

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-32172

XPO
XPO, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
Five American Lane
Greenwich, CT
(Address of principal executive offices)

03-0450326
(I.R.S. Employer
Identification No.)

06831
(Zip Code)

(855) 976-6951

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common stock, par value \$0.001 per share | XPO | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 23, 2023, there were 115,973,170 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

XPO, Inc.
Quarterly Report on Form 10-Q
For the Quarterly Period Ended September 30, 2023

Table of Contents

| | <u>Page No.</u> |
|--|------------------------|
| <u>Part I—Financial Information</u> | |
| <u>Item 1. Financial Statements (Unaudited):</u> | |
| <u>Condensed Consolidated Balance Sheets</u> | <u>1</u> |
| <u>Condensed Consolidated Statements of Income</u> | <u>2</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Changes in Equity</u> | <u>5</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>7</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>18</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>27</u> |
| <u>Item 4. Controls and Procedures</u> | <u>27</u> |
| <u>Part II—Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>27</u> |
| <u>Item 1A. Risk Factors</u> | <u>27</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>27</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>28</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>28</u> |
| <u>Item 5. Other Information</u> | <u>28</u> |
| <u>Item 6. Exhibits</u> | <u>28</u> |
| <u>Signatures</u> | <u>30</u> |

[Table of Contents](#)

Part I—Financial Information

Item 1. Financial Statements.

XPO, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

| <i>(In millions, except per share data)</i> | September 30, 2023 | December 31, 2022 |
|--|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 355 | \$ 460 |
| Accounts receivable, net of allowances of \$45 and \$43, respectively | 1,059 | 954 |
| Other current assets | 199 | 199 |
| Current assets of discontinued operations | — | 17 |
| Total current assets | 1,613 | 1,630 |
| Long-term assets | | |
| Property and equipment, net of \$1,767 and \$1,679 in accumulated depreciation, respectively | 2,072 | 1,832 |
| Operating lease assets | 695 | 719 |
| Goodwill | 1,465 | 1,472 |
| Identifiable intangible assets, net of \$431 and \$392 in accumulated amortization, respectively | 366 | 407 |
| Other long-term assets | 217 | 209 |
| Total long-term assets | 4,815 | 4,639 |
| Total assets | \$ 6,428 | \$ 6,269 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 473 | \$ 521 |
| Accrued expenses | 827 | 774 |
| Short-term borrowings and current maturities of long-term debt | 66 | 59 |
| Short-term operating lease liabilities | 111 | 107 |
| Other current liabilities | 45 | 30 |
| Current liabilities of discontinued operations | — | 16 |
| Total current liabilities | 1,522 | 1,507 |
| Long-term liabilities | | |
| Long-term debt | 2,447 | 2,473 |
| Deferred tax liability | 326 | 319 |
| Employee benefit obligations | 90 | 93 |
| Long-term operating lease liabilities | 584 | 606 |
| Other long-term liabilities | 262 | 259 |
| Total long-term liabilities | 3,709 | 3,750 |
| Stockholders' equity | | |
| Common stock, \$0.001 par value; 300 shares authorized; 116 and 115 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively | — | — |
| Additional paid-in capital | 1,284 | 1,238 |
| Retained earnings (accumulated deficit) | 127 | (4) |
| Accumulated other comprehensive loss | (214) | (222) |
| Total equity | 1,197 | 1,012 |
| Total liabilities and equity | \$ 6,428 | \$ 6,269 |

See accompanying notes to condensed consolidated financial statements.

XPO, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

| <i>(In millions, except per share data)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|----------------|--|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue | \$ 1,980 | \$ 1,946 | \$ 5,804 | \$ 5,887 |
| Salaries, wages and employee benefits | 809 | 739 | 2,354 | 2,216 |
| Purchased transportation | 437 | 480 | 1,338 | 1,515 |
| Fuel, operating expenses and supplies | 406 | 425 | 1,223 | 1,277 |
| Operating taxes and licenses | 15 | 15 | 45 | 44 |
| Insurance and claims | 39 | 41 | 129 | 145 |
| (Gains) losses on sales of property and equipment | 1 | (1) | (4) | (3) |
| Depreciation and amortization expense | 110 | 99 | 318 | 289 |
| Transaction and integration costs | 8 | 2 | 47 | 16 |
| Restructuring costs | 1 | 7 | 35 | 15 |
| Operating income | 154 | 139 | 319 | 373 |
| Other income | (4) | (15) | (12) | (42) |
| Debt extinguishment loss | — | — | 23 | 26 |
| Interest expense | 41 | 35 | 126 | 103 |
| Income from continuing operations before income tax provision | 117 | 119 | 182 | 286 |
| Income tax provision | 31 | 27 | 48 | 66 |
| Income from continuing operations | 86 | 92 | 134 | 220 |
| Income (loss) from discontinued operations, net of taxes | (2) | 39 | (3) | 540 |
| Net income attributable to XPO | \$ 84 | \$ 131 | \$ 131 | \$ 760 |
| Net income (loss) attributable to common shareholders | | | | |
| Continuing operations | \$ 86 | \$ 92 | \$ 134 | \$ 220 |
| Discontinued operations | (2) | 39 | (3) | 540 |
| Net income attributable to common shareholders | \$ 84 | \$ 131 | \$ 131 | \$ 760 |
| Earnings (loss) per share data | | | | |
| Basic earnings per share from continuing operations | \$ 0.74 | \$ 0.80 | \$ 1.16 | \$ 1.92 |
| Basic earnings (loss) per share from discontinued operations | (0.01) | 0.34 | (0.02) | 4.69 |
| Basic earnings per share attributable to common shareholders | \$ 0.73 | \$ 1.14 | \$ 1.14 | \$ 6.61 |
| Diluted earnings per share from continuing operations | \$ 0.72 | \$ 0.79 | \$ 1.14 | \$ 1.91 |
| Diluted earnings (loss) per share from discontinued operations | (0.01) | 0.34 | (0.02) | 4.66 |
| Diluted earnings per share attributable to common shareholders | \$ 0.71 | \$ 1.13 | \$ 1.12 | \$ 6.57 |
| Weighted-average common shares outstanding | | | | |
| Basic weighted-average common shares outstanding | 116 | 115 | 116 | 115 |
| Diluted weighted-average common shares outstanding | 119 | 116 | 118 | 116 |

See accompanying notes to condensed consolidated financial statements.

XPO, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

| <i>(In millions)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | \$ 84 | \$ 131 | \$ 131 | \$ 760 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation gain (loss), net of tax effect of \$(5), \$(7), \$5 and \$(18) | \$ (21) | \$ (60) | \$ 6 | \$ (132) |
| Unrealized gain (loss) on financial assets/liabilities designated as hedging instruments, net of tax effect of \$—, \$—, \$1 and \$(1) | (1) | — | 2 | 4 |
| Other comprehensive income (loss) | (22) | (60) | 8 | (128) |
| Comprehensive income attributable to XPO | \$ 62 | \$ 71 | \$ 139 | \$ 632 |

See accompanying notes to condensed consolidated financial statements.

XPO, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| <i>(In millions)</i> | Nine Months Ended September 30, | |
|---|------------------------------------|---------------|
| | 2023 | 2022 |
| Cash flows from operating activities of continuing operations | | |
| Net income | \$ 131 | \$ 760 |
| Income (loss) from discontinued operations, net of taxes | (3) | 540 |
| Income from continuing operations | 134 | 220 |
| Adjustments to reconcile income from continuing operations to net cash from operating activities | | |
| Depreciation, amortization and net lease activity | 318 | 289 |
| Stock compensation expense | 58 | 21 |
| Accretion of debt | 8 | 12 |
| Deferred tax expense | 16 | 30 |
| Gains on sales of property and equipment | (4) | (3) |
| Other | 46 | 46 |
| Changes in assets and liabilities | | |
| Accounts receivable | (141) | (199) |
| Other assets | (24) | 72 |
| Accounts payable | (38) | 13 |
| Accrued expenses and other liabilities | 70 | 127 |
| Net cash provided by operating activities from continuing operations | 443 | 628 |
| Cash flows from investing activities of continuing operations | | |
| Payment for purchases of property and equipment | (494) | (354) |
| Proceeds from sale of property and equipment | 19 | 10 |
| Proceeds from settlement of cross-currency swaps | 2 | 29 |
| Net cash used in investing activities from continuing operations | (473) | (315) |
| Cash flows from financing activities of continuing operations | | |
| Proceeds from issuance of debt | 1,977 | — |
| Repurchase of debt | (2,003) | (651) |
| Proceeds from borrowings on ABL facility | — | 275 |
| Repayment of borrowings on ABL facility | — | (275) |
| Repayment of debt and finance leases | (50) | (46) |
| Payment for debt issuance costs | (15) | — |
| Change in bank overdrafts | 30 | 5 |
| Payment for tax withholdings for restricted shares | (12) | (13) |
| Other | 1 | (1) |
| Net cash used in financing activities from continuing operations | (72) | (706) |
| Cash flows from discontinued operations | | |
| Operating activities of discontinued operations | (11) | 31 |
| Investing activities of discontinued operations | 2 | 668 |
| Net cash provided by (used in) discontinued operations | (9) | 699 |
| Effect of exchange rates on cash, cash equivalents and restricted cash | 2 | (25) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (109) | 281 |
| Cash, cash equivalents and restricted cash, beginning of period | 470 | 273 |
| Cash, cash equivalents and restricted cash, end of period | 361 | 554 |
| Less: Cash, cash equivalents and restricted cash of discontinued operations, end of period | — | 187 |
| Cash, cash equivalents and restricted cash of continued operations, end of period | \$ 361 | \$ 367 |
| Supplemental disclosure of cash flow information | | |
| Leased assets obtained in exchange for new operating lease liabilities | \$ 80 | \$ 114 |
| Leased assets obtained in exchange for new finance lease liabilities | 52 | 15 |
| Cash paid for interest | 109 | 94 |
| Cash paid for income taxes | 36 | 64 |

See accompanying notes to condensed consolidated financial statements.

XPO, Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

| <i>(Shares in thousands, dollars in millions)</i> | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Equity |
|--|----------------|-------------|----------------------------|-------------------|--------------------------------------|-----------------|
| | Shares | Amount | | | | |
| Balance as of June 30, 2023 | 115,939 | \$ — | \$ 1,268 | \$ 43 | \$ (192) | \$ 1,119 |
| Net income | — | — | — | 84 | — | 84 |
| Other comprehensive loss | — | — | — | — | (22) | (22) |
| Exercise and vesting of stock compensation awards | 33 | — | — | — | — | — |
| Tax withholdings related to vesting of stock compensation awards | — | — | (2) | — | — | (2) |
| Stock compensation expense | — | — | 17 | — | — | 17 |
| Other | — | — | 1 | — | — | 1 |
| Balance as of September 30, 2023 | 115,972 | \$ — | \$ 1,284 | \$ 127 | \$ (214) | \$ 1,197 |

| <i>(Shares in thousands, dollars in millions)</i> | Common Stock | | Additional Paid-In Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Loss | Total Equity |
|--|----------------|-------------|----------------------------|---|--------------------------------------|-----------------|
| | Shares | Amount | | | | |
| Balance as of December 31, 2022 | 115,435 | \$ — | \$ 1,238 | \$ (4) | \$ (222) | \$ 1,012 |
| Net income | — | — | — | 131 | — | 131 |
| Other comprehensive income | — | — | — | — | 8 | 8 |
| Exercise and vesting of stock compensation awards | 537 | — | — | — | — | — |
| Tax withholdings related to vesting of stock compensation awards | — | — | (14) | — | — | (14) |
| Stock compensation expense | — | — | 58 | — | — | 58 |
| Other | — | — | 2 | — | — | 2 |
| Balance as of September 30, 2023 | 115,972 | \$ — | \$ 1,284 | \$ 127 | \$ (214) | \$ 1,197 |

XPO, Inc.
Condensed Consolidated Statements of Changes in Equity (continued)
(Unaudited)

| <i>(Shares in thousands, dollars in millions)</i> | Common Stock | | Additional Paid- In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Equity |
|--|----------------|-------------|--------------------------------|----------------------|---|-----------------|
| | Shares | Amount | | | | |
| Balance as of June 30, 2022 | 115,033 | \$ — | \$ 1,187 | \$ 672 | \$ (152) | \$ 1,707 |
| Net income | — | — | — | 131 | — | 131 |
| Other comprehensive loss | — | — | — | — | (60) | (60) |
| Exercise and vesting of stock compensation awards | 19 | — | — | — | — | — |
| Stock compensation expense | — | — | 8 | — | — | 8 |
| Balance as of September 30, 2022 | 115,052 | \$ — | \$ 1,195 | \$ 803 | \$ (212) | \$ 1,786 |
| | Common Stock | | | | | |
| | Shares | Amount | Additional Paid- In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Equity |
| Balance as of December 31, 2021 | 114,737 | \$ — | \$ 1,179 | \$ 43 | \$ (84) | \$ 1,138 |
| Net income | — | — | — | 760 | — | 760 |
| Other comprehensive loss | — | — | — | — | (128) | (128) |
| Exercise and vesting of stock compensation awards | 315 | — | — | — | — | — |
| Tax withholdings related to vesting of stock compensation awards | — | — | (13) | — | — | (13) |
| Stock compensation expense | — | — | 26 | — | — | 26 |
| Other | — | — | 3 | — | — | 3 |
| Balance as of September 30, 2022 | 115,052 | \$ — | \$ 1,195 | \$ 803 | \$ (212) | \$ 1,786 |

See accompanying notes to condensed consolidated financial statements.

XPO, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization, Description of Business and Basis of Presentation

XPO, Inc., together with its subsidiaries (“XPO,” “we” or the “Company”), is a leading provider of freight transportation services. We use our proprietary technology to move goods efficiently through our customers’ supply chains in North America and Europe. See Note 3—Segment Reporting for additional information on our operations.

2022 RXO Spin-Off and Intermodal Sale

On November 1, 2022, we completed the spin-off of RXO, Inc. (“RXO”), our tech-enabled brokered transportation platform as a publicly traded company (the “RXO spin-off”). The historical results of operations and the financial positions of RXO and our intermodal operation, which was sold in March 2022, are presented as discontinued operations in our Condensed Consolidated Financial Statements. For information on our discontinued operations, see Note 2—Discontinued Operations.

Basis of Presentation

We prepared our Condensed Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles (“GAAP”) and on the same basis as the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Form 10-K”). The interim reporting requirements of Form 10-Q allow certain information and note disclosures normally included in annual consolidated financial statements to be condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the 2022 Form 10-K.

The Condensed Consolidated Financial Statements are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair presentation of the financial condition, operating results and cash flows for the interim periods presented. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

In the first quarter of 2023, we made certain changes to our financial reporting to increase transparency and improve comparability. Specifically, we changed the expense captions within Operating income in the Condensed Consolidated Statements of Income to reflect the nature of the expense. The change to natural expense classification had no impact on consolidated Revenues or Operating income. We have recast prior period amounts to conform to the current year’s presentation.

Restricted Cash

As of September 30, 2023 and December 31, 2022, our restricted cash included in Other long-term assets on our Condensed Consolidated Balance Sheets was \$6 million and \$10 million, respectively.

Trade Receivables Securitization and Factoring Programs

We sell certain of our trade accounts receivable on a non-recourse basis to third-party financial institutions under factoring agreements. We also sell trade accounts receivable under a securitization program for our European transportation business. We use trade receivables securitization and factoring programs to help manage our cash flows and offset the impact of extended payment terms for some of our customers.

The maximum amount of net cash proceeds available at any one time under our securitization program, inclusive of any unsecured borrowings, is €200 million (approximately \$211 million as of September 30, 2023). As of September 30, 2023, €15 million (approximately \$16 million) was available under the program. The weighted average interest rate was 5.07% as of September 30, 2023. The program expires in July 2026.

Information related to the trade receivables sold was as follows:

| <i>(In millions)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|---|-------------|--|-------------|
| | 2023 | 2022 | 2023 | 2022 |
| Securitization programs | | | | |
| Receivables sold in period | \$ 452 | \$ 418 | \$ 1,362 | \$ 1,323 |
| Cash consideration | 452 | 418 | 1,362 | 1,323 |
| Factoring programs | | | | |
| Receivables sold in period | 23 | 31 | 81 | 75 |
| Cash consideration | 23 | 31 | 81 | 75 |

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The levels of inputs used to measure fair value are:

- Level 1—Quoted prices for identical instruments in active markets;
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and
- Level 3—Valuations based on inputs that are unobservable, generally utilizing pricing models or other valuation techniques that reflect management’s judgment and estimates.

We base our fair value estimates on market assumptions and available information. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and current maturities of long-term debt approximated their fair values as of September 30, 2023 and December 31, 2022 due to their short-term nature and/or being receivable or payable on demand. The Level 1 cash equivalents include money market funds valued using quoted prices in active markets and a cash deposit for the securitization program. For information on the fair value hierarchy of our derivative instruments, see Note 6—Derivative Instruments; and for further information on financial liabilities, see Note 7—Debt.

The fair value hierarchy of cash equivalents was as follows:

| <i>(In millions)</i> | Carrying Value | Fair Value | Level 1 |
|----------------------|-----------------------|-------------------|----------------|
| September 30, 2023 | \$ 305 | \$ 305 | \$ 305 |
| December 31, 2022 | 402 | 402 | 402 |

Adoption of New Accounting Standards

In March 2020, the FASB issued ASU 2020-04, “Reference rate reform (Topic 848): Facilitation of the effects of reference rate reform on financial reporting.” The ASU provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The amendments apply only to contracts and hedging relationships that reference London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued due to reference rate reform. The amendments are elective and are effective upon issuance. In December 2022, the FASB issued ASU 2022-06, “Reference rate reform (Topic 848): Deferral of the sunset date of Topic 848” which defers the expiration date for Topic 848 from December 31, 2022 until December 31, 2024. At December 31, 2022, our revolving loan credit agreement (the “ABL Facility”) and senior secured term loan credit agreement, as amended (the “Existing Term Loan Facility”), provided for an interest rate based on LIBOR. In 2023, we amended the terms of our ABL Facility and Existing Term Loan Facility, including transitioning the interest rate from LIBOR to other base rates. See Note 7—Debt for further information. We do not expect the modifications of these facilities to have a material impact on our consolidated financial statements.

2. Discontinued Operations

As discussed above, the results of RXO and our intermodal operation are presented as discontinued operations.

The following table summarizes the results of operations from discontinued operations:

| <i>(In millions)</i> | Three Months Ended September 30, | Nine Months Ended September 30, |
|--|---|--|
| | 2023 | 2022 |
| Revenue | \$ 1,137 | \$ 4,009 |
| Salaries, wages and employee benefits | 140 | 455 |
| Purchased transportation | 826 | 2,926 |
| Fuel, operating expenses and supplies | 76 | 267 |
| Operating taxes and licenses | 1 | 3 |
| Insurance and claims | 5 | 18 |
| Depreciation and amortization expense | 19 | 60 |
| (Gain) loss on sale of business | — | (434) |
| Transaction and other operating costs | 24 | 47 |
| Operating income | 46 | 667 |
| Income tax provision | 7 | 127 |
| Net income from discontinued operations | <u>\$ 39</u> | <u>\$ 540</u> |

For the three and nine months ended September 30, 2023, we incurred approximately \$9 million and \$49 million, respectively, of costs related to the RXO spin-off, of which \$1 million and \$5 million, respectively, are reflected within income (loss) from discontinued operations in our Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2022, we incurred approximately \$22 million and \$43 million, respectively, of costs related to the RXO spin-off, of which \$20 million and \$40 million, respectively, are reflected within income (loss) from discontinued operations in our Condensed Consolidated Statements of Income.

The supplemental disclosure of cash paid for income taxes on our Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 excludes \$67 million of cash taxes paid primarily related to the gain on the sale of our intermodal operation.

3. Segment Reporting

We are organized into two reportable segments: North American Less-Than-Truckload (“LTL”), the largest component of our business, and European Transportation.

In our asset-based North American LTL segment, we provide shippers with geographic density and day-definite domestic and cross-border services to the U.S., as well as Mexico, Canada and the Caribbean. Our North American LTL segment also includes the results of our trailer manufacturing operations.

In our European Transportation segment, we serve a large base of customers within the consumer, trade and industrial markets. We offer dedicated truckload, LTL, truck brokerage, managed transportation, last mile, freight forwarding and multimodal solutions, such as road-rail and road-short sea combinations.

Corporate includes corporate headquarters costs for executive officers and certain legal and financial functions, and other costs and credits not attributed to our reportable segments.

Table of Contents

Our chief operating decision maker (“CODM”) regularly reviews financial information at the operating segment level to allocate resources to the segments and to assess their performance. We include items directly attributable to a segment, and those that can be allocated on a reasonable basis, in segment results reported to the CODM. We do not provide asset information by segment to the CODM. Our CODM evaluates segment profit (loss) based on adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”), which we define as income from continuing operations before debt extinguishment loss, interest expense, income tax, depreciation and amortization expense, transaction and integration costs, restructuring costs and other adjustments. Segment Adjusted EBITDA has historically reflected an allocation of corporate costs. In the first quarter of 2023, we began allocating incremental corporate costs from Corporate to North American LTL. Prior periods have been recast to reflect these incremental allocations, which approximate \$80 million annually.

Selected financial data for our segments is as follows:

| <i>(in millions)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-----------------|---------------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue | | | | |
| North American LTL | \$ 1,228 | \$ 1,205 | \$ 3,484 | \$ 3,552 |
| European Transportation | 752 | 741 | 2,320 | 2,335 |
| Total | \$ 1,980 | \$ 1,946 | \$ 5,804 | \$ 5,887 |
| Adjusted EBITDA | | | | |
| North American LTL | \$ 241 | \$ 240 | \$ 631 | \$ 700 |
| European Transportation | 44 | 43 | 127 | 130 |
| Corporate | (7) | (21) | (26) | (95) |
| Total Adjusted EBITDA | 278 | 262 | 732 | 735 |
| Less: | | | | |
| Debt extinguishment loss | — | — | 23 | 26 |
| Interest expense | 41 | 35 | 126 | 103 |
| Income tax provision | 31 | 27 | 48 | 66 |
| Depreciation and amortization expense | 110 | 99 | 318 | 289 |
| Transaction and integration costs ⁽¹⁾ | 8 | 2 | 47 | 16 |
| Restructuring costs ⁽²⁾ | 1 | 7 | 35 | 15 |
| Other | 1 | — | 1 | — |
| Income from continuing operations | \$ 86 | \$ 92 | \$ 134 | \$ 220 |
| Depreciation and amortization expense | | | | |
| North American LTL | \$ 75 | 60 | \$ 214 | \$ 175 |
| European Transportation | 35 | 31 | 100 | 96 |
| Corporate | — | 8 | 4 | 18 |
| Total | \$ 110 | \$ 99 | \$ 318 | \$ 289 |

(1) Transaction and integration costs for the periods ended September 30, 2023 are primarily comprised of stock-based compensation and retention awards for certain employees related to strategic initiatives. Transaction and integration costs for the periods ended September 30, 2022 are primarily comprised of third-party professional fees related to strategic initiatives as well as retention awards paid to certain employees. Transaction and integration costs for the three months ended September 30, 2023 and 2022 include \$1 million and \$2 million, respectively, related to our European Transportation segment, and \$7 million and \$0 million, respectively, related to Corporate. Transaction and integration costs for the nine months ended September 30, 2023 and 2022 include \$0 million and \$2 million, respectively, related to our North American LTL segment, \$2 million and \$5 million, respectively, related to our European Transportation segment, and \$45 million and \$9 million, respectively, related to Corporate.

(2) See Note 5— Restructuring Charges for further information on our restructuring actions.

4. Revenue Recognition

Disaggregation of Revenues

Our revenue disaggregated by geographic area based on sales office location was as follows:

| <i>(In millions)</i> | Three Months Ended September 30, 2023 | | |
|--|---------------------------------------|-------------------------|-----------------|
| | North American LTL | European Transportation | Total |
| Revenue | | | |
| United States | \$ 1,202 | \$ — | \$ 1,202 |
| North America (excluding United States) | 26 | — | 26 |
| France | — | 309 | 309 |
| United Kingdom | — | 232 | 232 |
| Europe (excluding France and United Kingdom) | — | 211 | 211 |
| Total | <u>\$ 1,228</u> | <u>\$ 752</u> | <u>\$ 1,980</u> |

| <i>(In millions)</i> | Three Months Ended September 30, 2022 | | |
|--|---------------------------------------|-------------------------|-----------------|
| | North American LTL | European Transportation | Total |
| Revenue | | | |
| United States | \$ 1,179 | \$ — | \$ 1,179 |
| North America (excluding United States) | 26 | — | 26 |
| France | — | 313 | 313 |
| United Kingdom | — | 217 | 217 |
| Europe (excluding France and United Kingdom) | — | 211 | 211 |
| Total | <u>\$ 1,205</u> | <u>\$ 741</u> | <u>\$ 1,946</u> |

| <i>(In millions)</i> | Nine Months Ended September 30, 2023 | | |
|--|--------------------------------------|-------------------------|-----------------|
| | North American LTL | European Transportation | Total |
| Revenue | | | |
| United States | \$ 3,411 | \$ — | \$ 3,411 |
| North America (excluding United States) | 73 | — | 73 |
| France | — | 980 | 980 |
| United Kingdom | — | 682 | 682 |
| Europe (excluding France and United Kingdom) | — | 658 | 658 |
| Total | <u>\$ 3,484</u> | <u>\$ 2,320</u> | <u>\$ 5,804</u> |

| <i>(In millions)</i> | Nine Months Ended September 30, 2022 | | |
|--|--------------------------------------|-------------------------|-----------------|
| | North American LTL | European Transportation | Total |
| Revenue | | | |
| United States | \$ 3,476 | \$ — | \$ 3,476 |
| North America (excluding United States) | 76 | — | 76 |
| France | — | 1,017 | 1,017 |
| United Kingdom | — | 666 | 666 |
| Europe (excluding France and United Kingdom) | — | 652 | 652 |
| Total | <u>\$ 3,552</u> | <u>\$ 2,335</u> | <u>\$ 5,887</u> |

5. Restructuring Charges

We engage in restructuring actions as part of our ongoing efforts to best use our resources and infrastructure, including actions in connection with spin-offs and other divestment activities. These actions generally include severance and facility-related costs, including impairment of lease assets, as well as contract termination costs, and are intended to improve our efficiency and profitability.

Our restructuring-related activity was as follows:

| <i>(In millions)</i> | Reserve Balance as of December 31, 2022 | Nine Months Ended September 30, 2023 | | | Reserve Balance as of September 30, 2023 |
|-------------------------|---|--------------------------------------|----------------|----------------------------------|--|
| | | Charges Incurred | Payments | Foreign Exchange and Other | |
| Severance | | | | | |
| North American LTL | \$ 2 | \$ 4 | \$ (4) | \$ — | \$ 2 |
| European Transportation | 1 | 9 | (8) | — | 2 |
| Corporate | 19 | 16 | (24) | (1) | 10 |
| Total | \$ 22 | \$ 29 | \$ (36) | \$ (1) | \$ 14 |

In addition to the severance charges noted in the table above, we recorded a non-cash lease impairment charge of \$6 million in our North American LTL segment in the first quarter of 2023.

We expect that the majority of the cash outlays related to the severance charges incurred in the first nine months of 2023 will be completed within 12 months.

6. Derivative Instruments

In the normal course of business, we are exposed to risks arising from business operations and economic factors, including fluctuations in interest rates and foreign currencies. We use derivative instruments to manage the volatility related to these exposures. The objective of these derivative instruments is to reduce fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates and interest rates. These financial instruments are not used for trading or other speculative purposes. Historically, we have not incurred, and do not expect to incur in the future, any losses as a result of counterparty default.

The fair value of our derivative instruments and the related notional amounts were as follows:

| <i>(In millions)</i> | September 30, 2023 | | | | |
|----------------------------------|--------------------|-----------------------|---------------|---------------------------|---------------|
| | Notional Amount | Derivative Assets | | Derivative Liabilities | |
| | | Balance Sheet Caption | Fair Value | Balance Sheet Caption | Fair Value |
| Derivatives designated as hedges | | | | | |
| Cross-currency swap agreements | \$ 652 | Other current assets | \$ 3 | Other current liabilities | \$ (9) |
| Interest rate swaps | 700 | Other current assets | 1 | Other current liabilities | — |
| Total | | | <u>\$ 4</u> | | <u>\$ (9)</u> |

| December 31, 2022 | | | | | |
|----------------------------------|-----------------|------------------------|-------------|-----------------------------|----------------|
| <i>(In millions)</i> | Notional Amount | Derivative Assets | | Derivative Liabilities | |
| | | Balance Sheet Caption | Fair Value | Balance Sheet Caption | Fair Value |
| Derivatives designated as hedges | | | | | |
| Cross-currency swap agreements | \$ 332 | Other current assets | \$ — | Other current liabilities | \$ (11) |
| Cross-currency swap agreements | 68 | Other long-term assets | 3 | Other long-term liabilities | — |
| Interest rate swaps | 1,882 | Other current assets | — | Other current liabilities | (1) |
| Total | | | \$ 3 | | \$ (12) |

The derivatives are classified as Level 2 within the fair value hierarchy. The derivatives are valued using inputs other than quoted prices, such as foreign exchange rates and yield curves.

The effect of derivative and nonderivative instruments designated as hedges on our Condensed Consolidated Statements of Income was as follows:

| <i>(In millions)</i> | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives | | Amount of Gain Reclassified from AOCI into Net Income | | Amount of Gain Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing) | |
|---|--|--------------|---|-------------|--|-------------|
| | Three Months Ended September 30, | | | | | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Derivatives designated as cash flow hedges | | | | | | |
| Interest rate swaps | \$ (1) | \$ — | \$ 1 | \$ — | \$ — | \$ — |
| Derivatives designated as net investment hedges | | | | | | |
| Cross-currency swap agreements | 20 | 25 | — | — | 2 | 1 |
| Total | \$ 19 | \$ 25 | \$ 1 | \$ — | \$ 2 | \$ 1 |

| <i>(In millions)</i> | Amount of Gain Recognized in Other Comprehensive Income (Loss) on Derivatives | | Amount of Gain Reclassified from AOCI into Net Income | | Amount of Gain Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing) | |
|---|---|--------------|---|-------------|--|-------------|
| | Nine Months Ended September 30, | | | | | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Derivatives designated as cash flow hedges | | | | | | |
| Interest rate swaps | \$ 1 | \$ 5 | \$ 2 | \$ — | \$ — | \$ — |
| Derivatives designated as net investment hedges | | | | | | |
| Cross-currency swap agreements | 7 | 62 | — | — | 6 | 5 |
| Total | \$ 8 | \$ 67 | \$ 2 | \$ — | \$ 6 | \$ 5 |

Cross-Currency Swap Agreements

We enter into cross-currency swap agreements to manage the foreign currency exchange risk related to our international operations by effectively converting our fixed-rate USD-denominated debt, including the associated interest payments, to fixed-rate, euro (“EUR”)–denominated debt. The risk management objective of these transactions is to manage foreign currency risk relating to net investments in subsidiaries denominated in foreign currencies and reduce the variability in the functional currency equivalent cash flows of this debt.

During the term of the swap contracts, we will receive interest on a quarterly basis from the counterparties based on USD fixed interest rates, and we will pay interest, also on a quarterly basis, to the counterparties based on EUR fixed interest rates. At maturity, we will repay the original principal amount in EUR and receive the principal amount in USD. These agreements expire at various dates through 2024.

We designated these cross-currency swaps as qualifying hedging instruments and account for them as net investment hedges. We apply the simplified method of assessing the effectiveness of our net investment hedging relationships. Under this method, for each reporting period, the change in the fair value of the cross-currency swaps is initially recognized in Accumulated other comprehensive income (“AOCI”). The change in the fair value due to foreign exchange remains in AOCI and the initial component excluded from effectiveness testing will initially remain in AOCI and then will be reclassified from AOCI to Interest expense each period in a systematic manner. Cash flows related to the periodic exchange of interest payments for these net investment hedges are included in Cash flows from operating activities of continuing operations on our Condensed Consolidated Statements of Cash Flows.

During the first nine months of 2023 and 2022, we received approximately \$2 million and \$29 million, respectively, related to cross-currency swaps that were settled during the period. The proceeds were included in Cash flows from investing activities of continuing operations on our Condensed Consolidated Statements of Cash Flows.

Interest Rate Hedging

We execute short-term interest rate swaps to mitigate variability in forecasted interest payments on our Senior Secured Term Loan Credit Agreement. The interest rate swaps convert floating-rate interest payments into fixed rate interest payments. We designated the interest rate swaps as qualifying hedging instruments and account for these derivatives as cash flow hedges. The outstanding interest rate swap matures in the fourth quarter of 2023.

We record gains and losses resulting from fair value adjustments to the designated portion of interest rate swaps in AOCI and reclassify them to Interest expense on the dates that interest payments accrue. Cash flows related to the interest rate swaps are included in Cash flows from operating activities of continuing operations on our Condensed Consolidated Statements of Cash Flows.

7. Debt

| <i>(In millions)</i> | September 30, 2023 | | December 31, 2022 | |
|--|--------------------|-----------------|-------------------|-----------------|
| | Principal Balance | Carrying Value | Principal Balance | Carrying Value |
| Term loan facility | \$ 700 | \$ 692 | \$ 2,003 | \$ 1,981 |
| 6.25% senior notes due 2025 | 112 | 112 | 112 | 111 |
| 6.25% senior secured notes due 2028 | 830 | 821 | — | — |
| 7.125% senior notes due 2031 | 450 | 445 | — | — |
| 6.70% senior debentures due 2034 | 300 | 220 | 300 | 217 |
| Finance leases, asset financing and other | 223 | 223 | 223 | 223 |
| Total debt | 2,615 | 2,513 | 2,638 | 2,532 |
| Short-term borrowings and current maturities of long-term debt | 66 | 66 | 59 | 59 |
| Long-term debt | \$ 2,549 | \$ 2,447 | \$ 2,579 | \$ 2,473 |

The fair value of our debt and classification in the fair value hierarchy was as follows:

| <i>(In millions)</i> | Fair Value | Level 1 | Level 2 |
|----------------------|------------|----------|---------|
| September 30, 2023 | \$ 2,574 | \$ 1,655 | \$ 919 |
| December 31, 2022 | 2,601 | 392 | 2,209 |

We valued Level 1 debt using quoted prices in active markets. We valued Level 2 debt using bid evaluation pricing models or quoted prices of securities with similar characteristics.

ABL Facility

As of September 30, 2023, our borrowing base was \$590 million and our availability under our revolving loan credit agreement (the “ABL Facility”) was \$589 million after considering outstanding letters of credit of less than \$1 million. As of September 30, 2023, we were in compliance with the ABL Facility’s financial covenants.

In February 2023, we amended our ABL Facility to, among other things: (i) extend the maturity date to April 30, 2026 (subject, in certain circumstances, to a springing maturity if more than \$250 million of our existing term loan debt or certain refinancings thereof remain outstanding 91 days prior to their respective maturity dates); (ii) replace LIBOR-based benchmark rates applicable to loans outstanding with Secured Overnight Financing Rate-based rates; (iii) reduce the sublimit for issuance of letters of credit to \$200 million; (iv) reduce the sublimit for borrowings in Canadian Dollars to \$50 million; (v) exclude real property from the collateral securing the obligations and (vi) make certain other changes to the covenants and other provisions therein. The aggregate commitment of all lenders under the amended ABL Facility remains \$600 million.

Letters of Credit Facility

As of September 30, 2023, we had issued \$139 million in aggregate face amount of letters of credit under our \$200 million uncommitted secured evergreen letter of credit facility.

Term Loan Facility

In 2015, we entered into a Term Loan Credit Agreement that provided for a single borrowing of \$1.6 billion, which was subsequently amended to increase the principal balance to \$2.0 billion and to extend the maturity date to February 2025 (the “Existing Term Loan Facility”).

In May 2023, we amended the Term Loan Credit Agreement to obtain \$700 million of new term loans (the “New Term Loan Facility”) having substantially similar terms as the Existing Term Loan Facility, except with respect to maturity date, issue price, interest rate, prepayment premiums in connection with certain voluntary prepayments and certain other provisions. The New Term Loan Facility was issued at 99.5% of the face amount and will mature on May 24, 2028.

The New Term Loan Facility will bear interest at a rate per annum equal to, at our option, either (a) a Term Secured Overnight Financing (“SOFR”) rate (subject to a 0.00% floor) or (b) a base rate (subject to a 0.00% floor), in each case, plus an applicable margin of 2.00% for Term SOFR loans or 1.00% for base rate loans. The interest rate was 7.32% as of September 30, 2023.

In the second quarter of 2023, we used net proceeds from the New Term Loan Facility and new Senior Notes, as described below, together with cash on hand, to repay \$2.0 billion of outstanding principal under the Existing Term Loan Facility and to pay related fees, expenses and accrued interest. We recorded a debt extinguishment loss of \$23 million in the first nine months of 2023 due to this redemption.

Senior Notes Due 2028 and 2031

In May 2023, we completed private placements of \$830 million aggregate principal amount of senior secured notes due 2028 (the “Senior Secured Notes due 2028”) and \$450 million aggregate principal amount of senior notes due 2031 (the “Senior Notes due 2031” and together with the Senior Secured Notes due 2028, the “Senior Notes”). The Senior Secured Notes due 2028 mature on June 1, 2028 and bear interest at a rate of 6.25% per annum. The Senior Notes due 2031 mature on June 1, 2031 and bear interest at a rate of 7.125% per annum. Interest on the Senior Notes is payable semi-annually in cash in arrears, commencing December 1, 2023. The Senior Notes were issued at par and were used to repay our Existing Term Loan Facility as described above.

The Senior Notes are guaranteed by each of our direct and indirect wholly-owned restricted subsidiaries (other than certain excluded subsidiaries) that are obligors under, or guarantee obligations under, our existing secured ABL Facility or the Term Loan Credit Agreement (or certain replacements thereof) or guarantee certain of our other indebtedness.

The Senior Secured Notes due 2028 and the guarantees thereof are secured by substantially all of our assets and our guarantors equally and ratably with the indebtedness under the Term Loan Credit Agreement (subject to permitted

liens and certain other exceptions). The Senior Notes due 2031 and the guarantees thereof are unsecured, unsubordinated indebtedness for us and our guarantors.

The Senior Notes contain covenants and events of default customary for notes of this nature. If the Senior Secured Notes due 2028 and the Company are each assigned investment grade ratings from at least two of the major rating agencies and no default has occurred, then certain covenant requirements will permanently cease to be in effect, and the collateral, security interests, and guarantees securing the Senior Secured Notes due 2028 will automatically be released.

Senior Notes Due 2025

In the second quarter of 2022, we redeemed \$630 million of the then \$1.15 billion outstanding principal amount of our 6.25% senior notes due 2025 (“Senior Notes due 2025”). The redemption price for the notes was 100% of the principal amount plus a premium, as defined in the indenture, of approximately \$21 million and accrued and unpaid interest. We paid for the redemption using available liquidity. We recorded a debt extinguishment loss of \$26 million in the first nine months of 2022 due to this redemption.

In the fourth quarter of 2022, we repurchased an additional \$408 million of the outstanding principal amount of our Senior Notes due 2025 in a cash tender offer.

8. Earnings (Loss) per Share

The computations of basic and diluted earnings per share were as follows:

| <i>(In millions, except per share data)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income from continuing operations attributable to common shares | \$ 86 | \$ 92 | \$ 134 | \$ 220 |
| Net income (loss) from discontinued operations, net of amounts attributable to noncontrolling interest | (2) | 39 | (3) | 540 |
| Net income attributable to common shares, basic | <u>\$ 84</u> | <u>\$ 131</u> | <u>\$ 131</u> | <u>\$ 760</u> |
| Basic weighted-average common shares | 116 | 115 | 116 | 115 |
| Dilutive effect of stock-based awards | 3 | 1 | 2 | 1 |
| Diluted weighted-average common shares | 119 | 116 | 118 | 116 |
| Basic earnings from continuing operations per share | \$ 0.74 | \$ 0.80 | \$ 1.16 | \$ 1.92 |
| Basic earnings (loss) from discontinued operations per share | (0.01) | 0.34 | (0.02) | 4.69 |
| Basic earnings per share | <u>\$ 0.73</u> | <u>\$ 1.14</u> | <u>\$ 1.14</u> | <u>\$ 6.61</u> |
| Diluted earnings from continuing operations per share | \$ 0.72 | \$ 0.79 | \$ 1.14 | \$ 1.91 |
| Diluted earnings (loss) from discontinued operations per share | (0.01) | 0.34 | (0.02) | 4.66 |
| Diluted earnings per share | <u>\$ 0.71</u> | <u>\$ 1.13</u> | <u>\$ 1.12</u> | <u>\$ 6.57</u> |

9. Commitments and Contingencies

We are involved, and expect to continue to be involved, in numerous proceedings arising out of the conduct of our business. These proceedings may include claims for property damage or personal injury incurred in connection with the transportation of freight, environmental liability, commercial disputes, insurance coverage disputes and employment-related claims, including claims involving asserted breaches of employee restrictive covenants.

We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. We review and adjust accruals for loss contingencies quarterly

and as additional information becomes available. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred. If there is a reasonable possibility that a loss, or additional loss, may have been incurred, we disclose the estimate of the possible loss or range of loss if it is material and an estimate can be made, or disclose that such an estimate cannot be made. The determination as to whether a loss can reasonably be considered to be possible or probable is based on our assessment, together with legal counsel, regarding the ultimate outcome of the matter.

We believe that we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable. We do not believe that the ultimate resolution of any matters to which we are presently a party will have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, results of operations or cash flows. Legal costs incurred related to these matters are expensed as incurred.

We carry liability and excess umbrella insurance policies that we deem sufficient to cover potential legal claims arising in the normal course of conducting our operations as a transportation company. In the event we are required to satisfy a legal claim outside the scope of the coverage provided by insurance, our financial condition, results of operations or cash flows could be negatively impacted.

Insurance Contribution Litigation

In April 2012, Allianz Global Risks US Insurance Company sued eighteen insurance companies in a case captioned Allianz Global Risks US Ins. Co. v. ACE Property & Casualty Ins. Co., et al., Multnomah County Circuit Court (Case No. 1204-04552). Allianz Global Risks US Ins. Co. (“Allianz”) sought contribution on environmental and product liability claims that Allianz agreed to defend and indemnify on behalf of its insured, Daimler Trucks North America (“DTNA”). Defendants had insured Freightliner’s assets, which DTNA acquired in 1981. Con-way, Freightliner’s former parent company, intervened. We acquired Con-way in 2015. Con-way and Freightliner had self-insured under fronting agreements with defendant insurers ACE, Westport, and General. Under those agreements, Con-way agreed to indemnify the fronting carriers for damages assessed under the fronting policies. Con-way’s captive insurer, Centron, was also a named defendant. After a seven-week jury trial in 2014, the jury found that Con-way and the fronting insurers never intended that the insurers defend or indemnify any claims against Freightliner. In June 2015, Allianz appealed to the Oregon Court of Appeals. In May 2019, the Oregon Court of Appeals upheld the jury verdict. In September 2019, Allianz appealed to the Oregon Supreme Court. In March 2021, the Oregon Supreme Court reversed the jury verdict, holding that it was an error to allow the jury to decide how the parties intended the fronting policies to operate, and also holding that the trial court improperly instructed the jury concerning one of the pollution exclusions at issue. In July 2021, the matter was remanded to the trial court for further proceedings consistent with the Oregon Supreme Court’s decision. In June 2023, the trial court decided the parties’ cross-motions for summary judgment, leaving open the pollution exclusion and allocation issues. The trial on the pollution exclusion issue is scheduled to take place in the spring of 2024, and the trial on allocation of defense costs among the applicable insurance policies is set for the fall of 2024. We have accrued an immaterial amount for the potential exposure associated with Centron in the bench trial regarding allocation. As any losses that may arise in connection with the fronting policies issued by defendant insurers ACE, Westport, and General are not reasonably estimable at this time, no liability has been accrued in the accompanying interim consolidated financial statements for those potential exposures.

California Environmental Matters

In August 2022, the Company received a letter from the San Bernardino County District Attorney’s Office, written in cooperation with certain other California District Attorneys and the Los Angeles City Attorney, notifying the Company of an investigation into alleged violations with respect to underground storage tanks, hazardous materials, and hazardous waste in California, and offering a meeting. The Company has met with the County attorneys and the Los Angeles City Attorney on multiple occasions. We are assessing the allegations and the underlying facts, and continue to engage with the County and Los Angeles City Attorneys to address the alleged violations. No discussion of potential monetary sanctions or settlement amount has occurred to date, nor can we reasonably estimate potential costs at this time.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and other written reports and oral statements we make from time to time contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). 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 the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual future results, levels of activity, performance or achievements to be materially different from our expected 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 those discussed below and the risks discussed in the Company’s other filings with the Securities and Exchange Commission (the “SEC”). All forward-looking statements set forth in this Quarterly Report on Form 10-Q are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The following discussion should be read in conjunction with the Company’s unaudited Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and with the audited consolidated financial statements and related notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Form 10-K”). Forward-looking statements set forth in this Quarterly Report on Form 10-Q 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.

Executive Summary

XPO, Inc., together with its subsidiaries (“XPO,” “we” or the “Company”), is a leading provider of freight transportation services with company-specific avenues for value creation. We use our proprietary technology to move goods efficiently through our customers’ supply chains in North America and Europe. As of September 30, 2023, we had approximately 38,000 employees and 563 locations in 17 countries serving approximately 50,000 customers.

Our company has two reportable segments: North American Less-Than-Truckload (“LTL”), the largest component of our business, and European Transportation. Our North American LTL segment includes the results of our trailer manufacturing operations.

In the first quarter of 2023, we made certain changes to our financial reporting to increase transparency and improve comparability. Specifically, we changed the expense captions within Operating income in the Condensed Consolidated Statements of Income to reflect the nature of the expense. The change to natural expense classification had no impact on consolidated Revenues or Operating income. We have recast prior period amounts to conform to the current year’s presentation.

North American Less-Than-Truckload Segment

LTL in North America is a bedrock industry providing a critical service to the economy, with favorable pricing dynamics and a stable competitive landscape. We have one of the largest LTL networks in North America, with approximately 8% share of the \$59 billion U.S. market as of December 31, 2022.

During the third quarter of 2023, one of our LTL competitors ceased operations and filed for bankruptcy. This caused a disruption between supply and demand in the industry, leading to more freight volume and shipments going to the remaining market participants, including XPO.

Our LTL sales and service professionals and network of drivers, tractors, trailers and terminals serve approximately 30,000 customers in North America. We provide shippers with critical geographic density and day-definite domestic and cross-border services to approximately 99% of U.S. zip codes, as well as Mexico, Canada and the Caribbean. Together, our capacity and reach give us the ability to manage large freight volumes efficiently and balance our network to leverage fixed costs. For the trailing 12 months ended September 30, 2023, we delivered approximately 18 billion pounds of freight.

Importantly, our LTL business historically has generated a high return on invested capital and robust free cash flow. This supports our ongoing investments in the expansion of our network capacity and the enhancement of our proprietary technology. We are managing the business to specific objectives, such as high customer service scores for on-time delivery and damage-free freight, the optimal sourcing of linehaul transportation, and the addition of 900 net new doors to our terminal footprint by the first half of 2024 from an October 2021 baseline. Since implementing our LTL 2.0 growth plan in the fourth quarter of 2021, we added 531 net new doors to our network, including six terminals.

Additionally, we are continuing to execute a host of initiatives that are specific to XPO and largely independent of the macroeconomic environment. We produced 4,705 trailers at our in-house trailer manufacturing facility in 2022, nearly doubling the 2021 output. Our goal is to produce more than 6,000 trailers in 2023. We are also investing in expanding the number of drivers trained at our 130 commercial driver schools. Our in-house trailer manufacturing and driver schools are examples of idiosyncratic, self-reliant capabilities that are advantageous to XPO, particularly when industry constraints on equipment or drivers exist.

Specific to our technology, we believe we have a large opportunity to drive further growth and profitability in our LTL network through innovation. For further information, see the “Technology and Sustainability” section below.

European Transportation Segment

XPO has a unique pan-European transportation platform with leading positions in key geographies: we are the #1 full truckload broker and the #1 pallet network (LTL) provider in France; the #1 full truckload broker and the #1 LTL provider in Iberia (Spain and Portugal); and a top-tier dedicated truckload provider in the U.K., where we also have the largest single-owner LTL network. We serve a large base of customers within the consumer, trade and industrial markets, including many sector leaders that have long-tenured relationships with us.

Our range of services in Europe encompasses dedicated truckload, LTL, truck brokerage, managed transportation, last mile, freight forwarding and, increasingly, multimodal solutions, such as road-rail and road-short sea combinations that we tailor to customer needs. Our operators use our proprietary XPO Connect[®] technology to manage these services within our digital ecosystem in Europe.

Technology and Sustainability

One of the ways in which we deliver superior service to our customers is by empowering our employees with technology. Our industry is evolving, and customers want to de-risk their supply chains by forming relationships with reliable service providers that have invested in innovation.

We have built a highly scalable ecosystem on the cloud that deploys our software consistently across our operating footprint. In our North American LTL business, the caliber of our technology is mission-critical to our success; it optimizes linehaul, pickup-and-delivery and pricing — the main components of the service we provide. An LTL network of our scale has hundreds of thousands of activities underway at any given time, all managed on our technology. For the trailing 12 months ended September 30, 2023, we moved 18 billion pounds of freight 790 million miles, including moving linehaul freight an average of 2.6 million miles a day.

With intelligent route-building, we can reduce empty miles in our linehaul network, improve load factor and mitigate cargo damage. Our proprietary bypass models make recommendations to enhance trailer utilization, assimilating massive amounts of data and taking volume, density, and freight dimensions into account. We use our

real-time visualization tools to reduce costs with pickups and deliveries and developed a robust pricing platform for contractual account management and automated, dynamic pricing for local accounts.

Importantly, our technology also helps our company meet its environmental, social and governance (“ESG”) goals, such as a reduction in our carbon footprint, and can help our customers meet their own goals. For a detailed discussion of our philosophy relating to innovation and ESG matters, see the Company Overview included in our 2022 Form 10-K, as well as our current Sustainability Report at sustainability.xpo.com.

Consolidated Summary Financial Table

| | Three Months Ended September 30, | | Percent of Revenue | | Change | Nine Months Ended September 30, | | Percent of Revenue | | Change |
|--|----------------------------------|---------------|--------------------|--------------|----------------|---------------------------------|---------------|--------------------|---------------|----------------|
| | 2023 | 2022 | 2023 | 2022 | | 2023 | 2022 | 2023 | 2022 | |
| | <i>(Dollars in millions)</i> | | | | | | | | | |
| Revenue | \$ 1,980 | \$ 1,946 | 100.0 % | 100.0 % | 1.7 % | \$ 5,804 | \$ 5,887 | 100.0 % | 100.0 % | (1.4)% |
| Salaries, wages and employee benefits | 809 | 739 | 40.9 % | 38.0 % | 9.5 % | 2,354 | 2,216 | 40.6 % | 37.6 % | 6.2 % |
| Purchased transportation | 437 | 480 | 22.1 % | 24.7 % | (9.0)% | 1,338 | 1,515 | 23.1 % | 25.7 % | (11.7)% |
| Fuel, operating expenses and supplies | 406 | 425 | 20.5 % | 21.8 % | (4.5)% | 1,223 | 1,277 | 21.1 % | 21.7 % | (4.2)% |
| Operating taxes and licenses | 15 | 15 | 0.8 % | 0.8 % | — % | 45 | 44 | 0.8 % | 0.7 % | 2.3 % |
| Insurance and claims | 39 | 41 | 2.0 % | 2.1 % | (4.9)% | 129 | 145 | 2.2 % | 2.5 % | (11.0)% |
| (Gains) losses on sales of property and equipment | 1 | (1) | 0.1 % | (0.1)% | (200.0)% | (4) | (3) | (0.1)% | (0.1)% | 33.3 % |
| Depreciation and amortization expense | 110 | 99 | 5.6 % | 5.1 % | 11.1 % | 318 | 289 | 5.5 % | 4.9 % | 10.0 % |
| Transaction and integration costs | 8 | 2 | 0.4 % | 0.1 % | 300.0 % | 47 | 16 | 0.8 % | 0.3 % | 193.8 % |
| Restructuring costs | 1 | 7 | 0.1 % | 0.4 % | (85.7)% | 35 | 15 | 0.6 % | 0.3 % | 133.3 % |
| Operating income | 154 | 139 | 7.8 % | 7.1 % | 10.8 % | 319 | 373 | 5.5 % | 6.3 % | (14.5)% |
| Other income | (4) | (15) | (0.2)% | (0.8)% | (73.3)% | (12) | (42) | (0.2)% | (0.7)% | (71.4)% |
| Debt extinguishment loss | — | — | — % | — % | — % | 23 | 26 | 0.4 % | 0.4 % | (11.5)% |
| Interest expense | 41 | 35 | 2.1 % | 1.8 % | 17.1 % | 126 | 103 | 2.2 % | 1.7 % | 22.3 % |
| Income from continuing operations before income tax provision | 117 | 119 | 5.9 % | 6.1 % | (1.7)% | 182 | 286 | 3.1 % | 4.9 % | (36.4)% |
| Income tax provision | 31 | 27 | 1.6 % | 1.4 % | 14.8 % | 48 | 66 | 0.8 % | 1.1 % | (27.3)% |
| Income from continuing operations | 86 | 92 | 4.3 % | 4.7 % | (6.5)% | 134 | 220 | 2.3 % | 3.7 % | (39.1)% |
| Income (loss) from discontinued operations, net of taxes | (2) | 39 | (0.1)% | 2.0 % | (105.1)% | (3) | 540 | (0.1)% | 9.2 % | (100.6)% |
| Net income | \$ 84 | \$ 131 | 4.2 % | 6.7 % | (35.9)% | \$ 131 | \$ 760 | 2.3 % | 12.9 % | (82.8)% |

Three and Nine Months Ended September 30, 2023 Compared with Three and Nine Months Ended September 30, 2022

Our consolidated revenue for the third quarter of 2023 increased 1.7% to \$2.0 billion, compared with the same quarter in 2022. Our consolidated revenue for the first nine months of 2023 decreased 1.4% to \$5.8 billion, compared with the same period in 2022. The increase in revenue in the third quarter of 2023 compared to the same period in 2022 reflects the dynamics in the North American LTL industry described in the segment results below, partially offset by a decline in fuel surcharge revenue. The decrease in revenue in the first nine months of 2023 compared to the same period in 2022 reflects a decline in fuel surcharge revenue, due primarily to lower diesel

prices. Foreign currency movement increased revenue by approximately 2.9 percentage points in the third quarter of 2023 and by approximately 0.3 percentage points in the first nine months of 2023.

Salaries, wages and employee benefits includes compensation-related costs for our employees, including salaries, wages, incentive compensation, healthcare-related costs and payroll taxes, and covers drivers and dockworkers, operations and facility workers and employees in support roles and other positions. Salaries, wages and employee benefits for the third quarter of 2023 was \$809 million, or 40.9% of revenue, compared with \$739 million, or 38.0% of revenue, for the same quarter in 2022. Salaries, wages and employee benefits for the first nine months of 2023 was \$2.4 billion, or 40.6% of revenue, compared with \$2.2 billion, or 37.6% of revenue, for the same period in 2022. The year-over-year increase as a percentage of revenue in both periods primarily reflects the impact of higher incentive compensation related to our operating performance, inflation on our cost base, foreign currency impacts, and the insourcing of a greater proportion of linehaul from third-party transportation providers, partially offset by improvements in productivity.

Purchased transportation includes costs of procuring third-party freight transportation. Purchased transportation for the third quarter of 2023 was \$437 million, or 22.1% of revenue, compared with \$480 million, or 24.7% of revenue, for the same quarter in 2022. Purchased transportation for the first nine months of 2023 was \$1.3 billion, or 23.1% of revenue, compared with \$1.5 billion, or 25.7% of revenue, for the same period in 2022. The year-over-year decrease as a percentage of revenue in both periods primarily reflects lower rates paid to third-party providers for purchased transportation miles and the insourcing of a greater proportion of linehaul from third-party transportation providers.

Fuel, operating expenses and supplies includes the cost of fuel purchased for use in our vehicles as well as related taxes, maintenance and lease costs for our equipment, including tractors and trailers, costs related to operating our owned and leased facilities, bad debt expense, third-party professional fees, information technology expenses and supplies expense. Fuel, operating expenses and supplies for the third quarter of 2023 was \$406 million, or 20.5% of revenue, compared with \$425 million, or 21.8% of revenue, for the same quarter in 2022. Fuel, operating expenses and supplies for the first nine months of 2023 was \$1.2 billion, or 21.1% of revenue, compared with \$1.3 billion, or 21.7% of revenue, for the same period in 2022. The year-over-year decrease in both periods primarily reflects lower fuel and temporary labor costs, as well as lower purchased services during the nine-month period, partially offset by higher lease and facility costs.

Operating taxes and licenses includes tax expenses related to our vehicles and our owned and leased facilities as well as license expenses to operate our vehicles. Operating taxes and licenses for the third quarter of 2023 was \$15 million, compared with \$15 million for the same quarter in 2022. Operating taxes and licenses for the first nine months of 2023 was \$45 million, compared with \$44 million for the same period in 2022.

Insurance and claims includes costs related to vehicular and cargo claims for both purchased insurance and self-insurance programs. Insurance and claims for the third quarter of 2023 was \$39 million, compared with \$41 million for the same quarter in 2022. Insurance and claims for the first nine months of 2023 was \$129 million, compared with \$145 million for the same period in 2022. The year-over-year decrease in both periods reflects lower expense due to improved operating performance related to damaged shipments.

Depreciation and amortization expense for the third quarter of 2023 was \$110 million, compared with \$99 million for the same quarter in 2022. Depreciation and amortization expense for the first nine months of 2023 was \$318 million, compared with \$289 million for the same period in 2022. The year-over-year increase in both periods reflects the impact of capital investments, in particular tractors and trailers.

Transaction and integration costs for the third quarter of 2023 were \$8 million, compared with \$2 million for the same quarter in 2022. Transaction and integration costs for the first nine months of 2023 were \$47 million, compared with \$16 million for the same period in 2022. Transaction and integration costs for the third quarter and first nine months of 2023 are primarily comprised of stock-based compensation and retention awards for certain employees related to strategic initiatives. Transaction and integration costs for the third quarter and first nine months of 2022 are primarily comprised of third-party professional fees related to strategic initiatives as well as retention awards paid to certain employees. We expect to incur additional transaction and integration costs related to stock-based compensation in 2023 and 2024.

Restructuring costs for the third quarter of 2023 were \$1 million, compared with \$7 million for the same quarter in 2022. Restructuring costs for the first nine months of 2023 were \$35 million, compared with \$15 million for the same period in 2022. We engage in restructuring actions as part of our ongoing efforts to best use our resources and infrastructure, including actions in connection with spin-offs and other divestment activities. For more information, see Note 5—Restructuring Charges to our Condensed Consolidated Financial Statements.

Other income primarily consists of pension income. Other income for the third quarter of 2023 was \$4 million, compared with \$15 million for the same quarter in 2022. Other income for the first nine months of 2023 was \$12 million, compared with \$42 million for the same period in 2022. The year-over-year decrease in both periods reflects lower net periodic pension income in 2023 primarily due to a rise in interest rates and a lower expected return on plan assets.

Debt extinguishment loss was \$23 million for the first nine months of 2023, compared with \$26 million for the same period in 2022. There was no debt extinguishment loss in the third quarter of 2023 and 2022. In the second quarter of 2023, we refinanced our Existing Term Loan Facility (as defined below) and wrote-off \$12 million of debt issuance costs related to debt extinguished. Additionally, in the second quarter of 2023, we expensed \$11 million of new debt issuance costs related to the portion of the New Term Loan Facility and Senior Notes (both as defined below) accounted for as a modification. In the second quarter of 2022, we redeemed a portion of our outstanding 6.25% senior notes due 2025 (“Senior Notes due 2025”) and wrote-off related debt issuance costs.

Interest expense increased to \$41 million for the third quarter of 2023 from \$35 million for the third quarter of 2022. Interest expense increased to \$126 million for the first nine months of 2023 from \$103 million for the first nine months of 2022. The increase in both periods is primarily due to higher prevailing interest rates, partially offset by the impact of the retirement of \$1.1 billion of our Senior Notes due 2025 in 2022 as well as higher interest income.

Our effective income tax rates were 27.0% and 22.5% for the third quarter of 2023 and 2022, respectively, and 26.4% and 23.0% for the first nine months of 2023 and 2022, respectively. The effective tax rates for the third quarter and nine-month periods of 2023 and 2022 were based on forecasted full-year effective tax rates, adjusted for discrete items that occurred within the periods presented. The increase in our effective income tax rate for the third quarter of 2023 compared to the same quarter of 2022 was primarily driven by forecasted non-deductible executive compensation expense, partially offset by a tax benefit of \$1 million from return to provision adjustments. The primary items impacting the effective tax rate for the third quarter of 2022 were tax benefits of \$1 million from revaluing deferred state taxes and \$1 million from state tax initiatives.

The increase in our effective income tax rate for the first nine months of 2023 compared to the same period in 2022 was primarily driven by forecasted non-deductible executive compensation expense as well as tax expense of \$1 million from uncertain tax positions, partially offset by tax benefits of \$3 million from revaluing deferred state taxes and \$2 million from return to provision adjustments. The primary items impacting the effective tax rate for the first nine months of 2022 were tax benefits of \$3 million from stock-based compensation, \$1 million from revaluing deferred state taxes and \$1 million from state tax initiatives.

Segment Financial Results

Our chief operating decision maker (“CODM”) regularly reviews financial information at the operating segment level to allocate resources to the segments and to assess their performance. Our CODM evaluates segment profit (loss) based on adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”), which we define as income from continuing operations before debt extinguishment loss, interest expense, income tax, depreciation and amortization expense, transaction and integration costs, restructuring costs and other adjustments. Segment Adjusted EBITDA has historically reflected an allocation of corporate costs. In the first quarter of 2023, we began allocating incremental corporate costs from Corporate to North American LTL. Prior periods have been recast to reflect these incremental allocations, which approximate \$80 million annually. See Note 3—Segment Reporting to our Condensed Consolidated Financial Statements for further information and a reconciliation of Adjusted EBITDA to Income from continuing operations.

North American Less-Than-Truckload Segment

| | Three Months Ended September 30, | | Percent of Revenue | | Change | Nine Months Ended September 30, | | Percent of Revenue | | Change |
|--------------------------------------|----------------------------------|----------|--------------------|---------|---------------|---------------------------------|----------|--------------------|---------|---------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 vs. 2022 | 2023 | 2022 | 2023 | 2022 | 2023 vs. 2022 |
| | <i>(Dollars in millions)</i> | | | | | | | | | |
| Revenue | \$ 1,228 | \$ 1,205 | 100.0 % | 100.0 % | 1.9 % | \$ 3,484 | \$ 3,552 | 100.0 % | 100.0 % | (1.9)% |
| Adjusted EBITDA | 241 | 240 | 19.6 % | 19.9 % | 0.4 % | 631 | 700 | 18.1 % | 19.7 % | (9.9)% |
| Depreciation and amortization | 75 | 60 | 6.1 % | 5.0 % | 25.0 % | 214 | 175 | 6.1 % | 4.9 % | 22.3 % |

Revenue in our North American LTL segment increased 1.9% to \$1.23 billion for the third quarter of 2023, compared with \$1.21 billion for the same quarter in 2022. Revenue decreased 1.9% to \$3.48 billion for the first nine months of 2023, compared with \$3.55 billion for the same period in 2022. Revenue included fuel surcharge revenue of \$223 million and \$274 million, respectively, for the third quarters of 2023 and 2022, and \$636 million and \$772 million, respectively, for the first nine months of 2023 and 2022. The decrease in fuel surcharge revenue for both periods was primarily driven by lower diesel prices.

We evaluate the revenue performance of our LTL business using several commonly used metrics, including volume (weight per day in pounds) and yield, which is a commonly used measure of LTL pricing trends. We measure yield using gross revenue per hundredweight, excluding fuel surcharges. Impacts on yield can include weight per shipment and length of haul, among other factors, while impacts on volume can include shipments per day and weight per shipment. The following table summarizes our key revenue metrics:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|----------------------------------|----------|----------|---------------------------------|----------|----------|
| | 2023 | 2022 | Change % | 2023 | 2022 | Change % |
| Pounds per day (thousands) | 72,257 | 70,063 | 3.1 % | 70,465 | 70,854 | (0.5)% |
| Shipments per day | 53,637 | 49,744 | 7.8 % | 51,303 | 49,459 | 3.7 % |
| Average weight per shipment (in pounds) | 1,347 | 1,408 | (4.3)% | 1,374 | 1,433 | (4.1)% |
| Gross revenue per hundredweight, excluding fuel surcharges | \$ 22.81 | \$ 21.43 | 6.4 % | \$ 21.84 | \$ 21.18 | 3.1 % |

The year-over-year increase in revenue, excluding fuel surcharge revenue, in the third quarter of 2023 reflects higher volume and gross revenue per hundredweight, primarily related to our improvements in service quality and investments in capacity, as well as the impact of a competitor ceasing operations during the third quarter of 2023. The increase in volume per day for the third quarter of 2023 reflects higher shipments per day, partially offset by lower average weight per shipment. The increase in yield in the third quarter of 2023 reflects the benefit of numerous pricing initiatives underway. We expect to further accelerate yield growth in the fourth quarter.

The year-over-year increase in revenue, excluding fuel surcharge revenue, for the first nine months of 2023 reflects higher gross revenue per hundredweight partially offset by slightly lower volume. The decline in volume per day for the first nine months of 2023 reflects lower average weight per shipment, partially offset by higher shipments per day.

In the month of October 2023 weight per day increased 2.5%, as compared with October 2022, attributable to a year-over-year increase of 6.0% in shipments per day and a decrease of 3.5% in weight per shipment. These October 2023 North American LTL segment operating metrics are preliminary and actual results may vary.

Adjusted EBITDA was \$241 million, or 19.6% of revenue, for the third quarter of 2023, compared with \$240 million, or 19.9% of revenue, for the same quarter in 2022. Adjusted EBITDA was \$631 million, or 18.1% of revenue, for the first nine months of 2023, compared with \$700 million, or 19.7% of revenue, for the same period in 2022. The decrease in Adjusted EBITDA as a percentage of revenue in both the third quarter and first nine months of 2023 reflected lower fuel surcharge revenue, higher salaries, wages and employee benefits primarily due to higher incentive compensation and cost inflation, and, to a lesser extent, lower pension income. These items were partially offset by higher revenue, excluding fuel surcharge revenue, driven by the dynamics explained above, improvements

in productivity, lower purchased transportation, primarily due to lower rates paid to third-party providers for purchased transportation miles and the insourcing of a greater proportion of linehaul from third-party transportation providers, lower fuel costs, and lower insurance and claims due to improved service.

Depreciation and amortization expense increased to \$75 million in the third quarter of 2023 compared with \$60 million for the same quarter in 2022. Depreciation and amortization expense increased to \$214 million in the first nine months of 2023 compared with \$175 million for the same period in 2022. The increase in both the third quarter and first nine months of 2023 was due to the impact of capital investments, in particular tractors and trailers.

European Transportation Segment

| | Three Months Ended September 30, | | Percent of Revenue | | Change | Nine Months Ended September 30, | | Percent of Revenue | | Change |
|--------------------------------------|----------------------------------|--------|--------------------|---------|--------|---------------------------------|----------|--------------------|---------|--------|
| | 2023 | 2022 | 2023 | 2022 | | 2023 | 2022 | 2023 | 2022 | |
| | <i>(Dollars in millions)</i> | | | | | | | | | |
| Revenue | \$ 752 | \$ 741 | 100.0 % | 100.0 % | 1.5 % | \$ 2,320 | \$ 2,335 | 100.0 % | 100.0 % | (0.6)% |
| Adjusted EBITDA | 44 | 43 | 5.8 % | 5.9 % | 2.3 % | 127 | 130 | 5.5 % | 5.6 % | (2.3)% |
| Depreciation and amortization | 35 | 31 | 4.7 % | 4.2 % | 12.9 % | 100 | 96 | 4.3 % | 4.1 % | 4.2 % |

Revenue in our European Transportation segment increased 1.5% to \$752 million for the third quarter of 2023, compared with \$741 million for the same quarter in 2022. Revenue decreased 0.6% to \$2.32 billion for the first nine months of 2023, compared with \$2.34 billion for the same period in 2022. Foreign currency movement increased revenue by approximately 7.6 percentage points in the third quarter of 2023 and by approximately 0.9 percentage points in the first nine months of 2023. The decrease in revenue for the third quarter of 2023 and the first nine months of 2023, compared to the same periods in 2022, after taking into effect the impact of foreign currency movement, primarily reflects lower volumes in a soft industry environment for freight transportation.

Adjusted EBITDA was \$44 million, or 5.8% of revenue, for the third quarter of 2023, compared with \$43 million, or 5.9% of revenue, for the same quarter in 2022. Adjusted EBITDA was \$127 million, or 5.5% of revenue, for the first nine months of 2023, compared with \$130 million, or 5.6% of revenue, for the same period in 2022. The change in Adjusted EBITDA in both periods was primarily driven by the decrease in revenue after taking into effect the impact of foreign currency movement, described above, higher salaries, wages and employee benefits due to the impact of cost inflation and foreign currency impacts, and higher lease and facility costs. These items were partially offset by lower purchased transportation, fuel and temporary labor costs.

Liquidity and Capital Resources

Our cash and cash equivalents balance was \$355 million as of September 30, 2023, compared to \$460 million as of December 31, 2022. Our principal existing sources of cash are: (i) cash generated from operations; (ii) borrowings available under our Second Amended and Restated Revolving Loan Credit Agreement, as amended (the “ABL Facility”); (iii) proceeds from the issuance of other debt; and (iv) proceeds from divestiture activities. As of September 30, 2023, we have \$589 million available to draw under our ABL Facility, based on a borrowing base of \$590 million and outstanding letters of credit of less than \$1 million. Additionally, we have a \$200 million uncommitted secured evergreen letter of credit facility, under which we had issued \$139 million in aggregate face amount of letters of credit as of September 30, 2023.

In February 2023, we amended our existing ABL Facility. See Note 7—Debt to our Condensed Consolidated Financial Statements for further information.

As of September 30, 2023, we had approximately \$944 million of total liquidity. We continually evaluate our liquidity requirements in light of our operating needs, growth initiatives and capital resources. We believe that our existing liquidity and sources of capital are sufficient to support our operations over the next 12 months.

Trade Receivables Securitization and Factoring Programs

We sell certain of our trade accounts receivable on a non-recourse basis to third-party financial institutions under factoring agreements. We also sell trade accounts receivable under a securitization program for our European

transportation business. We use trade receivables securitization and factoring programs to help manage our cash flows and offset the impact of extended payment terms for some of our customers. For more information, see Note 1—Organization, Description of Business and Basis of Presentation to our Condensed Consolidated Financial Statements.

The maximum amount of net cash proceeds available at any one time under our securitization program, inclusive of any unsecured borrowings, is €200 million (approximately \$211 million as of September 30, 2023). As of September 30, 2023, €15 million (approximately \$16 million) was available under the program. Under the securitization program, we service the receivables we sell on behalf of the purchasers. The program expires in July 2026.

Term Loan Facility

In 2015, we entered into a Term Loan Credit Agreement that provided for a single borrowing of \$1.6 billion, which was subsequently amended to increase the principal balance to \$2.0 billion and to extend the maturity date to February 2025 (the “Existing Term Loan Facility”).

In May 2023, we amended the Term Loan Credit Agreement to obtain \$700 million of new term loans (the “New Term Loan Facility”) having substantially similar terms as the Existing Term Loan Facility, except with respect to maturity date, issue price, interest rate, prepayment premiums in connection with certain voluntary prepayments and certain other provisions. The New Term Loan Facility was issued at 99.5% of the face amount and will mature on May 24, 2028.

The New Term Loan Facility will bear interest at a rate per annum equal to, at our option, either (a) a Term Secured Overnight Financing (“SOFR”) rate (subject to a 0.00% floor) or (b) a base rate (subject to a 0.00% floor), in each case, plus an applicable margin of 2.00% for Term SOFR loans or 1.00% for base rate loans. The interest rate was 7.32% as of September 30, 2023.

In the second quarter of 2023, we used net proceeds from the New Term Loan Facility and new Senior Notes, as described below, together with cash on hand, to repay \$2.0 billion of outstanding principal under the Existing Term Loan Facility and to pay related fees, expenses and accrued interest. We recorded a debt extinguishment loss of \$23 million in the first nine months of 2023 due to this redemption.

Senior Notes Due 2028 and 2031

In May 2023, we completed private placements of \$830 million aggregate principal amount of senior secured notes due 2028 (the “Senior Secured Notes due 2028”) and \$450 million aggregate principal amount of senior notes due 2031 (the “Senior Notes due 2031”) and together with the Senior Secured Notes due 2028, the “Senior Notes”). The Senior Secured Notes due 2028 mature on June 1, 2028 and bear interest at a rate of 6.25% per annum. The Senior Notes due 2031 mature on June 1, 2031 and bear interest at a rate of 7.125% per annum. Interest on the Senior Notes is payable semi-annually in cash in arrears, commencing December 1, 2023. The Senior Notes were issued at par and were used to repay our Existing Term Loan Facility as described above.

Senior Notes Due 2025

In the second quarter of 2022, we redeemed \$630 million of the then \$1.15 billion outstanding principal amount of our Senior Notes due 2025. The redemption price for the notes was 100% of the principal amount plus a premium, as defined in the indenture, of approximately \$21 million and accrued and unpaid interest. We paid for the redemption using available liquidity. We recorded a debt extinguishment loss of \$26 million in the first nine months of 2022 due to this redemption.

In the fourth quarter of 2022, we repurchased an additional \$408 million of the outstanding principal amount of our Senior Notes due 2025 in a cash tender offer.

Loan Covenants and Compliance

As of September 30, 2023, we were in compliance with the covenants and other provisions of our debt agreements. Any failure to comply with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

Sources and Uses of Cash

| <i>(In millions)</i> | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2023 | 2022 |
| Net cash provided by operating activities from continuing operations | \$ 443 | \$ 628 |
| Net cash used in investing activities from continuing operations | (473) | (315) |
| Net cash used in financing activities from continuing operations | (72) | (706) |

During the nine months ended September 30, 2023, we: (i) generated cash from operating activities from continuing operations of \$443 million; and (ii) received net proceeds of \$2.0 billion from the issuance of debt. We used cash during this period primarily to: (i) purchase property and equipment of \$494 million; and (ii) repay our Existing Term Loan Facility for \$2.0 billion.

During the nine months ended September 30, 2022, we generated cash from operating activities from continuing operations of \$628 million. We used cash during this period primarily to: (i) purchase property and equipment of \$354 million; and (ii) redeem a portion of our Senior Notes due 2025 for \$651 million.

Cash flows from operating activities from continuing operations for the nine months ended September 30, 2023 decreased by \$185 million, compared with the same period in 2022. The decrease reflects the impact of operating assets and liabilities utilizing \$133 million of cash in the first nine months of 2023, compared with generating \$13 million during the same period in 2022, primarily driven by timing of payments and lower sequential increase in revenues, and \$86 million of lower income from continuing operations for the nine months ended September 30, 2023, compared with the same period in 2022.

Investing activities from continuing operations used \$473 million of cash in the nine months ended September 30, 2023 and \$315 million of cash in the nine months ended September 30, 2022. During the nine months ended September 30, 2023, we used \$494 million to purchase property and equipment, as compared to a \$354 million usage of cash in the same period in 2022. The increase reflects our continued investment, primarily in tractors and trailers, to support our long-term growth targets.

Financing activities from continuing operations used \$72 million of cash in the nine months ended September 30, 2023 and \$706 million of cash in the nine months ended September 30, 2022. The primary uses of cash from financing activities in each of the first nine months of 2023 and 2022 were \$2.0 billion and \$651 million, respectively, used to repay our Existing Term Loan Facility and redeem a portion of our Senior Notes due 2025. The primary source of cash from financing activities during the first nine months of 2023 was \$2.0 billion of net proceeds from the issuance of debt.

As a result of the debt transactions that occurred during the second quarter, as of September 30, 2023, we had \$2.4 billion total outstanding principal amount of debt, excluding finance leases. We have \$112 million of debt maturing in 2025 and no other significant debt maturities until 2028. Interest on our ABL and term loan facility are variable, while interest on our senior notes are at fixed rates. As of September 30, 2023, future interest payments associated with our debt aggregate approximately \$1.0 billion and are estimated based on the principal amount of debt and applicable interest rates as of that date. For further information on our debt facilities and maturities, see Note 7—Debt to our Condensed Consolidated Financial Statements.

There were no other material changes to our December 31, 2022 contractual obligations during the nine months ended September 30, 2023. We anticipate full year gross capital expenditures to be between \$675 million and \$725 million in 2023, funded by cash on hand and available liquidity.

New Accounting Standards

Information related to new accounting standards is included in Note 1—Organization, Description of Business and Basis of Presentation to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk.*

We are exposed to market risk related to changes in interest rates, foreign currency exchange rates and commodity prices. As a result of the debt transactions that occurred during the second quarter of 2023, exposure to changes in interest rates on our term loan facility and fixed rate debt are as follows:

Term Loan Facility. As of September 30, 2023, we had an aggregate principal amount outstanding of \$700 million on our term loan facility. The interest rate fluctuates based on SOFR or a Base Rate, as defined in the agreement, plus an applicable margin. Assuming an average annual aggregate principal amount outstanding of \$700 million, a hypothetical 1% increase in the interest rate would have increased our annual interest expense by \$7 million. Additionally, we utilize short-term interest rate swaps to mitigate variability in forecasted interest payments on our term loan facility. The interest rate swaps convert floating-rate interest payments into fixed rate interest payments.

Fixed Rate Debt. As of September 30, 2023, we had \$1.6 billion of fair value of indebtedness (excluding finance leases and asset financings) that bears interest at fixed rates. A 1% decrease in market interest rates as of September 30, 2023 would increase the fair value of our fixed-rate indebtedness by approximately 5%. For additional information concerning our debt, see Note 7—Debt to our Condensed Consolidated Financial Statements.

There have been no other material changes to our quantitative and qualitative disclosures about market risk related to our continuing operations during the nine months ended September 30, 2023, as compared with the quantitative and qualitative disclosures about market risk described in our 2022 Form 10-K.

Item 4. *Controls and Procedures.*

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of September 30, 2023. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2023, such that the information required to be included in our Securities and Exchange Commission (“SEC”) reports is: (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including our consolidated subsidiaries; and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. *Legal Proceedings.*

For information related to our legal proceedings, refer to “Legal Proceedings” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 and Note 9—Commitments and Contingencies of Item 1, “Financial Statements” of this Quarterly Report on Form 10-Q.

Item 1A. *Risk Factors.*

There are no material changes to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

XPO, Inc. Profit-Sharing Cash Incentive Plan and Profit-Sharing Cash Incentive Plan Award Agreement

On October 26, 2023, the Company’s Compensation and Human Capital Committee (the “Committee”) approved and adopted the XPO, Inc. Profit-Sharing Cash Incentive Plan (the “Plan”) and a form of Profit-Sharing Cash Incentive Plan Award Agreement (the “Award Agreement”). The Plan became effective on October 26, 2023, and permits eligible employees to earn awards in the form of cash-based incentive payments based upon the attainment of pre-established, objective performance goals relating to the performance of the Company. The Plan shall be administered by the Committee or its duly authorized delegate.

The Plan provides for performance goals based on objective performance criteria selected by the Committee, in its sole discretion, and set forth in the applicable Award Agreement and may include a threshold level of performance below which no award will be paid, levels of performance at which specified percentages of the award will be paid and may also include a maximum level of performance above which no additional award amount will be paid. Employees of the Company who the Committee designates from time to time as eligible and who are actively employed by the Company, both on the last day of the performance period and on the date that a Plan award is scheduled to be paid, are eligible to participate in the Plan. Any compensation payable to a participant under the Plan will be subject to any recoupment, “clawback” or similar Company policy or arrangement.

Currently, the only employee receiving awards under the Plan is the Company’s Chief Operating Officer, David Bates.

This summary is not intended to be complete and is qualified in its entirety by reference to the Plan and Form of Award Agreement, copies of which are attached hereto as Exhibit 10.9 and 10.10, respectively, and are incorporated herein by reference.

Item 6. Exhibits.

| Exhibit Number | Description |
|----------------|--|
| 10.1+* | Form of Restricted Stock Unit Award Agreement (2016 Omnibus Incentive Compensation Plan). |
| 10.2+* | Restricted Stock Unit Award Agreement, dated April 21, 2023, between the registrant and David Bates (2016 Omnibus Incentive Compensation Plan). |
| 10.3+* | Performance-Based Restricted Stock Unit Award Agreement, dated April 21, 2023, between the registrant and David Bates (2016 Omnibus Incentive Compensation Plan). |
| 10.4+ | Offer Letter, dated July 19, 2023, between the registrant and Kyle Wismans (incorporated herein by reference to Exhibit 10.4 to the registrant’s Quarterly Report on Form 10-Q filed with the SEC on August 4, 2023). |
| 10.5+ | Change in Control and Severance Agreement, dated July 19, 2023, between the registrant and Kyle Wismans (incorporated herein by reference to Exhibit 10.5 to the registrant’s Quarterly Report on Form 10-Q filed with the SEC on August 4, 2023). |
| 10.6+* | Promotion Restricted Stock Unit Award Agreement, dated August 15, 2023, between the registrant and Kyle Wismans (2016 Omnibus Incentive Compensation Plan). |
| 10.7+* | Performance-Based Restricted Stock Unit Award Agreement, dated August 15, 2023, between the registrant and Kyle Wismans (2016 Omnibus Incentive Compensation Plan). |

Table of Contents

| Exhibit Number | Description |
|----------------|---|
| 10.8+* | XPO, Inc. Clawback Policy, effective as of October 2, 2023. |
| 10.9+* | XPO, Inc. Profit Sharing Incentive Plan, effective as of October 26, 2023. |
| 10.10+* | Form of XPO, Inc. Profit Sharing Incentive Plan Award Agreement. |
| 31.1* | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023. |
| 31.2* | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023. |
| 32.1** | Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023. |
| 32.2** | Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023. |
| 101.INS * | <i>XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.</i> |
| 101.SCH * | <i>XBRL Taxonomy Extension Schema.</i> |
| 101.CAL * | <i>XBRL Taxonomy Extension Calculation Linkbase.</i> |
| 101.DEF * | <i>XBRL Taxonomy Extension Definition Linkbase.</i> |
| 101.LAB * | <i>XBRL Taxonomy Extension Label Linkbase.</i> |
| 101.PRE * | <i>XBRL Taxonomy Extension Presentation Linkbase.</i> |
| 104 * | <i>Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).</i> |
| * | Filed herewith. |
| ** | Furnished herewith. |
| + | This exhibit is a management contract or compensatory plan or arrangement. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XPO, INC.

By: /s/ Mario Harik
Mario Harik
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Kyle Wismans
Kyle Wismans
Chief Financial Officer
(Principal Financial Officer)

Date: October 30, 2023