adjusted operating margin which is the inverse of adjusted operating ratio) for our North American less-than-truckload for the years ended December 31, 2021, 2020, 2019, 2018, 2017, 2016 and 2015; return on invested capital (ROIC) on a consolidated basis for the year ended December 31, 2021; net leverage and net debt as of December 31, 2021.

We believe that the above adjusted financial measures facilitate analysis of our ongoing business operations because they exclude items that may not be reflective of, or are unrelated to, XPO and its business segments' core operating performance, and may assist investors with comparisons to prior periods and assessing trends in our underlying businesses. Other companies may calculate these non-GAAP financial measures differently, and therefore our measures may not be comparable to similarly titled measures of other companies. These non-GAAP financial measures should only be used as supplemental measures of our operating performance.

Adjusted EBITDA includes adjustments for transaction and integration costs, as well as restructuring costs, litigation settlements and other adjustments as set forth in the tables posted in the recent earnings release and February 2022 Investor Presentation on our website. Transaction and integration adjustments are generally incremental costs that result from an actual or planned acquisition, divestiture or spin-off and may include transaction costs, consulting fees, retention awards, and internal salaries and wages (to the extent the individuals are assigned full-time to integration and transformation activities) and certain costs related to integrating and converging IT systems. Restructuring costs primarily relate to severance costs associated with business optimization initiatives. Management uses these non-GAAP financial measures in making financial, operating and planning decisions and evaluating XPO's and each business segment's ongoing performance.

We believe that adjusted EBITDA improves comparability from period to period by removing the impact of our capital structure (interest and financing expenses), asset base (depreciation and amortization), litigation settlements, tax impacts and other adjustments as set forth in the tables posted in the recent earnings release and February 2022 Investor Presentation on our website that management has determined are not reflective of core operating activities and thereby assist investors with assessing trends in our underlying businesses.

We believe that adjusted operating ratio improves the comparability of our operating results from period to period by (i) removing the impact of certain transaction and integration costs and restructuring costs, as well as amortization expenses and (ii) including the impact of pension income incurred in the reporting period as set forth in the tables posted in the recent earnings release and February 2022 Investor Presentation on our website. We believe that return on invested capital (ROIC) is an important metric as it measures how effectively we deploy our capital base. ROIC is calculated as net operating profit after tax (NOPAT) for the year ended December 31, 2021 divided by invested capital as of December 31, 2021. NOPAT is calculated as adjusted EBITDA less depreciation expense, real estate gains and cash taxes plus operating lease interest. Invested capital is calculated as equity plus debt and operating lease liabilities less cash and goodwill and intangibles. We believe that net leverage and net debt are important measures of our overall liquidity position and are calculated by removing cash and cash equivalents from our reported total debt and reporting net debt as a ratio of our year end reported adjusted EBITDA.

With respect to our financial target for full year 2022 adjusted EBITDA from LTL, a reconciliation of this non-GAAP measure to the corresponding GAAP measure is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that we exclude from this non-GAAP target measure. The variability of these items may have a significant impact on our future GAAP financial results and, as a result, we are unable to prepare the forward-looking statement of income prepared in accordance with GAAP that would be required to produce such a reconciliation.

Forward-Looking Statements

This transcript includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including our future growth prospects for adjusted EBITDA and our 2022 financial target of at least $1 billion of adjusted EBITDA in the North American LTL segment; our expectation that North American LTL adjusted operating ratio will inflect to year-over-year improvement mid-year 2022; our expectation to continue to deliver double-digit volume growth in North American truck brokerage in 2022 and going forward; our projected net leverage; and our plan to achieve an investment-grade credit rating by growing adjusted EBITDA, generating more free cash flow and paying down more debt. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target," "trajectory" or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include the risks discussed in our filings with the SEC and the following: economic conditions generally; the severity, magnitude, duration and aftereffects of the COVID-19 pandemic, including supply chain disruptions due to plant and port shutdowns and transportation delays, the global shortage of certain components such as semiconductor chips, strains on production or extraction of raw materials, cost inflation and labor and equipment shortages, which may lower levels of service, including the timeliness, productivity and quality of service, and government responses to these factors; our ability to align our investments in capital assets, including equipment, service centers and warehouses, to our customers' demands; our ability to implement our cost and revenue initiatives; the effectiveness of our action plan, and other management actions, to improve our North American LTL business; our ability to benefit from a sale, spinoff or other divestiture of one or more business units, and the impact of anticipated material compensation and other expenses, including expenses related to the acceleration of equity awards, to be incurred in connection with a substantial disposition; our ability to successfully integrate and realize anticipated synergies, cost savings and profit improvement opportunities with respect to acquired companies; goodwill impairment, including in connection with a business unit sale, spinoff or other divestiture; matters related to our intellectual property rights; fluctuations in currency exchange rates; fuel price and fuel surcharge changes; natural disasters, terrorist attacks or similar incidents; risks and uncertainties regarding the expected benefits of the spin-off of our logistics segment; the impact of the spin-off of our logistics segment or a future spin-off of a business unit on the size and business diversity of our company; the ability of the spin-off of our logistics segment to qualify for tax-free treatment for U.S. federal income tax purposes; our ability to develop and implement suitable information technology systems and prevent failures in or breaches of such systems; our indebtedness; our ability to raise debt and equity capital; fluctuations in fixed and floating interest rates; our ability to maintain positive relationships with our network of third-party transportation providers; our ability to attract and retain qualified drivers; labor matters, including our ability to manage our subcontractors, and risks associated with labor disputes at our customers and efforts by labor organizations to organize our employees and independent contractors; litigation, including litigation related to alleged misclassification of independent contractors and securities class actions; risks associated with our self-insured claims; risks associated with defined benefit plans for our current and former employees; the impact of potential sales of common stock by our chairman; governmental regulation, including trade compliance laws, as well as changes in international trade policies and tax regimes; governmental or political actions, including the United Kingdom's exit from the European Union; and competition and pricing pressures.

All forward-looking statements set forth in this transcript are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us or our business or operations. Forward-looking statements set forth in this *transcript speak only as of the date hereof, and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events, except to the extent required by law.*