AllianceBernstein 2nd Annual Operational Decisions Conference

Fireside chat with Mario Harik and Matt Fassler of XPO Logistics

Conducted by David Vernon, Senior Analyst, North American Transportation

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1. **David Vernon, AllianceBernstein:** Good morning, everyone. I'm joined today by two executives of XPO Logistics — Matt Fassler, chief strategy officer, and Mario Harik, acting president of North American LTL and CIO. We're going to be doing a fireside chat format today, and we've got some prepared Q&A we'll work through. The general flow is going to be high-level strategy, and then digging into parts of the business. We'll also talk a little bit about some of the earnings reaction yesterday.

   Matt and Mario, thank you very much for joining us today. We appreciate your participation. Mario, congratulations on being appointed acting president of the LTL business. Maybe we could start with a high-level view of the state of demand for XPO's services across the board. As you guys are sitting here looking at the market opportunities of the next three to four years, what are you really excited about? How should we characterize this from an investment perspective?

2. **Matt Fassler, XPO:** David, thanks so much for having us this morning. First, you asked about the state of market demand for our services. It's very strong. We reported third quarter earnings on Tuesday night and had our call yesterday, as you mentioned. Our company-wide revenue rose 22% year-on-year. That's the highest revenue of any quarter in our history, pro forma for the recent spin-off of GXO.

   Shippers are seeking capacity, most certainly. They're also seeking visibility of their shipments, and that emanates from the deployment of our technology. I'll give you a statistic that illustrates this strength: if you look at our North American truck brokerage

* Edited for clarity

business, year-on-year, our top 20 customers in total generated a 45% increase in loads. That's a huge increase. We were up 37% on load growth overall, but our largest customers — mostly enterprise customers — were up 45%. There is massive demand for XPO as a trusted intermediary who can help with outsourced transportation.

If you think about the next three or four years, we see much of the same. We're obviously in a fantastic place right now, but that demand for capacity, that demand for visibility, the outsourcing of transportation and the desire to work with a partner who has both scale and a technology edge — we think these conditions are durable and have certainly accelerated over the past 12 to 18 months. Going forward, we expect positive momentum for these secular dynamics.

3. **David Vernon, AllianceBernstein:** Mario, do you want to add anything in terms of the demand outlook for the LTL business?

4. **Mario Harik, XPO:** David, we continue to see a firm pricing environment in LTL. There's a lack of capacity, drivers, and cost inflation, all coupled with high demand — especially in the consumer space, and also with industrial rising. So, it's both a firm pricing environment and a firm demand environment we're seeing in the LTL market. In some market areas, there's still some conversion from truckload to LTL, based on where there's a lack of truckload providers, or the rates are skyrocketing in some cases.

   As Matt said, a lot of it goes back to the customer needing capacity, especially when you look at the backlogs in some markets, like Southern California. Long term, we think that demand for capacity is going to continue. When you think about the LTL business in the US, there's a small number of nationwide players who can cover most of the country's zip codes. It's a great business to be in, with great customers who seek capacity and service to fulfill their needs.

5. **David Vernon, AllianceBernstein:** Are we thinking about this just from a demand standpoint, because economic activity is high and demand for shipment of goods is high? Are those secular shifts in the way companies are running their supply chains, maybe pushing a little bit more freight into the LTL market? As you think about the ability to drive GDP+ volume growth, can you talk about some of the secular trends you're most paying attention to, from a forward-looking perspective?

6. **Matt Fassler, XPO:** Mario mentioned the consumer and e-commerce piece. Retailers and e-tailers and brands that ship direct to consumers are delivering goods in smaller quantities, and they want them staged closer to the consumer. That's definitely a secular tailwind for LTL. That's a piece of what's driving the outsized performance of the consumer verticals within our LTL business today.

7. **David Vernon, AllianceBernstein:** What about the impact that disruptions to supply chains are having on XPO? Can you give us a sense of not only the effect on the demand side, but also the supply side of the equation? As you think about this whole idea of supply chain disruption, it's got to be impacting you in terms of availability of labor and your ability to bring capacity in at the same time you're seeing demand. Can you help us break down the biggest issues there? What do supply chain disruptions mean for XPO?

8. **Matt Fassler, XPO:** David, it nets out to a positive impact with some gives and takes. The empirical on the netting is that we beat on revenue and we beat on earnings in the numbers we reported this week, and that has been a trend for the past several quarters, even as the supply chain issues have escalated in severity.

   So, to the positive, in our asset-light businesses, we're procuring capacity as a broker in a very tight market. That tightness increases the value of our services as an intermediary. Our volumes are moving up and our profitability is holding at very good levels on a per-load basis. We're generating economies of scale, even as we continue to invest in our technology infrastructure. We'll probably talk more about that over the course of our discussion this morning.

As an offset, in our asset-based business, LTL, it's a bit tougher to get equipment. You saw the Class-8 orders the other night — I think that's symptomatic of where we are in terms of access to new trucks, to new rolling stock. This is, in large part, a function of the chip shortage, and to some degree, of manufacturers' challenges in getting other production components. There's a bit of a circular effect here, as you think about the supply chain disruptions — those disruptions slow down the production of the equipment we need to ease the disruptions as a provider ourselves. Broadly speaking, the underlying demand is there, both from consumers and from our industrial customers, but the labor and equipment aren't always in robust supply.

And if you think about industrial in general and automotive in particular, we're not seeing the throughput that the underlying demand out there today would dictate. Look at the automotive SAAR, for example, the annualized rate of auto sales. It's hovering in the low-teens. Based on the current macro momentum, it should be in the high teens. And, even at an equilibrium level, it should certainly be higher than it is today. So, that suggests residual revenue tailwinds when the world begins to loosen up.

9. **David Vernon, AllianceBernstein:** As you think about those supply constraints, particularly around Class-8 deliveries, do you think that's going to impact the industry's ability to deliver on that underlying demand as we get into next year? Or do you think providers will be able to stretch the life of assets a bit through a temporary pause, and then replenish the fleet and move along? Should we be thinking that industry growth may be a little constrained by the ability to put supply on the street — not just with drivers, but also with equipment?

10. **Matt Fassler, XPO:** We're eager to write checks for new equipment right now. We've probably never been more eager to spend money. We've had a harder time having manufacturers accept those checks, just based on their capacity to deliver.

11. **Mario Harik, XPO:** This goes back to the action plans we're implementing that are within our control. When we break down the capacity side of it, as you said, you have drivers and other labor to perform the services, and you have equipment, the trailers and tractors. Matt already covered the tractor side. We have a two-manufacturer strategy and feel okay about the number of trucks we expect to get next year. We're obviously working very closely with them on the production schedules to try to get the trucks that we need. We have a bit more breathing room on that side of it.

    For the other two categories, drivers and trailers, we believe we have a major edge. We own a trailer manufacturing facility in Arkansas, where we produce our own trailers. Yesterday, we announced that, at the beginning of this quarter, we added more production lines, effectively more shifts, so we can double the number of trailers we produce going into next year. The constraints we see here are more on the raw materials side, between the steel, aluminum and wood needed to produce these trailers, but that's getting better overall.

    On the people side, we train our own commercial truck drivers. This year, our driver training schools graduated roughly double the number of drivers we graduated in 2019. We're looking to further double that number going into next year by adding more trainers and more locations where our dockworkers can go through a training program to become drivers. If you think about the equipment and labor shortages in the industry, they'll continue in 2022. But, by having company-specific initiatives that will help us overcome these, we believe we'll be able to respond to customer demand.

12. **David Vernon, AllianceBernstein:** If you think about these COVID-related disruptions and how they've impacted XPO's strategy overall, have they forced you to reprioritize or choose to do things a little bit differently? Have you had to decelerate any initiatives, or accelerate any initiatives? Can you give us a sense of how these last unprecedented years have impacted the evolution of the company?

13. **Matt Fassler, XPO:** It's certainly impacted us day-to-day in the moment, but it didn't change our overall strategy. It really changed customer demand and customer focus, and the importance of robust supply chain operations, both in the broader vernacular and also on the priority lists of many of our customers. I think it has clearly enhanced the value, both perceived and realized, of third-party supply chain providers, particularly those with strong technology. We've been a technology-focused company from the get-go, and we continued to develop our technology through COVID.

We've also been focused on shareholder value creation as a company from day one. We executed the spin-off of GXO — what had been our logistics segment — in the aftermath of the most severe period of COVID, and GXO is out there doing very well. It's a beneficiary of some of the same secular trends we mentioned that have been heightened by the pandemic conditions, like the outsourcing of logistics.

We've been cohesive and focused. We understand that our role in the world, as a company and as an industry, is critically important. We've always felt that way, but more recently, the industry has gotten broader recognition. We've risen to the challenge. It's been a non-stop sprint but, from time to time, we step back to ensure we're happy with the work we're doing, and we are — even though we have a lot more to do.

14. **David Vernon, AllianceBernstein:** With the completion of the spin-off, Mario, in your role as the LTL President and still CIO of XPO, is that allowing you a little more flexibility

or ability to reprioritize the technology initiatives you manage? I would imagine that the narrower focus is actually going to be, in some ways, a little bit of a relief to you and your team. Is that fair to say?

15. **Mario Harik, XPO:** With the spin-off, we split the technology team between XPO and GXO. A large portion of the team at GXO is focused on robotics, on warehouse optimization and on proprietary software to operate warehouses. That's obviously now a separate GXO team, and before the spin-off I hired a fantastic CIO to oversee that team and technology roadmap moving forward.

At XPO, our technology comes down to two big areas of focus: LTL and truck brokerage. These are the two lines of business we're hyper-focused on, and our technology roadmap aligns with these two areas. We started building proprietary on day one of the company, 10 years ago. Our initial focus was on truck brokerage, where we were the original disruptor in that sector. We built a platform called Freight Optimizer, the precursor to XPO Connect, that optimizes both pricing and how we find capacity — finding the best carrier to match a customer's load — all using machine learning. We've developed that platform over the last decade. This gives us a significant edge in how we serve our brokerage customers and drive the competitive dynamics of that market. Moving forward, we'll continue doubling down in that area.

The second area of technology focus is our LTL business. In my position, leading LTL as well as our technology strategy, helps a lot with change management and prioritization. We break down our tech agenda in LTL into a number of items, number one being pricing. Pricing in the LTL industry is our biggest opportunity to improve profit, but there are, obviously, all the other categories of how we operate the business — linehaul, pickup and delivery, dock productivity. We have a platform called XPO Smart that allows us to better manage labor on the dock. How much labor do we need? When should shifts begin and end? We also have customer-facing technology, like our web portal and

API integrations. These are the two big technology roadmaps, LTL and truck brokerage.

16. **David Vernon, AllianceBernstein:** Maybe we can dig into the LTL business more specifically. We talked about some of the more secular drivers — smaller, more frequent shipments, more agile supply chains, elevating truck rates. So, the demand outlook for LTL is pretty good. When we think about the market reaction to earnings yesterday, we saw disappointment in the drop-through on the LTL margin side. To come right at that, what is the issue and what are you guys doing to improve going forward?

17. **Mario Harik, XPO:** Looking at Q3 in LTL, we had record revenue and record adjusted EBITDA, but we obviously underperformed on operating ratio versus peers. As a company, we've had a higher reliance on purchased transportation in our linehaul network, which refers to the moves of freight between our terminals where we consolidate the freight and de-consolidate the freight for local delivery once we get it to the destination. Now, because we've had a higher reliance on purchased transportation, our strategy over the years has been to insource that purchased transportation over time and use our own drivers and fleet. In a market where you have a shortage of drivers and of equipment, that wasn't the right time to continue insourcing purchased transportation. It created an imbalance in our network that impacted us in two ways. One, it increased our costs to fulfill the service. And two, it reduced available capacity. These were the dynamics of what happened in Q3.

    Moving forward, we've come up with a five-point action plan that allows us to remediate some of the issues we saw in Q3 and get back to overperforming versus the market, as well as focusing on the long-term growth of the business. This action plan includes strategic embargoes, meaning in certain, specific terminals, we put a short-term embargo on freight at those sites to balance the network. In a network business, if your network is balanced, you get higher efficiency than if you're out of balance.

The second area is pricing. In Q3, we saw a 6% year-over-year improvement in yield, ex-fuel. This was a record for us as a company. However, it underperformed versus our peers, because we just didn’t move fast enough on asking for price from our customers. Since then, we’ve taken a number of actions, and we saw our yield accelerate nicely during the month of October. Also, we did a couple of things on the contract renewals side of the business, where we asked our customers to pay us for accessorials whenever they use our trailers for storage, for example, or whenever they’re trying to ship irregular or long freight. We also pulled our General Rate Increase from Q1 2022 to the beginning of November, so we can capitalize on the firm pricing environment and counter the cost inflation we’re seeing for equipment that’s needed to operate the network.

The third area, which has three components to it, is focused on capacity. In the short-term, that means getting drivers and trailers. With our driver schools, we’re planning to more than double the number of drivers we want to graduate next year. In terms of trailer manufacturing, we’re planning to double the number of trailers we get from our manufacturing facility by investing more capex. We’ve already started that at the beginning of the quarter, so we can hit the ground running at the beginning of 2022 and ramp up.

The last component is related to growing the physical footprint of our network. Today, we have around 15% excess capacity in the network, but we are short on capacity in some markets where we’re seeing high customer demand. We have a growth plan that’s focused on adding 6% more doors — about 900 doors — over the next 12 to 24 months to our LTL network in those key markets. That’s the action plan we’re moving forward with in our LTL business.

18. **David Vernon, AllianceBernstein:** Are you pausing that insourcing initiative, or are you going to continue that? Will you continue to rely on purchased transportation in the

linehaul network?

19. **Mario Harik, XPO:** Long-term, we believe the right strategy is to continue to insource. We believe that moving that freight on our equipment with our own drivers can give us more control over it, and the price is cheaper, as well. But, more importantly, we can offer better service to our customers using our own equipment. However, in the short-term, we're going to take a more balanced approach. Obviously, we're in the middle of a peak, so getting truckload capacity for a reasonable rate is very hard to do, but we're analyzing it on a lane-by-lane basis to understand where we can get capacity for a reasonable price. And we're comparing those options to the cost of using our own people and our own equipment in those lanes is to perform the same service. In the short-term, we're going to be more balanced in how we do this, since we're working in an environment that has driver and equipment shortages. As we open up the spigot on both getting more drivers and more equipment into our business, over time we expect to go back to our strategy of continuing to insource purchased transportation, to use our own capacity.

20. **David Vernon, AllianceBernstein:** As you think about sourcing drivers, when we've talked to railroads, FedEx or anybody across transportation, finding qualified labor seems to be the problem. Where are you getting these attendees to come to your driver schools? How is the competition, and what do you need to do from an incentivization perspective to get people to sit down and actually complete the driver training and show up on an ongoing basis? This has got to be one of the biggest execution challenges going forward for the business.

21. **Mario Harik, XPO:** I would break it down between our own schools and external recruiting. For our own schools, our candidates are typically dockworkers. We're effectively offering people career progression where they can go from being a forklift operator on the dock to attending our driver school programs, getting a CDL license and

then becoming a driver with us. It’s an uplifting experience for folks, and a great career move. What we’re doing now is expanding that program. This year, for example, we paid wages to dockworkers who went through the training. We changed the structure of the program to make it more effective, and we’re adding both more trainers to the business and more locations where we offer this training. We should graduate roughly 800 people this year. That’s roughly six times the number of people we graduated last year, and about two times the number we graduated in 2019. We’re planning to double that 800 number next year.

On the recruiting side, there are some markets where we offer additional benefits, such as referral fees or sign-on bonuses, to help incentivize drivers to join our team. We’re also doubling down on our recruiting efforts. We launched new technology that makes the application process and the tracking of the process much easier. We’ve been able to shave roughly 10 days from the process of getting a candidate onboarded as a driver with us. We’re also adding more recruiters to the team and leveraging social media to make sure we have as broad an audience as possible to find the drivers we need. So, it’s a combination of amplifying our recruiting efforts, and incentivizing, and providing a fantastic driver training school program.

22. **David Vernon, AllianceBernstein:** I wanted to press on the one aspect that you didn’t mention, which is the cost of getting the driver in the seat. If you were to think back to two years ago, what would it cost you to get a driver through a training program and operational in the first year versus what that might look like for 2022? Could you help us frame what the cost increase is?

23. **Mario Harik, XPO:** The cost has gone up. When somebody goes through the training program, we pay their wages as they train. We’re more than happy to pay, because drivers are the key ingredient of making an LTL business work. We’re also hyper-focused on safety and on having the best drivers in the industry. In the grand scheme of things,

the cost difference between two years ago and now is small.

24. **David Vernon, AllianceBernstein:** If you add up all the driver training costs and wages, what's the bump in wage that we should be thinking about from a modeling perspective?

25. **Mario Harik, XPO:** In LTL, wages are on a scale. So, depending on your level of experience, you either go on the lower end of the wage scale or the higher end of the wage scale. One of the things we do when we get experienced drivers is we start them on the higher end of the wage scale. The percentage change you're referring to varies between different markets. Overall, the reason why we're in a firm pricing environment in LTL is because the price increases from customers partially offset the wage and cost increases in onboarding people.

26. **David Vernon, AllianceBernstein:** If we step back from the short-term challenges, XPO's performance on the market side in the last few years has been very good. The margins have gone up nearly 1,000 basis points since you acquired the Con-way business. What are the levers that you used to drive that improvement and upgrade the level of performance of what was a very middle-of-the-road LTL company when you bought it?

27. **Matt Fassler, XPO:** This is a wonderful industry. The pricing backdrop has been firm for most of the time that we've owned our LTL business. We've had many, many quarters of favorable yield growth, and that has largely been the case for the industry, as well. But much of our gain was company-specific to XPO. We drove tremendous process improvements and rigor, combined with a big focus on eliminating unnecessary cost. We also paid a lot of attention to freight mix, particularly in the earlier years, and customer mix. We were very focused on the analytics of freight quality and the impact of freight on the network. And that contributed, by the way, to both yield and operating ratio improvement for us. Mario can talk about the implementation of technology

across the business, which has helped us in LTL.

28. **Mario Harik, XPO:** Over the last five years, we've been able to expand the profitability of the business by nearly 1,000 basis points of OR improvement, as you noted, David. That came down to the combination of the things that Matt mentioned, plus technology. When we break out technology, I'm referring to areas like pricing and linehaul. Each of those areas improved the profitability or optimization of different parts of our LTL business. On the pricing side, over the years we've launched technology to automate and shorten the RFP process. For local accounts, this has helped us automate pricing. We've launched capabilities for how we offer dynamic pricing for customers. When customers book with us, we can change the price in real time to be able to drive volume in lanes throughout the network.

We have roughly $1.1 billion worth of spend, excluding fuel, in the linehaul network. Every one percent of improvement in our load factor, or in how we optimize the linehaul network, is about $11 million on the bottom line. In pickup-and-delivery, we have roughly $650 million worth of spend. We've launched technology for our route planners, with beautiful user interfaces that are all cloud-based. As they optimize routes, they can see the cost differences between one decision and another. Moving forward, we're also investing in a new dispatching technology that we're launching this quarter, as well as additional route enhancements to include more stops per route and more weight per route.

Finally, on the dock efficiency side, we launched our XPO Smart platform a couple of years ago, and this has allowed us to right-size the amount of labor on the dock to fulfill the volume of freight that's flowing through, including showing us when to start a shift and when to end a shift, while managing productivity. Now, we're working on minimizing the amount of travel a dockworker does on the dock by optimizing which door a trailer goes to, for example. Our customer-facing technology includes our web portals and API integrations with customers. We've launched great technology in the past and have a great roadmap ahead of us, as we continue to improve the business.

29. **David Vernon, AllianceBernstein:** As you talk about that improvement, you identified in your investment materials the potential to actually continue to push OR further. Can you help us bridge the gap from where we are today — normalizing for the recent choppiness, which you've already talked about — to where you ultimately want the business to go? And can you help us understand the specific strategies you're implementing to unlock further potential in the business?

30. **Mario Harik, XPO:** For 2022, we're targeting at least $1 billion of adjusted EBITDA for the year. In Q3, we had adjusted operating ratio erosion of 190 basis points. Going into Q4, we expect a typical seasonal trend, which would imply similar year-on-year erosion to what we saw in Q3, or a bit more than that. We expect to see an inflection point in the first half of 2022, back toward OR improvement and volume improvement.

As we execute on our five-point action plan, we're going to start seeing the results going into early 2022. From a growth strategy perspective, since we're in a firm pricing environment, we're making sure that we're getting paid a fair price for the services we offer to our customers, taking the profits that we make and reinvesting some of that back into the physical footprint of the business, as well as equipment and people, to be able to capitalize on growth moving forward. This should help us get hundreds of basis points in OR improvement in the long term as we execute on our strategy.

31. **David Vernon, AllianceBernstein:** Is that coming from volume-driven leverage, better net pricing realization, labor productivity? How do we think about the economics of each of these things we're talking about actually impacting margin progression? What's the most impactful versus the least impactful?

32. **Mario Harik, XPO:** The three main components are pricing, tonnage, and costs associated with productivity. When you think of 2022, the biggest driver will be the pricing improvement and the year-over-year yield improvement. As I mentioned earlier, we saw a nice yield progression going into October, and we believe that’s going to carry through to 2022. So, in the short-term, yield is going to be number one, volume is going to be number two, and productivity will be the third.

33. **Matt Fassler, XPO:** If you think about the economics of that, the flow-through of a percentage point of yield is several times the flow-through of a percentage point of volume, so we’re very focused on yield and won’t mind if we lose some tonnage. Mario spoke about some of our pricing analytics, particularly around the elasticity of pricing and ensuring that our proposals are structured appropriately for the opportunity, using the historical data that we've compiled about how an individual customer, or a prototype customer, has responded to a bid on a given lane under a given set of conditions. We’re introducing many more variables to that equation. There's an enormous opportunity for us here.

Secondly, Mario spoke to productivity. We spoke about network fluidity in the short run to essentially recover from what had been a difficult moment, but there's also an enormous opportunity beyond that short-term recovery to try to ensure that our linehaul is running as optimally as possible —building the perfect load, building the perfect trailer, using our labor analytics combined with our linehaul analytics and moving the deployment of that downstream to the dock in a way that's seamless for the dockworker. This should all help us realize our goals for the network. That's really where the vision is, and we think there are hundreds of basis points of OR improvement there over time.

We’re more focused on growth now than we were before, which is reflected in our plan to open about 900 doors over the next 12 to 24 months. That’s roughly a 6% increase in doors versus what had been a relatively static door count over a number of years. As such, tonnage is going to be a newer part of our growth strategy, and one that we expect to realize. The most lucrative investments we can make, and the most lucrative advancements we can make, will be those that are focused on yield and on productivity.

34. **David Vernon, AllianceBernstein:** As you think about that pricing opportunity, obviously market-driven rates are one thing, but the rate at which you can actually make money on freight is going to depend on how your network balance is running and on the mix of head haul and back haul in different markets. How much technology have you put in to be able to really adjust that pricing to the sweet spot between what the market rate might be and the rate at which you can actually make money? The LTL business, back in the day — and this is me dating myself — was absolutely horrible at being able to take these tariff-based rate cards and then actually build a network against it. And it feels like the companies that really do this well, like ODFL and Saia — you guys are on the way there — they really understand not only what the market rate is, but the rate at which you can actually make money in that market. Are you also working on that price side? Can you talk about some things you're doing there?

35. **Mario Harik, XPO:** We already have good technology that allows us to do that, and we're in the process of further improving it. When we think about the technology we have today, we’re able to identify the contribution of one shipment to the profits of the company, accounting for when you have a back haul, as well. This is something we always talk about in our freight business: whenever you have a back haul, it's utilizing an otherwise empty trailer, so your cost to move a shipment in that trailer is nearly nonexistent. You already have that cost incurred in the business. The technology that we have today allows us to capture the cost footprint associated with the shipment and capitalize on that.

What we are leaning toward in the future is to also account for price elasticity — being able to look not only at what our network does based on the footprint of the network, but also at how much the customer is willing to pay versus the cost footprint associated with moving the shipment. This is where we're investing in quite a bit of data science resources to be able to capitalize on that portion of it.

Historically, when you think about our nearly 1,000 basis points in adjusted OR improvement over the last five years, a portion of that was on the yield side — identifying larger customers who were not paying their way into the network, and finding the right mix of customers and the right mix of freight within the network to maximize both yield and efficiency. That will continue. In addition, now, a lot of our tech investment is looking at that price elasticity with the customers, and also being able to continue to match that with the network balance side of it, so that we're adding freight at the right points in the network.

On tariffs, though, I think some things won't change for a while. If a customer wants us to rate them on a particular tariff, that's always par for the course. We need to be able to support their needs there.

36. **David Vernon, AllianceBernstein:** Last question — this one from a client — for you on the LTL side: as you're thinking about building out the network to meet this great demand level today, how do you guard against the eventual downturn in the economy? How do we think about maybe having too many doors or having a little bit too much on the resources side? Or is that something that, based on where you guys are in the economy, you're not as worried about right now? How do you think about balancing the ability of the network to remain responsive to changes in demand?

37. **Mario Harik, XPO:** We don't look at the investments we're making in our LTL business as being a short-term reaction to what the market is doing. We look at them as a long-term

strategy to capitalize on a market that will continue to grow over time. When you think about the numbers we mentioned on our earnings call yesterday, we plan to add 6% more doors over 12 to 24 months. If you look at normal GDP growth, that's still within a reasonable range, but it's focused on the areas where we are seeing high demand from our customers. Today, we already cover more than 99% of US zip codes, so we have line of sight to where the demand is. Our real estate expansion strategy is based on where we're seeing that demand from customers, and adding more doors in response.

A lot of the cost in our LTL network is actually variable cost associated with how much freight we have. Real estate costs are a smaller percentage, versus the variable costs of labor, purchased transportation and all the other line items there. Real estate is a long-term investment — having the physical footprint allows us to grow into it and be able to handle more of our customers' freight in those markets.

38. **David Vernon, AllianceBernstein:** I want to talk a little bit about truck brokerage. You guys have been shooting the lights out on load growth in the brokerage business. What's driving that differentiated performance when you compare it to some of the larger brokers out there in the market?

39. **Matt Fassler, XPO:** Thank you for noticing that. It's not just growth. It's also margin and a lot of different things. Our brokerage team has been together since the founding of the company, having joined around the same time as Mario. They have great cohesion. They have the entrepreneurial character of having driven the brokerage business as a startup together, and they've been able to preserve that entrepreneurial character, nimbleness and agility as the company has gotten larger. We make big decisions in brokerage very quickly, and the information flows extremely well.

Second is technology. XPO Connect is our digital freight marketplace. It's a very powerful platform, and it continues to put up very strong growth. I'll go through just a couple of stats for XPO Connect. Our carrier count on the platform rose 37% year-on-year in the quarter. Our carrier usage was up over 100%. Our customer count more than tripled year-on-year. We had 80,000 downloads of Drive XPO, which is our XPO Connect mobile app for carriers. Our cumulative downloads of Drive XPO now exceed 550,000, nearly tripling year-on-year.

A third driver is that we navigated the market really well in 2020 by pivoting to add incremental headcount in front of a tight market. We staffed up on people, and that was a somewhat contrarian move at the time. One of the reasons we were able to do it, by the way, goes back to XPO Connect. We knew that we could ramp people up to higher levels of productivity, and ramp up our incumbent salesforce more quickly, in the face of intensifying activity. That's a decision that has paid off very well.

If you think about the numbers that we were able to produce in truck brokerage in the third quarter, our load count rose 37%. Our revenue growth was up 62%. Our net revenue was up 62%, and our net revenue per load rose 18% year-on-year. So, all of those numbers have resonated very well for us, and they reinforce the strength of our brokerage franchise.

40. **Mario Harik, XPO:** From a technology perspective, when you break it down, what you want your technology in the brokerage business to do is unlock capacity — to find capacity in every market and be able to manage a large number of carriers seamlessly. And, on the flip side, the technology needs to be able to manage price and understand where the market's going — where it's tight and where it's loose, depending on origin and destination — and be able to predict what a good, competitive customer price would be.

The interesting piece of that business is that the variability of cost or price can be very high, depending on the types of carriers involved. Say you had a carrier based in Dallas who moved a head haul lane to Chicago, and they want to get back to Dallas. Undoubtedly, they're going to charge you less than somebody doing a head haul out of Chicago and going to Dallas. Our technology does all of that automatically for our people.

Matt mentioned that, over the last five years, we've added loads at twice the clip we've added headcount. What that means is our people are more and more productive in how they manage the business for our customers, and our technology aids them in making the best decisions possible to get to that high level of performance. Shippers on XPO Connect can do all this work themselves as self-service if they want, with XPO Connect integrated with their systems. The carriers can do the same thing on the Drive XPO app, and on the web as well. The platform connects shippers and carriers so they can interact entirely electronically if that's their preference.

41. **David Vernon, AllianceBernstein:** As you think about these technologies, there's a variety of different marketplace solutions that have been out there for a while. As you think about this ecosystem evolving in the next five or 10 years, is it going to be a function of these different platforms converging with similar functionality and then cooperating with each other? Or is this going to be more of a consolidation type of play, where one network solution is really going to come in and become the ubiquitous marketplace? This kind of comes back to one of the structural debates around long-term disruption in truck brokerage. Is this truly a network economy kind of business, where the best technology wins, like Google and ad search? Or is this something different, where there's a service component that means, maybe, that there's going to be more than one operating marketplace solution going forward? What are your thoughts on that?

42. **Mario Harik, XPO:** We think there's going to be more than one platform. We think about it like an Uber and Lyft type of situation. It's an environment where you're going

to have more and more of this historical trend toward more outsourcing to asset-light providers, to brokerage companies that can access a large numbers of carriers. But, from the customer’s perspective it makes their life much less complicated — dealing with one platform is like dealing with one carrier, and not dealing with all of these carriers that have 15, 20, 25 trucks. We believe brokers will be split between those who have high-quality technology and can automate processes to find the best carrier, find the best rates and offer great service for customers, and those who don't have that caliber of technology.

There will always be a place for the small, niche players that fit a need in the market for a certain type of freight. But the lion's share of the business will go to a handful of players who have great technology and large shares of a growing market over time. That's where we believe the industry is going to go over the next few years.

43. **David Vernon, AllianceBernstein:** We're coming up on time. I really enjoyed getting to know you a little bit, Mario, and getting the overview of the business. Do you guys want to leave us with a couple of thoughts around the investment opportunity as you look out over the next couple of years? I can tell that you're very excited about the LTL business and the technology components of it. Do you want to leave us with a couple of thoughts?

44. **Matt Fassler, XPO:** First of all, to get back to the earlier point of our conversation, the secular tailwinds for third-party providers of transportation services are very strong, and we think that will be the case for quite a long time.

Second, we're crushing it in truck brokerage. And, in LTL, we’re absolutely on the path to where we want to be — optimizing our current operations and growing the business.

Third — and we shared this in our investor materials, subsequent to reporting the quarter — our company's return on invested capital is 33%. We generate very, very strong financial returns. We intend to raise our level of investment in LTL because LTL generates a return on invested capital above the 33% that we generate as a company. So, LTL is a business that's very much deserving of that investment, and we're going to direct more capital toward it.

Fourth, we're very focused on deleveraging — paying down debt — and pursuing an investment-grade credit rating. We generate sufficient cash to continue to do that, while also funding our organic growth opportunities both in LTL and elsewhere in the business — keeping in mind that, in our asset-light businesses, there isn't much need for capital apart from technology. Those are our priorities. We're highly focused on them, and we're enthusiastic about our prospects.

45. **Mario Harik, XPO:** I couldn't have said it better. Thanks for having us on this morning, David. We really appreciate it.

Non-GAAP Financial Measures

As required by the rules of the Securities and Exchange Commission ("SEC"), we provide reconciliations of the non-GAAP financial measures contained in this press release to the most directly comparable measure under GAAP, which are set forth in the financial tables attached to this release.

XPO's non-GAAP financial measures for the three and nine months ended September 30, 2021 and 2020 used in this release include: adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") and adjusted EBITDA margin on a consolidated basis and for our North American less-than-truckload and brokerage and other services segments as well as adjusted EBITDA for Corporate and Intersegment Eliminations; adjusted net income from continuing operations attributable to common shareholders and adjusted diluted earnings from continuing operations per share ("adjusted EPS"); net revenue and net revenue margin by service offering; free cash flows; adjusted operating income (including and excluding gains on real estate transactions) for our North American less-than-truckload segment; and adjusted operating ratio (including and excluding gains on real estate transactions) for our North American less-than-truckload segment. Also, XPO's non-GAAP financial measures for the trailing twelve months ended September 30, 2021 and twelve months ended December 31, 2020 include adjusted EBITDA and for the three months ended September 30, 2021 include net leverage and net debt.

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

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

We believe that free cash flow is an important measure of our ability to repay maturing debt or fund other uses of capital that we believe will enhance stockholder value. We calculate free cash *flow as net cash provided by operating activities from continuing operations, less payment for purchases of property and equipment plus proceeds from sale of property and equipment. We believe that adjusted EBITDA and adjusted EBITDA margin improve comparability from period to period by removing the impact of our capital structure (interest and financing expenses), asset base (depreciation and amortization), litigation settlements, tax impacts and other adjustments as set out in the attached tables that management has determined are not reflective of core operating activities and thereby assist investors with assessing trends in our underlying businesses. We believe that adjusted net income from continuing operations attributable to common shareholders and adjusted EPS improve the comparability of our operating results from period to period by removing the impact of certain costs and gains that management has determined are not reflective of our core operating activities, including amortization of acquisition-related intangible assets, litigation settlements and other adjustments as set out in the attached tables. We believe that net revenue and net revenue margin improve the comparability of our operating results from period to period by removing the cost of transportation and services, in particular the cost of fuel, incurred in the reporting period as set out in the attached tables. We believe that adjusted operating income and adjusted operating ratio improve the comparability of our operating results from period to period by (i) removing the impact of certain transaction and integration costs and restructuring costs, as well as amortization expenses and (ii) including the impact of pension income incurred in the reporting period as set out in the attached tables. We believe that net leverage and net debt are important measures of our overall liquidity position and are calculated by removing cash and cash equivalents from our reported total debt and reporting net debt as a ratio of our last twelve-month reported adjusted EBITDA.*

With respect to our financial targets for full year pro forma 2021 adjusted EBITDA, adjusted diluted EPS and free cash flow, and fourth quarter 2021 adjusted EBITDA, a reconciliation of these non-GAAP measures to the corresponding GAAP measures is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that we exclude from these non-GAAP target measures. The variability of these items may have a significant impact on our future GAAP financial results and, as a result, we are unable to prepare the forward-looking statement of income and statement of cash flows prepared in accordance with GAAP that would be required to produce such a reconciliation.

Forward-looking Statements

This release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including our full year pro forma 2021 financial targets for adjusted EBITDA, depreciation and amortization (excluding acquisition-related amortization expense), interest expense, effective tax rate, adjusted diluted EPS, net capital expenditures and free cash flow; our fourth quarter 2021 financial target of adjusted EBITDA; and our 2022 financial target of at least $1 billion of adjusted EBITDA in the North American LTL segment. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms *such as “anticipate,” “estimate,” “believe,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “should,” “will,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target,” “trajectory” or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.*

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

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