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XPO, Inc. (XPO)

Q3 2024 Earnings Call

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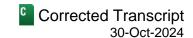
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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the XPO Third Quarter 2024 Earnings Conference Call and Webcast. My name is Paul, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [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 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 of the company's website.

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

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Good morning, everyone. Thanks for joining our call. I'm here in Greenwich with Kyle Wismans, our Chief Financial Officer; and Ali Faghri, our Chief Strategy Officer. This morning, we reported strong third quarter results in a soft backdrop for freight transportation with above-market earnings growth and margin expansion.

Company-wide, we grew revenue year-over-year by 4% to \$2.1 billion and we achieved significant operating leverage on that growth, delivering a 20% increase in adjusted EBITDA to \$333 million. Our adjusted diluted EPS was \$1.02, which is a 16% increase from a year ago. The standout result of the quarter was a strong margin expansion, with a year-over-year improvement and LTL adjusted operating ratio of 200 basis points. This improvement was at the high end of our target range.

What drives our results are the four levers of our strategy: service quality, yield growth, investments in the network and cost efficiency. These levers are closely aligned and each one has a distinct role in driving our performance.

I'll start with service quality. We delivered a damage claims ratio of 0.2%, which is an improvement from 0.4% last year. Importantly, damage frequency continued to improve each month in the quarter to record levels. We also improved our on-time performance year-over-year for the 10th consecutive quarter. The speed and reliability of our network are the primary reasons why our customers trust us with their freight, and they experience these benefits on a daily basis.



Our second lever is the targeted investments we're making in capacity ahead of the strong demand we anticipate in a freight market recovery. These ongoing investments are designed to deliver world-class service at every stage of the freight market cycle. Over the past three years, we've added nearly 15,000 trailers and more than 4,000 tractors to our fleet. We're using our rolling stock to accelerate our line-haul insourcing with a broad benefit to service across our network.

In addition, we've now opened up 21 of the 28 service centers we acquired last December, and we expect to open the last seven sites by early next year. This is on track with our plan. The majority of these sites are in markets where we want to build density and leverage our existing teams. Each new service center helps our network operate more efficiently. When they're all online, we'll have roughly 30% excess door capacity in the network. Strategically, this positions us to capitalize quickly in an upcycle, driving substantial operating leverage and profitable market share gains.

Yield is our third lever and the primary driver of our margin improvement. We've been reporting above-market yield growth throughout this year as we align our pricing with the value we deliver. In the third quarter, we grew yield excluding fuel by 6.7% year-over-year. This underpinned the 200 basis points of OR improvement we reported. We achieved this by executing on multiple initiatives that are yield and margin accretive.

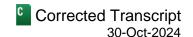
With our customers under contract, we increased renewal pricing by high-single digits year-over-year for the fifth consecutive quarter, supported by the service improvements we're making. And we're earning more market share from local customers due to the investments we made in our sales force. In the third quarter, we increased shipments from local customers by over 10% compared with a year ago. Our new premium services are another benefit to yield. We've continued to increase our revenue mix from high margin accessorial services, and we expect this revenue stream to grow substantially over time.

The final lever of our strategy is cost efficiency, where we have three areas of focus: purchased transportation, variable costs and overhead. In the third quarter, we reduced our purchased transportation costs by 40% year-over-year, primarily driven by our line-haul insourcing initiative. We ended the quarter with 13.6% of line-haul miles outsourced to third-parties, which was a reduction of nearly 800 basis points year-over-year. This is the lowest level of outsourcing in our company's history, and we're on track to meet our 2027 target by year-end 2024, three years ahead of plan.

We now expect our outsourced miles to be below 10% next year. And to support this trajectory, we're deploying more driver teams and sleeper cab trucks for long distance line-haul runs. And we're continuing to manage labor costs effectively using our proprietary technology. We can realign labor hours quickly to address changes in volume and do that at the service center level.

Turning to Europe, where transportation remains soft in most countries, we continue to outperform the industry. On a year-over-year basis, we increased third quarter segment revenue by 7%. It was our strongest quarterly revenue growth since 2021, with volume accelerating for the fifth consecutive quarter. The strongest revenue performance was in the UK, where our year-over-year organic revenue growth was up mid-teens. Importantly, our sales pipeline in Europe is growing at near-record levels as we close new businesses and replenish new leads. This should support ongoing above-market growth across our key geographies.

In summary, the strong third quarter we delivered highlights the effectiveness of our strategy and our companyspecific initiatives, regardless of the macro. The world-class service we provide is within our control. It creates value for our customers and enables us to outpace the industry with yield growth and margin expansion.



In addition, we've made significant progress in becoming more cost efficient with our operations. Even in the current environment, our strategy is driving robust financial and operational results, and our investments in capacity will accelerate those results when the freight market rebounds. We have a long runway for additional market share and earnings growth, and we're well positioned to capture that opportunity.

Now, I'm going to hand the call over to Kyle to discuss the financial results. Kyle, over to you.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Thank you, Mario, and good morning, everyone. I'll take you through our key financial results, balance sheet and liquidity. We reported a strong third quarter across the company with revenue up 4% year-over-year to \$2.1 billion. This includes top-line growth of 2% in our LTL segment. Excluding fuel, our LTL revenue was up 5% year-over-year.

On the cost side in LTL, we made another significant reduction in purchased transportation. Our expense for third-party carriers was down year-over-year by 40%, largely due to insourcing more of our line-haul runs. This equated to a savings of \$39 million in the quarter, and we continued to manage labor effectively with hours per shipment improving by 1% sequentially. This helped to mitigate the year-over-year increase in total salary, wages and benefits of 4%, primarily due to inflation.

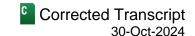
Additionally, we were more cost efficient with fleet maintenance, which brought down our cost per mile by 12% year-over-year. Depreciation expense increased by 21% or \$14 million, reflecting the investments we're making in the business. This continues to be our top priority for capital allocation in LTL. Next, I'll cover adjusted EBITDA, starting with the company as a whole.

We generated adjusted EBITDA of \$333 million in the quarter, up 20% from a year ago. Our adjusted EBITDA margin of 16.2% was a year-over-year improvement of 220 basis points. Looking at just the LTL segment, we grew adjusted EBITDA by 18% to \$284 million, underpinned by an increase of approximately 17% in adjusted operating income. In our European Transportation segment, adjusted EBITDA was unchanged from a year ago at \$44 million, and our corporate adjusted EBITDA was \$5 million compared to a loss of \$7 million a year ago. Excluding a \$9 million gain from a past investment in a private company which was sold in the quarter, corporate adjusted EBITDA was a loss of approximately \$4 million.

Returning to the company as a whole, we reported third quarter operating income of \$176 million, up 14% year-over-year, and we grew net income from continuing operations by approximately 11% to \$95 million, representing diluted earnings per share of \$0.79. On an adjusted basis, diluted EPS increased by 16% year-over-year to \$1.02. And lastly, we generated \$264 million of cash flow from operating activities in the quarter and deployed \$123 million of net CapEx.

Moving to the balance sheet, we ended the quarter with \$378 million of cash on hand. Combined with available capacity under our committed borrowing facility, this gave us \$934 million of liquidity. We had no borrowings outstanding under our ABL facility at quarter-end. Our net debt leverage ratio at the end of the quarter was 2.5 times trailing 12 months adjusted EBITDA. This was an improvement from 2.7 times at the end of the second quarter and 3 times at the end of last year. We'll continue to make investments that enhance our earnings growth trajectory and support our long-term goal of an investment-grade profile.

Now, before I wrap up, I want to highlight some updates to our full year 2024 planning assumptions. We now expect interest expense will be in the range of \$225 million to \$230 million. We're also narrowing our expected



adjusted effective tax rate to the range of 24% to 25% for the full year. And we expect diluted share count to be 120 million shares. Our other planning assumptions this year remain unchanged.

Now, I'll turn it over to Ali who will cover operating results.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

Thank you, Kyle. I'll start with LTL where we executed well in a soft freight market to deliver another quarter of margin improvement and earnings growth. On a year-over-year basis, our third quarter shipments per day were down by 3.2% overall, but they were up in our local channel by double digits, accelerating from the second quarter. Local accounts are a key part of our strategy and an opportunity to earn market share at a favorable margin. Our weight per shipment continued to moderate this quarter and was down 0.7%.

Collectively, these dynamics resulted in a 3.9% decline in tonnage per day, which largely tracked the seasonality and outperformed the industry as a whole. On a monthly basis, our July tonnage per day was down 0.8%, August was down 4.7%, and September was down 6.1%. Looking just at shipments per day, July was up 0.1%, August was down 4.6%, and September was down 4.9%. For October, we estimate that tonnage will be down 8% from the prior year, tracking roughly in line with seasonality, excluding the impact of a cyber-attack at a peer last year.

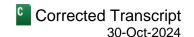
Our pricing trends remain strong as customers continue to recognize the value of our service quality and premium offerings. This enabled us to deliver another quarter of above-market pricing growth. On a year-over-year basis, we grew yield ex-fuel by 6.7% and revenue per shipment by 6.6%. Importantly, both yield and revenue per shipment increased sequentially from the second quarter this year and also on a two-year stack basis. We expect these trends to continue for the fourth quarter, reflecting ongoing momentum with our pricing initiatives.

Turning to margin, we improved our third quarter adjusted operating ratio by 200 basis points year-over-year to 84.2%. Sequentially, our adjusted OR increased by 100 basis points, coming in at the top of our guided range. Our robust margin performance was primarily driven by yield growth and bolstered by our cost initiatives and productivity gains. We've now delivered significant year-over-year OR improvement for four consecutive quarters, all in a historically soft freight environment, and it's notable that we were the only public LTL carrier to expand margin in the third quarter. Our full year outlook is for an adjusted OR improvement of 150 to 250 basis points, and we expect to be at or above the high end of that range.

Moving to the European business, we executed well in the quarter to outperform the industry in a challenging market for freight transportation. Our pricing outpaced inflation and we managed costs to mitigate the impact on earnings. Third quarter adjusted EBITDA for the segment was flat compared with last year, and we generated double-digit growth in the UK, which is a key market for us. The improvements we've made in the business will accelerate results in Europe when the macro recovers.

I'll close with a summary of the major drivers behind the record margins we're reporting in the trough of the freight cycle. We're making significant progress with service quality, and we expect this to propel margin expansion for years to come. Our pricing is outpacing the market and continues to gain traction. We believe we're just beginning to capture the massive yield opportunity ahead of us. And we're operating far more productively by reducing third-party line-haul miles to historic lows and effectively managing our variable costs. These initiatives are all in the early innings with strong momentum, and their impact will accelerate when demand begins to recover.

Now, we'll take your questions. Operator, please open the line for Q&A.



QUESTION AND ANSWER SECTION

Operator: We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Ken Hoexter with Bank of America. Please proceed with your question.

Ken Hoexter

Analyst, BofA Securities, Inc.



Hey, great. Good morning, and nice job on the continued margin improvement. So, Mario, sticking on that, where is the pricing gap now versus the margin as you think about the path you started on with LTL 2.0, I guess ultimately the margin potential? And then thinking about the volumes down 8% in October, if you normalize for Estes, how is the underlying market progressing then?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.



Thanks, Ken. First, if you look at the margin gap on the pricing side, so when we started our plan, that was roughly, call it, a mid-teens pricing gap between us and best-in-class on the pricing opportunity, and so far this year, we were able to claw a couple of points out of that given our outperformance in yield versus the market. That was a combination of, one, our service product continues to improve tremendously, and we get great accolades from our customers who understand that we are investing more in our network. We are investing in rolling stock, and that comes at a premium.

But we're also seeing a great contribution from premium services that we are onboarding. We launched about a half a dozen either expanded or new premium services, and these come at a higher yield and higher revenue. And we're also growing our local account segment here in the third quarter, we grew shipment count in that segment more than 10%, and that also comes at a higher yield and at a higher margin as well. And over the years to come, roughly half that gap is driven by premium price to service, and we expect to keep on bridging that gap. And then the other half comes from both accessorial revenue or premium services as well as local accounts.

In terms of volume trends, what we're seeing here in the quarters, first, if you look at the third quarter, August was the most sub-seasonal month. It was a few points below seasonality compared to where we were in July. September was roughly around – we were down about 6.1%, and that was roughly 1 point below seasonality versus August, but that started with – the beginning of the month was better than the end of the month that was impacted by the hurricane. And ultimately in October, we are down – there's still a couple of days here to go, but roughly around 8%, which is roughly in line with seasonality.

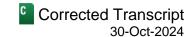
So, we're seeing the sub-seasonal demand normalize here in the month of October. And as you said, a portion of the year-on-year delta is the cyber-attack that happened at one of our peers, and we estimate the impact of that cyber-attack to have been 2 points on the year-on-year comp when you look at October of last year compared to October this year.

Ken Hoexter

Analyst, BofA Securities, Inc.



Great. Thank you.



Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Thank you.

Operator: Our next question is from Scott Group with Wolfe Research. Please proceed with your question.

Scott H. Group

Analyst, Wolfe Research LLC

Hey. Thanks. Good morning. So, Mario, with tonnage down a lot, is it limiting the pricing upside in the near term? I don't know, maybe talk about pricing renewals. And then Ali, if I just take the implied fourth quarter guide, it doesn't imply a lot of year-over-year margin improvement. I know it's early, but any early thoughts on how to think about LTL margin improvement in 2025?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Yeah, I'll start on the overall pricing environment, Scott, and I'll turn it over to Kyle to discuss contract renewal, and Ali can discuss OR outlook. But if you look at pricing overall, we continue to see a very constructive pricing environment out there. And if you take a step back, a year ago, a significant amount of capacity exited the market. And we continue to see that industry pricing backdrop be constructive. I mean, you heard our peers report here last week and this week, and all the commentary leans toward a strong pricing environment.

Now, typically in our industry, we typically price 100 to 200 basis points ahead of cost inflation, and we're seeing that play out here. And we are outperforming on the pricing side, given what I mentioned earlier on. So, from one perspective, we are being rewarded for the better service product from our customers, but we also have these avenues in terms of local accounts generating higher-yielding and higher margin freight and incremental accessorial revenue that is coming from the incremental services that we are launching that our customers are asking for.

So, it's the win-win where the customer gets a new service from us, they get to experience the great service, and obviously, we get the yield benefit from that as well. And if you look here in the third quarter, we were able to deliver a great yield outcome, accelerating on a quarter-over-quarter basis, accelerating on a two-year stack basis. The absolute number for revenue per shipment is up, the yield per hundredweight is up. So, all of these KPIs are moving in the right direction for us here as we go towards the back half of the year.

Kyle Wismans

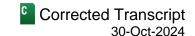
Chief Financial Officer, XPO, Inc.

And Scott, when you think about renewals, so renewals were up high-single digit in Q3. So, again, another strong performance driven by a lot of our service improvements. It's important to note it's our fifth consecutive quarter to be in that range. The other thing I think important here is it's flowing through, so we're seeing revenue per shipment in the quarter up 6.6%. That's our seventh consecutive quarter of sequential growth. So, we're confident in our ability to deliver strong above-market renewals both in Q4 and next year.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

And Scott, just on the OR side, we do expect a strong quarter here in the fourth quarter driven by continued strength in yield and cost management. Typically, Q4 is a more volatile quarter, which does give a wider range of



outcomes, and volume trends can be impacted by the holidays and weather. However, if you take a step back and you look at the five-year average for the sequential OR change from Q3 to Q4, it's been in that 250 basis points range, and we would expect to do better than that normal seasonal trend as we roll into the fourth quarter. And I think, more importantly, when you roll that into the full year for 2024, we expect to now be at or above the high end of our 150 to 250 basis points OR improvement range, which is very strong performance at the trough of the cycle.

Scott H. Group Analyst, Wolfe Research LLC	Q
Thank you, guys.	
Mario A. Harik Chief Executive Officer & Director, XPO, Inc.	Д
Thank you.	
Operator: Our next question is from Daniel Imbro with Stephens, Inc. Please proceed with your question.	

Reed Seay

Analyst, Stephens, Inc.

Chief Executive Officer & Director, XPO, Inc.

Hey, guys. Thanks for taking the question. This is Reed Seay on for Daniel. Mario, service has remained pretty solid. And I think you held on the gains in the Mastio survey this year. Other than insourcing line-haul, can you talk about where you see some remaining opportunities for service that could potentially still be pain points for customers?

customers?

Mario A. Harik

Yeah. So, overall, we're on a great trajectory of service improvement. If you look at our damage claims ratio here in the third quarter, we were at a 0.2% damage claims, compared that when we started our strategy a few years ago, we were at 1.2%. So, a tremendous reduction of more than 80% of damages in our network, and our customers appreciate that tremendously. On the on-time side, this is the 10th consecutive quarter of improvement. We get a ton of accolades from customers on the speed and reliability of our network when it comes to picking up the freight and delivering the freight on time as well.

Now, a lot of the initiatives, Reed, that we have so far implemented were all around changing incentive comp plans, launching airbags, having more capacity, having technology that enables us to track damages down to the person level, to the shift level. And all of that has enabled us to completely change how we load the freight and the trailers here over the last few years, and we only see upside. I mentioned this in my opening remarks, in the quarter, we saw every month of the quarter reach a year record of better damage frequency than the prior month, and we continue that trend to continue here over the quarters and years to come. Our teams in the field operation, they are just doing a fantastic job executing on all of that.

Now, when you look forward, we have a number of initiatives that will continue to improve service. As you said, first starting with our insourcing of third-party line-haul, typically when we move the freight on our equipment, we are more efficient at doing it. We get more space in the trailers. We have much better on-time performance. Here in the month of October, our Road Flex operation on-time performance was nearly 100% in terms of being on time. And as we continue to insource more third-party line-haul, we are going to continue to see our on-time get higher and higher. And obviously, our goal is to be in the high 99% when all of these things are completed.



Similarly, on the improving of damages, we are continuing to work as we expand the footprint of our network in some locations. We can build more pure trailers to destination, which reduces the re-handling in our network that will further take that damage performance even in a better place. And our goal is to get to a 0.1% damage claims ratio over the quarters and years to come here. So, overall, again, the trajectory is very strong. We have a great plan that we're executing on, and I'm very proud of the team, of the progress they're making.

Reed Seay Analyst, Stephens, Inc.	C
Awesome. Thanks for the color.	
Mario A. Harik Chief Executive Officer & Director, XPO, Inc.	Д
Thank you.	
Operator : Our next question is from Fadi Chamoun with BMO Capital Markets. Please proceed with question.	your
Fadi Chamoun Analyst, BMO Capital Markets Corp. (Canada)	C

Thank you. Good morning. I just wanted to see if you can give us some feedback on maybe 2025, just thinking about some of these levers that you have been able to use this year from the accessorial, the local channels, and ultimately what you're doing on the [ph] PT (00:27:48) side, which seems like has a little bit more to go as we go into 2025. Like, your tonnage per day or overall likely flat this year. Like if we don't see material kind of macro cyclical improvement over the next few quarters, what does 2025 look like? Is there more room for kind of OR improvement without the macro environment? If you can give us kind of any high-level way to think about 2025, would be great.

Mario A. Harik Chief Executive Officer & Director, XPO, Inc.

When you look at 2025, we expect a strong year, both from an OR improvement perspective and an earnings growth perspective, and this is, Fadi, even in the current soft macro environment. And obviously, any improvements in the demand backdrop will only accelerate our results even further. You look at 2024, we're going to be at or above our guided range for OR improvement in a very soft freight market. We'll talk more about the specifics of 2025 next quarter once we close out the year.

But that said, if you look at the levers, we are heading into next year with another great year of service under our belt, and that leads to us having – being able to price the freight accordingly. We also have launched a, call it, half a dozen or so premium services or expanded premium services here in year in 2024, and our sales team and customers are incredibly excited about those services. We're building momentum. We're building the pipeline. We're converting more of that revenue on our trucks, and that comes at a higher margin and a higher yield. And it's a service that our customers are asking for.

When you look at our local customers, we have added so far year-to-date more than 8,000 new local customers. And here this last quarter, despite shipment count being down in the low- to mid-single-digits range, our local customer shipments were up more than 10%, and that's going to continue to accelerate as we head into next



year. And the 25% more local sellers we have added to the team will have effectively a longer runway to build their book to be able to convert more of those customers into next year.

Then you look at line-haul insourcing, where we expect to reach our 2027 target by end of this year in terms of how many miles are outsourced to third-parties, and we're going to get that down to single digits next year, and that's going to be a tailwind on the cost side. And ultimately, we opened up 21 of the 28 service centers so far. We're going to be adding another – the remaining of them by end of Q1 of next year. And these are making us more efficient, and they will be OR accretive and EPS accretive as we head into 2025. So, that's tailwinds for margin improvement as well.

So again, we expect a strong year in 2025. And Fadi, we're not stopping there. When you think about the next upcycle with all the initiatives we have, the investments and capacity, we're incredibly excited about the years to come and eventually driving our OR down to the 70s and beyond.

Fadi Chamoun Analyst, BMO Capital Markets Corp. (Canada)	Q
Appreciate it, Mario. Thank you.	
Mario A. Harik Chief Executive Officer & Director, XPO, Inc.	А
Thank you.	
Operator: Thank you. Our next question is from Chris Wetherbee with Wells Fargo. Pleat question.	ase proceed with your
Christian Wetherbee Analyst, Wells Fargo	Q

Hey. Thanks. Good morning, guys. Mario, I guess I want to pick up on that commentary, particularly around the new facilities, so I guess 21 out of 28 opened at this point. I guess, I'm curious how you think about the relative profitability of the new centers. I know they're not necessarily for pure expansion. There's a lot of efficiency and density opportunity within these facilities, but how do you think about their performance relative to the sort of core network from an OR perspective? And I guess, as you think about the potential for incremental margins as you move forward, maybe in either a neutral environment to a potentially positive environment, how did those facilities play into that incremental profitability as you want to push that OR towards a 70s or better?

Mario A. Harik Chief Executive Officer & Director, XPO, Inc.

Yeah. So, Chris, if you look at the service centers we opened up so far, so we opened up 21 out of the 28, and 8 of these were net adds, so they are in incremental sites we are adding to a market or a new market we are expanding into, and 13 were relocations from a smaller location to a larger location. Now, we do expect these sites to be OR-neutral here in 2024, and so far this has been playing out the way we expected. And we expect them to be OR accretive by next year.

Now, keep in mind, with 21 service centers we opened up, we've only added 80 net head count to our staff, so 80 people to support the opening of these sites. And we're gaining efficiency improvement from them. So when you look at these sites, we are seeing an improvement in pickup and delivery efficiency, so our city operations is, call it, low- to mid-single digits more efficient on a percentage basis in those markets given the larger sites. And

similarly, our line-haul efficiency has increased in that low- to mid-single digit as well, which is what gives us the efficiency improvement here in the near term, and that's going to ramp as we head into next year.

When you look at the incremental margins we're seeing from these sites, it's 40% plus, and all of the sites are operating at or above our expectations so far since we have opened them up. So, again, when you roll that forward into next year, in the near term, we're going to continue to see the efficiency improvement help us from an overall cost standpoint to drive higher margins. And whenever the freight market turns, this is what gets us really excited. I mean, today, LTL demand is down, call it, anywhere between the low teens on the low end to the high teens on the high end compared – as an industry, when you compare either pre-COVID or 2021 to current volume levels.

So, we are in a prime position when that market starts turning to be able to use that incremental capacity to get more freight with high incremental margins as we move forward as well.

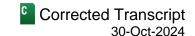
Christian Wetherbee Analyst, Wells Fargo	C
Very helpful. Thanks, Mario. Appreciate it.	
Mario A. Harik Chief Executive Officer & Director, XPO, Inc.	Δ
Thank you.	
Operator : Thank you. Our next question is from Jon Chappell with Evercore ISI. Please proceed with you question.	r
Jonathan Chappell	C

Thank you. Good morning. I want to focus on revenue per shipment trends. Not only was it up sequentially, but it actually accelerated, biggest sequential improvement, over 3% in the last several quarters. I know you talked about some of the accessorial and some of the volume challenges as well, but as we think about going forward, do you feel like a lot of that – I don't know, if you want to call it low-hanging fruit, but a lot of the opportunity in this downturn has been plucked, or do we think about that kind of reaccelerating at some point next year when you do get freight tailwind behind you?

Kyle Wismans
Chief Financial Officer, XPO, Inc.

Hey, Jonathan. When you think about the revenue per shipment opportunity, I still think there's a lot of opportunity here. I mentioned the renewals already. So, renewals have been strong and continue to be strong. I think the other thing to think about there is some of the accessorial pieces. So, even though we have made some progress, and as Mario mentioned, the goal there is to get to 15% of revenue. We're north of 10% now, but there's still a lot more we can do there. So, that's about 5 points of pricing upside that's still in front of us, which we can capitalize on.

And again, some of the services are starting to gain traction. We're building a backlog. So, that includes some of the premium offerings, including the retail store rollouts, Must Arrive by Date, trade show, our recently expanded Mexico cross-border services. So, a lot we can do there. And I think on top of that, we're continuing to improve mix. Mario mentioned the growth in the local shipment counts. As that moves and that continues to go up, that's



going to be a tailwind to yield. So, I think we're still early innings here, and a lot more to do. And just one more last [ph] thing (00:34:59) on accessorials, to get to 15% of revenue, it's probably a five-year path to get there, and we're about 1 point through it, so still a lot more to go there.

Jonathan Chappell

Analyst, Evercore ISI

Okay. Thanks, Kyle.

Operator: Thank you. Our next question is from Tom Wadewitz with UBS. Please proceed with your question.

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. Good morning. Let's see. And it's nice to see the continuing momentum in the results, the pricing and the margin. I'm wondering, you've had quite a few questions on price. I think, Mario, you've been very clear on the levers for that to continue. What do you think is kind of a, I guess, normalized pricing we should expect if we look at like 2025? I think maybe for the better players, 4% or 5% would be a thought on normal LTL pricing. I don't know if you agree with that. I know it depends [ph] a lot on (00:35:59) freight backdrop. And then, is it appropriate to expect you to be higher than that given everything you're mentioning? So if normal is 4% to 5%, you stay in that 6% or 7% range. Just wanted to see if you could give a little bit more of kind of bringing it toward numbers, not obviously looking for guidance, but just kind of how to frame it and think about it in terms of what you get on pricing and what's normal. Thanks.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

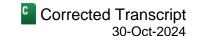
Sure, Tom. This is Ali. So, you've seen us deliver very strong yield growth over the last several quarters. And as Kyle noted, many of our yield initiatives are still in the very early innings. You think about our ongoing service improvements, that's going to continue to earn us a higher price with our customers. We're also growing the mix of our local business and premium services, which are both accretive to both yield and margin. In the case of premium services, these are services that our customers are asking for. And we also expect the favorable industry pricing trends to continue as well.

You've seen a significant amount of capacity that's exited the market over the last 12 to 18 months. And the overall industry backdrop – pricing backdrop remains very constructive. And our expectation is, Tom, we're going to continue outperforming the industry from a pricing standpoint, as you've seen us do over the last year. We have a lot of pricing initiatives that we're executing on, and we would expect that momentum to continue here into the fourth quarter and into 2025 as well.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

And high level, if you look at it, Tom, from a – versus market perspective, I mean, we expect to continue to outperform the market into 2025 and beyond. And as Kyle and Ali mentioned earlier on, when you look at these incremental opportunities, typically in LTL, we price, call it, 100 to 200 basis points above cost inflation, and you add on top of that roughly 1 point from accessorial revenue and a 0.5 point from that local account mix is what would give us the incremental, effectively, outperformance versus market. We saw that here play out in 2024, as Ali mentioned, and we expect that to continue 2025 and 2026 and beyond.



Now, the actual number could depend on the macro. In the macro recovery, we can see pricing being higher than the numbers you gave, but it depends on obviously what the macro does as well and what cost inflation is doing as well.

Thomas Wadewitz Analyst, UBS Securities LLC	Q
So, do you agree with the characterization on market, though, that kind of normal market might be 4% to 5% especially if you look at kind of the better players in LTL?	6,
Mario A. Harik Chief Executive Officer & Director, XPO, Inc.	A
That looks like a reasonable assumption for next year.	
Thomas Wadewitz Analyst, UBS Securities LLC	Q
Okay. Great. Thanks for the time.	
Operator: Our next question is from Brian Ossenbeck with JPMorgan. Please proceed with your question.	
Brian P. Ossenbeck Analyst, JPMorgan Securities LLC	Q

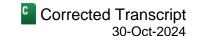
Hey. Good morning. Thanks for taking the question. So just a quick follow-up first, on October, obviously, the hurricane impacted a lot of the freight markets in the quarter, but maybe all the way through the month, just wanted to see if there's any weakness from that, [ph] that you're seeing in the (00:38:50) down 8%. I know you called out the cyber-attack is part of the noise there.

And then just, Mario, I think it would be helpful going into the fourth quarter and into next year if you can just give us a sense of some of the customer conversations you're getting in terms of the different types of customers, local and national, and then also across the industrial and retail end markets as you look into the end of this year and next year.

Mario A. Harik
Chief Executive Officer & Director, XPO, Inc.

Yeah. As you said, Brian, when you look at the month of October, we have seen that impact, the year-on-year impact from the cyber-attack last year at one of our peers. So when you look at it, the back half of the month on a year-on-year basis was obviously much better than the first half of the month that was impacted by the cyber-attack. But when you look at it, this is what we said last year. The impact of the cyber-attack for last October was, call it, roughly around 1,000 shipments of incremental shipments per day when you average the entire month, which is roughly around a 2% impact on tonnage. So when you normalize for that, obviously you've got to take that out of the 8%.

Now, in the hurricane impact, we did see also the impact both at the end of September and at the beginning of October that impacted overall the volume trend. Given some of the markets, when you go in the Southeast of the country, they were obviously impacted by not being able to ship product in and out of those regions for quite a few weeks, although we were up and running very quickly, and I was very proud of the team, all of our employees



were safe, and we were able to support our customers within 24 hours where needed, but at the same time, obviously, the market was impacted.

Now, when you look at customer demand trends, it has been – when you look over the summer, it has been softer sub-seasonal. When you look at the month of August, as I mentioned earlier on, it was roughly around a few points lower than seasonality, normalized, 1 point lower than seasonality in September, normalized, roughly in line with seasonality in October.

Now, what we saw in the quarter was the industrials being more impacted than retail. We saw industrial shipments be down at twice the rate of that corresponding retail customers through the course of the quarter. And you see that in the ISM index, obviously, hovered at 46, 47 in the quarter, which was a deceleration from earlier in the year.

Now, as you know, I spend a lot of time with customers in the field, and what we've heard from customers is some subsectors of the industrial economy, so electrical equipment manufacturing or machinery, are much more bullish about the outlook when they look forward. But if you look at construction or industrial for agriculture, they are more bearish. They are seeing more softness in demand looking forward.

On the retail side, they were down still, but down less than their corresponding industrial side. Inventories are mostly normalized. Consumer demand is holding. So, we saw a retail sector that was constructive, but still down on a year-on-year basis, but less than the industrial counterpart.

In terms of local versus large customers, for us, local is growing. Our local sales team is doing an impeccable job onboarding new customers. Year-to-date, we have onboarded more than 8,000 new logos in that channel, and we saw shipment count in that segment grow more than 10% here in the third quarter. That's more company-specific. And given the improvements in service and the execution of our sales force, we are able to deliver on those outcomes.

But again, if you look forward, tough to predict where things will go from here through the rest of Q4 or early next year. I mean, there's a scenario where we start seeing an inflection at the end of the first quarter or first half of next year if rates continue to come down and the overhang of the election is behind us. But we'll see – it's very tough to predict. There's a lot of mixed signals in terms of [ph] how (00:42:27) the outlook will do here in the near term.

Brian P. Ossenbeck Analyst, JPMorgan Securities LLC	Q
Okay. Thank you, Mario.	

Operator: Our next question is from Scott Schneeberger with Oppenheimer & Company. Please proceed with

Scott Schneeberger
Analyst, Oppenheimer & Co., Inc.

Thanks very much. Mario, could you please elaborate on the half dozen premium services you rolled out. Are there more to come? And maybe a little anecdote about what you've done there so far. And then just on top of that, how is the investment in the sales force, is that something that you're continuing to build or is that at a pause right here? Thanks.

your question.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Yeah. So, starting with the premium services, I'll give you a few examples, Scott. For example, in the retail side, we launched a new service called retail store rollouts. So you can imagine whenever you have a consumer packaged goods company that wants to, for a certain holiday like Halloween here coming up this week, they want to send a lot of product to a lot of stores simultaneously. So, we effectively have a desk for them that can support dealing with a project where they are shipping 500 shipments or 1,000 shipments to all different locations, getting a consolidated bill at the end of it, and making sure that all of that freight is being tracked in conjunction as one unit.

Similarly, we launched a product called Retail Solutions, or Must Arrive by Date. So when you think of a – again, of a company shipping into a large retailer, typically they have chargeback programs, deliver the product within a certain time window, then obviously as a shipper or supplier to that retailer, you get a chargeback as a percent of the value of the goods. So given the tremendous improvement in service product, we actually now offer that service for our customers where we can, again, make sure that we're tracking the freight all the way through destination, and if it needs to be stored at destination for a period of time before it gets delivered in a certain time window, we can make all of that happen for the customer.

Similarly, on trade show, when you look, we opened up here over the last few quarters a new service center in Las Vegas that is massive, one of the largest in the city. And you can imagine when people want to ship things into a trade show, they get it to our location, we offer five days of free storage, we offer, again, a service desk to coordinate the product getting delivered to the trade show floor and picked up from the trade show floor. So, we handle all of these things for our customers.

And finally, on Mexico, we expanded our Mexico offering. We've been doing Mexico for more than 30 years. We're one of the oldest carriers in doing that service. But we've added more border crossing locations and expanded our reach within Mexico, and that's resonating with customers as well. So, all of these are extra services that we are offering to the customers. They come at a cost on our side, but usually a smaller cost, but more importantly, very important for our customers in terms of getting the freight picked up and delivered with these extra requirements along with it.

In terms of moving forward, we are looking to launch a number of incremental services as well, a security divider is one of them. Today, we do, for example, exclusive use of trailers where we ship – where you can, as a customer, book an entire trailer. But in the future, we can also do partial trailers if you have high-value products you want to protect. We are looking at services like expedited services within the network, intra-network, and a number of others as well as we're working with our customers on, too.

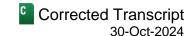
In terms of the local investment in – or investment in sales or our local sales team, so we had a plan to grow the local sales force by 25%, and we reached that plan effectively where we are now. We are still adding incremental head count to our sales force, but we still have to define going into next year whether we want to further grow our local sales force or whether we feel good about where we are. At this point, we're feeling good about the size of the sales force. We're still incrementally adding new roles, including business development roles on the team, but we'll see if we're going to expand the local sales force beyond that as we finalize here budgets for 2025.

Scott Schneeberger

Analyst, Oppenheimer & Co., Inc.

Great. Thanks for the color.





Operator: Our next question is from Bruce Chan with Stifel. Please proceed with your question.

Jizong Bruce Chan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey. Good morning, gents. Thanks for the question. Kyle, you talked about your top priority for capital allocation here. And I'm wondering if you think about the potential for sale of the European business, how would that maybe alter those priorities and what would be the planned use of those proceeds? And if you have one, any update on that process would be great.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

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Sure. So when you think about it – let me start, first of all, with overall capital allocation. Obviously, our priority is to continue to reinvest in the business. Now – and outside of that, we want to achieve an investment-grade profile. But that said, we're looking at our leverage now at 2.5 times, obviously, a European transaction can help meaningfully reduce that. But I would say, we've made meaningful progress on our leverage so far this year. You think about the end of last year, we were at 3 times. We were 2.7 times last quarter and 2.5 times this quarter. So, we're making a lot of progress. And again, we're committed to maintaining or pursuing an investment-grade profile for the business. And I think we can achieve that both through the increase in EBITDA as well as cash flow generation. And again, a European transaction can obviously accelerate some of those efforts.

And the one other piece I'd like to mention as well is just when you think about leverage and how it progress, it's really CapEx, because for us, CapEx this year, on a percent of revenue for LTL, is somewhere in the 13.5% to 14%. And if you think about the future, that's going to come down. So if you think about 2025, we'll have the ability to ratchet that down. You think about bringing the service centers online, those 28 service centers were about \$2 million of CapEx per site. So as that comes down next year, that will help us drop that number, probably 1 point. And then outside of that, with all the insourcing we've been doing with line-haul, the need to increase the fleet next year is also likely to come down. So when you think about that 13.5%, 14%, probably comes down a couple points.

So, I think the outlook from a capital allocation standpoint is going to give us a lot more flexibility moving forward, with or without the sale of Europe. And then I'll turn to Mario to talk about Europe.

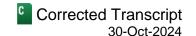
Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.



Yeah. So if you look at the European sale, our strategy continues to be we want to be a North American LTL carrier over time. Now, we're patient on the sale of Europe because we want to make sure we're getting the right value for it. It is a business that has high scarcity value. When you look at it, we're either number one, two, or three in LTL, in dedicated solutions and warehousing, and [ph] asset light (00:48:36) trucking and brokerage in the Western European geography, including UK, France, Spain, Portugal, and many other countries. And again, we're going to be patient to make sure we are getting the right value for it.

Meanwhile, when you look at it, Bruce, we are performing really well in Europe. When you look at the third quarter here, we grew revenue 7% on a year-on-year basis. It's strongest quarterly volume and revenue growth since 2021, post-pandemic. It's the fifth consecutive quarter of accelerating year-on-year volume growth, and we're well positioned to capitalize on the market over there. And again, long term, we're going to be a pure-play North American LTL carrier.



Now, when you look at what Kyle just mentioned, that's another avenue for value creation for our shareholders, because when you think about it, overall our earnings are compounding. As I mentioned earlier on, we expect to be either at or above the target range of margin improvement for us here in LTL in 2024, and there is only upside from here. At some point, whether it's the next couple of quarters, whether it's next year, we're going to see the freight market cycle starting to inflect. And when that starts happening, we're going to compound our results, our growth, our earnings growth faster.

And when you look at CapEx normalizing, what Kyle just mentioned, call it, 1 point or so a year [ph] till (00:49:47) 2027, that's only going to expand our free cash flow conversion. You couple that with proceeds from Europe, at some point in time, we're going to start returning that larger cash flow conversion, that capital back to shareholders, which will be another avenue of value creation for shareholders as well.

Jizong Bruce Chan

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Very good. Thanks for the color, gents.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Thank you.

Operator: Our next question is from Ravi Shanker with Morgan Stanley. Please proceed with your question.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Thanks. Morning, guys. A two-parter on service, if I may. You mentioned at the top of the call that damage claims are getting much better, 0.2% from 0.4%. Does that start running into diminishing returns here? Also, maybe part two, kind of on the Mastio survey, you guys made progress in the overall ranking and have held your place in the national ranking. Does that take time for that service to penetrate into the national ranking? And what's your target on that ranking maybe three years from now? Thanks.

Mario A. Harik

Α

Chief Executive Officer & Director, XPO, Inc.

So, Ravi, first looking at damage claims, our goal is to be best-in-class when it comes to no damages in our network. And over the last few years, again, we've reduced damages by more than 80% here in quarter, we reach a new company record every month of the quarter, and we're going to keep on improving there. Our view is very simple. When we take care of the customer, they give us more freight, and they're also willing to pay a higher price for the freight because that causes less disruption in their supply chain. So, we're going to keep on working that until we become best-in-class when it comes to service.

Now, when it comes to the Mastio surveys, as you said, we were the most improved on a two-year stack in terms of NPS scores. It is one data point we look at in terms of overall our performance. But more importantly, Ravi, we measure satisfaction of our customers on a weekly basis. We effectively get to do a survey for customers who are actually shipping with us, and we get to see that satisfaction and how it performs, over the last few years, up by more than 40% over that period of time. And ultimately, customers vote with their wallets, and we're seeing, effectively, growth in our numbers, in yield. We're seeing growth in margin, and all of that's driven, rooted by the improvements in services we are making.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

Operator: Our next question is from Jason Seidl with TD Cowen. Please proceed with your question.

Jason H. Seidl

Analyst, TD Cowen

Thank you, operator. Hey, Mario and team. Good morning. Really nice job in the operational improvements in the quarter. I wanted to ask a question. Some of your peers have talked about freight continuing to shift to truckload with the weakness in the truckload marketplace with that multi-stop LTL or LTL consolidation, whatever you like to call it. I guess, two parts. One, are you guys still seeing a lot of that out there? And two, how quickly do you think that could jump back to the LTL market in 2025 once the TL market recovers?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

First, Jason, it's tough to estimate how much of the freight has moved to truckload in terms of consolidation because that portion of it, typically, we don't have as much visibility into it. But generally, TMS systems have been around for a long time, and usually what more shippers do, they automatically look at the service requirement per shipment that they have, and they compare rates between truckload and LTL, and they compare it also based on the service requirement to move that freight. But that's not something new that we're seeing here.

I mean, customers who have TMS systems are – usually move fairly quickly on whether they want to consolidate or not based on what they're seeing in the environment. So, we expect whenever truckload rates go back up again, you get to see effectively the TMS system will do the computation and figure out that it's better to actually move a shipment with LTL. But that percentage is tough to estimate.

Now, there is also what we call direct mode conversion between LTL to TL, which is where it's more cost efficient just for one shipment. And in that particular case, if you look at our network, last quarter, our average length of haul was about 855 miles. When you apply in the trough of the market a \$2 truckload rate to that, a corresponding truckload shipment would be about \$1,700 to move that. You compare that to an average revenue per shipment for us was \$380. So, there's a big dislocation between \$380 and \$1,700 revenue per shipment in truckload versus LTL.

Now, sometimes I get the question, well, Mario, what about heavy shipments? So, I had the team run the breakeven point. And that breakeven point is for shipments over 15,000 pounds, and today, less than 0.3% of our shipments are that heavy. So, there is a small conversion there. We estimated it to be 0.5 point, maybe less than 1 point. But again, once truckload rates go up, we'll come back to LTL as well.

Jason H. Seidl

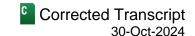
Analyst, TD Cowen

That's fantastic color. Appreciate it, Mario.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

You got it.



Operator: Our next question is from Stephanie Moore with Jefferies. Please proceed with your question.

Stephanie Moore

Analyst, Jefferies LLC

Hi. Good morning. Thank you. Maybe sticking on some of these last couple of questions on the service side, could you talk a bit about your level of confidence of keeping these strong service levels even in an upswing as the environment tightens and there's a bit more strain on your network?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Yeah. Well, Stephanie, if you look at it from our perspective, all of these service improvements were done were not driven by lower volumes. They were driven by action plans to specifically improve service between incentive compensation for our employees that incentivizes on improving service, between adding effectively technology that enables us to track damages down to the person level and the shift level and the supervisor level by doing a big cultural change and training and holding people accountable and our employees holding each other accountable to provide great service for the customer. So, all of these are foundational changes in what we've done to improve service.

Now, I'll give you a couple of proof points. When you look at last year when Yellow went bankrupt, we saw the above seasonality increase in shipment count from Q2 to Q3 of plus 7%. So, think about the macro recovery, think of the cycle recovery, a 7 points higher than seasonality increase in volume is massive. And during that period of time in the summer of last year, we saw our service product, our damages, and our on-time improve every month in Q3 of last year, Q4 of last year, and that trend continued through 2024 here. So, effectively, we already have done it once in an upcycle through the bankruptcy of one of our peers.

Now, when you look at moving forward, a lot of it goes also to having capacity. So far, we are loving the position we are in because we have invested a lot in real estate, a lot in rolling stock. By Q1 of next year, we're going to have more than 30% excess capacity in our network to be able to handle that incremental freight for the customer. And similarly, on the rolling stock side, we've added more than 15,000 trailers and more than 4,000 trucks. So, all of that capacity is going to put us in a prime position to provide great service for the customers and be able to capitalize on the upswing of demand when it comes.

Stephanie Moore

Analyst, Jefferies LLC

Great. Appreciate the color. Thank you.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

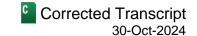
Thank you.

Operator: Our next question is from Ari Rosa with Citi. Please proceed with your question.

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Hi. Good morning. Congrats here on the strong results, guys. So, Mario, I wanted to stay on that line of thinking. Talking about the 30% excess capacity, it seems like a lot of your peers also are sitting on quite a bit of excess



capacity. From an industry structure perspective, what gives you confidence? If the market doesn't tighten, I guess how long are you willing to sit on that excess capacity and what gives you confidence that some of your peers don't also start to maybe chase a little bit of volume by kind of cutting rates? Is there any risk of that or what gives you confidence that that doesn't start to happen? Thanks.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Thanks, Ari. Ari, I don't see a risk in that for a simple reason, which is usually real estate as a cost footprint in an LTL network is a low- to mid-single digit as a percent of revenue. So in other terms, as an LTL carrier, you're not going to use that cost to justify onboarding freight that doesn't operate at or better OR profile than the rest of your network, because otherwise you're going to take down your margins, you're going to take down your earnings, and you're going to work harder to move that freight for a cost category that is very low on the P&L.

So if you think about it as a capacity, though, from the industry as a whole, as I mentioned earlier on, when you look at all the publicly traded LTL carriers, shipment counts when you look at pre-COVID 2018-2019 or 2021, which was post-COVID, it was still slightly lower than 2018-2019. Compared to where we are in 2024, shipment demand in our industry on the low end is down in the low-teens and on the high end is down in the high-teens.

Now, when Yellow went bankrupt last year, it was at a time where demand was depressed, so you took out 10% of the industry capacity through them ceasing operation. Since then, they've sold about, call it, roughly half of their service centers. About 90% of these service centers went back into the hands of LTL carrier. So even in a year from now, you're going to have 94%, 95% of the industry capacity that existed a year ago. So, that's what gives us a lot of confidence in the next upcycle. And I'll give you just some anecdotal examples.

Here last week, I was actually visiting some of our customers in the Minneapolis area. And based on those meetings I was with them, their main concern was what's going to happen in the next upcycle, and they wanted to make sure that we have enough capacity to be able to grow with them during that period of time. So, currently, on our customers' mind, they see the fact that capacity has gone out, they see that some of it came back, but they also do understand that demand is very depressed. And when you start seeing that demand come back into LTL, it's going to be the cycle of all cycles for LTL companies.

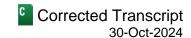
Ariel Rosa Analyst, Citigroup Global Markets, Inc. Very helpful. Thank you.	Q
Mario A. Harik Chief Executive Officer & Director, XPO, Inc.	A
Thank you.	

Operator: Our next question is from Jordan Alliger with Goldman Sachs. Please proceed with your question.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Yeah. Hi. So just a couple quick things. First, I'm just sort of curious, with the – it's great, the talking about price and 5 points left of price, et cetera. I'm just sort of curious, how does the elasticity of demand work versus price? Do you find customers – do they balk at it or do they say, you know what, your service is better, so we're going to stick even though you guys are pushing price? I'm just sort of curious how that interplay works on elasticity.



And then just as a quick follow-up, I know you mentioned October was about in line with normal seasonality. Is the expectation November and December will track normal seasonality? And if so, what does that mean for tonnage for the quarter? Thanks.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Jordan, I'll start here. So if you look at our pricing strategy, what we're doing is we're aligning our price with the increased value we're providing our customers. And our customers understand that for us to provide better service, we need to invest in our business. And there's a premium associated with that. And a better service product means a total lower cost for them as well to move goods through their supply chain. And as Mario noted, we've seen significant improvements in our service over the last few years. You think about our damage claims ratio improving from 1.2% a few years ago to 0.2%. On-time performance has improved for 10 consecutive quarters on a year-over-year basis. And those service improvements are earning us a higher price with our customers. And that's translating to above-market contract renewals and pricing growth.

I'd also point out that there's other ways for us to improve our yield just beyond price. You think about growing the revenue mix of premium services in the local channel, both of which are both yield and margin accretive for us and go beyond just raising prices to the end customer. And so, we're going to continue to take a disciplined approach to grow our market share. As Mario noted, in the local channel, for example, we're growing shipments by more than 10%. And that accelerated from the second quarter. So, overall, our top priority is to continue to drive OR improvement. For us, yield is going to be the main lever for that margin expansion.

You look here in the third quarter, and likely for the full year as well, we're going to be the only public LTL carrier to expand margin. And we're going to continue to optimize revenue quality to continue to drive that margin expansion going forward. And as you think about the outlook from a tonnage perspective, as Mario noted, if you roll forward seasonality from October, that would imply tonnage for the full quarter being down somewhere in that mid-single-digit-plus range year-over-year for the fourth quarter overall. Now, macro will be the biggest swing factor. But if you just roll forward that normal seasonality into November and December, you'll get to somewhere in that mid-single-digit decline range.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

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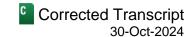
Thank you.

Operator: Thank you. That is all the time we have for questions today. I would like to hand the floor back over to Mario Harik, CEO, for any closing comments.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Thank you, operator, and thanks, everyone, for joining us today. As you saw from our results, we are able to deliver strong margin improvement in a soft market for freight transportation. And our strategy is working, and we have the right team behind it executing on it. Our service has never been better and keeps on improving. Our yield is above market in terms of growth, and our customers are seeing those service improvements where we're launching. Our premium services are gaining momentum. Our local accounts are growing. We've added more than 8,000 local accounts so far year-to-date. And on the cost side, our technology is enabling us to run the business very efficiently and insourcing line-haul at a pace of three years ahead of plan. And importantly, all the



investments we're making in capacity are positioning us to be able to do really well in the eventual freight market recovery and getting fantastic incremental margins as we grow the business.

We look forward to updating you over the next quarter. And operator, you can now end the call. Thank you.

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

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