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XPO, Inc. (XPO)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the XPO First Quarter 2025 Earnings Conference Call and Webcast. My name is Paul, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

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

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

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

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Good morning, everyone. Thanks for joining our call. I'm here with Kyle Wismans, our Chief Financial Officer; and Ali Faghri, our Chief Strategy Officer. This morning, we reported financial results that delivered on our outlook in a challenging freight market. Company-wide, we reported first quarter revenue of \$2 billion and adjusted EBITDA of \$278 million. And our adjusted diluted EPS was \$0.73, exceeding expectations.

Importantly, our LTL segment maintained the momentum we carried through year-end and outperformed the industry. The highlight of the quarter was the sequential LTL margin improvement that was better than normal seasonality. We've now improved our adjusted operating ratio by a cumulative 370 basis points over two years, keeping us on the industry's best trajectory for operating efficiency and profitability.

In addition to strong margin performance, we accelerated yield growth, operated more cost efficiency with linehaul and labor, and enhanced service quality. At the same time, we continue to invest in our network to strengthen our competitive position and sustain high returns over time.

I'll walk you through the levers driving our momentum in LTL, starting with customer service. In the first quarter, we delivered a damage claims ratio of 0.3%. Notably, we brought damages down to a record low in the quarter, which is a testament to the discipline built into our service culture. We also continue to raise the bar with on-time performance, marking our 12th straight quarter of year-over-year improvement. The service centers we've opened over the past year are playing a critical role in improving service by reducing rehandles and transit miles. This helps ensure consistent outcomes for our customers. And for our company, it supports both margin expansion and the scalability of our network.

Our larger footprint is also driving tangible gains and efficiency across dock operations, linehaul, and pickup and delivery. We've now opened almost all of the service centers we acquired, and we're seeing the benefit across our network. We've also met our goal of 30% excess load capacity in the current environment. This excess capacity positions us to capture market share in a freight upturn and unlock more operating leverage.

In addition to real estate, we're committed to investing in our fleet with both tractors and trailers. Since launching our LTL growth plan in 2021, we've added more than 5,000 tractors and 16,000 trailers to our network. This supports continued insourcing of linehaul and is helping us operate with greater flexibility for customers. The average age of our tractors is now down to four years at the low-end of our targeted range. This benefits both reliability and safety, and it also reduces the cost of operating our fleet.

Turning to pricing, this remains a cornerstone of our plan, and we're seeing the impact of our pricing initiatives on yield growth. In the first quarter, we grew yield excluding fuel by 6.9% year-over-year, marking an acceleration from the prior quarter. This reflects the strength of our commercial strategy and the value we bring to customers.

Our high-quality service is earning pricing gains that outpace the market through contract renewals and new business. In addition, local customers and our premium services are becoming more meaningful parts of our revenue mix, and both channels carry a higher margin. We have a growing pipeline of customer demand for our premium offerings, including retail store rollouts and trade show transport. We expect these initiatives to continue driving above-market yield growth well into the future.

Cost efficiency is another core part of our plan and an area where we made major progress this quarter, particularly with linehaul and labor productivity. We lowered our purchased transportation costs by 53% year-over-year and reduced our outsourced linehaul miles to just 8.8% of total miles, the best level in the company's history. This is a reduction of more than 900 basis points, demonstrating that we're executing well ahead of plan.

By year-end, we expect to reduce outsourced miles even further into the mid-single digits, enhancing efficiency and customer service. And when demand returns, the insourcing we're doing now will protect our cost structure as truckload rates rise, enabling us to generate stronger incremental margins versus prior upcycles.

We also continue to improve labor productivity in the quarter with our proprietary technology. Our software anticipates volume shifts before they happen, allowing our managers to flex labor hours in real-time and making our network more resilient. This technology is unique to XPO, and it's helping us outperform on margins and profitability in the current freight downturn. It will become an even greater advantage for us in the future.

Before I close, I want to spend a minute on artificial intelligence. We've been investing in proprietary AI technology to realize its full potential across our business. We've already identified a number of high-impact applications, initially with linehaul optimization, labor planning, and pickup and delivery. These are areas where intelligent automation and better decision-making can directly enhance profitability.

Recently, we deployed new AI-driven line haul models designed to improve freight flows across our network. These pilots are already delivering higher load averages and transit efficiencies. And our pickup and delivery operations were beta testing AI to optimize trailer and route assignments at the shipment level. These tools factor in appointment windows and other logistics to enhance on-time performance. We see AI playing a major role in how we operate, compete, and create value over the long term.

In summary, our first quarter results reflected strong execution across the business. We delivered above-market yield growth, improved cost efficiency, and raised the bar on service quality, all of which strengthened our competitive position. And our investments in capacity and technology are making our network smarter and more agile, while leveraging our scale. We built XPO to drive results in any environment, and we intend to keep outperforming the industry with sustained long-term margin expansion.

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

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Thank you, Mario, and good morning, everyone. I'll take you through our key financial results, balance sheet and liquidity. Revenue for the total company was \$2 billion, down 3% year-over-year, but up 2% sequentially from the fourth quarter. In our LTL segment, revenue was down 4% year-over-year and up 1% sequentially. The majority of the decline was related to lower fuel surcharge revenue tied to the price of diesel. Excluding fuel, LTL revenue was down 2% year-over-year and up 1% sequentially.

On the cost side in LTL, we drove another significant reduction in purchased transportation expense. Our expense for third-party carriers decreased by 53% compared with the prior year, as we insourced more of our linehaul runs. This equated to a reduction of \$41 million in the quarter. We also utilized our labor more productively, resulting in a 1% improvement in hours per shipment in the quarter.

Notably, we're able to hold our total costs, salary, wages and benefits at a similar level to last year's first quarter despite inflation. To do this, we've been utilizing the productivity tools and our proprietary technology. These capabilities are unique to XPO and will be increasingly valuable as our network grows.

On the equipment side, we achieved a 5% reduction in maintenance cost per mile, primarily due to our purchase of new tractors for our fleet. We expect this cost to track lower in the future as older units are retired. LTL depreciation expense increased by 10% or \$7 million, reflecting the priority we place on making ongoing investments in our network.

Next, I'll cover adjusted EBITDA, starting with the company as a whole. We generated adjusted EBITDA of \$278 million in the quarter, down 3% year-over-year. Within that number, adjusted EBITDA for the LTL segment was \$250 million, down 2%. Our strong yield growth and cost efficiencies in the quarter were mitigated by the operating environment in the form of lower fuel surcharge revenue, tonnage and pension income. But even with these constraints, the underlying trends in the business continue to gain momentum.

In our European Transportation segment, adjusted EBITDA was \$32 million for the quarter, and adjusted EBITDA for the Corporate segment was a loss of \$4 million.

Returning to the company as a whole, we reported first quarter operating income of \$151 million, up 9% year-over-year. And we grew net income by 3% to \$69 million, representing diluted EPS of \$0.58. On an adjusted basis, our EPS for the quarter was \$0.73, compared with \$0.81 a year ago. And lastly, we generated \$142 million of cash flow from operating activities in the quarter and deployed \$191 million of net CapEx.

Moving to the balance sheet, we ended the quarter with \$212 million of cash on hand. Combined with available capacity under our committed borrowing facility, this gave us \$811 million of liquidity. And our net debt leverage ratio at quarter-end was 2.5 times trailing 12 months adjusted EBITDA. This was an improvement from 2.9 times in the first quarter of 2024.

In February, we successfully repriced our \$1.1 billion term loans and refinanced our ABL revolver into a new secured cash flow facility. This extended the maturity of our revolver to 2030 and stabilized our liquidity with a constant \$600 million of availability, while providing long-term capital structure flexibility.

While we remain committed to investing in initiatives that support earnings growth, we expect our lower CapEx profile to generate a higher level of free cash flow this year. This dynamic over time should provide us with greater flexibility to return capital to shareholders. Recently, we announced an authorization by our board of directors for the repurchase of up to \$750 million of our common stock. We expect to begin opportunistically repurchasing shares this year with our excess cash.

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

Ali Faghri

Chief Strategy Officer, XPO, Inc.

Thank you, Kyle. I'll start with a review of the first quarter operating results for our LTL segment, where we executed well in a soft freight market. Our total shipments per day were down 5.8% in the quarter compared with a year ago, but with an important underlying trend. We generated volume growth in the mid- to high-single digits in our local channel, which is a key area of focus for us. We're accelerating our market share gains with these high-margin customers through targeted sales initiatives and the strong value proposition.

With weight per shipment down 1.8% in the quarter, our tonnage per day was down 7.5%, which largely tracked the seasonality. This outperformed the industry as a whole. On a monthly basis, year-over-year, our January tonnage per day was down 8.5%, February was down 8.1%, and March was down 6%. Looking just at shipments per day, January was down 6%, February was down 6.1% and March was down 5.4%. For April, we estimate that tonnage will be down 5.7% from the prior year.

Our pricing was robust in the quarter, and again, we delivered above-market yield growth. On a year-over-year basis, we grew yield ex-fuel by 6.9% and revenue per shipment by 5.2%. Importantly, we accelerated our year-over-year yield growth from the fourth quarter as well as on a two-year stack basis. Our revenue per shipment has improved sequentially for nine consecutive quarters, and we expect both revenue per shipment and yield to improve sequentially through the rest of this year with ongoing pricing momentum, driven by our service quality and premium offerings. These are all key drivers of our margin expansion opportunity, and we're steadily enhancing them as part of our LTL growth plan.

In the first quarter, we sequentially improved our adjusted operating ratio by 30 basis points to 85.9%, which outperformed normal seasonal trends. We outperformed on margin through a mix of yield growth, cost efficiencies and productivity gains, and by leveraging our proprietary technology to enhance the contribution from each of these levers.

Turning to our European business, we delivered solid progress despite a challenging macro environment. We increased revenue by 2% year-over-year on a constant currency basis for the fifth consecutive quarter of growth. We also grew adjusted EBITDA by 19% sequentially from the fourth quarter, outpacing seasonality. And in some key geographies like the UK, we increased adjusted EBITDA by double digits versus the prior year, showing continued strength. Another positive indicator is our sales pipeline in Europe, which grew by high-single digits in the quarter. Customers are increasingly responding to our offerings, putting us in a strong position to continue outperforming the market in any macro environment.

Before we go to Q&A, I'd like to summarize the major initiatives that powered our first quarter performance and the ongoing momentum in our LTL business. First, we're continuing to deliver above-market pricing growth, underpinned by strong service quality. Our premium service offerings and our success with the local channel are also key to our results, and these initiatives are in the early stages of their potential. At the same time, we're optimizing our cost structure by reducing third-party linehaul costs and enhancing productivity. We see a long runway for further efficiency gains across our network. Together, these drivers have created a large margin expansion opportunity, and our execution gives us the ability to capture that opportunity regardless of market conditions.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Jon Chappell with Evercore ISI.

Jonathan Chappell

Analyst, Evercore ISI

Q

Thank you. Good morning everyone. Ali, just kind of the obvious first question. In early February, you gave a full-year guide of flat tonnage and 150 basis points of margin improvement. Things have changed quite a bit since then. So if you can just provide an update there, if you're willing. And as part of that, second quarter, I think typical seasonality somewhere around 250 to 300 basis points of OR improvement, with the April tonnage down 5.7%. What are you kind of anticipating for that sequential move this year?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Hey, Jon. This is Mario. So when you look first at full year, this is a fluid environment and it's tough to predict what the macro is going to do and what the demand environment will do in the back half of the year. But based on our performance year-to-date, we do expect to deliver 150 basis points of full-year margin improvement. And this is even with full-year tonnage being negative on a year-on-year basis relative to our initial assumption that volumes would be flattish this year.

And there's a few reasons for that. One is yield performance has been excellent. Our pricing initiatives are gaining momentum. They're trending ahead of expectations. We'll talk about the Q2 yield outlook here. We're also managing costs very effectively. I mean, when you look at the linehaul in-sourcing, we have accelerated that. We were down to 8.8% in the first quarter, a 53% reduction in PT costs, and we expect that to further be reduced in the back half of the year as we continue to drive that initiative. And we're managing our labor very effectively. I'm very proud of how the operating team executed in the first quarter. Against a soft backdrop where tonnage was down, we were able to improve productivity on a year-on-year basis by 1%.

Now let's say, the macro gets more negative from here and things do soften and let's say the year is down mid-single digit on tonnage for the full year, we still expect to improve OR by about 100 basis points for the full year. And overall, that would be a really strong year for margin improvement because keep in mind that we have the toughest comp in the industry. We were the only carrier improving operating margins in 2024 as well.

Now when you look at the second quarter, we also expect another strong quarter for margin performance. In Q2, a typical seasonality for us is a sequential improvement of 250 to 300 basis points of OR improvement sequentially Q1 to Q2. And again, it's a dynamic environment. So, but based on what we have seen so far in April and our execution, we do expect to be at or above the high-end of that range, outperforming seasonality, and that's also driven by our continued strength in yield and effective cost management as well.

Jonathan Chappell

Analyst, Evercore ISI

Q

Great. That's super helpful, Mario. Just a super quick follow-up. You mentioned the 30% excess door capacity giving you the leverage to gain share in an upturn. In that scenario that you laid out where maybe tonnage is

down mid-single digits, obviously, things get worse. Are there other variable or semi-variable cost levers you can pull to manage that? And would capacity remain at that type of excess level?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yes. So high level, when you look at real estate capacity in our network, it does come at a low cost. So, real estate is usually one of the lowest cost categories in LTL. It's in the low to mid-single – actually low- to mid-single-digit type percentage of revenue is what that cost structure would look like. So our goal is not necessarily to just go fill terminals with freight if they don't operate at a good OR. Our goal is to make sure we are onboarding profitable freight based on high quality of service, based on new offerings we're offering customers and being very disciplined in what we are getting into our network.

So the way we think about it, even with – and again, this is if the macro softens from here and demand does deteriorate, keep in mind that two-thirds of our costs are variable costs and that we would manage that like we've done over the last year-plus. We're going to flex labor. We're going to use our proprietary technology to execute and make sure that we are using a number of hours in the field commensurate with what we're seeing in the volume environment.

And similarly, on the linehaul side, as we insource more linehaul, we are actually become more efficient and it's costing us less. Even with truckload rates being depressed, when we move freight with our Road Flex operation, we're paying less per mile than we would with a third-party carrier. We get about 5%, 6% more physical space because we're moving two 28-foot pups as opposed to a 53-foot pup. So that's going to be also further accretive here as we head into the back half of the year.

So we're controlling what we can control and we're doing it very effectively, and we expect to do that regardless of what the environment throws our way.

Operator: Our next question is from Fadi Chamoun with BMO Capital Markets.

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Q

Yeah. Good morning. Just one clarification. Is the 100-basis-point improvement in OR this year based on 5% decline in volume? I didn't catch the exact number, if you can repeat.

And my question, though, is I wanted to get your perspective on the volume story for kind of the LTL. We – there's an estimate that we're down somewhere around mid-teens in volume versus where we were at the peak of this cycle. Has this all been a result of the underlying demand weakness from your customer base? Or have you seen significant share losses to other modes, specifically truckload?

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Good morning, Fadi. This is Ali. I'll take the first part about the full-year margin outlook, and then I'll pass it to Mario to talk about some of the industry volume dynamics. As it relates to the full-year margin outlook, we would expect to deliver 150 basis points of OR improvement this year with volumes down on a year-over-year basis. To the extent that the macro worsens and volumes are sub-seasonal to a greater degree as we move through the year and are down somewhere in that mid-single-digit range for the full year, as Mario noted, we would still expect to improve OR in that scenario by about 100 basis points for the full year.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

And Fadi, when you look at the overall industry volume, so if you look at both public and private carriers and you look at where volumes were at pre-COVID to where they are now, they have declined, call it, in that mid-teens range. We estimate it to be in the 15% to 16% range of decline in demand. And if you look post-COVID, actually 2021 was the peak after that. And 2021 was slightly lower than 2018, 2019, right before COVID.

Now if you look at that trend from 2021 through 2024, there were a lot of supply chain changes and disruptions that happened over that period of time. If you recall, right after the peak of COVID, there was a shortage of chips that led industrial companies to ship less goods. After that, there was a lot of inventory with retailers where they had to work their way down through it. And after that, there was a decline in industrial demand.

I mean, if you think about it, the ISM manufacturing index has been in a contraction type space below 50 for almost two-and-a-half, three years now, and which is commensurate with what we have seen with the freight recession so far. Now, a lot of that decline has been driven by underlying demand being softer, specifically in the industrial sector here in the US.

Now, if you look at where things go from here or the other modes of transportation, on the truckload side, we don't see a lot of direct conversion from LTL to truckload. I always give the example of if you look at how much the rates for truckload are, are about \$2 a mile, give or take. Our average length of haul is approximately 850 miles. So, a corresponding truckload shipment is about \$1,700 to move that shipment. When you look at our average revenue per bill last quarter, it was \$385. You're talking 4x above that number, 4x, 5x above that number is where the truckload rates are at even in the depressed environment they are in.

Now sometimes I get the question, well, Mario if you look at heavy LTL, what's the conversion point? To give you an example, in our network, because usually when you go up on the weight scale, your rate per hundredweight comes down. It's about 15,700 pounds, and that's less than 0.5% of our shipments, that's 20 or 30 basis points of our total shipment count. So there is conversion, but it's a very small number. And whenever truckload rates recover, you will see that coming back through.

Now, also sometimes I hear the question, well, what about truckload consolidation? That has always happened. I mean, companies have used TMSs for decades now. And what TMSs do is that they look at if you don't have a service requirement and you can combine things into a truckload, you will combine it. And with truckload rates being lower, there might be more combinations into truckload happening. But that's, again, when truckload rates goes up, it's going to come back to LTL as well. So we don't see any structural changes in how LTL freight is being moved across the country.

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. This is great. And so, basically, because that 15%, 16% seem to have underperformed like industrial production quite a bit over that timeframe, but you don't think this is a share – like significant share loss. So, at the moment, this is an opportunity potentially for the industry to see that volume come back when things turn the corner from an industrial production perspective.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah. And I'll tell you, Fadi, we're really excited about this outlook because if you think about it, this industry has been capacity constrained for a long time, and you haven't had any meaningful amount of capacity being added. Even when you look at us and other carriers adding capacity, we are just recycling the capacity from Yellow that used to be in operation a short two years ago.

So, whenever the cycle starts turning and you start seeing more freight going into LTL and truckload in every mode, you'll see truckload rates going higher. You're going to need a cycle of all cycles in terms of increases in volume, and you don't have enough industry capacity to handle that. So that's a piece that gets us excited in the future.

Now, keep in mind, we're delivering the kind of numbers we are in a very soft freight market. Now, imagine what's going to happen in the context of an upcycle where you have 30% excess door capacity. You have an excellent service product. We have a team that is executing really well out there. And you couple that with customers who are happier and happier with the work that we are doing, we get really excited about the next upcycle, although it's tough to see now with all this tariff noise that we're seeing.

Operator: Our next question is from Ken Hoexter with Bank of America.

Ken Hoexter

Analyst, BofA Securities

Q

Hey. Great. Good morning. Mario, I want to hit on the pricing side, right? Just the market doesn't occur in a vacuum, and you've done well. But we're hearing from others that have reported some pretty aggressive kind of pricing story in the market. Can you talk a little bit about what's going on, particularly in the local SMB side?

And then, Ali, just to clarify, I'm getting a lot of questions. Just if you're down 7.5% in tonnage in first quarter, trending down, call it, mid-single digits in 2Q, I think just it would be helpful to clarify that comment because does that mean you need just flat performance for the back half of the year to be better than mid-single digits? Does it have to be up to get to – I just want to understand your comment on getting to the 100 basis points of improvement versus the 150 basis points you were reiterating. Thanks.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Ken, I'll first start on the overall industry pricing side, and then I'll turn it over to Ali to talk about the volume expectations here and what we're seeing – what we saw in April and beyond.

But if you look at the pricing side, we continue to see a very constructive pricing environment for LTLs. Now, for us, specifically, we – if you look at where we – our starting point, if you compare our pricing structure to best-in-class, we were approximately when we started our plan a few years ago about 15 points lower on price. And what we have that delta was driven by their better service product for a longer period of time. And the other half was made out of two-thirds or 5% were accessorial revenue or premium services and then about 2.5 points out of the 15 points were from a mix dynamic of small- to medium-sized businesses having a more accretive margin.

So, if you think about it over the last few years, we have been able to outperform the market by approximately, call it, 2 to 3 points on price. Now, 1 point of that is catching up on the 7-, 8-point differential on service driving better price, and we have an eight-year runway to get there. So if you think about it over the last year, this year as well, we're pricing, call it, 1 point above what we typically would price at, and we're getting there because of the enhancements of the service product.

The second category is around these accessorials. When we started our plan, 9% to 10% of revenue were assessorial revenue. Our goal is to get to 15 points. And now as of this last quarter, we were at 11 points as a percent of total. So we've got an incremental point in pricing, driven by us onboarding higher-value services that our customers are asking for. These are things like trade shows and retail store rollouts and Must Arrive by Date. So these are all incremental services that the customer asks for and, obviously, we bill them for.

And the third component is growing in the small- to medium-sized business segment. In that segment, I'll tell you again, it's easier said than done. I mean, to grow in that segment, you need excellent service because these are smaller businesses. They might be shipping five shipments a week, 10 shipments a week. The shipment represents their brand. They want it to be picked up on time, delivered on time, delivered damage-free every single time. And with the improvements in service we've had, we've had a tremendous amount of success in that channel.

The second component as well is that we – if you take a step back, we've added 25% more local sellers to our team over the last few years. And it takes – after you hire a local seller, it takes you another full year to get them fully ramped to productivity as well. So this has been obviously in the works for us for a number of years. And our local sales force is truly doing a tremendous job out there.

Just to give you an example, in the first quarter, we grew that channel in the mid- to high-single digits from a tonnage perspective, and we accelerated that to double digit here in the month of April. So we're seeing tremendous progress in that segment of business. And we expect that to be the case for the years to come for us to get to the 30% as a percent of total being local accounts.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

And then, Ken, when you think about the volume outlook for the year, if you just look at the first quarter specifically, tonnage was down 7.5 points on a year-over-year basis. However, we did see the trend improve as we moved through the quarter. January was down 8.5 points year-over-year. And then March and April were down closer to that 5% to 6% range. Now if you look to the second half of the year, Ken, we do have easier comps versus the first half of the year. So, volume should gradually improve as we move through the year given that comp dynamic and also following normal seasonality.

Now to the extent that we see the macro soften in the back half of the year and volumes remain down mid-single digits in the back half, even against those easier comps, that would be more reflective of a sub-seasonal demand environment in the back half of the year. We would still expect to deliver 100 basis points of OR improvement in that scenario. So, regardless of how we look at it, we're going to deliver a very strong year of margin improvement this year on top of being the only LTL carrier to improve margins in 2024 as well.

Ken Hoexter

Analyst, BofA Securities

Q

Helpful clarification. And then just for a follow-up, real quick one on service. Mario, claims went up a touch, I guess, 0.2% to 0.3%. Is there anything, I guess, on – since you're mentioning service is so important, is there anything on that or led to that? And Ali, in that volume outlook, is that including the tariff kind of impact in that return to normality? Or do you see any kind of air pocket coming from that? Thanks, guys.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

So, Ken, on the damage claims ratio, so it's been relatively consistent with where we've been. We were in the 0.2% range for the quarter, but we just [ph] crawled (00:34:54) around up to the 0.3%. Now when you look at the underlying damages in the quarter, so that's the KPI where when we deliver a pallet to a customer, they can take an exception of a damage. So it's a real-time KPI of how our damages are doing. And they have been the best of any other quarter in the company's history in the first quarter.

And as you know, we've made tremendous progress in improving our quality of service. And it's not going to be linear. It took best-in-class 10 years to go from a 0.7% to a 8.1% claims ratio, and took us a few years to go from a higher number to where we are now. And our goal is to get to having no claims in our network. That's the ultimate goal, and we're making tremendous progress on that front.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

And Ken, on the volume outlook for the second half, obviously, there's a lot of uncertainty. And so it's difficult to predict the impact of the tariffs. But generally, the way you should think about it is the 150 basis points reflects what we've been seeing through the first four months of the year to the extent, again, the macro gets softer, tariffs start to have an impact on the broader economy, trends turn more sub-seasonal for us from a volume perspective. Again, that would be more supportive of the volumes being down in that mid-single digit range for the year and closer to about 100 basis points from a margin improvement perspective.

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

Scott H. Group

Analyst, Wolfe Research LLC

Q

Hey. Thanks. Good morning. Mario, I think you just said you want to get local to 30% of the revenue. Where is it today? And is there any way to just think about like what the margin is on – the margin premium on local versus national? And is that gap widening or shrinking today?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah. So we are today – when we started our plans, Scott, we were at about 20% of total was the revenue of local. We're now up to the low- to mid-20% range. And our goal, obviously, is to keep on making meaningful progress. As I mentioned earlier, we've added about 2,500 new local customers in the first quarter, just to kind of give you an idea on the cadence. And again, we accelerated tonnage growth in April in that channel to double digit compared to mid- to high-single digit in the first quarter.

Now, if you look at pricing differential, the margin differential between that channel and the larger accounts have been fairly consistent through the years. Typically, we price that channel based on an annual price that goes through a normal GRI process once a year typically. And the margin spread has been relatively consistent.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay. And then maybe just a quick one, Ali. The tonnage down 5.7% in April, how is that just on a – like versus seasonality? And then if there's any way you could say – I think you said 300 basis points of sequential improvement in margin for the quarter. What's the volume assumption for the quarter assumed in there?

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Sure, Scott. So, again, April was down 5.7% on a year-over-year basis. And that was largely in line with normal seasonality relative to the month of March. And as I noted, we did see volume trends improve throughout Q1 on a year-over-year basis and that momentum carried into the month of April.

Now when you think about Q2 as a whole, obviously, a tough environment to predict. But if you look at how tonnage has historically played out throughout the second quarter and apply those trends through the rest of Q2, that would imply full quarter tonnage being down a similar range to the month of April on a year-over-year basis.

Operator: Our next question is from Chris Wetherbee with Wells Fargo.

Chris Wetherbee

Analyst, Wells Fargo

Q

Yeah. Hey. Thanks. Good morning, guys. So maybe just a follow-up on that. I know this is difficult, but as you sort of look and talk to the customers in the portfolio, did you get a sense of maybe what the tariff impact could be, I guess, relative to what that normal seasonality is for 2Q? Have you picked up anything meaningful that sort of tells you that you can perform close to that level? Or maybe there's going to be sort of expected underperformance in the month of May potentially with the bounce back in June. If there's any kind of color or clarity you've gotten from customers, it would be great to hear.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah, you got it, Chris. Well, if you look at it, it's tough to tell because these are unprecedented times, and it's tough to tell what those tariffs will have in terms of impact on what domestic freight moves would look like. Obviously, as an LTL carrier, we're more exposed to internal moves within the country and not external to internal imports as a whole.

Now that said, we do a survey with our customers every quarter to get their feedback on what they are hearing. And we just finished the end of Q1 survey. And what we heard at the – towards, call it, the end of April is that customers are not expecting a – the majority of customers are expecting to see a flattish demand in the back half as opposed to what they were a quarter ago where the majority were expecting an acceleration of demand in the back half. So we're getting a more cautious tone from the customers.

We did see both in Q1 and in April the industrials slightly outperformed the retail segment. And keep in mind, that's more than two-thirds of our freight is industrial freight, and that outperformed slightly the retail sector there as well. Now looking forward, it's very tough to predict what's going to happen. And I'll give you just some perspective. We haven't heard a lot of pull forward. So we haven't seen that in meaningful ways from customers. But customers generally are falling in three camps. Some customers are in a wait-and-see type pattern. Some customers are still importing goods as they always have. Some customers did pull forward. And then some customers are redesigning their supply chain to get more product sourced or built locally.

I mean, just to give you an example, I recently met with a large customer, an industrial company, that produces product in the US and Mexico and Canada. And now they are moving more of the manufacturing here to Texas in the US. And we used to only handle the outbound freight out of that distribution facility. Now we're handling both inbound and outbound freight where the inbound is for parts and raw materials, and then the outbound is for the finished product all the way to the customer. But – so we're seeing a wide variety of behaviors from customers. And it's tough to predict what the next few months will do or what the back half will do based on these dynamics.

Now, if you look at the month of April, as Ali said, that was in line with seasonality. For us, January was down 8.4%, February was down about 8%, March was down around 6%, April here is down 5.7%. And our comps do get easier as we head into the back half of the year. So we'll see what the market has in store. But we're working with our customers closely and our goal is to provide solutions for them whenever they need them.

Chris Wetherbee

Analyst, Wells Fargo

Q

Okay. That's helpful. I appreciate the color there. A quick follow-up. You mentioned in the prepared remarks the buyback. Obviously, you guys have been focused, I think, also on deleveraging over time, but maybe with where the stock is, this has become a bit more attractive. Can you talk a bit about what the opportunity you might see, kind of capital available for buybacks as we go through 2025?

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Yeah. Chris, when you think about the buybacks, so we had the authorization come out at the end of the first quarter. We had a \$750 million authorization. And when you think about capital allocation for us, we're looking in three ways, right? Our focus is going to be continuing to invest organically and that's CapEx for the business. Then we're going to look to continue to delever and get to our long-term goal of 1 to 2 times. And then when you think about excess cash, that authorization gives us the flexibility to seek the highest return on capital for our shareholders. And that's really what we're looking at. So there's no specific timeframe on that repurchase and nor a specific amount, but we'll be opportunistic with what the market affords us.

Operator: [ph] Jason (00:43:01), is your line on mute?

Q

No. I am here. Good morning, guys. Wanted to ask two quick questions. One, going back to the pricing side, if we remove the push into local and premium services, how would the contractual renewals look on a sequential basis?

And the second question. We've heard a bunch about Amazon maybe pushing back a little bit into the LTL space going back in their fulfillment centers. UPS has announced they're getting back in the ground with freight. How much of a threat to the industry going forward is that? Or is this just around the edges? Thanks.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Yeah. It's Kyle. I'll start and then I'll hand back to Mario. So I think to directly address your question, when you think about renewals for us, renewals were up mid- to high-single-digit range for the quarter. And that was an acceleration. And it reflects the confidence we have in delivering above-market yield performance through the

year. And when you think about renewals, you really have to look at the flow through from those renewals. And in the first quarter, yield was up 6.9%, again reflecting those strong renewals. And rev per ship was up 5.2%, with the delta being weight per shipment. So, a very strong showing for us there.

And when you think about how those renewals will impact us here in the quarter, we think for Q2, yield ex-fuel is going to improve sequentially from the first quarter, and we expect to see it through the rest of the year. So on a year-over-year basis, we expect Q2 yield ex-fuel to be up in a similar range year-over-year basis to Q1, and that assumes a similar weight per shipment dynamic on a year-over-year basis in Q2 versus Q1.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

And on the threats, Jason, for – potential threats with the UPS and Amazon, we don't see them as being material threats and for a few reasons. One, starting with UPS, and as you know, they are targeting very lightweight shipments with the service, typically a few hundred pounds. Compare that to our average weight per shipment is about 1,350 pounds.

They also are much more – it's more parcel-like, it's going into residences and inside deliveries, which are typically things we don't do a lot of in traditional LTL. And they also – it's not a new offering for them. I mean, they used to offer that for a long time. And usually, when you start getting into this heavy parcel type shipping, it's not a conveyable product, so it doesn't operate well in a parcel sortation facility. So it's much harder for them to execute on it. And I'll tell you the last thing is that they exited the LTL business a few years ago. So I can't see that as being a meaningful impact on our industry in any way.

For the large retailer you mentioned, it's a similar kind of feedback there. I mean today, they have a lower exposure to LTL than other modes of transportation. They move much more parcel, they move much more truckload, and that could be – if they were insourcing that, that could be a threat to these industries. But in LTL, they're approximately 2% of the overall LTL industry spend. For us specifically, they're less than 0.5 point of our overall volume and shipments. We don't do a lot of business there.

And you're seeing something similar from them that you saw from large retailers. Whenever they have excess capacity between moves going between large distribution facilities, they're going to try to put more partial truckload type freight moving into that. So, again, we don't expect it – currently, based on what we're seeing, we don't expect them to be a threat either, but we're closely obviously monitoring as well.

Q

That makes sense. I appreciate the time and color, as always.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

You got it. Thanks, [ph] Jason (00:46:19).

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Operator, can we please take the next question?

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

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Morning. More of a curiosity question. Sort of following on, it seems like pricing has been the main or one of the main topics of conversation these past few weeks and months. And I guess my question is, in light of what you said about contractual renewals mid- to high-single digits, why would a shipper agree to price increases like that in the environment we're in? Thanks.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

So, look, a lot of it, Jordan, goes back to the quality of service that we are offering because, keep in mind with where our service is at, we are still – I mean, when we started – currently we're about, call it, 12 points or so lower on overall yield when you normalize for weight per shipment and length of haul to best-in-class. So we still have a big differential there.

But it's a combination of a few things. One is, when you deliver a better service, you obviously can get a higher – the customers do understand that we are investing in our network. And it is an inflationary business where you have higher wages, you have more expense for equipment, you're investing in service centers. And that obviously leads to – we need to price that in a capacity-constrained industry, where for us to provide that level of service, they understand that these investments need to be made.

The second component of that is also a component of mix. So, when you go back to it, I mean, every customer has freight that has to move on time, has to move damage-free every single time, and they're willing to pay more for that freight to move. And we're seeing higher success in being able to onboard that type of freight. Then you couple that with the local business that we are onboarding, they're very service sensitive, these customers, and effectively we're able to provide a great service product for them as well. So a lot of it ties back to that kind of dynamic.

And we do have a network that covers, obviously, the entire country. And we have one of the fastest networks in the industry. I believe the only faster network is FedEx Premium compared to – if you look at the average transit time. And customers also want this coverage, they want capacity, they want speed. And we can provide all of these things for them.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

You bet.

Operator: Our next question is from Brian Ossenbeck with JPMorgan.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for taking the questions. So, just come back to the pricing environment, Kyle, you gave a little bit of color on the second quarter, but maybe if you can wind that out to the scenarios you've been talking about in the back half of the year. What do you expect yield ex-fuel or if you can frame it in revenue per shipment in the back half in the 150- and 100-basis-point scenario, since you already gave the view on there for tonnage? Thank you.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Thanks, Brian. So, when you think about the broader yield, I mean, I think as we talk about, so we're seeing strong contract renewals. We talked about mid- to high-single-digit range, and our Q2 outlook being in line with Q1 up on a year-over-year basis. When you think about the rest of the year, we're seeing some of these favorable trends so far this year. We expect these to continue.

You got to keep in mind, too, a fair amount of capacity has exited the market compared to where we were a few years ago. And for the broader industry, we typically see pricing 100 to 200 basis points above cost inflation. And our expectation is to outperform the rest of the industry, driven by a lot of the levers Mario already talked about, whether it's growing with small and medium businesses or increasing our accessories. So we expect a strong pricing environment in the industry, and we think we can deliver above-market yield growth for our business.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Thank you.

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

Stephanie Moore

Analyst, Jefferies LLC

Q

Hi. Good morning. Thank you.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Hi Stephanie.

Stephanie Moore

Analyst, Jefferies LLC

Q

Maybe you could, if you wanted to, provide an update on some of the recently opened or [ph] very recent (00:50:45) in the last year or so of the new facilities that you've opened, how those are progressing maybe from a volume standpoint, OR standpoint, any metrics you're willing to provide? Thanks.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Good morning, Stephanie. This is Ali. So the sites are all performing very well. And as we noted, they were accretive to OR in 2024 and we would expect them to be accretive this year as well. And that's going to contribute to the strong year of margin improvement that we expect to deliver.

Just to put it in perspective, if you think about all of the sites that we've opened up over the last 12 months, we've actually had less than 200 net head count additions across all of those sites as most of these locations are in markets where we already have a strong presence. And in the markets where we have brought new locations online, we've seen meaningful improvements from a cost efficiency perspective across both pickup and delivery as well as linehaul density.

And so, all of the openings are either meeting or exceeding our expectations. And everything we've seen so far confirms our confidence in the significant accretion potential we're going to see from these sites, both near term and medium to long term.

Stephanie Moore

Analyst, Jefferies LLC

Q

And I guess, just a follow-up on that. In terms of the revenue that's being generated from those sites and kind of the customers you're pulling from, is it a good mix of existing customers that have just kind of shifted to these new sites? Or have you been able to kind of bring in new customers as well? Thanks.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

So, Stephanie, for us in the new sites, as Ali said, because they operate in existing markets where we already had a presence except for a handful of them, we – it's predominantly existing customers that are moving through those sites. And – but what we're seeing is we're seeing a lower cost to serve and higher efficiency. And we're also seeing better service.

I mean, to give you an example, and I know we spoke about it in prior calls, but if you look at a market like Nashville where we used to service north of Nashville and Goodlettsville from our site southeast of Nashville, we used to have to dispatch drivers in our north to get to our customer pickup and deliveries than to be able to come back in our south to get to the terminal. Now we have a terminal in Goodlettsville, where some of our drivers are driving 5, 10 minutes to get to the customer as opposed to the alternative.

You look at a market like Brooklyn, New York, we just had a small service center. So, part of Brooklyn were being serviced from Long Island. And now by having one of the largest – actually the largest service center in the Brooklyn market, now we can service all the ZIP codes that are close to the service center from the service center, improving pickup and delivery efficiency across the board.

So what we have seen is predominantly existing to begin with, and then we have onboarded new customers that are now closer to our service center in some cases. But in all of that, we're very disciplined in what we onboard. The way we think about it, ultimately, there's a fixed amount of capacity. In LTL, if you want to improve margin, you want to improve profits, you've got to onboard profitable freight.

You've got to make sure that you are pricing the freight appropriately and working with your customers because they – also customers, they know that when the market turns, there won't be enough capacity. They want to have good relationships. They want to serve a great service. They want to make sure that you have coverage. They want to make sure that you have capacity. And we can provide all of these things.

So existing markets are having a similar dynamic that we see in – or new service centers are having a similar dynamic than what we see in existing markets and with the incremental benefit of higher efficiency.

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

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Good afternoon, everyone. So just a couple of questions here. One is kind of noted on your comments on CapEx, but you are seeing some of your peers kind of pull down their CapEx plans and pulled back a little bit. Kind of is that an opportunity or a risk for you guys? Kind of what are your thoughts on that?

And second, Mario, I think you said you have a software that tells you what volumes are going to do before it happens, which sounds like the closest thing to a crystal ball to me. So can you just explain to us how exactly your crystal ball works? How much advanced notice you have, et cetera? And just a little more detail there just would be helpful. Thank you.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Ravi, I'll start with CapEx. So when you think about CapEx for 2025, we do expect LTL CapEx as a percent of revenue to moderate a couple of points from what we saw in 2024. And that's contemplated in our overall guide for the year. So, if you think about last year, we were 14.6% of revenue in 2024, but that contemplated a couple of significant onetime in nature expenditures. So, obviously, there's a fair amount of investments tied to bring in the new service centers online. That was really a onetime spend. And if you think about last year, we also had a significant amount of spend relative to the fleet. And then obviously aided in the insourcing of our linehaul effort, you can see the fleet age is down to four years now.

But if you look to this year and beyond, our expectation is for LTL CapEx as a percent of revenue to moderate. So this year, you're probably going to moderate 1 point or 2 from the 2024 levels, and that's contemplated in our current guide. And if you think beyond this year, that CapEx is going to further moderate. So our long-term guidance range is in the 8% to 12% range. We're probably somewhere in the midpoint of that.

And look, if there is a severe contraction in the market, we can always adjust and cut back in certain areas. But we will look at CapEx as a long-term investment. When we're buying a tractor, we're buying a 10-year asset, and we look at these as structural really important long-term investments for us.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

And Ravi, on the crystal ball, I'll tell you with these tariffs, nobody has a crystal ball that can tell you what the impact of the tariffs are. But what our crystal ball does is effectively – and our tools where we manage head count, we have a demand forecasting model that looks at both current volumes, looks at seasonal trends and looks at what we have coming in from a sales pipeline perspective with the probability of conversion. And that leads into a demand forecast that looks not only for the current week and the current month, but it also looks three months out, 90 days out.

And we use AI in that demand forecasting model to be able to help us guide where we believe tonnage is going to be at the service center level and at the shift level. And then the tools do something similar, where then they tell our service center managers or the supervisors how many drivers do you need, how many dock workers do you need, are you overstaffed, are you understaffed. So this way, our folks in the field can have better decision-making tools to know where to guide their labor and land the plane on labor hours.

And case in point, you look at last summer when we saw a sub-seasonal drop in volume, if you recall, in the month of August, we were still able to improve margins. We were still able to improve efficiency. You look here at the first quarter, tonnage was down 7.5 points. We still improved labor productivity by 1 point in that environment as well.

So, a combination of demand forecasting and labor planning is what is enabling us to do this. And we're only launching new capabilities and enhancements to those models to make it easier for our folks, for our operators in the field to be able to use that data to drive to the right outcomes on the cost side.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

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

Scott Schneeberger

Analyst, Oppenheimer & Co., Inc.

Q

Thanks very much. Good morning. I wanted to follow up on the operating metric and margin question in a different way. I guess, I'm not looking for guidance necessary, but Kyle, have you done the stress testing on a draconian measure where we heard Ali mention probably mid-single-digit down tonnage for the year and we have the OR guide from that. But what if we were down, say, double digits, is OR still capable of being positive in – as you stress test on the downside – or not positive, but an improvement year-over-year? Thanks.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Yeah. We absolutely looked at multiple scenarios from a volume standpoint and thinking about what we can control. I think a lot of what we focus on is being disciplined in managing levers that we can control certainly in a lower volume environment. And I think on the yield side, we've demonstrated even with lower tonnage on a year-over-year basis last several quarters, above-market yield performance. And we'd expect that to continue.

And on the cost side, when you think about a down-cycle, we're going to focus on the metric we can control. So two-thirds of our costs are variable, much of that's labor, and we're going to work to continue to manage labor to the best of our ability. That means when you think about dock, we're going to be looking at productivity measures, looking at motor moves per hour. When you think about pickup and delivery, ensuring our [ph] stocks arrive (00:59:02) at the right place. And then we'll continue to look at our linehaul insourcing. We got to 8.8% in the quarter. As Mario mentioned, there's still more runway there to continue to improve.

So we have looked at a lot of these down-volume cases, and we think we can still perform well even with tonnage down. I mean, if you look at some broader benchmarks and think about decremental margins and down-cycles, even going back to the global financial crisis when revenues were down double digits, decremental margins in the industry were in the 25% range, and we think we can do better than that based on the many levers we have at our disposal.

Scott Schneeberger

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks. Appreciate that. And just a quick follow-up. Just an update on your – Ali, you mentioned sales pipeline up really nicely over there. But just kind of curious in the development of the recent months. Are you thinking about the geography any different here to the end of the year? Thanks.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Sure, Scott. So our business in Europe continues to perform well and outperform in a soft macro environment. We grew organic revenue for the fifth consecutive quarter. If you just think about adjusted EBITDA sequentially versus Q4 was up nearly 20%, and that was much better than normal seasonality. And overall, the business is very well positioned for an eventual improvement in the demand backdrop.

You noted our sales pipeline was up high-single digits on a year-over-year basis. And we've also done an excellent job of rightsizing the cost structure to support stronger operating leverage over time. So as we think about the outlook for our European business, our expectation is we'll continue to outperform seasonality and outperform the market as a whole.

Operator: Thank you. There are no further questions at this time. I'd like to hand the floor back over to Mario Harik for any closing comments.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Thank you, operator, and thanks everyone for joining us today. Listen, while there is uncertainty in the macro environment, we are executing on the levers that we can control and delivering on our outlook with results that are outpacing the industry. We have a long runway for margin improvement over the years to come, and we look forward to updating you on our next call. Operator, you can now end the call. Thank you.

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

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