Selected Investor Q&As with XPO Executives

May 2022*

1. **Question:** This is certainly an exciting period of transformation at the company. XPO spun off GXO Logistics in early August 2021 and launched, this year, a series of actions to help return its margin improvement focus in the LTL segment. XPO recently sold its intermodal business. It aims to divest its European transport business. And there's a lot of things going on in terms of splitting up the organization.

   Talk to us about how we got here. What drove you, in the first place, to put all these pieces together? And why is now the right time to go in a different direction? What do you see as the endgames for RemainCo and SpinCo?

2. **XPO:** So, you asked, if we built it all up, why are we dismantling it. The answer is simple. We're fiduciaries for shareholders, and our main mission in life is to create value for shareholders. That's an old-fashioned philosophy, but we're old-fashioned. We think our whole purpose is to create alpha for our shareholders, not to create empires.

   We spun off GXO, the warehouse part of the business, and that's doing very well. Then we felt that we still don't have a very highly investable stock. We have a great company, but we don't have a great stock. There's no PM out there saying to their analyst, "You know, why don't you find me a company that's got some European exposure and maybe also some asset-intensive LTL industrial exposure, and also make sure you find something that, thirdly, has a tech-enabled, asset-light brokerage business." Nobody seems to be looking for that.

   Some investment bankers showed us a chart of the investors of SAIA and Old Dominion — and, obviously, there were a lot of common shareholders there. Then we looked at

* Edited for clarity

the shareholders of CH Robinson. Then we looked at the overlap between those two lists, and there was almost none. That really gets to the essence of our problem, from a stock point of view and from a creating shareholder value point of view. We want to be more shareholder friendly in terms of giving them something that makes sense for what they want to invest in.

So, we sold our intermodal business in March. We're in the process of selling or listing Europe. We'll separate out LTL as a pure-play, and focus, focus, focus on growing LTL. We won't just be growing the margins, which we did very well in phase one of owning the business. And we won't just be throwing off billions of dollars of net cash, which we also did very well in phase one. Now, we're also investing in this high-ROIC business to grow the topline, while not losing our focus on margin. We'll grow the fleet and the door count.

Then we'll have truck brokerage, which will appeal to investors who want to go into something that's tech-enabled and high growth. There's a ton of tech initiatives going on in LTL, but the brokerage business has become very automated. In a few years from now, it will be 95% automated. So, there's a certain type of investor who wants to invest in a business that's got virtually no capex, other than the tech, and wants to own the industry leader with best-in-class numbers and best-in-class growth; who wants to see the high conversion from EBITDA to free cash flow that Drew and his team have been delivering.

3. **Question:** When you think about being an LTL pure play, who are you going to be?

4. **XPO:** When you look at the LTL industry as a whole, it's an industry where you have ten players who have roughly three quarters of the total LTL volume. It's an industry where you don't have as much supply — doors and capacity — as much as you have demand. Our algorithm, looking forward, is pivoted toward growth. We're investing in the

business. We've more than doubled capex this year, in terms of doors, fleet and adding more resources to the business. We want to go back to gaining market share. Over the years to come, the levers are volume, pricing and productivity. Each one of those has tremendous opportunity, looking forward.

On the volume side, we're investing more in our salesforce and we're adding capacity. We're adding more doors. We're adding more fleet. We produce our own trailers, which is a company-specific advantage that we have. And we're investing tremendously in our salesforce, so we can capture more market share.

On the pricing side, it continues to be a firm environment. There's limited capacity in the industry. We have fantastic people, great processes and new technologies we're launching. We believe that will be vital over the years to come.

Finally, on the productivity side, roughly a quarter of our linehaul miles are currently outsourced to purchased transportation. That's a big opportunity for us as we go back to insourcing those miles and obtaining superior productivity from our own equipment. We can save 30-40% on each one of those miles. Coupling that with all the technology initiatives we have to make our business more efficient, we're going to optimize costs.

So, by driving these three pieces, we're going to expand the network, grow the top line and expand the network and grow the bottom line.

5. **Question:** You mentioned on your earnings call that there was an acceleration in April trends. Now that we're halfway through the second quarter, are those trends holding? What are you seeing?

6. **XPO:** Let's first talk about where we are in the quarter. As we mentioned on the earnings call, our daily revenue growth on a year-on-year basis accelerated in the month

of April versus where we were in the first quarter. And that was predominately driven by yield. At the end of the first quarter, we were at 9% improvement from a yield perspective. That has accelerated in the second quarter into double-digit territory. So, overall, we continue to see strong demand for our services.

7. **Question:** If we're seeing spot rates rolling over pretty aggressively on the truckload side, which is usually a precursor to some economic softening, is there something structural that has changed in the LTL market that allows it to keep growing? What's shifted such that you're seeing this growth in a market that's slowing on the macro side?

8. **XPO:** Pricing is always a function of how much supply you have versus how much demand you have. When you think of the top 10 carriers in the business, they generally have strong management teams. They are disciplined on price. So, effectively, everybody's making sure that customers are being charged fairly for services, given what we're seeing from a cost inflation perspective in running our LTL networks.

9. **Question:** How do you contrast that with public statements you've made about weakness in spot rates?

10. **XPO:** We were referring to the spot market in full truckload, because those rates have come down a lot; they'd gone up too much, they got frothy, and supply and demand sorted that out and they came back down. You're not seeing that turn into contract rate softness, though. It's very interesting. One of the reasons spot rates came down — probably the main reason — is people started losing a little confidence in the global economy, based on what's going on in Europe, and so forth, and said, "You know what? I'm going to decrease my reliance on spot and go more for 12-month, six-month or three-month contracts." So, you had less demand for spot and more demand for contract.

11. Truckload contract rates are still up on a year-over-year basis. We're 68% contract and 32% spot in our truck brokerage business, so we've been able to expand our margin.

12. **Question:** In LTL, growing your door count by 6% over two years was one of your five actions. That's the first time I can remember XPO, or even Con-way, focusing on growth.

13. **XPO:** We want to grow overall. We're looking to add, as you said, 6% more doors by the end of 2023. We started that plan in October of last year and, so far, we've opened up 345 net new doors, so we're well ahead of plan. We've determined where to open these doors based on customer demand and on opportunities to optimize the linehaul network. Looking at the last two terminal openings, Southern California is a region where you have inbound demand for freight coming into California, and then you have all the imports from outside the US coming into the ports and going to the rest of the country. So, we expanded slightly inland to allow us to drive better linehaul efficiency and support higher customer demand in that market. In Atlanta, which is one of the biggest markets in the South and the gateway into Florida, our expansion there is capitalizing on the linehaul market and on widening the pipes of our linehaul network, so we can move more freight into these Southern geographies.

14. **Question:** Is there anything you've learned as you've grown and expanded and added these doors? Real estate is taking a longer time. Is there anything on the macro front that you're contending with?

15. **XPO:** Real estate markets have been high for the type of industrial sites we're in. We're focusing on three types of expansion. We either lease or buy an existing terminal, which we spruce up and improve. Or we build a greenfield, like we did in Chicago Heights last year, from the ground up. In other cases, we expand existing sites where we have available land. What we've learned, so far, is that you have to move very fast when you find a location or market that you like. Beyond that, it's about making sure we get the

equipment and people we need.

16. **Question:** Let's talk about people. How is labor availability now versus a few weeks or months ago? How has that changed? We heard from the Port of LA just before this, and they were talking about the availability of employees has allowed the fluidity of the market to improve. Are you seeing the availability of labor get easier?

17. **XPO:** We've seen job applications go up 38% just in the last few months, so there's a noticeable loosening in the job market. But let's be clear: it's still relatively tight, and it's not like everyone and their brother is applying to be a truck driver. The truck driver shortage is far from solved, even if it's not the same heightened crisis that it was a few months ago.

18. On the brokerage side, our best referrals come from the people who already work for us. We haven't had a problem with bringing people into the door. If you go back to the beginning of the pandemic, we differed from what a lot of our competitors did in that we actually doubled down on hiring while our competitors were letting people go. That's something that's paid dividends for us, and has helped us grow volume tremendously over the last couple of years.

19. On the LTL side, it's still tight. It's not easy to find drivers, but we are seeing more applicants to our driver schools. There's an increase in non-driver school driver applications, as well, but it's still a relatively tight labor market in LTL.

20. **Question:** How many LTL service centers do you have right now?

21. **XPO:** 292.

22. **Question:** In LTL, can you talk about your OR (operating ratio) trajectory?

23. **XPO:** We had the second-best adjusted operating ratio in the industry last year and we might have the second-best adjusted operating ratio in the second quarter, as well.

24. **Question:** You've said you expect about 400 basis points of sequential LTL adjusted operating ratio improvement in the second quarter, and 100 basis points overall for the year, and hundreds of basis points of improvement over the coming years. Are you still on target for those goals?

25. **XPO:** Yes, we are on target. Sequentially, from the first quarter to the second, we expect more than 400 basis points of adjusted OR improvement, excluding real estate gains. And we expect at least 100 basis points of adjusted OR improvement for the full year, excluding real estate gains. Now, when you think about where this is coming from, OR in the LTL business typically is driven by three categories. Pricing is usually the number one category that drives margin improvement, and we expect that to continue to be strong over the course of the year.

26. As we mentioned on the earnings call, our yield crossed into double digits in the second quarter, and we expect that to be strong through the course of the year. Obviously, in the fourth quarter we'll have tougher comparisons on a year-over-year basis. On the volume side, we expect volume to be down low- to mid-single digits in the second quarter, and then improve through the course of the year. We're excited about our sales efforts. In April, we had the best win rate we've seen in the last four years. Our strategic account team is focused on large opportunities, including many multi-million-dollar deals that either closed in April or will close in May and June, and that includes a new top-ten customer. We expect that momentum in the salesforce to continue into the back half of the year.

27. Finally, on the cost side, we typically do our purchased transportation bid in the month of May, and contractual rates in truckload are still up on a year-on-year basis, but these increases are nowhere near where they were in the back half of last year or the first quarter of this year, when we saw year-over-year increases above 25%. All of this will contribute to delivering more than 400 basis points of sequential adjusted OR improvement from Q1 to Q2, and then at least 100 basis points of adjusted OR improvement for the full year, excluding real estate gains.

28. **Question:** Is insourcing linehaul the biggest opportunity you see on the cost side?

29. **XPO:** The biggest bucket on the P&L is linehaul, followed by pickup and delivery and then dock. Linehaul is always the number one opportunity. You can get at that either by insourcing or by improving network flow through building pure loads and optimizing where trailers are loaded and unloaded. For P&D, it's about optimizing your routes, but pricing ties in as well. We've launched new cloud-based technology for our route planners. Finally, on the dock, a lot of that is productivity and how you organize your dock doors to minimize travel time for dock workers and improve labor planning, so we have the right number of dock workers for the volume.

30. **Question:** How are service metrics and customer satisfaction scores trending in LTL?

31. **XPO:** They're trending very well. We're currently back to pre-pandemic levels in terms of network flow. This month, we've seen the highest customer satisfaction scores in years. Our NPS (net promoter score) scores have also gone up significantly this quarter.

32. **Question:** Since 2016, your LTL volumes have been flat. Why is that?

33. **XPO:** We simply didn't focus on volume. Growing volume was not our business plan. Our plan was to sweat the assets; run the business more productively using largely the same resources. We inherited a lot of unprofitable customers that we eliminated, and that

offset some of the tonnage gains we made over that time period. By executing on that optimization strategy, from 2015 through 2021, we expanded adjusted operating margins by 910 basis points, excluding real estate gains, and generated over $3 billion of net cash since we acquired Con-way. We expect to generate at least $1 billion of adjusted EBITDA LTL in 2022. This will nearly triple the adjusted EBITDA generated in 2015. Our financial and operating results have been true same-store numbers. We have a loyal customer base of 25,000 customers for whom we hauled 18 billion pounds of LTL freight last year.

34. **Question:** In LTL, what's your mix of business, in broad categories?

35. **XPO:** High-level, about two thirds of the business remains levered to the industrial economy. The lion's share of the remainder is consumer, which includes retail/ecomm, food and beverage and consumer packaged goods.

36. **Question:** Con-way used to be heavily weighted in the auto industry in the Midwest. Is that still a mix for XPO that's outsized in terms of impact?

37. **XPO:** The auto vertical represents high single digits.

38. **Question:** If we start seeing autos ramp up in the second half, does that become a larger, outsized contributor to your growth potential?

39. **XPO:** When you look at autos overall, production has been tapered by the chip shortage. It's anybody's guess on when the chip shortage will improve, but as you see that subside over time, you will see auto production pick back up. They're still only at roughly 75% of their normal volumes.

40. **Question:** Do you think there's pent up merchandise coming out of China?

41. **XPO:** For sure. But time will tell how much and how soon.

42. **Question:** Your brokerage has been growing rapidly, with volume up 20% in the last six quarters. Where do you see XPO gaining share in the brokerage market over the next couple of years?

43. **XPO:** We've got a tremendous opportunity to continue our positive momentum. If you look at our last eight years, the brokerage industry has grown at a 9% revenue CAGR. We've grown at a 27% revenue CAGR over the same time. So, we've tripled the industry's growth rate over the last eight years. We feel good about continuing to be able to significantly outperform the industry.

44. If you look at the number of customers that we do $1 million or more of business with, that was up 48% versus last year. If you look at our overall volume with our top 20 customers, that was up over 25%. So, we continue to go out and take share. And we're only in the early innings of doing that. The for-hire trucking market is over $400 billion. We've got only $3 billion of that, so there's a lot of runway ahead of us.

45. **Question:** Where are you in terms of deploying tech in brokerage, and how do you think about scaling that?

46. **XPO:** When we built XPO Connect, there were three things we were focused on: customers, the carriers and our employees. For the customers, we want XPO Connect to be the tool that creates the best transportation system possible. For the carriers, it's all about being sticky and easy to use. Our Drive XPO app has over 700,000 downloads, and that's largely from the carrier base that works with us. They can bid and buy a load from their phones, and with little or no human interaction. We've also given carriers access to fuel and tire discounts — things that allow them to put more money into their pockets. Our volume was up 66% over the last five years. But our headcount was only up 38%

over the same time period.

47. **Question:** Within that growth, what percent of your freight is now connecting digitally versus the old brokerage model of call centers?

48. **XPO:** 74% of our loads were created or covered digitally in the first quarter. That's up from the fourth quarter where it was 70%. And I think the third quarter was around 67%. So, you can see it's continuing to go up and to the right for creating and covering loads digitally.

49. **Question:** Can you talk about your gross margin percentage and your volume growth in the brokerage business?

50. **XPO:** Last quarter, we were at 16.3% in gross margin. As we start the second quarter, that's gone up. Last quarter, we grew volume by 23%. And brokerage has been scaling with XPO Connect and outgrowing the industry by 3x.

51. **Question:** What are the messages you want to communicate about the trajectory of the brokerage and LTL businesses?

52. **XPO:** Some people are going to wait until the spin happens and then invest in a best-in-class truck brokerage firm that's tech-enabled, that's been shooting the lights out quarter after quarter and year after year — and that should trade at a very nice multiple as a result of that. And/or you can invest in an LTL business that's not best-in-class yet, but it has a shot of being best-in-class within a few years, especially if we keep the momentum we've got going. Then, we will move into the second phase of LTL where we're not just growing margins, but we're also investing in a high ROIC business, and where we grow the top line, as well.

53. **Question:** Is CHRW the right comp for the XPO brokerage business?

54. **XPO:** Robinson is the company we run up against the most. We have a ton of respect for them.

55. **Question:** Is the European business growing on the topline?

56. **XPO:** Yes, we generated 5% organic revenue growth in Q1.

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 2022 first quarter earnings release and the May 2022 Investor Presentation posted in the investor relations section of our website.

This document contains the following non-GAAP financial measures: adjusted EBITDA, net cash generated from adjusted EBITDA, and improvement in adjusted operating margin (which is the inverse of adjusted operating ratio) for our North American less-than-truckload business for the years 2015 through 2021, and organic revenue growth on a consolidated basis for the three months ended March 31, 2022.

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 May 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 May 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 May 2022 Investor Presentation on our website. We believe that organic revenue is an important measure because it excludes the impact of the following items: revenue derived from fuel surcharges and foreign currency exchange rate fluctuations as set forth in the tables posted in the May 2022 Investor Presentation on our website.
With respect to our financial target for full year 2022 adjusted EBITDA for LTL, a reconciliation of this non-GAAP measure to the corresponding GAAP measures is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that we exclude from these non-GAAP target 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 document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements relating to the planned spin-off of our North American truck brokerage business and the expected financial results of that spin-off as a standalone business; the planned divestiture of our European business, and the expected cash proceeds of the planned divestiture; our future growth prospects for adjusted EBITDA, with $1 billion of adjusted EBITDA generated by the North American LTL segment; our expectations for improving our operating ratio in our North American LTL business; our expectation for a continued recovery in demand by our industrial and retail/consumer customers; our expectation to open new LTL doors; the degree with which we expect to use insourced transportation in our North American LTL business; our expectation for growth in overall capacity in the North American LTL industry; our plan to enroll and hire LTL drivers in and from our driver schools; our expectations for revenue growth, volume growth and earnings growth in our North American truck brokerage business in 2022 and going forward; our ability to generate a high level of ROIC in our LTL business and our North American truck brokerage business; our expectation for growth of the truck brokerage industry in North America; and our belief that the aggregate stock price of the *two separate companies will trade at higher levels than our current stock price. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target," "trajectory" or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.*

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include our ability to effect the spin-off of our North American truck brokerage business and meet the related conditions noted above, our ability to complete the sale or listing of our European transportation business, the expected timing of the completion of the transactions and the terms of the transactions, our ability to realize the expected benefits of the transactions, our ability to retain and attract key personnel for the separate businesses, 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, wars or similar incidents, including the conflict between Russia and Ukraine and increased tensions between Taiwan and China; risks and uncertainties regarding the expected benefits of the spin-off of our logistics segment or a future spinoff of a business unit; 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 or a future spin-off of a business unit to qualify for tax-free *treatment for U.S. federal income tax purposes; our ability to develop and implement suitable information technology systems and prevent failures in or breaches of such systems; our indebtedness; our ability to raise debt and equity capital; fluctuations in fixed and floating interest rates; our ability to maintain positive relationships with our network of third-party transportation providers; our ability to attract and retain qualified drivers; labor matters, 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 selfinsured claims; risks associated with defined benefit plans for our current and former employees; the impact of potential sales of common stock by our chairman; governmental regulation, including trade compliance laws, as well as changes in international trade policies, sanctions and tax regimes; governmental or political actions, including the United Kingdom's exit from the European Union; and competition and pricing pressures.*

All forward-looking statements set forth in this 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.

Where required by law, no binding decision will be made with respect to the divestiture of the European business other than in compliance with applicable employee information and consultation requirements.