Credit Suisse Industrials Conference
Fireside Chat with Brad Jacobs and Matt Fassler of XPO Logistics
Conducted by Allison Landry of Credit Suisse
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1. **Allison Landry, Credit Suisse:** Good morning everybody. Thank you for joining the Credit Suisse Industrials Conference. We're very excited to have XPO with us today. We have CEO Brad Jacobs and Chief Strategy Officer Matt Fassler.

   Obviously, a lot of very exciting news came out last night. Brad, I would love to turn it over to you if you have any initial remarks, and then we can jump right into Q&A.

2. **Brad Jacobs, XPO:** Good morning, Allison. Great to see you. Go ahead and hit us with the tough questions.

3. **Allison Landry, Credit Suisse:** Alright, let's talk about what you're doing with the proposed spin. What's the rationale?

4. **Brad Jacobs, XPO:** The rationale is that we basically have "multiple envy." We went for quite a long period of time where our multiple was too low compared to our competitors. When you rationally, objectively look at growth rates, margins, the return on capital and the operating ratios, there shouldn't be that discount. In many cases, there should be a premium. We were both frustrated and intrigued by that observation, and basically came to the conclusion that it doesn't matter what we think; it matters what the market thinks.

   We talked to a lot of different stakeholders and heard some consistent themes. The themes were: simplify the company and go investment grade. If we do these things, there will be a lot more demand for the stock, and we can accomplish those things by separating the company. There are also numerous operational and commercial benefits, in addition to the financial reasons. They include greater focus – having everything that happens in a warehouse in one company on the logistics side, and having everything that happens on a truck, moving freight from point A to point B, in a transportation company.

   By splitting into two companies, we also have more efficient capital allocation and a more efficient structure. Each business has specialized technology and, very importantly, we will have a pure-play equity currency. That equity currency is something we can use for M&A. Sometimes, when you're buying a company, if you're in the same business as that company, you have a leg up because they understand your stock. We'll be able to use stock for acquisitions, if they're accretive, going forward. Having a pure-play currency will also help us attract and retain employees. So, there are lots of different reasons why we wanted to do this.

   You also asked us "what" we're doing. We're doing something very simple. We studied a lot of different options over the last year, some of them extremely complicated, and ultimately we landed on something very simple. If you remember, in January of this year, we said we were going to address this issue of a discounted multiple by seeing what we could do from an operational perspective to make the company more efficient and productive. We said that we were going to look to "sell or spin off" four of our five business units, excluding LTL. We got fairly far along with that process and then, of course, the pandemic came and that was the end of that. Our whole focus became protecting our employees, which is first and foremost, and keeping the supply chain moving, which was also very important. So, we went back to doing what we were doing and then had inbound activity.

We decided that we couldn't look at the sale of any of our business units without simultaneously looking at spins. From a fiduciary, board of directors point of view, that was very important for us to do. When we looked at the alternative of selling – what we'd get on an after-tax basis and also not being able to participate in the growth going forward – and compared it to what we believe a spin would trade at, we decided that a spin makes more sense. So that's the plan: to divide the company up into two powerhouses — a transportation powerhouse, where about 90% of the EBITDA is coming from LTL and truck brokerage, and a contract logistics powerhouse, which would be the second largest contract logistics company in the world and the only major publicly traded logistics pure-play.

5. **Allison Landry, Credit Suisse:** On one of your last points, is it fair to say that the spin was your first choice versus an outright sale? I know that there was some news in the market about potentially selling the business. Maybe you could just talk about your preference for how it played out. It sounds like, from what you're saying, that there are a lot of benefits to a spin for shareholders and the businesses themselves. Maybe you can talk a little bit about that and about how you came to decide on the spin versus an outright sale.

6. **Brad Jacobs, XPO:** We have no bias against or preference for a spin, versus a sale, versus just continuing the business as it is. Our duty, our purpose, our fiduciary obligation is to figure out what is going to create the most amount of equity value and what is going to create a business that is the most effective operationally. When we rationally, objectively looked at all the different alternatives, the spin alternative seemed to be the best at this point in time, so the board approved us to pursue that plan.

7. **Allison Landry, Credit Suisse:** Great. You guys have talked about the element of the transaction, that it's tax-free for shareholders, which is obviously a positive. If you start to think about the separate businesses, what do the management teams look like? You're obviously going to be at XPORemainCo as both chairman and CEO and be chairman of the board of NewCo, and I think Troy Cooper was mentioned to be staying on as well. Maybe you could give us some color on how specifically the management teams will look at each company?

8. **Brad Jacobs, XPO:** The management profile is very simple. We will have the people who are already focusing on transportation right now in the transportation company, and the people who are already focusing on logistics in the logistics company. As you said, I'll be chairman of both companies, and CEO of the transportation company, and Troy will be president of the transportation company. The big open spots that we have for NewCo, the logistics company we're spinning, are CFO – we need a rockstar CFO – and head of strategy and head of IR. We don't have those embedded in our organizations as extra people, and we want to keep the people we have where they are. If you know anybody, by the way – great IR people, strategy people, CFOs – we're looking for top talent!

9. **Allison Landry, Credit Suisse:** Alright. So basically, on the operating piece, whatever business unit you're in, you're going to stay there. What about Mario? Obviously, tech has been such a

big focus for you guys, and I know that there has been some software licensing, but once the companies are split, how is that going to work? Does Mario stay with XPORemainCo?

10. **Brad Jacobs, XPO:** Mario stays with XPORemainCo, where he's a great CIO. We have some strong internal talent, and if that doesn't happen, we can always recruit for a CIO for logistics. In terms of the access to technology – we've obviously invested billions of dollars in developing our technology. XPORemainCo will own all of it, but NewCo will continue to have the benefit of their parts, because they'll have a perpetual license for it.

    The advantage to this from an operational perspective is that both companies can focus on the development of technologies that are respectively important to them. Sometimes that's the same, but sometimes it's very different. And the versions that will be upgraded – we're always upgrading constantly – will be different for the different companies and we won't share that information between the companies. They will be at arms' length, two different companies.

11. **Allison Landry, Credit Suisse:** Ok. Maybe we can talk about the existing debt. How is that going to look going forward? Obviously, the press release talked about deleveraging and becoming investment grade, like you mentioned before, but maybe you can just talk about what happens to the existing debt?

12. **Brad Jacobs, XPO:** Well, we've gotten a lot of phone calls from investment bankers over the last 24 hours, because we're going to refinance all our debt. We're going to take out all our debt and put a whole new debt structure in place – one for XPORemainCo and one for NewCo. Our goal is to become investment grade. We're resolutely committed to that. We want to become investment grade as soon as practically possible, so we're going to have to bring the leverage levels down.

13. **Allison Landry, Credit Suisse:** Ok. Is there a way to think about how the debt is going to get split between XPORemainCo and NewCo? Is XPORemainCo taking on all of it and then NewCo goes to face the public markets? Is that the right way to think about it?

14. **Brad Jacobs, XPO:** I don't want to get ahead of the rating agencies. We're talking to them and trying to figure out what will make everybody happy. But we're committed to being investment grade.

15. **Allison Landry, Credit Suisse:** Ok. Could you talk about the timeline of this? You said second half of 2021. What needs to happen to get this over the finish line?

16. **Brad Jacobs, XPO:** We have to do a Form 10, which is similar to when you do an IPO. We've got to write that document, complete the audits for it, turn comments back and forth from the SEC and then make it effective.

    We've got to get a board of directors in place. I'll be chairman but we need a full board. I'll put another help wanted ad out here – if you know any great directors who would contribute to making this a fantastic company, we're interested. One reason why great companies are great is because they have great boards. So, we're looking for fantastic directors and we've got to fill those key slots on the management team.

17. **Allison Landry, Credit Suisse:** That sounds like quite a bit to do. So basically, the second half of next year is what we're looking at. Can we turn to thinking about the logistics business? At least from my perspective, one of the things that had been a challenge for investors from a valuation perspective was trying to understand what multiple to put on contract logistics. When we think about the pipeline that you guys have not only generated but executed on, given that revenue stream, would you still expect the revenue profile to be a multiple of GDP? How would you tell investors the best way to value that outside of using the comps – Kuehne + Nagel, DSV, Clipper – how do people get comfortable with contract logistics in trying to assign a proper multiple?

18. **Brad Jacobs, XPO:** I have been figuratively on the top of rooftops telling people how fantastic this business is for so long! I believe that finally, once we get a pure-play company and there's a lot more disclosure on how great our contract logistics business is specifically, I think that the Street will agree with me on that.

    We are right smack in the middle of this massive, global e-comm growth and customers are demanding faster and faster lead times on fulfillment. Most retailers just can't do it. Many e-comm companies can't do it. So the outsourcing trend towards 3PLs like us is strong. It's a strong, strong growth trend that I doubt is going away any time soon.

    And of course, we're leaders in automation. I think there's going to be a "have and have-not" chasm with contract logistics providers between those with automation, like ourselves, and those who have not invested in automation. I think in terms of market share growth, we've got a market that's growing super-fast and will grow even faster over time, and we're taking market share in that faster-growing market.

    We are the largest outsourced e-fulfillment platform in Europe! That's a big deal. A very big deal. We are a global leader in omnichannel logistics, a global leader in reverse logistics and a tremendous expert in cold chain logistics. I think once we have a standalone contract logistics company with NewCo and investors become educated on what contract logistics is capable of, I don't see why multiples of the companies you mentioned, in the mid-to-high teens, shouldn't be attainable for us. I really don't.

19. **Allison Landry, Credit Suisse**: Just thinking back to the way you've structured the company over the last several years, you put all these interesting pieces together, and there were cross-selling synergies. Now that you're sort of breaking the company apart, and I think the rationale makes a lot of sense, are there dis-synergies from a top-line standpoint? How do you reconcile all of that?

20. **Brad Jacobs, XPO**: There will be a few dis-synergies on the cost side, on the expense side — $10 million or $20 million per year, something like that — which we'll mostly be able to offset with efficiencies. On the top line, cross-selling's been a big winner for us. We took the company from about $15 billion in revenue to about $17 billion in revenue in a period of four years organically, without any acquisitions. I don't know how many companies were adding $2 billion of revenue organically in that period of time. More importantly, we grew the EBITDA, from 2016 to 2019, from about $1.1 billion to about $1.6 billion, so we grew the adjusted EBITDA by about $500 million, which is almost 50%. These are things we're very proud about, in terms of our operational prowess.

Cross-selling was one big contributor to our top-line and bottom-line growth. We won't lose that, and the reason is that almost all the cross-selling was in two perimeters: the perimeter of North American transportation and European transportation. So, if we had a customer who was using us for managed transportation, then we got a shot at getting that freight. We weren't just a 4PL, we were also a 3PL, a carrier. If we went to a customer and we were offering them a brokered load, if they had some freight and wanted it to go over-the-road, we'd also offer intermodal. We have a lot of intermodal business. Or, a customer has a truck brokerage load that gets delayed or lost and now it's become an expedite load because they need it picked up in 45 minutes, so that business goes to our expedite business.

So, within our transportation business in the United States, lots of cross-selling takes place and is very profitable and will continue to be so. In Europe, within transportation, a lot of cross-selling takes place and will continue to take place. There isn't a whole lot of cross-selling between the contract logistics part of the business, what goes on in warehouses, and the transportation side, what goes on in a truck. There's some, but a very small percent compared to what I was just talking about. And again, operationally, one of the advantages of the spin-off is that each company will be able to focus, focus, focus more on transportation, or focus, focus, focus more on contract logistics. I think the internal cross-selling should actually increase as a result of more focus, in principle.

21. **Allison Landry, Credit Suisse**: Thinking about your positioning for e-commerce, Brad – with LTL, which obviously does have a secular story as far as e-commerce goes, with freight brokerage, last mile, are you well-positioned to benefit from e-commerce trends in transportation as a standalone versus logistics?

22. **Brad Jacobs, XPO**: E-commerce benefits logistics much more than transportation, because there's omnichannel, there's reverse, there's e-fulfillment, there's cold-chain. The percentage of business that's related to e-commerce in logistics is much higher than it is in transportation. Having said that, not just us, but the whole transportation industry certainly is benefitting from the e-commerce trends, because transportation lengths and transit times have been shortened, and that brings more loads, more activity and more positioning of freight closer to urban centers. The increase in the number of shipments is positive for the transportation industry. But logistics is largely about e-commerce.

23. **Allison Landry, Credit Suisse:** You've mentioned cold chain a couple of times, so it's only appropriate to ask whether you guys are participating in the vaccine distribution. What are the capabilities? Is it more transportation versus logistics, or is there an overlap of the two?

24. **Brad Jacobs, XPO:** We are actually delighted, honored and privileged to participate in this historic vaccine roll-out. We're very humbled that we get to play even a small role in this huge endeavor. The major pharma companies producing the vaccines are our customers. We know them very well. Our expedite line of business has been transporting vaccines for the last three weeks in temperature-controlled trucks, and there's a big secondary market for vaccine-related freight. I think the biggest beneficiaries for the vaccine will be FedEx, UPS and DHL. But there's plenty to go around for everybody else in the secondary market. So, think about syringes, saline, transporting Styrofoam packaging, dry ice, refrigerants, temperature-controlled packaging material. While we're happy to benefit financially from that, because we have a fiduciary duty to shareholders, we're more inspired and motivated and proud that we're able to help what is

going to be a really, really historic roll-out that will help humanity quite a bit in the next few months.

25. **Allison Landry, Credit Suisse:** Turning to LTL, assuming we have an industrial recovery underway that should be conducive to top-line growth in FY 2021, and given the dramatic improvement in LTL OR over the last several years, at what point do you think the LTL business can start to take share either from competitors or see a shift from truckload? Is there a growth algorithm for that business we should be thinking about?

26. **Brad Jacobs, XPO:** The growth algorithm is: Since we bought Con-Way five years ago, we've doubled our EBITDA and we've nearly tripled our EBIT. We're focused on the growth of the bottom line, and I don't think anyone has been growing as fast as we are. If they are, I'm not aware of it. The other kind of growth that we have focused on and will continue to focus on is improvement in operating ratio. And again, I think we're #1 in that. If you look at where the operating ratio was when we bought Con-Way and at what our operating ratio is now, it's about 1000 basis points better than where it was when we bought Con-Way. We've grown our operating ratio 2.5x more than the next best-performing competitor, who grew their margin during that same period of time — 2016 to 2019 — by about 400 basis points versus our 1000 basis points. To be fair, our operating ratio is still only the second best in the industry.

We've never looked at market share as the prime metric. Market share, on the revenue side, is nice if it leads to profit share — if it leads to growth in profit, growth in margins and growth in return on capital. But market share for the sake of market share itself can be an ego trip. We don't think that's what we should be doing. What we should be doing is getting the highest return on capital, getting the most margin expansion we can and growing profits as much as we can.

As a result of the way we run the LTL business, we have clear visibility to at least $1 billion of EBITDA in 2022. And you might recall from when we said, in January, that we were exploring spinning or selling up to four of our business units, that LTL was not on that list. I'd like to get that 2022 expected $1 billion of EBITDA under our belt. We have a phenomenal trajectory in the LTL business.

The technology that we've invested and will continue to invest in LTL is unprecedented. I don't think anyone is spending nearly as much as we are in technology investments. Some of our competitors are investing more in real estate and, maybe, growing the fleet. I'm not criticizing that. It's a different strategy. We've decided to put our money into tech to drive ways to do P&D better through technology; to do pricing better; to get dock productivity up with our proprietary XPO Smart labor tool; to improve linehaul activity. This is all what's been driving the margin expansion and is what will drive it even more going forward.

We've done very well in the LTL business. We've improved the OR in 17 of the last 19 quarters — and one of those quarters was in the middle of a pandemic, so we're giving ourselves a break for that one. Now, the industrial economy has started to recover, but I want to emphasize the words, "started to." When the industrial economy finally recovers, LTL is going to hum in a big way for us and for our competitors.

Look at how well LTL has been performing over the last few years in a pretty lousy industrial environment. Ever since the tariffs started, the industrial economy has been pretty bad. It's gotten relatively better than where it was, but that's comparing to a low level.

27. **Allison Landry, Credit Suisse:** Let's talk about the ten levers, the pool of $700 million to $1 billion of profit improvement. How do we think about that now? Now that you plan to split up, what's the best way to frame the ten levers for NewCo and for XPORemainCo?

28. **Brad Jacobs, XPO:** Some of those levers affect both companies, but some are more transportation-related levers and others are more logistics-related. We'll re-do them. We'll re-do them as part of our annual budgeting process — that we're in the middle of right now — and in our monthly operating review process.

    This is how we run our company, by objectives, by goals and by tracking our progress toward those goals. It's very simple and straightforward. We stay disciplined and make sure we have the right goals. Otherwise, you're tracking progress to something that's sub-optimal.

    The way we got our ten levers, Allison, was we crowdsourced within our organization and asked tens of thousands of our employees for their best ideas of how to improve the company. We got a lot of ideas back. We stack-ranked them by what the potential impact would be, and we risk-adjusted them. The ten we ended up with were the biggest winners. So, there might be more than 10 now, but the list for contract logistics and the list for transportation won't be the same lists.

29. **Allison Landry, Credit Suisse:** Going to capex, it's pretty straightforward what the LTL requirements are. Freight brokerage doesn't require a lot of capital, and neither does last mile. But, thinking about the two separate companies, how should we think about the capex profile? What ultimate leverage ratio would you want to see on the XPORemainCo side? And what will the free cash flow conversion look like in the future?

30. **Brad Jacobs:** I'll let Matt talk about capex and the free cash flow conversion, but regarding the leverage levels, we're in discussions with the ratings agencies. We respect the ratings agencies and we want to have more discussion with them to reach an understanding of what we have to do in order to get investment grade ratings. Let's let that process play out, but we will be investment grade. It's a question of when.

31. **Matt Fassler:** On the capex piece, a couple of points to make here. First of all, our LTL business, in terms of the capex/revenue ratio, it compares quite favorably with some of our peers. That would suggest very strong free cash flow conversion from our LTL business.
    In contract logistics, we look at each piece of business and see what the ROI looks like, based on margin and capex, and see what the best structure is for us. Do we want to put capital into a contract with a margin trade-off? Or do we want to go capital-light and perhaps the margins will be a bit lower? We take the best contract structures to maximize the ROI profile for any particular opportunity that we see.

    As we move forward, the capex profile will depend on how we approach each deal. The key to note is that capex in contract logistics is tied to new business opportunities. So, if the capex is a little higher it's because the new business opportunity looks compelling to us and fits our ROI profile.

32. **Allison Landry, Credit Suisse:** Brad, just another question on part of the rationale for the spin transaction. You're simplifying the business and you'll have dedicated management teams running better capital allocation, which opens the door to potential M&A, which is augmented by better equity currency. Is the idea to maybe re-engage in M&A and rebuild the businesses into something else? Is that something that's a possibility?

33. **Brad Jacobs, XPO:** My answer to that is very similar to the question you asked earlier about whether I preferred a spin or a sale, and I said that it's not our job to prefer. It's our job to analyze and figure out what's best for our business and what's best for all the different stakeholders.

    With M&A, it's the same exact thing. We'll do M&A or we won't do M&A, depending on what makes the most sense in terms of what we want to use our capital for and what the best return on capital is. We've created a lot of value through M&A. We did 17 great acquisitions from 2011 to 2015. We're in the middle of closing one now with the Kuehne + Nagel acquisition in the UK. But we haven't done any others since 2015, and we've grown the company dramatically since then, organically. So, I think we have a good talent set in both M&A and in running the business. We just have to be objective and rational about whether we're better off using our money for paying down debt, for investing in the business, or if we're better off using our capital for M&A. I'm saying capital because you can use cash capital or equity capital.

    M&A is absolutely on the table going forward for both companies, but it's not like we will definitely do it or have to do it. It's an opportunity to achieve our mission: to create shareholder value and to create a great business.

34. **Allison Landry, Credit Suisse:** Are there certain end markets or verticals that now make more sense if you were to re-engage in M&A for the transportation company, based on the way it will stand versus the way it currently stands today? I'm thinking back to when you acquired Con-Way — which surprised a lot of people — and then we saw that LTL was the second-largest beneficiary of e-commerce. Do you see any other longer-term trends further out in the future that might fit better with the way you're splitting up the companies?

35. **Brad Jacobs, XPO:** The biggest trends in the industry, in general, are automation and everything to do with technology, including artificial intelligence and machine learning, and now, because of this strange pandemic we're in, healthcare. From our perspective, these are the big growth areas going forward, and it would be nice to get even more exposure than what we already have. Having said that, sometimes getting into what's hot is not what's going to create the most value. Sometimes it's a question of if you can buy it at the right price. And, sometimes, buying something out of favor at that moment at a cheaper price that gets you a better return on capital may make more sense — if, and only if, you've got a very well-thought-out plan that's rock solid and shows how you're going to rapidly and significantly grow the revenue and, more importantly, the profit and free cash flow of that acquired entity.

    So, we'll keep an open mind and we'll be mathematical about this. We don't have a pre-conceived notion that we must do acquisitions in this area or that area. We'll look at companies that are fast-growing, and we'll be willing to pay more for that because there's more growth. We'll also look at companies that are not as fast-growing, but still growing, and we'll be willing to buy those while being much more disciplined on price. So, you really have to take both the purchase price and the future growth rate into consideration. And, also, from an operational perspective, we need to ask what the plan to grow this business is once we buy it? You can't buy businesses based on just spreadsheets and multiples. You have to buy businesses based on the opportunity to grow the business, the opportunity to be more efficient with headcount, the opportunity to automate things that are being done manually. What are the specific operational activities that can take place, that can transform a business and make it much more valued by shareholders and, more importantly, by customers? If we buy things that customers want more of, and increasingly more of over time, that will create shareholder value. So, we look at all of this with a wide lens.

36. **Allison Landry, Credit Suisse:** I think we're out of time. Thank you, guys, so much. This was super interesting. Congrats on the deal, and we're excited to hear more about it going forward. Thanks again and have a good day!

37. **Brad Jacobs, XPO:** Thank you.

Edited for clarity.