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XPO.N - Q4 2022 XPO Inc Earnings Call

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PRESENTATION

Operator

Welcome to the XPO Fourth Quarter 2022 Earnings Conference Call and Webcast. My name is Melissa, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

Before the call begins, let me read a brief statement on behalf of the company regarding forward-looking statements and the use of non-GAAP financial measures. During this call, the company will be making certain forward-looking statements within the meaning of applicable securities laws, which, by their nature, involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the forward-looking statements. A discussion of factors that could cause actual results to differ materially is contained in the company's SEC filings as well as in its earnings release. The forward-looking statements in the company's earnings release or made on this call are made only as of today, and the company has no obligation to update any of these forward-looking statements, except to the extent required by law.

During this call, the company may also refer to certain non-GAAP financial measures as defined under applicable SEC rules. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the company's earnings release and in the related financial tables or on its website. You can find a copy of the company's earnings release, which contains additional important information regarding forward-looking statements and non-GAAP financial measures in the Investors section on the company's website.

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

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Mario A. Harik - *XPO, Inc. - CEO & Director*

Good morning, everyone. Thanks for joining our call. We're excited to talk about our simplified business model following the spin-off of RXO and how it focuses our resources on growing the value of our LTL network. I am here in Greenwich with Carl Anderson, our CFO, who will cover the fourth quarter and full year results. And we also have Ali Faghri with us for Q&A. Ali is our new Chief Strategy Officer, and he's a great addition to the executive team.

Yesterday, you saw us report a solid quarter of growth in a soft macro environment. That statement is true for the company as a whole and also for our 2 reportable segments, North American LTL and European Transportation. Company-wide, we generated revenue of $1.8 billion, reflecting year-over-year growth of 3% and we grew adjusted EBITDA year-over-year by 38%, which far outpaced our revenue growth and beat consensus for the 11th straight quarter.

For the full year, we generated over $1 billion of adjusted EBITDA in our LTL business. This exceeded a major target we had set for 2022.

Looking at the business by segment, I want to focus on LTL and some key results that tie directly to our growth plan. In the fourth quarter, the LTL industry in North America saw a year-over-year decline in shipment volumes due to macro pressure. But at XPO, we grew our shipment count and tonnage. Our positive tonnage growth ties back to the plan we call LTL 2.0, which is to invest in capacity ahead of demand and earn profitable market share by providing best-in-class service. We continue to have great success on boarding new business, including volumes from blue-chip customers who are either signing up with us for the first time or giving us more of their business. This drove a strategic change in our mix in the quarter, and our tonnage ended up more than typical seasonality.

We also had a high-margin local base, and these customers give us more shipments per day. However, the weight per shipment declined in the softer macro. As a result, our yield came in at the lower end of our outlook. Our mix should become a tailwind for us to both volume and yield as the macro recovers.

The second reason we're outperforming is service, and I'll give you an example. In the fourth quarter, we improved our damage frequency by 66% year-over-year to the lowest damage frequency in 6 years. There's no doubt that our intense focus on service is helping us secure more tonnage, especially as we're hearing from new customers that we rank as one of their top LTL carriers for quality of service. Customer feedback like this has a ripple effect on our entire organization. Employee satisfaction is up sharply, which is an indication of the pride our team is taking in our service standards. In our year-end survey, employee satisfaction, including drivers and dock workers was the highest in more than a decade.

For the full year 2022, from an operating ratio perspective, there were a lot of puts and takes, including the softer macro. We improved our adjusted operating ratio excluding real estate gains, by 40 basis points for the year, which was short of our target range. Strategically, we made good progress in setting up the network to capitalize when volumes rebound, and we like our positioning. We're executing on the growth levels in our plan, like the 369 net new doors we added with 6 new terminal openings. In the next 90 days, we expect to open another 167 net new doors in Salt Lake City, Atlanta and Dallas.

We're also following the unique levers we have within our company to help drive our expansion. In 2022, we increased our line haul fleet by over 10% by manufacturing more than 4,700 trailers in-house. We also trained over 1,700 truck drivers last year at our driver training schools. These are tangible advantages we have in the execution of our long-term plan for LTL 2.0 and they're gaining ground.

Turning to Europe. This business continues to perform ahead of expectations with solid organic growth, particularly in the U.K. and Spain. In constant currency, fourth quarter revenue in Europe increased year-over-year by 9%. Our pricing in Europe was up year-over-year in Q4, and we're continuing to win business with new and existing customers. Despite the macro uncertainty there, our sales pipeline continues to be very robust.

I want to wrap up my remarks by summarizing the exciting trajectory with creative going into 2023. We successfully completed the spinoff of RXO in November, which simplified our business model. We now have 2 highly focused business segments with strong value propositions in the customer market they know best. In North America, we drove above-industry tonnage growth in LTL in Q4, and we ended the year with over $1 billion of adjusted EBITDA, making good on the targets we set 5 years earlier.

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We're winning LTL market share with our service quality and also through our investment in network capacity. We're on track to open the remainder of the 900 net new doors we projected in our growth plan. And in Europe, our business is performing above expectations. This is the momentum we're carrying into 2023, and we intend to continue to invest in growth. We're confident that we'll deliver on the 3 targets we set for our LTL business; a revenue CAGR of 6% to 8%, an adjusted EBITDA CAGR of 11% to 13% and an adjusted operating ratio improvement of at least 600 basis points. These targets covered the period from 2021 through 2027. And as we move toward them, we'll focus on being world-class in every aspect of our business. We know that this combination of financial and operational excellence is the most sustainable way to deliver outsized shareholder value.

Now I'm going to hand it over to Carl to discuss our results and our balance sheet. Carl, over to you.

Carl D. Anderson - *XPO, Inc. - CFO*

Thank you, Mario, and good morning, everyone. Today, I'll discuss our fourth quarter and full year results, balance sheet and liquidity. I'll start with the fourth quarter, where we delivered strong year-over-year growth in adjusted EBITDA and adjusted diluted earnings per share.

Revenue in the quarter was $1.8 billion, up 3% year-over-year. Organic revenue growth for the quarter was 2%, and the net impact of fuel prices and FX contributed an additional point of growth. We grew adjusted EBITDA by 38% year-over-year to $262 million. This was primarily driven by our North American LTL business, which increased adjusted EBITDA by $42 million or 20% year-over-year. This includes a real estate gain of $55 million, which was up $20 million from a year ago. Additionally, we had a $30 million reduction in corporate expense as we continue to rationalize our overhead after the spin-off.

Our adjusted EBITDA margin was 14.3%, representing a year-over-year improvement of 350 basis points. In the LTL segment, our fourth quarter operating ratio was 84.2%. Our adjusted operating ratio, excluding gains on real estate sales, was 87.1%, which is a 60-basis point improvement from a year ago. Our European business also continued its solid performance with revenue up year-over-year 9% on a constant currency basis. Please note that we won't be addressing a potential sale of our European business on this call.

We reported a net loss from continuing operations of $36 million in the fourth quarter, representing a diluted loss per share of $0.31. This compares to income of $47 million and earnings of $0.40 per share a year ago.

The fourth quarter 2022 net loss includes 3 impacts primarily incurred in connection with the RXO spin-off completed in November. First, we had a $64 million non-cash goodwill impairment charge related to a change in our segment structure following the spin-off. Prior to that, the European Transportation business was a single reporting unit and goodwill was evaluated for impairment at that level. Following the spin, the European Transportation business is comprised of 4 reporting units and impairment testing is required to be performed on a disaggregated basis for each of the new units, resulting in the charge this quarter.

The second impact related to the spin was the $42 million of transaction and integration costs. And finally, we had $35 million of restructuring charges, mostly due to the planned step-down in corporate costs.

On an adjusted basis, our adjusted earnings per diluted share for the quarter was $0.98, which was up 53% from a year ago. This increase was primarily driven by higher adjusted EBITDA and a lower effective tax rate. We generated $196 million of cash flow from continuing operations, spent $167 million on gross CapEx and received $78 million of proceeds from asset sales. Gross CapEx was up $77 million year-over-year driven by our planned investments in expanding our LTL network. This resulted in strong free cash flow of $107 million.

Turning to the full year 2022. We delivered revenue of $7.7 billion, reflecting a year-over-year increase of 7%. Adjusted EBITDA was $997 million in 2022, up from $812 million a year ago. This was primarily driven by a 12% increase in adjusted EBITDA in our LTL business and a $75 million reduction in corporate expense. Adjusted diluted earnings per share from continuing operations increased by 82%, coming in at $3.53 per share this year.

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We generated cash flow from operating activities of $824 million for 2022 and free cash flow of $391 million, which was up 11% from the prior year. Our CapEx investments of $521 million almost doubled from a year ago as we accelerated our investments in the business to support our long-term growth targets. Our LTL adjusted operating ratio, excluding real estate, improved by 40 basis points from the prior year to 83.9%.

Moving to the balance sheet. We ended the quarter with $460 million of cash. This cash, combined with available borrowing capacity under committed borrowing facilities gave us $930 million of liquidity at year-end. We had no borrowings outstanding under our ABL facility and our net debt leverage at year-end was 2.1x adjusted EBITDA, down from 2.7x a year ago on a previously reported basis prior to the RXO spin-off. This week, we extended our ABL maturity to 2026. And we recently received a credit upgrade from S&P from BB to BB+.

Turning to the first quarter 2023. We expect the company to generate year-over-year growth in adjusted EBITDA in the low double digits. This anticipates $5 million to $10 million of unallocated corporate costs in the quarter. We expect to wind down these costs over the course of the year.

And finally, a reminder that starting with the current quarter, our adjusted operating ratio will include the allocation of incremental corporate costs and exclude pension income. You'll find a historical reconciliation for this in our investor presentation. In addition, we're providing assumptions for the full year 2023 to help with your planning. These are gross CapEx of $500 million to $600 million, interest expense of $185 million to $195 million, pension income of approximately $20 million, an effective tax rate of 24% to 26% and a diluted share count of 117 million shares. Overall, we're pleased with our results in 2022 and are excited about our growth prospects as we move forward. We'll now take your questions.

Operator, please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

To start out, I was hoping -- could you provide a little bit more color in terms of how you're thinking about the first quarter for LTL? And in particular, how you're thinking about pricing which does not -- which now appears to be kind of in that low single-digit range where a lot of your peers are more mid to high? Any color there would be helpful.

Mario A. Harik - *XPO, Inc. - CEO & Director*

Well, we expect company-wide adjusted EBITDA for the first quarter to be up low double digits, as Carl mentioned earlier. For LTL specifically, we expect adjusted EBITDA to either be slightly down or slightly up depending on what happens in the demand environment in the month of March, which, as you know, is a big driver for the first quarter for us. From an OR perspective, we expect it to be better than typical seasonality in the first quarter, typically, seasonality for us is a 50-basis point deterioration from the fourth quarter going into the first quarter.

Now that said, we're off to a great start here in the month of January. Our tonnage is up and better than typical seasonality and our yield ex fuel is in line with the fourth quarter as well. Now we are cautiously optimistic about the demand environment. So when we look at the back half of the quarter, based on what we're seeing in our results today, we are seeing a pickup and more strength from a volume perspective. But obviously, we'll see what the rest of the quarter will do. But hopefully, this gives you color on all of -- on the entire fourth quarter.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

And maybe just on the pricing side of it as well, if you can.

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Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes, sure. On the -- in the first quarter, we expect yield to be in line with the fourth quarter, here in the month of January, that was the case. We did take a GRI for our local accounts in the month of January as opposed to what we did last year in the fourth quarter. But we will continue to be impacted by some of the mix dynamics we mentioned in some of our prepared remarks in the first quarter, but we continue to see the pricing environment being rational.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

Understood. And then just kind of more on the modeling question. Could you provide a bit more color on corporate expenses in the fourth quarter and what it should look like, again, kind of in the first quarter and then moving forward throughout the year?

Carl D. Anderson - *XPO, Inc. - CFO*

Stephanie, it's Carl Anderson. I can -- I'll take that. So if you look at the fourth quarter, our corporate expense was $29 million. And as we begin 2023, $20 million of that will be allocated to LTL starting in the first quarter. So it really leaves about $9 million left as far as the pure corporate expense. And as I said in the prepared remarks, we expect our corporate expense in the first quarter to range around $5 million to $10 million, in line with what we saw with you make that adjustment. And importantly, we expect that to wind down throughout the course of the year.

Operator

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

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

Could you talk to tonnage trends in the quarter, just kind of puts and takes versus your internal expectations of what occurred? And then I'll follow up on that.

Mario A. Harik - *XPO, Inc. - CEO & Director*

Sure, Scott. So in the fourth quarter, tonnage came in on the lower end of our outlook, but we obviously bucked industry trends in terms of our tonnage being up and our shipment counts also being higher than our tonnage. Our tonnage came in roughly at plus 1% for the quarter. Now in terms of the trends within the quarter, December was the soft month of the quarter, which was impacted by weather in the back half of December. So that was more of a softer than what we saw for the remainder of the quarter.

Now as I mentioned earlier though, January is up better than the fourth quarter numbers and it's better than typical seasonality as well. And we're seeing -- we saw a strong demand from our customers especially a lot of the new customers we onboarded through the course of 2022.

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

I appreciate that. And then with regard to the operating ratio in the fourth quarter, sounds like weather was an impact there. Could you kind of hit on the main items that were impactful in the fourth quarter versus your internal expectations? And thanks for the guidance just provided. I appreciate that. So just kind of focusing on fourth quarter and what occurred tax?

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Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes, you got it. So predominantly for the fourth quarter came in short of our expectation, driven by the tonnage outcome in the month of December. So if you take out the impact of weather in the back half of December, we would have exceeded our expectation on OR improvement for the fourth quarter.

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

It was purely the weather, were there any other headwind impacts in the quarter that were worth calling out?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes. Not outside what we had discussed on the last call, which was more driven by elevated cost inflation. When you think about labor expenses and maintenance costs were higher than expected but we already had factors for that when we got together on the last earnings call.

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

Got it. It sounds fairly isolated to the fourth quarter, what was impacting that. Those other factors has just cost inflation, is that in solid shape as you enter the coming -- in 2023 with your pricing and other strategies?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes. So as we head into 2023, obviously, we're seeing inflation starting to taper off in terms of overall cost. When you look at the fourth quarter for us, the 2 big categories of costs are labor and purchase transportation. And for our wages, these were up 10% on a year-on-year basis in the fourth quarter. And roughly 2/3 of that was based on wage inflation, additional wages we have given our folks in the field and the other 1/3 was to support the 1.5% shipment growth that we had in the fourth quarter.

On the purchase transportation cost, that was down 10% in the fourth quarter. That was -- but also -- and appreciate that fuel as part of that line for the third-party providers. So effectively, the rates were actually down more than that in the fourth quarter.

Now as we head into 2023, that stronger cost inflation we saw in 2022 is starting to subside, especially on the purchase transportation side that will become a tailwind through the course of the year. And same thing on wages, we expect them, obviously, to be up but not as up as they were in 2022.

Operator

Our next question comes from the line of Chris Wetherbee with Citigroup.

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

Maybe starting on the strategy around your local customers versus some of the national accounts on the LTL side. So I guess maybe I just wanted to maybe better understand that. And then do you -- I guess, over the course of the last several years post the Con-way integration, I think there was a strong effort to kind of go through the customer base in the right size and make sure you're dealing with the best, most profitable customers and obviously, the operating ratio improved over the course of that period of time. So I guess I'm kind of curious how much work is left to do? And what does the strategy sort of really entail? And maybe ultimately, what do you think the potential benefit to your operating ratio or profitability, broadly speaking, can be?

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Mario A. Harik - *XPO, Inc. - CEO & Director*

If you take a step back and you look at the channel mix dynamic in the fourth quarter, and so I'll walk you through that, and then we'll talk about 2023 and beyond. But when you think about the fourth quarter, we did have a channel mix impact on our yield, but that was driven by onboarding larger strategic national accounts in the back half of 2022, which we have discussed on prior calls as well. And these were important to build density in lanes in our network.

Now on the local channel side, these are typically smaller accounts that are higher yielding freight for that type of business. And we have also taken market share in that particular segment where our shipment count in the fourth quarter was up mid-single digit, but tonnage was down and that's driven predominantly through the softness in the macro where these customers were shipping -- again, we gained more customers, however, they were shipping lower weight on a per shipment basis. So as the macro recovers, those local accounts would have higher weight per shipment that would drive tonnage up commensurate with the volume of shipments we're seeing in the network and that becomes both a tailwind for tonnage and for yield for us moving forward. So that's the dynamic between national and local.

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

And in terms of how you think that, that might impact the -- I mean, in fact, the operating ratio, and I guess, making sure I understand what's sort of different now versus what you've been doing because I thought you're were trying to optimize sort of the customer mix over the course of the last several years?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes. So overall, it's still a similar strategy. But as we switch to LTL 2.0, the strategy is also around gaining market share. And again, when you look at national accounts from a mix perspective, in an LTL network, they create density on a lane per lane basis, which is very important. And we use the metric internally called a lane balance factor in our operation which as you get closer to a stronger lane balance that's overall accretive for your margins. So when we onboard the national accounts and we say that a good fit for the network, they are improving the lane balance and using available capacity that we have in the network.

Now over time, in the current market, we -- obviously, there is softer freight demand but as that recovers and you see that pickup in that local channel as well as the nationals we onboarded, that would be a tailwind for both volume and yield.

Now in terms of the impact on OR, obviously, that will depend on many factors because OR will include the combination of volume, yield and cost management as well. So all of these lead to an outcome. But obviously, our goal is by 2027 to have improved our operating ratio by at least 600 basis points, and we're confident we're going to deliver on that.

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

Okay. That's helpful. And then just a real quick clarification. For the first quarter, adjusted EBITDA up double digits. Can you give us a clean number of what you're comparing that to, obviously, given the breakup of the business, I want to make sure I understand what the base is for that. And then your guidance around the LTL adjusted EBITDA as well. That includes $5 million to $10 million of unallocated costs when you're thinking about being flat or up or down a little bit.

Carl D. Anderson - *XPO, Inc. - CFO*

Yes. So Chris, it's -- if you think about comparing it to Q1 of a year ago, that base is $184 million. And then as far as the corporate cost, as I referenced, in that range, $5 million to $10 million, that will still be in that corporate bucket. It will not be part of LTL. LTL will have the additional $20 million approximately that we previously said we would be allocating it.

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Operator

Our next question comes from the line of Jordan Alliger with Goldman Sachs.

Jordan Robert Alliger - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

At your Analyst Day, you talked about technology and implementation to help with dynamic pricing, line haul, reducing other costs like PT. Can you maybe give an update on that? And how it's shaping up versus your expectations?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Thanks, Jordan. We're making great progress on the rollout of our proprietary technology. As we have discussed in our Investor Day. There are number of initiatives and proprietary pieces power tech that helps us drive results. Starting with pricing. This year, we made great progress in upgrading our discussions on the last call, our cost modeling and how we allocate cost of shipments and how we price more efficiently. So in this environment, we are investing more than our sales force, and we've had record numbers of RFPs that we are driving through the system, and having a platform that makes it very easy for our pricing analysts to price that business and have a quick turnaround with the sales team is essential and our technology is enabling these things.

A similar things, as you mentioned on dynamic pricing, our platform is enabling us on the spot business side to be able to onboard more business and being able to react more quickly to the environment. On the cost management side, we've made great progress in our linehaul technology platform and how we optimize linehaul runs similarly on the pickup and delivery platform for both our planners and dispatchers.

And then finally, for dock efficiency, our solutions with the smart labor platform enables us to improve how we operate our dock ships and make them commensurate with the volume we are getting. So great progress across the board with our tech.

Operator

Our next question comes from the line from Brandon Oglenski with Barclays.

Brandon Robert Oglenski - *Barclays Bank PLC, Research Division - VP & Senior Equity Analyst*

(inaudible) That may be helpful. We can just let here because it's so between allocation to perform adjusted EBITDA. Could you just help us like what was comparable margins from 2022 to 2021 and the LTL network. It does is appropriate just for (inaudible)

Mario A. Harik - *XPO, Inc. - CEO & Director*

Brandon, you're coming in very choppy. We couldn't hear you well. But let me try to ask your question, that you're asking about the baseline of 2021, 2022 and how corporate expenses are layering and moving forward as well?

Brandon Robert Oglenski - *Barclays Bank PLC, Research Division - VP & Senior Equity Analyst*

Yes. Sorry.

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Carl D. Anderson - *XPO, Inc. - CFO*

Yes. I think, Brandon, as you look, we did include in the investor presentation, a pretty detailed historical reconciliation on Page 27, specifically for the LTL segment that kind of walks the differences on a year-over-year basis and by quarter for all of '22 as well as full year '21.

Brandon Robert Oglenski - *Barclays Bank PLC, Research Division - VP & Senior Equity Analyst*

Yes. (inaudible) So I guess looking since this for 1Q because I think you guys have said LTL adjusted EBITDA either the down slightly, is that correct?

Mario A. Harik - *XPO, Inc. - CEO & Director*

That's correct. For LTL EBITDA, we expect it to either be down slightly or up slightly, depending on the demand environment in the month of March.

Brandon Robert Oglenski - *Barclays Bank PLC, Research Division - VP & Senior Equity Analyst*

I'm sorry, I know you have the numbers in the presentation, but what is that EBITDA when comparing to 1Q '22?

Carl D. Anderson - *XPO, Inc. - CFO*

Yes. So for Q1 of 2022, now that we've allocated $20 million, it's going to be $186 million would be the LTL EBITDA for Q1 of '22.

Brandon Robert Oglenski - *Barclays Bank PLC, Research Division - VP & Senior Equity Analyst*

Okay. So we should be thinking maybe (inaudible) from that number for this quarter?

Mario A. Harik - *XPO, Inc. - CEO & Director*

That's correct.

Operator

Our next question comes from the line of Scott Group with Wolfe Research.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

So relative to the newly adjusted 1Q -- OR of 89% 1Q a year ago, how are you thinking about OR in Q1 this year? And any thoughts on full year operating ratio for LTL?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes. So what -- first, I'll start on the full year. So when you look -- because obviously, we had the old definition last year, Scott, that was updated with, as Carl mentioned earlier on with the corporate allocations and the removal of pension income. So last year's OR, the number was 83.9%. And when you account for the allocation of corporate and the exclusion of pension income that would have been in 86% and changed OR.

Now for the full year of 2023, we're obviously not guiding for the full year, given where things are this year, but there is a path to improve OR this year, but it will depend on the macro. We feel cautiously optimistic about the demand outlook, as I mentioned earlier. And based on what we're

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seeing today and our results, again, volume is up, it's better than seasonality, and we're seeing stronger demand from customers. And we're hearing optimism from our customers as you head into the spring and the back half of the year. But obviously, we're watching the macro like everybody else is.

Now specifically in the demand environment, the segments are different retail has been -- had sequential declines in the fourth quarter, but the feedback we hear now that the retailers have gone through that inventories and now that we're going to see more normal seasonal buying patterns in 2023. And the industrial, we're seeing short-term softness, but we've seen some strength in some of the areas like auto, machinery, short-cycle manufacturing where they're outlining a more robust 2023. So depending on what that environment does for the rest of the year would dictate what OR would do. And obviously, there are dynamics at our yield, and there are a lot of company-specific initiatives we're driving on the cost side like in-sourcing linehaul. And all of these variables would lead to the outcome for 2023 on OR. But again, there is a path to improve OR in 2023, but all of these variables will dictate that outcome.

For the first quarter, as I mentioned earlier, we expect OR seasonally to be better than typical seasonality from the fourth quarter to the first quarter. And typically, that's a 50-basis points deterioration is what we see from Q4 to Q1, and we expect to do better than that.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

And I think we're all just a little confused because we don't -- there's new numbers now, so we're not really sure with the seasonality. So just to be clear, you did -- on the new methodology, you did a 90.3% OR in Q4, 83.9% in Q1 of '22, and you're saying it should be -- typically, it's 50 basis points worse Q4 to Q1, but maybe it's going to be something better than that?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Correct. And on the high end of the range, if you think of an EBITDA improvement for the first quarter, Scott, that would be an OR improvement for the quarter.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

OR improvement sequentially or year-over-year?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Year-over-year, on the low end of the range in terms of EBITDA being slightly down, that would be a year-on-year deterioration but better than seasonality on the high end of the range where EBITDA improved slightly in the first quarter, that would be an OR improvement on a year-on-year basis.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And then just bigger picture, right? If I take a step back in the model, it looks like you're really outperforming everybody on tonnage. You're really underperforming on yield. So it seems like maybe sacrificing some price to get volume. Is that what's happening here is what it looks like in the model, but just -- is that what we're doing here?

Mario A. Harik - *XPO, Inc. - CEO & Director*

No, we're not sacrificing price to buy volume with price. There were a few dynamics in the fourth quarter that impacted us. The first one, Scott, is that we were lapping a early GRI we took in Q4 of last year. While this year, we took that in the month of January, which is usually our customary

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time line. And I mentioned the yield dynamic on the mix channel earlier on. So we onboarded those national accounts that are strategic for our network, yet the higher-yielding local accounts, again, their shipment count is up mid-single digits, so we're taking market share. However, we've seen a weight per shipment decline in that channel that caused the overall weight to be down. So that dynamic is what effectively impacted yield.

And then finally, life of haul was down 1.3% for the quarter, where we onboarded more next day and 2-day lanes shipments to our network. And we also saw less outbound California freight coming through lesser imports in the fourth quarter, which has a direct correlation to yield.

Now if you take a step back, our contract renewals in the quarter were up roughly 7%. That's for existing business. And we continue to see from us in the overall industry, very rational pricing in how we price the business.

Operator

Our next question comes from the line of Allison Poliniak with Wells Fargo.

Allison Ann Marie Poliniak-Cusic - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Just wanted to talk about the CapEx for the year. If you can maybe break that down a little bit more. And then in terms of the new door adds, maybe talk to, I would say, relative capacity available today with how you're thinking about the investment as we go through the year in terms of discipline around that?

Carl D. Anderson - *XPO, Inc. - CFO*

Thanks, Allison. Yes, if you look at 2022, our total CapEx, the company is about $521 million. About 85% of that relates to the LTL business. And as you can see from our guide for our planning assumptions for 2023, we do expect CapEx at the midpoint to be up over what it was last year. So -- and again, I think that same percentage mix between LTL and Europe is how you should think about it.

Mario A. Harik - *XPO, Inc. - CEO & Director*

And on the lower side, so we -- obviously, when we started the LTL 2.0 plan, our goal was to open up 900 new doors. And these were based on areas where we have line of sight on demand from customers. So a lot of the markets that we go after, we already know that we need capacity and we're seeing that demand come from customers. So over the next 90 days, we're going to be opening up additional doors, 167 net new doors in Salt Lake City, in Atlanta and in Dallas, Texas as well. And we have a plan through the remainder of the year to open up more doors in those markets where we need that capacity.

For example, Houston is a great market for us. Florida is a great market for us, where we need more capacity that we're going to be looking to add. But we're being very disciplined in how we open up those stores and all the terminals we've opened up have been operating better than expectations.

Allison Ann Marie Poliniak-Cusic - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Got it. And then just a follow-up on the shipment cost inflation. Should we be assuming sort of up mid-single digit for this year? Or is it lower or higher than that? Just any color.

Mario A. Harik - *XPO, Inc. - CEO & Director*

This is -- it would be in the ZIP code of mid-single digit, but it will depend on what the truck for us because we have roughly around 1/4 of our linehaul miles are outsourced it will depend on what the truckload rates do for the balance of the year. We expect this to be a good tailwind for us

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here in the first half of the year, but it depends on the demand environment in the back half and how that translates. On the weightage side, we expect it to be in the sub mid-single digits, but in that territory.

Operator

Our next question comes from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz - *UBS Investment Bank, Research Division - MD and Senior Analyst*

Mario, I know you've had some questions on price a bit. I was wondering if you could tell us a bit more just in terms of the broader strategy, what type of freight are you trying to bring on? What -- I guess, what's the if you push harder on price versus tonnage kind of what's the overall strategy for what you're trying to build that's going to be OR accretive in terms of kind of price mix and how much tonnage matters relative to that?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Sure. So first, starting with the type of freight that we look for. We look for freight that can build density in our network. So effectively, these are 48x48 skids that are -- that fit well in an LTL network, typically going dock-to-dock in terms of B2B-type shipments is the primary type of freight that we're going after. We also look to go after freight that creates density around our terminals. So we think about pickups that are in proximity to our terminals is another way we think about the quality of the freight and the -- how it relates to our network as well.

Now in terms of channel mix, we are looking to build density, both international channel and the local channel. As I mentioned earlier, in the local channel, we're making great strides and onboarding new customers. This year, we ended the year with 27,000 customers, which was up 2,000 from our prior number of 25,000 customers, and a lot of these were new local accounts we are onboarding.

And with having that success in sales, it's driven by 2 main areas of focus. One, our service is up and to the right, and we're hearing great feedback from customers on the quality of service; and two, is the investments we are making in capacity to be able to handle that business. And we want to grow in both of these channels with the type of freight and the type of profile I just mentioned.

Thomas Richard Wadewitz - *UBS Investment Bank, Research Division - MD and Senior Analyst*

So I guess, it's the primary driver of the more moderate growth in revenue per hundredweight versus peers. Is that really just the emphasis on -- or the greater growth with national accounts? And then I guess just from kind of a forward look, would you think that your revenue per hundredweight would accelerate a bit as you look forward? Or would you think it remains kind of low single digit, given that mix effect with the national account tonnage?

Mario A. Harik - *XPO, Inc. - CEO & Director*

So Tom, it's a combination of all the things I mentioned earlier on. So the mix of channels is one component. And obviously, the local being down on weight but shipments being up, that's going to become a tailwind. But it's also the other items that our GRI and on length of haul as well. And a lot of these things would recover as the macro -- as the freight demand environment recovers through the course of 2023.

Now going back to the local channel, the fact that shipments are up as the macro recovers, you would see that wafer shipments start to go up and then the overall tonnage we're getting in that channel would go up, which would be a lift for yield. And for our national accounts, we're looking at these as longer-term strategic relationship. Just to give you an example, the average tenure of our top 10 customer today is 60 years. So these are customers that we're going to be fine-tuning the business we do with them over time. So again, overall, we expect yield to remain positive, and we expect our strategy to pay dividends as the macro recovered and the freight environment gets stronger. And we like our positioning.

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Thomas Richard Wadewitz - *UBS Investment Bank, Research Division - MD and Senior Analyst*

So it's probably cyclical in terms of seeing that acceleration in revenue per hundredweight?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes.

Operator

Our next question comes from the line of Ken Hoexter with Bank of America.

Kenneth Scott Hoexter - *BofA Securities, Research Division - MD & Co-Head of Industrials and Basic Materials*

I'll just throw it out there. I think a lot of discussion here. I think I've rebuilt this model 4 times this year alone and it sounds like with another reallocation and other ones coming next year. So looking forward to the consistency, they're going forward. But just the base level understand this, you're now at a 90% OR in the fourth quarter at LTL, I think full year just about 87%. You were at, what, 93% at Con-way before you bought it and you're talking about another 600 basis points in a few years. Maybe talk about how you get there? And it sounds like the strategy is shifting a little bit to now re-adding national accounts, which I know you've talked a little bit about, but it sounded like that was a key move to get away from because that was a key driver of improving OR. So maybe to start with that.

And then, Carl, just a clarification on EBITDA. I know you've included in the adjustments to the $20 million and $15 million on OR. But did you leave the $15 million out of EBITDA? Is that the way we should think about that to get to that $185 million?

Carl D. Anderson - *XPO, Inc. - CFO*

Yes. On the $20 million, I kind of walked you through that, Ken. On the $15 million, I guess, I'm not understanding the question.

Kenneth Scott Hoexter - *BofA Securities, Research Division - MD & Co-Head of Industrials and Basic Materials*

Well, I guess, to get to the adjusted operating income, you take out both the $20 million and re-add the $15 million of income -- pension income, but you don't do that on EBITDA, right? You just take out the $20 million of corporate costs?

Carl D. Anderson - *XPO, Inc. - CFO*

Well, no. I mean, as we go forward pension -- as we think about income, pension will be excluded. Overall EBITDA, though, has pension income. So -- and as we said in the planning assumptions, we kind of showed you what the expectations were for 2023 as far as pension income being approximately $20 million for the full year.

Mario A. Harik - *XPO, Inc. - CEO & Director*

And Ken, going back to your question on OR definition. So we closed last year with an OR of 83.9%, which obviously Con-way had more than one line of business, and they had a corporate structure as well. So they had the warehousing business, which was the former Menlo business. They had the truckload business and they had LTL business. Now what do you think on a -- and we haven't changed that definition since we acquired the business back in 2015. And on that reporting basis, the OR was 83.9% at year-end 2022.

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Now moving forward, and we just substituting our Investor Day, as we become a stand-alone LTL company, we are taking back the corporate cost and putting them in LTL effectively. What Carl mentioned earlier on, there are the $5 million to $10 million of unallocated costs that would be in the third quarter that would wind down for the course of the year as we rationalize the corporate structure. And this is where that new definition kicks into place.

Now with the new definition in 2022 with 86.8% from an OR perspective. And obviously, as we move forward, I would go to improve by at least 600 basis points by the time we get through 2027.

Kenneth Scott Hoexter - *BofA Securities, Research Division - MD & Co-Head of Industrials and Basic Materials*

Yes. Just to clarify, I was talking about just the LTL section of Con-way, which had all the allocations. So it was like-to-like, I believe, having followed Con-way for 15 years before that. So just maybe then can you follow up, Mario, on that strategic mix? I know you've talked a little bit about going the national accounts. Maybe I just want to understand now with your focus is on returning to more national accounts, doesn't that serve as a detriment to -- I believe Matt Fassler used to talk a lot about moving more toward local accounts because that's where you needed to get better pricing and thus better margins and not just chase density. When we listen to other LTLs, it sounds like it's not a desire just to fill the network and fill density, but to do so with a profitable focus, it sounds like -- again, help us understand because I think a lot of the questions are coming at you because we're all really struggling to understand how just chasing that density at a lower price, optically, maybe it's just optics, but that typically historically has been at a detriment to the OR. So maybe just fill us in because I think that's where some of the misunderstanding from the markets may come.

Mario A. Harik - *XPO, Inc. - CEO & Director*

Sure. I think Ken, we're actually doing both. So when you think about our sales efforts, I mean, again, when you think about the investments we have made in capacity and the improvements in service and the investments in our sales force, the goal is to grow profitable national accounts and very profitable local account business as well. So when you look at the fourth quarter, as an example, with the local accounts, shipment count is up mid-single digit. So we are actually going after both. And for the national accounts, we remain very disciplined with the type of freight we are getting into the network. I mentioned earlier on one of the metrics we look at internally is the balance -- is a lane balance factor and we are onboarding business that enables us to improve that factor and which will make the local accounts more profitable over time as well. But you need a combination of both to be able to drive higher margins over time.

Operator

Our next question comes from the line of Jeff Kauffman with Vertical Research Partners.

Jeffrey Asher Kauffman - *Vertical Research Partners, LLC - Principal*

I want to go back and talk about the network maybe through a different lens. And I want to think back about 18, 19 months ago, when GXO was spun out. And we had that quarter where the LTL network struggled with service because of that purchase -- we were in-sourcing transportation and a number of customers, as you mentioned, your average customer tenure 16 years, kind of steered freight away from the network for a couple of quarters. You guys are in the penalty box until service has improved and you got driver staffing at appropriate levels. If I look at where the network is today, versus where we were in that aftermath, not a year ago but, say, 18 months ago, I'm just kind of curious where has the network improved? I know Mario, you were talking about the damage frequency was one of the best ever. But kind of talk about where service levels are relative to maybe where you were pre that issue 18 months ago. And in terms of the customer business, it got steered away from you. In the aftermath of that, you didn't lose customers so much. They just didn't give you as much freight. Have you gained all that back? Is there still some of that customer freight that's out there that we're looking to bring back in the network now that the service metrics are better? Just kind of -- I want to look at it through a slightly different lens and understand what's where it needs to be, what is not yet where it needs to be and how you've recovered relative to where you were?

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Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes, Jeff. So when you look at our service levels, I mentioned this in my opening remarks, our damage frequency has improved 66% year-on-year in the fourth quarter, and it's the best it's been in 6 years -- of any quarter in 6 years. So when you look at it from that perspective, obviously, not only really covered from the 18 months ago, but we're now on a path to get back to company records in terms of the quality that we offer to our customers. And similarly, our on-time service was up 14 points on a year-on-year basis in the fourth quarter.

Now we do surveys with our customers on a weekly basis, and these are live shipping customers. And the customer satisfaction in the fourth quarter, exiting the month of December was a company record when we started doing this a couple of years ago in terms of taking that satisfaction. So the improvement has been dramatic and the improvement has been very effective, and we hear it from our customers.

Now going back to your question on the customers, that we could have lost. Obviously, when we onboard business, some of it is existing customers who we are expanding the amount of business that we do with. To give you an example, recently, I mentioned last quarter, we onboarded a new top 10 customer. That was a customer that was doing a small amount of revenue with us prior, and now the amount of revenue is multiple. I mean we're talking more than 10x the amount of volume that they used to do with us pre those improvements. So we see a direct correlation between the improvements we're making in service and customers wanting to give us a bigger share of wallet and giving us more business as well.

Jeffrey Asher Kauffman - *Vertical Research Partners, LLC - Principal*

If I could follow up on that just for a second. About early 2022, I mean, there's always been a gap between the year-on-year yield improvement, XPO versus the peer group. And it feels like that gap is closing a little bit the last few quarters. And I remember early '22, it was, " Oh, we can't really push price with customer because the service is still healing." Are you past that? And are there gains that you can still make on a relative basis, like maybe relative to peer group now that the service is at these levels, is that something we should see in '23?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes, we are past that in terms of service. And again, when I talk to our large customers, we've onboarded, I consistently get the feedback that we are one of the top carriers in terms of service quality. Now obviously, with some of the existing customers that could have left us due to service issues in the past, these as they come back, that takes time to be able to grow that -- the share of wallet with them as well. But generally, when we think about the impact of service, currently, we are providing close to best-in-class service, and we are on a up and to the right trajectory of continuous improvement and focus on it.

Operator

Our next question comes from the line of Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck - *JPMorgan Chase & Co, Research Division - Senior Equity Analyst*

Maybe just for Carl to follow up on the CapEx. Can you give a breakdown in terms of the 85% or so percent that's LTL. What's real estate? What's tractors and trailers? Can you give us a sense of what terminals are leased versus owned? I know we'll see that in the 10-K before too long. And then can you just wrap that into maybe a range of expectations for free cash flow for the year?

Carl D. Anderson - *XPO, Inc. - CFO*

Yes, sure. So if you look at kind of the breakdown, about 70% of the CapEx that we're planning for really is between tractors and trailers, and it's weighted pretty much equally. The remaining amount is kind of split between other things. There's a little bit in there for real estate as well, which

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probably adds another 15%. And if you think about the mix between purchase and lease about 40% -- or excuse me, between owned and leased, 40% is owned.

Brian Patrick Ossenbeck - *JPMorgan Chase & Co, Research Division - Senior Equity Analyst*

And any thoughts on free cash flow and what that all shakes out to (inaudible) conversion rate?

Carl D. Anderson - *XPO, Inc. - CFO*

Yes, I mean I think as we look at -- yes, it's a fair question. As we look at the first quarter, we are planning to really accelerate our CapEx expenditures. And it's really going to be based off of the availability of getting new trucks in. So there's a chance we can have -- up to 50% of our CapEx spend could occur in the first quarter, obviously subject to the availability of what we're seeing right now. I think additionally, as far as cash flow, a couple of other points we should, kind of point one, we are not planning for any real estate sales in the -- in 2023. And two, we do expect to have higher cash interest costs as well that would factor into your free cash flow numbers for us.

Brian Patrick Ossenbeck - *JPMorgan Chase & Co, Research Division - Senior Equity Analyst*

Got it. And then just a follow-up on one of the other variables we'll be looking at this year, the impact of fuel. So you can look at fuel surcharge at more than expense. Obviously, Mario mentioned there's purchase transportation component on that. But if the fuel curve stays where it is, how does that affect LTL, OR and EBIT as we go throughout the year?

Mario A. Harik - *XPO, Inc. - CEO & Director*

When you look at fuel, it's always been part of the economics of an LTL carrier. So when customers pay us our services, they have a price that is inclusive of fuel and similar to all carriers. Now when you look at the price of diesel today, last year, we -- on a full year basis, the price per gallon was roughly in the upwards of $5 per gallon while currently it's in that $4.6 range. So if the level stays at current levels, that will most likely be some pressure related to that. And obviously, the positive side though of fuel being lower is going to simulate more economic activity and also would have more yield ex-fuel type strength associated with that as well. But obviously, we'll see how the year does. We are focused from our perspective on the levers that we can control, obviously and few -- we'll see what the year looks like as the year develops.

Operator

Our next question comes from the line of Jason Seidl with Cowen & Company.

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

I wanted to get back to the pricing in yield side. I don't think I heard this. Can you talk about what you're pricing new contracts at the quarter?

Mario A. Harik - *XPO, Inc. - CEO & Director*

For the fourth quarter, we were roughly at 7%.

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

Okay. All right. So maybe you could help me out here about your comments about sequential yields from 4Q to 1Q. Mario, I believe you said they were going to be about flat. And I'm assuming that was an ex-fuel commentary.

Mario A. Harik - *XPO, Inc. - CEO & Director*

That's correct.

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

Okay. So why is it going to be flat when you're repricing at 7% in the quarter, your GRI also moved to January. I would assume that would drive it up or is there just another massive mix shift going to happen again in 1Q?

Mario A. Harik - *XPO, Inc. - CEO & Director*

When you look at for the first -- yes. Sequential, when you look at the first quarter, we expect the year-on-year to be up similar to what we've seen in the fourth quarter ex fuel. And this is what we have seen in the month of January. Now some of the dynamics that impacted our yield in the fourth quarter are sell-through for the first quarter which includes the mix change between national and local. And the local weight per shipment, it still has a similar dynamic of what we saw in the fourth quarter so far here in the -- at the beginning of the first quarter. So that dynamic and mix change has not changed from the fourth quarter. The only change is the GRI that we took in the month of January.

Now typically, our local accounts are roughly the 1/4 of our business. So obviously, that's about a 1% flow-through on -- call it, 1% to 2% flow-through on yield -- on total system yield associated with the GRI we took in January. But again, there's the same dynamics for national to local ship and dynamic for length of haul are still impactful in the first quarter as well.

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

Okay. And all right. So I guess I'll just take this offline because when I look at weight per shipment, all other things being equal, should help yield going down at least.

Questions about the network here. You had some nice damage rates in the quarter's best numbers in 6 years. That's fantastic. You have a 14% -- 14-point on-time improvement. Could you compare the on-time improvement sort of where you've been historically? So you gave the year-over-year. What does that put you on a historic on-time performance level versus your old numbers?

Mario A. Harik - *XPO, Inc. - CEO & Director*

So we are back to pre-COVID levels on these numbers for quality, which is the damage frequency piece, we are back to the best in 6 years. And on time and another metric we use internally is what we call network fluidity, we're back to what we were in pre-COVID today.

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

And where when you look at your network right now, and I know you're adding terminals and everything. So how much excess capacity is in the network? And is that going to increase as you add terminals and then you just eventually take that down?

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Mario A. Harik - *XPO, Inc. - CEO & Director*

So in terms of overall capacity in the network, we're roughly in the 20% available capacity across the network. However, in some markets, we already tapped out on capacity. I mentioned earlier on, for example, the markets we're opening up in. When we opened up in Atlanta, a terminal over -- through the course of 2022, we've seen volume in that market uptick considerably because we had the customers, we had the demand and we needed more physical space.

Now when you look at our plan of adding 900 net new doors through the course of the 2 years since we started our LTL 2.0 plan, that's roughly around 3% per year and it is in markets where we already were tapped out on capacity and we're adding more capacity to handle more volume for our customers.

Operator

Ladies and gentlemen, our final question this morning comes from the line of Jack Atkins with Stephens Inc.

Jack Lawrence Atkins - *Stephens Inc., Research Division - MD & Analyst*

Okay. Great. I appreciate it. I guess, maybe kind of going back to an earlier line of questioning on just sort of the network and network investments. I mean, Mario, when I kind of think about the last 3 years, your EBIT and LTL is up 25% or so. Your peers in LTL are up on average about 200% over that time frame. So I guess, conceptually and strategically, why does the network deserve to be able to invest more capital into expansion when you haven't sort of been able to justify the capital that's already in place? I would think the idea would be to really improve the performance of the existing network, improve price, improve lean balance. Why are we adding capacity when we're not getting an appropriate return on the capacity already in place?

Carl D. Anderson - *XPO, Inc. - CFO*

Jack, it's Carl. So if we look at just from a return on invested capital perspective, we are actually getting a very sizable return. It's -- if we look at what we did, it's running probably 34% as far as on a return-on-investment capital. So reinvesting into the network, obviously, is very -- is a pretty big benefit as it relates to what we're getting for those investments.

Jack Lawrence Atkins - *Stephens Inc., Research Division - MD & Analyst*

And the underperformance versus peers?

Mario A. Harik - *XPO, Inc. - CEO & Director*

Yes. When we look overall I mean and we discussed this quite a bit Jack in the past. A lot of it went back to capacity we had into the network. So on pre-COVID all the way through end of 2021, the amount of capital we invested into the business was based on a maintenance amount of CapEx to refresh equipment but not to add capacity so we can handle more volume. And obviously, we have discussed quite a bit what happened back in 2021. And these were the dynamics.

Now moving forward, we're solving for all of these things. So we are investing capital in capacity so we can say yes more often to the customer and ahead of demand. We are very focused on continuous improvements in service to be best in class in the service we offer our customers. And these over time, will pay dividends both in terms of margin expansion and higher returns through our plans to 2027.

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Operator

Thank you. Ladies and gentlemen, that concludes our time allowed for questions. I'll turn the floor back to Mr. Harik for any final comments.

Mario A. Harik *- XPO, Inc. - CEO & Director*

Thank you, everyone, for joining us this morning, and I'm proud that we delivered solid results across the business, and I want to thank our 38,000 team members not just for the progress we've made, but also for the momentum they've created. In North America, this will be our first full year as a pure-play LTL carrier, and we have a strong organization who's bringing high energy to all 3 parts of our growth strategy, investing in network capacity ahead of demand, providing best-in-class service to earn market share and optimizing pricing and operations through our technology. We're confident that we'll make more progress this year with all 3 of these objectives, and we look forward to seeing you at the upcoming conferences.

Operator, please close the line.

Operator

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

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