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XPO Logistics speakers
Brad Jacobs, XPO Logistics, Inc., Chairman & CEO
Drew M. Wilkerson, XPO Logistics, Inc., President of Transportation – North America
Mario A. Harik, XPO Logistics, Inc., CIO & Acting President of Less-Than-Truckload
Matthew Jeremy Fassler, XPO Logistics, Inc., Chief Strategy Officer
Ravi Tulsyan, XPO Logistics, Inc., Senior VP & CFO

Other speakers
Allison Ann Marie Poliniak-Cusic, Wells Fargo Securities, LLC, Research Division, Director & Senior Equity Analyst
Amit Singh Mehrotra, Deutsche Bank AG, Research Division, Director and Senior Research Analyst
Brandon Robert Oglenski, Barclays Bank PLC, Research Division, VP & Senior Equity Analyst
Brian Patrick Ossenbeck, JPMorgan Chase & Co, Research Division, Senior Equity Analyst
Christian F. Wetherbee, Citigroup Inc., Research Division, MD & Lead Analyst
Hamzah Mazari, Jefferies LLC, Research Division, Equity Analyst
Jack Lawrence Atkins, Stephens Inc., Research Division, MD & Analyst
Scott H. Group, Wolfe Research, LLC, MD & Senior Analyst
Thomas Richard Wadewitz, UBS Investment Bank, Research Division, MD and Senior Analyst

Operator
Welcome to the XPO Logistics Fourth Quarter 2021 Earnings Conference Call and Webcast. My name is Rob, and I'll be your operator for today's call. (Operator Instructions) Please note, this conference is being recorded.

Before the call begins, let me read a brief statement on behalf of the company regarding forward-looking statements and the use of non-GAAP financial measures. During this call, the company will be making certain forward-looking statements within the meaning of applicable securities laws, which, by their nature, involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the forward-looking statements.

A discussion of factors that could cause actual results to differ materially is contained in the company's SEC filings as well as in its earnings release. The forward-looking statements in the company's earnings release or made on this call are made only as of today, and the company has no obligation to update any of these forward-looking statements, except to the extent required by law.

During this call, the company 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 are on its website. You can find a copy of the company's earnings release, which contains additional important information regarding forward-looking statements and non-GAAP financial measures, in the Investors section on the company's website.

I will now turn the call over to Brad Jacobs. Mr. Jacobs, you may now begin.

Brad Jacobs
Good morning, everybody. Thanks for joining our call. With me today in Greenwich are Ravi Tulsyan, our CFO; Matt Fassler, our Chief Strategy Officer; Mario Harik, our CIO and acting President of LTL; and Drew Wilkerson, President of North American Transportation.

Yesterday, we reported a fourth quarter that delivered a number of record results. The company as a whole performed well. We grew revenue by 14% year-over-year to $3.4 billion, which was the highest revenue of any quarter in our history. We generated adjusted EBITDA that was a solid beat versus our fourth quarter guidance, and we beat on full year EBITDA as well. We also reported the highest adjusted diluted EPS of any quarter in our history, again, significantly higher than expectations.

Our growth was led by our 2 largest businesses: North American LTL and truck brokerage. In LTL, we delivered record fourth quarter revenue and record year-over-year growth in yield. Our adjusted operating ratio in the quarter degraded year-over-year, which was expected, given some third quarter challenges within our network. But the negative trend bottomed out in October when we launched our LTL action plan with Mario at the helm.

Our plan had an immediate impact on our year-over-year performance. We reduced the erosion in our operating ratio and improved our volume trend as the quarter progressed. Importantly, we expect our year-over-year adjusted operating ratio ex real estate to inflect positive midyear and generate over 100 basis points of improvement in 2022.

In truck brokerage, we had another quarter of outstanding growth, with load count increasing to record levels for the third consecutive quarter. The biggest tailwind driving our volume is XPO Connect, our digital brokerage platform. Shipper and carrier adoption of Connect is growing extremely fast.

In December, we exceeded 600,000 cumulative driver downloads of the platform's mobile app, which is good news for customers, because they want digital access to as many carriers as possible. In the fourth quarter, weekly carrier usage on XPO Connect was up year-over-year by 74%.

So in sum, a good fourth quarter with great traction going into 2022. The full year guidance we issued yesterday reflects our expectation of strong earnings growth this year. The midpoint of our guidance range for 2022 adjusted EBITDA reflects 11% growth versus 2021, and the midpoint for adjusted diluted EPS reflects 22% growth.

Our LTL action plan is moving our adjusted operating ratio in the right direction. We still expect to generate at least $1 billion of adjusted EBITDA in LTL this year. And our truck brokerage revenue is growing at a pace that's 3x faster than industry growth. Finally, we remain committed to deleveraging toward a net leverage ratio of 1 to 2x by the first half of next year. This will be a key milestone in achieving an investment-grade rating.

We're intent on being best-in-class in every aspect of our business, and we're confident of continuing to deliver superior shareholder value.

Now I'll hand it over to Ravi to discuss our results and our balance sheet. Ravi?

Ravi Tulsyan
Thank you, Brad, and good morning, everyone. Today, I will discuss our fourth quarter and full year results, our balance sheet and liquidity and our outlook for 2022. I'll start with the fourth quarter, where we delivered strong year-over-year growth in revenue, adjusted EBITDA and adjusted diluted EPS.

Revenue in the quarter was a record $3.4 billion, up 14% year-over-year. The net impact of fuel prices and FX contributed 3 points to this growth. Organic revenue growth for the quarter was 11%. We grew adjusted EBITDA by 12% to a Q4 record of $323 million. This reflects strong growth and execution in our brokerage and other services segment.

Looking at a 2-year stack, adjusted EBITDA was up 25% on a pro forma basis. Our adjusted earnings per diluted share for the quarter was $1.34, which was up from $0.53 from a year ago, an increase of over 150%. This increase was primarily driven by higher adjusted EBITDA, lower interest expense and a lower tax rate.

We generated $98 million of cash flow from continuing operations, spent $101 million on gross CapEx and received $60 million of proceeds from asset sales. As a result, our free cash flow was $57 million, which was at the high end of our expectations.

For the full year 2021, we delivered revenue of $12.8 billion, a year-over-year increase of 26%. Adjusted EBITDA for the year was $1.24 billion, reflecting growth of 46%. We more than quadrupled our adjusted earnings per diluted share from continuing operations to $4.30 compared to $1.01 from a year ago. We generated free cash flow of $475 million, an increase of over $200 million year-over-year, representing a free cash conversion rate on net income of 97%.

Our cash balance at December 31 was $260 million. This cash, combined with available debt capacity under committed borrowing facilities, gave us $1.3 billion of liquidity at year-end. We had no borrowings outstanding under our ABL facility. Maintaining strong liquidity remains a top priority for us.

We reduced our gross debt by approximately $3 billion in the year, and we have no significant debt maturities until 2025. Our 2021 net leverage at year-end was 2.7x adjusted EBITDA. Our plan is to continue to delever our balance sheet through free cash flow generation and adjusted EBITDA growth. Our progress on deleveraging is important in the context of our commitment to achieve an investment-grade rating.

Turning to the guidance we issued yesterday after market close. Our full year guidance for adjusted EBITDA is $1.36 billion to $1.4 billion. This guide assumes gains from real estate sales of approximately $50 million versus $62 million in 2021. Our current plan is to execute real estate sales in the second half of the year, and these sales will primarily consist of excess land that does not fit our long-term needs.

On the cash flow front, our outlook is for full year free cash flow of $400 million to $450 million. We expect full year growth CapEx to be $500 million to $550 million and net CapEx to be $425 million to $475 million. This significant year-over-year increase in growth CapEx reflects our plan to make growth investments in our LTL business.

Our full year guidance for depreciation and amortization expense is approximately $400 million, and we expect interest expense of $170 million to $180 million. We expect our full year tax rate to be 24% to 25%.

Our average diluted common share count for the year is expected to be approximately 117 million, and our outlook for full year adjusted EPS is $5 to $5.45. For the first quarter, we expect our adjusted EBITDA to be $280 million to $285 million. This guidance assumes no real estate sales in the quarter versus $17 million in the same period a year ago.

In conclusion, we are continuing to execute on our strategy of driving shareholder value as a pure-play transportation company, and we are excited about our prospects for 2022.

I will now turn things over to Matt.

Matthew Jeremy Fassler
Thanks, Ravi. I'll review our fourth quarter operating results, starting with our North American LTL segment. We grew revenue by 10% year-over-year to a fourth quarter record of $1 billion. Excluding fuel, we grew revenue by 4% year-over-year. We had a 4.9% year-over-year decline in tonnage per day, reflecting the impact of the short-term embargoes we utilized to optimize network flow. When the embargoes were in place in October and November, our tonnage trends lagged typical seasonality, then with the embargoes lifted, we outperformed typical seasonality in December and January, despite headwinds from Omicron and weather.

During the quarter, we saw evidence of industrial verticals regaining momentum. Given the amount of industrial and our LTL mix, this bodes well for demand for our services in 2022. Yield, excluding fuel, outperformed typical seasonality in each month of the quarter. And for the quarter as a whole, year-over-year, yield increased 11%. This was nearly twice our previous record increase set in the third quarter.

Revenue per shipment for the quarter, excluding fuel, also grew 11%. The LTL pricing environment remains firm, and we're driving yield with our own company-specific pricing initiatives.

Our LTL-adjusted operating ratio for the quarter was 84%. Excluding real estate gains, our adjusted operating ratio was 87.5%, which was 300 basis points higher than the fourth quarter a year ago. The biggest drivers of the OR degradation were the embargoes I mentioned earlier, which impacted volume, and the higher cost of purchased transportation. We expect to realize a favorable trend in our operating ratio as our network efficiency continues to improve and we bring new equipment and drivers into our organization.

In our brokerage and other services segment, we grew revenue by 17% to a record $2.4 billion and increased adjusted EBITDA by 29% to a record $161 million. Adjusted EBITDA margin for the segment expanded by 70 basis points to 6.7% from 6% the prior year. The largest revenue and profit driver in this segment is our North American truck brokerage business, which had an outstanding fourth quarter. We increased our brokerage loads per day by 22% versus a year ago or 50% on a 2-year basis. Fourth quarter revenue rose 36% year-over-year or 136% on a 2-year basis. Margin dollars rose 10% against a tough comp and rose 86% on a 2-year basis. On a sequential basis, margin dollars in the fourth quarter were 29% higher than in Q3.

Our truck brokerage growth reflects a strong market, our unique technology proposition and our close ties with key enterprise customers. Drew will speak more about these drivers in a minute.

Finally, I want to share a couple of notable awards. XPO was named one of America's Best Employers for 2022 by Forbes and one of America's Most Responsible Companies by Newsweek. We were also a Best Place To Work on the Disability Equality Index and a Top Company for Women to Work For in Transportation by the Women in Trucking Association.

Now I'll turn it over to Mario for his comments on North American LTL.

Mario A. Harik
Thanks, Matt, and good morning, everyone. LTL has made a lot of progress since our third quarter call. I'll start with the 5 points of our action plan we began executing in October.

One major objective was to achieve better network flow, and our plan had an immediate impact. We started with selective strategic embargoes to rebalance the network. By November, we had cleared out the third quarter backlog. This improved our on-time transit sharply from the end of the third quarter to the end of the fourth quarter, along with other service metrics.

Second is pricing and yield. The record 11% year-over-year increase in yield, ex fuel, we reported is a result of multiple initiatives we have underway. We pulled our 5.9% general rate increase forward from the typical January timing to early November. We’re also making sure we get paid for services that give customers added value, like equipment in detention and freight that requires special handling.

And then there's our pricing technology. This is our single biggest opportunity to drive yield. We've developed proprietary pricing tools that make sure we charge a fair price.

The third part of our plan is our in-house driver schools. This is a huge advantage in the driver shortage. We graduated approximately 900 new drivers last year, which is more than twice the number of graduates we had in 2019. Our goal is to double that number again this year to about 1,800 drivers.

Fourth, on the equipment side, we added a second production line to our trailer manufacturing facility in Arkansas. We're on track to double our trailer output this year.

The fifth part of our plan has to do with expanding our footprint to drive growth and network efficiencies. We plan to add 900 net new doors to our network by year-end 2023. This equates to about 6% increase in doors from the start of the plan. So far, we've opened terminals in Chicago Heights in October and in Wisconsin and Arkansas in January. We're also opening 4 new fleet maintenance shops this quarter.

Now I want to take a deeper dive into our LTL technology and the new developments we're rolling out. The pricing tools I mentioned are part of the new pricing platform we just deployed. This platform does the heavy lifting in analyzing shipping data so our LTL pricing experts can be much more productive with contract negotiations. These tools have reduced manual data processing by as much as 80%. And we now have the ability to mine historical RFP data as a seamless lead generation tool for sales. We'll continue to enhance this platform going forward.

We've also made inroads in dynamic pricing, which allows us to update customer rates on certain loads in real time to incentivize them to give the business to us. And we launched an automated process that onboards customers immediately to dynamic pricing, which shortens the contract negotiation cycle.

The other areas ripe for tech innovation in LTL are our linehaul and dock operations. Between now and midyear, we'll be launching new tools to help further optimize how we load our trailers. These tools are designed to increase direct trips, which utilize our trucks and drivers more efficiently, and they’ll improve dock productivity.

In other recent tech launches, we completed the rollout of new planning software on our pickup and delivery platform, and we'll complete a rollout of new dispatch tools by midyear. And we'll start deploying new digital tools for customer self-service and new visibility into multi-pallet shipments. We're continuing to make it easy for our customers to do business with XPO.

So as you can see, we have a lot happening on the technology front and a lot more opportunity going forward, as well as the tangible goals we set for 2022. We expect to generate at least $1 billion of adjusted EBITDA in LTL this year. Our entire team is committed to delivering on this goal. We also expect to deliver more than 100 basis points of full year improvement in our adjusted operating ratio, excluding real estate gains.

Here's how the dots will connect between where we are today and our goal this year. In the first quarter, we project about 200 basis points of degradation in our adjusted operating ratio, ex real estate, year-over-year. From there, we'll continue to reduce the erosion and reach the inflection point midyear. We'll improve our adjusted operating ratio in the second half, putting us on track for more than 100 basis points of improvement for the full year.

We know exactly what it takes to hit these marks. The comprehensive action plan we're executing should unlock more LTL revenue and margin growth going forward.

In 2021, when our company-wide return on invested capital was 32%, our ROIC from LTL was even higher. We're on track to nearly triple our adjusted EBITDA this year since acquiring this business in 2015. And it's a cash engine. Over the last 6 years, we've generated more than $3 billion of net cash from LTL alone.

Now we're going to invest more of our LTL operating cash flow into the business to accelerate its growth. This year, our LTL growth CapEx will be 8% to 9% of revenue, covering investments in fleet, facilities and technology. That compares to 5% of revenue last year.

That gives you a high-level view of the many tactical actions we're taking to drive revenue and margin growth and return to year-over-year improvement in our operating ratio.

We're off to a strong start. We generated sequential operating ratio improvement through the fourth quarter, with December being the strongest month. In January, tonnage remained stronger than typical seasonality. We're seeing major improvements in our service metrics, along with improvements in customer satisfaction and employee satisfaction. We believe strongly in this business. We are on the right track, and our plan is working.

Now Drew is going to cover truck brokerage, and then we'll go to Q&A. Drew?

Drew M. Wilkerson
Thanks, Mario. North American truck brokerage had another phenomenal quarter, the latest in a long history of outperforming the market. Over the last 9 years, from 2013 through 2021, we delivered a revenue CAGR of 27%, which is 3x the industry CAGR of 9%. There were some compelling trends underpinning our growth in 2021.

For the full year, the number of customers who generated over $1 million of revenue with us increased by 48% versus the prior year. We grew volume with our top 20 customers by 35%. These large, sticky relationships are the bedrock of our customer base. And overall, we served over 2,200 customers who were not in our customer base a year earlier.

Another reason we're getting outsized growth is our XPO Connect digital platform. We have first-mover advantage with proprietary brokerage automation dating back to the inception of XPO in 2011. That's when we first envisioned industry demand for a fully automated service for transportation procurement.

XPO Connect is continuing to grow super fast. In the fourth quarter, the number of customers registered on the platform was up 41% year-over-year, and registered carriers were up 38%. This technology is a great lever to attract and retain customers and also carriers, which is critical when the market is tight. 79% of the carriers who do business with us on XPO Connect returned to the platform within 30 days.

XPO Connect is a powerful growth engine, but it's not the only advantage we have with our proprietary technology. We also created dynamic pricing algorithms that we use with customers and carriers. The algorithms leverage automation and machine learning to generate real-time pricing for every transportation lane at any given day and time.

Customers of all sizes increasingly want access to our pricing tools. In the fourth quarter, the number of transactions driven by APIs and other integrations was 2.7x higher year-over-year, and 70% of our loads in the quarter were created or covered digitally.

The bottom line is we have a lot of runway to continue to take market share, and we're doing it profitably. The $440 billion total addressable truckload market in North America is shifting towards brokers, in part because companies are rethinking their supply chains and want flexible capacity with lower risk. We've positioned our business to capture this opportunity at any point in the cycle.

In the current environment, truckload demand is strong and capacity is constrained, primarily due to equipment shortages and driver shortages. We offer a best-in-class combination of lane density, technology, experience and scale, with access to over 1 million trucks, and the headcount we added during the pandemic increases our capacity for growth.

These are significant advantages in expanding our business. That was true in 2021, and we saw it again in January, when we realized strong year-over-year volume growth again in January. We expect to generate double-digit volume growth in 2022 and going forward.

With that, we'll go to Q&A and take your questions. Operator?

<u>Q&A</u>

Operator
(Operator Instructions) Our first question comes from the line of Chris Wetherbee with Citigroup.

Christian F. Wetherbee
Maybe we could start on the LTL side. Was curious about the operating ratio progression as we think about 2022. So I know down 200 in the first quarter and positive in the back half. How do you think about 2Q and maybe sort of how that cadence kind of plays out? Clearly, the comps are a little easier in the back half of the year. So getting to that 100 on a full year basis will be supported by improvement then. But I guess I wanted to again get a sense of what you think the shape of the first half will be.

Mario A. Harik
Yes. Sure thing, Chris. This is Mario. So when we think about the cadence, so first starting with the first quarter. We expect a 200 basis point OR degradation in that quarter, which is sequentially better by 100 basis points from the 300 points degradation we had in the fourth quarter. And we'll drive that OR improvement starting with volume.

So we had 4.9% volume decline in the fourth quarter, and we expect a low single-digit decline in the first quarter. And both, when we think about the exit run rate from the fourth quarter, both in December and January, we outpaced typical seasonality on volume despite the Omicron and weather in the first part of the quarter here.

Now the next step from there would be on the cost side. So we already have seen improvement in labor efficiencies as we cleared the backlogs with the embargoes, and we're going to expect that to continue through the course of the year. And however, that was offset in the first quarter, at least, with higher purchased transportation costs that will carry through the first half of the year, because we typically reset our PT costs in the spring time frame.

Now from a yield standpoint, we continue to expect yield to be very strong for the year, starting with the first quarter. So for the first quarter, we expect yield to be up in the high single digits, which is still reflecting obviously the strong underlying environment, but also the actions we are taking, offset by weight per shipment being higher for us typically in the first quarter. So that's the dynamic of Q1 of the 200 point deterioration.

Now as we go through the year, we expect to get to an inflection by midyear on OR and then get back to positive improvement on a full quarter basis in the back half for a total OR improvement of more than 100 basis points for the full year.

But net-net, if you think how we get there, one, volume, we keep on increasing, yield would remain strong for the course of the year in the high single digits, obviously, with Q4 being slightly softer given where we were in Q4 of last year. And then costs would normalize, where some of the cost headwinds will turn into tailwinds as we get into the back half of the year.

Christian F. Wetherbee
Okay. So it sounds like 2Q is kind of in that flattish type of range. Is that reasonable to assume? Or is that sort of part of how you think about the cadence?

Mario A. Harik
Yes. So that's in the ZIP code, Chris.

Christian F. Wetherbee Okay. That's helpful. I appreciate that. And then just a quick follow-up in terms of the growth of the door count in 2022. I know you're targeting 6% over a 2-year basis. I want to get a sense of how quickly do you start to see ramping up that capacity? I know you've opened some facilities. I guess I want to get a sense of maybe how you see it playing out in the context of that OR progression we just talked about.

Mario A. Harik
Overall, from adding capacity, we think about the ramp from once we add a door to be roughly in the 6-month time frame. But also there's a dynamic. When we think about adding doors, that's a combination of both getting volume in certain markets, but also getting linehaul efficiency in certain markets in terms of our freight -- what we call freight assembly centers, or where we break freight and rebuild trailers for customers as freight flows through the network. But typically, for the business case, our ramp process is around a 6-month time frame.

Now we expect from the doors to add in 2022 to roughly have about 1% of revenue or $40 million worth of additional revenue from these doors. And obviously, that would accelerate going into 2023 as we keep on adding terminals and doors.

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

Scott H. Group
I want to ask another on the LTL margin. I just want to think more sequentially. So the guidance implies that you outperform seasonality pretty meaningfully in second quarter and the rest of the year. I guess, why didn't we see any of this in the fourth quarter when pricing was accelerating so sharply? And I guess, what change is starting in 2Q to get there? And maybe just along those lines, you mentioned something about cost headwinds turning into tailwinds. Are you thinking that PT becomes a tailwind in the back half?

Mario A. Harik
Yes. Let me start first with the Q2...

Scott H. Group
Purchased transportation, sorry.

Mario A. Harik

Yes, you got it, Scott. So let's start first with the fourth quarter. So there were 2 drivers for the Q4 decline beyond the numbers we discussed last time. One was that we obviously implemented our strategic embargoes and metered the amount of volume we're getting in the network to improve network flow. And we extended these embargoes through November because they substantially improved network flow. And now obviously, that increases costs and lower volume, which is short-term pain for long-term benefit of having better network flow.

And also in the back half of the quarter, we saw that third-party linehaul rates went up and have since stabilized. Now when you think about the improvements or the benefits from improved network flow, they include obviously reducing the backlog, and we reduced that down to target levels. Service has improved sharply versus the third quarter. Customer satisfaction has jumped in both internal and third-party surveys as well as -- typically, network improvements are the precursor for OR improvements.

Now more importantly, for the fourth quarter, when you think about the progression, October was the low point of OR degradation, and December was the best month for the quarter. And again, we see that kind of inflecting as we get to the midyear.

Now when we think through the course of the year, there are 3 main drivers for OR. So the first one is volume, which is typically backed by capacity. Second is pricing. And then third is operational efficiency that ties to cost.

And now starting with volume, as I mentioned earlier, we've seen that acceleration of volume, which outpaced typical seasonality in both December and January. And we expect volume to continue to accelerate through the course of the year.

As we mentioned in our 5-point action plan, we're building to add more capacity to the network to allow us to handle more volume. We're graduating and hiring more drivers from our schools. We've doubled the trailer production capacity in our in-house manufacturing facility. We're adding more tractors, starting here in the first quarter, having great discussions with our OEMs. And we're also adding more doors progressively through the year.

We're also investing in our sales force. So we're dedicating some of our strategic centers to LTL, and we're seeing more business either enter or return to our network, as well. So the volume is going to accelerate through the course of the year as we go forward.

On the pricing side, so I'd say a similar dynamic in terms of pricing staying strong for the full year, being in that high single-digit range is what we expect. And we are also contemplating a potential additional GRI for local accounts in the first half, depending on what's happening in the pricing environment.

And then finally, on the cost side, as I said earlier, the headwinds would flip into tailwinds because we would be cycling through purchased transportation costs in the back half, but also as we build efficiency back from a labor perspective and all the other cost categories, that would turn to a lower increase in the back half. But net-net, I mean, obviously, it will be more than 100 basis point improvement for the full year, for a record OR for the year.

Scott H. Group
Okay. And then just a second question. The brokerage, other operating margins were really strong in Q4. It doesn't look like the guidance implies that this continues. So maybe just some thoughts on the brokerage op margin -- brokerage and other op margins this year. And maybe as long as we're talking on this segment, any update, Brad, on potential asset sales here?

Drew M. Wilkerson
So I'll kick it off. As we said, we saw extremely strong trends in January of taking volume. If you look back to the fourth quarter, volume was up 22% on a year-over-year basis. But we also saw over the last 2 years, our loads per day was up 50%. Our net revenue per load was up 50%, and our net revenue more than doubled.

So we're continuing to take share, and we're confident that we'll still be able to do that for 3 main reasons. One is our technology. If you look at our technology, it's focused on customers, the carriers we work with and our people. The customers that we work with, our technology helps them make transportation decisions on what mode they should be shipping, when they should be shipping. It even does little things of give them updates if there's an alert on any sort of delay. It also helps, on the carrier side that we're working with, it's very sticky. And we see that because 79% of the carriers returned to us on XPO Connect within 30 days. And then we're continuing to see it within our employees. As you look over the last 5 years, our headcount is up 38%, and our loads are up 66%.

The second piece is our customers. We have strong relationships with a lot of the top companies in the country. And this has helped drive growth. If you look at our volume growth with our top customers, our top 20 customers, it’s up 35%. Those same customers serve as a reference point. And you see that, for us, as our customers who do $1 million in business with us is up 48%, and we brought on 2,200 new customers. We've got a strong sales force and a lot of momentum.

The last piece is are people. Our people have their ear to the ground. We've got some of the best operators in the business. They've got a proven track record. Director level and above has been with us for 8 years on average. That allows us to create strong, sticky relationships with our customers.

So because of those 3 things, I'm confident that we're going to continue to take market share, and we're going to do it profitably.

Brad Jacobs
Scott, on the asset sale question you had, we're not going to comment on any possible strategic initiatives we have going on. But thank you for the question.

Operator
Next question is from the line of Brandon Oglenski with Barclays.

Brandon Robert Oglenski
So I wanted to talk about the ability to grow in LTL. Because I think if I look historically here, the name of the game has been margin improvement through -- for better or worse, shrinking the business, getting better mix, focusing on price and those customers that fit the network better, I think. And I understand now. Can you talk to us in the context of what seems to be a very expanded CapEx budget? Because I'm showing growth CapEx here in the last few years maybe $300 million to $330 million and obviously stepping up quite a bit to $500 million to $550 million this year.

Matthew Jeremy Fassler
Sure, Scott — sorry, Brandon. Sure, Brandon. Yes, we are going to ramp up LTL CapEx substantially. We're going to be going from roughly 5% of revenue in 2021 to 8% to 9% of revenue in 2022. Some of that is, in fact, for new facilities. We spoke about opening 900 doors over the next 2 years by the end of 2023. Some of it is for equipment as we continue to replenish our fleet.

We generate exceptional returns on capital in LTL. Our company-wide return on capital was 32%. LTL is higher than that. We know that we can get a strong return on that level of investment, hence the decision to allocate more capital to this business. So we're confident, we have line of sight on all of the spending areas, both real estate and equipment.

Brandon Robert Oglenski
Well, I guess, Matt, maybe if I can rephrase the question, and be more direct. Was it a lack of capital reinvestment in the past few years that limited growth in the segment?

Mario A. Harik
Yes. Overall, it was more of a strategy. So when we think about our focus since we bought Con-way back in 2015 has been on expanding margins and the profits. And this allowed us to get to a higher ROIC. But in that business, we nearly tripled EBITDA with $1 billion this year since we bought that business and improved OR by 910 basis points.

Now that we're inflecting towards the growth strategy, it goes back to part of it is obviously adding more doors to the network, the 900 doors that Matt just mentioned, expanding the size of our fleet by doubling the trailer production and our manufacturing facility and adding more tractors, and also adding more people to be able to move the freight, both in drivers and dock workers. So it's a -- so we're leaning more towards now adding more capacity to the network, so we can grow from a volume and top line perspective.

Operator
Your next question comes from the line of Hamzah Mazari with Jefferies.

Hamzah Mazari
Brad, I just wanted to ask 2 questions, and then I'll turn it over. Just questions we've been hearing more frequently from investors given your recent stock sale. One, I guess, are you planning to exit XPO? And then two, should we expect to see you sell more shares in the future? And I'll leave it there.

Brad Jacobs
They're fair questions. Let me be very clear about it. I have no plans to leave XPO. I'm extremely proud of what we're accomplishing here, and I'm super excited about the many, many opportunities that we have to create significant shareholder value, both tactically and strategically.

And regarding the stock sales, I still own about 11% of the company, and I'm very bullish about the company's prospects. But that said, I've owned these shares for over a decade, and I probably will sell some more shares at some time in the future.

But I have no plans to leave the company in the foreseeable future. To the contrary, I'm very much all in and highly focused. Does that answer what you're asking?

Hamzah Mazari
Yes, perfect. Appreciate it. I'll turn it over.

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

Allison Ann Marie Poliniak-Cusic
First on brokerage, you seem pretty confident that double-digit growth will persist after '22. Could you help us maybe think of that growth algorithm for that going forward? Is it mainly the market share that you were trying to articulate before?

Drew M. Wilkerson
Yes, it is the market share. And the brokerage space -- the trucking space is $440 billion. Brokerage has about $80 billion of that, and brokers are continuing to take share. Our customers want to use brokers because they've got flexible capacity that they can scale up or down based on what's going on in the market. And we've got a proven track record, if you look at the last 9 years of the industry CAGR being at 9% and our growth rate being at 27%. We've got a proven track record of being able to deliver on that result. As I mentioned earlier, we've got a strong sales team and a great pipeline for going forward.

Allison Ann Marie Poliniak-Cusic
Great. And then just on the technology for LTL, a lot of initiatives being put in place there. Is there a way to think of the contribution from those initiatives, whether it's price or customer

share or productivity and efficiencies that you're expecting to drive from some of these initiatives? Just any color there?

Mario A. Harik
You got it, Allison. So it's a combination of all of the above. So obviously, when we think about pricing technology, it's about improving on yield. And as I said in my prepared remarks, where the new platform allows us to reduce manual data processing by 80%, enabling our pricing experts to spend more time analyzing account performance and negotiating along with sales. And it also enables us to use historical RFPs as a lead gen tool for sales. So that ties to adding more volume to the network by driving, again, more and more leads.

Similar thing on dynamic pricing, that allows us to be able to get a combination of yield and volume, where we can flex that lever based on where we need the volume versus where we want the yield.

On the efficiency side, I mentioned areas around linehaul and dock ops, and this all goes back to efficiency. That efficiency, in that case, by building more direct trailers to destination, which we call it, technically, head hauls. It used rehandle for better dock productivity across our docks. It also improves our linehaul operation there.

And all the technology goes back to customer experience. I mentioned our new web experience for customers and better visibility all the way down to the piece level. So if you have a multi-skid shipment, being able to give customers visibility all the way down to the pallet level or -- this ties back more to customer satisfaction. So it's a combination of improvement in yield, improvement in volume, improvement in efficiency and customer sat.

Operator
The next question is from the line of Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck
Just wanted to come back to the cadence of the OR throughout the year. And is there any way you can kind of split that between contributions you would think they're coming from the market and pricing and things you just mentioned in terms of that are more XPO specific, that you got more visibility and line of sight. And within that, can you just give some context in terms of how pulling forward the GRI was handled in the market?

Matthew Jeremy Fassler
I'll do the first part, Brian. And I'll just harken back to the color that Mario gave. We expect the OR improvement to progress through the year due to a combination of volume improvement and, over the course of the year, improvement on the cost front, with pricing being a relatively constant positive. To the extent that we're looking at volume at cost, those are idiosyncratic opportunities for XPO, both to improve from where we are, going forward and also as we're cycling some of the issues that we experienced in the second half of last year. And I'll give it to Mario for a discussion of the GRI.

Mario A. Harik
Yes. Overall, on the GRI side, I mean, it's a firm pricing environment when it comes to LTL. So the feedback we've gotten from customer hasn't been -- we haven't seen any pushback in the market. And we pulled back our GRI from the typical January time frame to November. But overall, the feedback has been good from customers.

Now when we go to this year, we are contemplating doing a second GRI for our local accounts in the first half of the year, but depending on how the market progresses through the course of the year. And usually, GRIs for us, they impact one segment of our customers, which is our local account business, but not all customers, which is roughly around 20% to 25% of the business.

Brian Patrick Ossenbeck
Okay, Mario. A question for Drew then on the brokerage side. We hear a lot about automation and what's no-touch and what's created digitally. So I don't know if you can add some context to your 70%, where you think that stands versus the competition in your view? And what sort of customers are you really attracting and retaining with those types of abilities and capabilities?

Drew M. Wilkerson
Yes. So the 70% are created or covered digitally. That's a number that we're extremely proud of. If you look at our API integrations with our customers, that is up 2.7x on a year-over-year basis. The types of customers that are using this is all types of customers. It's very sticky with our large customers. They are attracted to the API integrations that we offer, but also our smaller customers are logging on, and they're using XPO Connect on a daily basis. And again, that helps them make the best transportation decisions possible. It tells them what mode they should be shipping, when they should be shipping. So we're seeing it across all of our customer base.

Operator
The next question is from the line of Jack Atkins with Stephens.

Jack Lawrence Atkins
I guess this one is for Mario. I guess I'm a little surprised that you're not expecting a bit more than the 100 basis points or so of OR improvement in 2022, given that's probably going to lag your peers' performance this year. And your comps are arguably much easier given the underperformance over the last 2 years.

So I guess, Mario, a bigger picture question. Do you feel like maybe there's something more structural going on within your LTL assets? Why can't you see a more substantial improvement in operating ratio this year? And do you feel like that 5-point plan you outlined 3 months ago was really going to be enough to get the business back on track?

Mario A. Harik
Thanks, Jeff. So let me first talk about the structural piece of our LTL business. We have more than 290 terminals with 21,000 fantastic people who cover 99% of all ZIP codes. And that team has moved 18 billion pounds of freight for 25,000 customers in 2021. So there's nothing structurally wrong with this business.

And I went back to what I said earlier. Since we acquired the LTL business from Con-way, or the Con-way acquisition, we nearly are on track to triple EBITDA by this year and improve our OR by 910 basis points, and that's with generating net cash of $3 billion. So there's -- again, there's nothing structurally wrong here.

We did make the mistake in the third quarter of last year to in-source third-party linehaul. Our network flows temporarily deteriorated. Our costs went up due to the efficiencies associated with that, and we implemented the 5-point action plan, starting with strategic embargoes. This allow us to -- where we effectively lowered tonnage to allow us to tier the backlogs in our network and get back to having much more improved network flow.

We believe this is a temporary phenomenon. It's not something that will repeat. And we're focused on customer service, on pricing, on tonnage and ops execution. And we're planning on delivering $1 billion of EBITDA this year.

So when we think about it overall, it's a strong plan. It's a plan that ties back to adding more capacity, investing more in the business, pivoting towards growth and then servicing 25,000 — and hopefully more in the future — fantastic customers.

Jack Lawrence Atkins
Okay. Got it. And then for my follow-up question, I would love to kind of get your thoughts on the intermodal market. It's not a business that we hear you talk much about, but we're seeing a number of your IMC competitors making some interesting moves in terms of shifting rail partners and adding additional containers and investing in their businesses with intermodal. How are you thinking about the intermodal market and XPO's position within that as we look forward?

Drew M. Wilkerson
The intermodal market was strong. We continue to take -- we continued our recovery there. And if you look at the congestions and the equipment shortage, our organic revenue was up 38% on a year-over-year basis. You saw our GM per load skyrocket. We are investing in containers as you look into 2022. And we expect to be able to continue to grow on intermodal, but also on our drayage side.

Our drayage side complements intermodal. And when you think about it, one of the reasons that they marry so well together is because we have a presence at every single major U.S. port. So we're very excited about the intermodal market, and it was a strong performer for us in the fourth quarter.

Operator
Our next question is from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra
Mario, I just want to go back to the first couple of questions on the cadence of the operating ratio. And I just want to make sure we're on the same page in terms of the numbers that we're -- because there's a lot of operating ratios adjusted, unadjusted.

If I look at the first quarter, it looks like you guys are guiding to an 86.3% OR for the first quarter. And if you're kind of flattish in the second quarter, that implies a jump in the OR, or an improvement in the OR, to 81.1%.

So first, are those numbers correct? Second, it implies an over 500 basis point improvement in the operating ratio of the second quarter, which is a huge number, I think, would support a lot of the initiatives that you're talking about, but I just want to make sure that, that expectation is well calibrated.

Mario A. Harik
So overall, Amit, when we think about the OR cadence for the year, so for the first quarter, we expect a 200 points deterioration, and that would take us from the 84.3% to 86.3%. Now in terms of the second quarter, we're expecting the inflection to be OR positive by midyear. Now obviously, we haven't given specific guidance for the second quarter, but it would be in the ZIP code of what you mentioned. But that's kind of how we think about the cadence and then going over to improvement in the back half of the year.

Amit Singh Mehrotra
Okay. So -- and the full year guidance, just on 100 basis points, is against an 84.3%. So you're really forecasting an 83.3% or better OR for the full year, which is obviously a great outcome given the starting point of 86.3%, but I just want to make sure that we're on the same page in terms of the numbers.

Mario A. Harik
That's correct for the full year, which is more than 100 basis points of OR improvement with the sequential improvement going obviously from the 200 deterioration in the first quarter, inflection midpoint, to a full year of more than 100 basis points.

Amit Singh Mehrotra
Okay. That's very helpful. And then the other question I had, I think it goes back to Brandon's question on capacity. So I guess, very simply, why do you guys need more capacity? Because if I look at the operating metrics in 2021, XPO LTL did 9,000 fewer shipments per day than it did all the way back in 2012, with basically the same footprint. And so I'm just wondering why do you need more doors? Why are more doors part of the problem? Why are they part of the solution? And maybe it's just as simple as kind of more targeted doors to relieve some of the

pressure. But just give us a sense of why you need more capacity in the context of these -- of how shipments have trended over the last decade or so.

Brad Jacobs
Thanks for the question, Amit. It's Brad. It's really simple. We've got a very high ROIC in this business. We've been running it for OR improvement. We've succeeded at that overall. We improved OR by 910 basis points. We're now going to continue to focus on OR. But in addition to that, grow the top line. In order to grow the top line, we're going to invest in more trucks. We're going to invest in more doors. We're going to invest in more people.

Amit Singh Mehrotra
Yes. I understand that. But like the question is you have 9,000 fewer shipments per day than you did back in 2012. So doors and capacity is not the issue. It's maybe something else, unless I'm mistaken.

Matthew Jeremy Fassler
Amit, it's Matt. There's 2 points -- 2 additional points to make. One of them is while we do have coverage across the entire country, as Mario said earlier, we cover 99% of the country, there are selected markets where we know we have the opportunity for additional volume by putting in incremental doors.

The second point is that we have ongoing opportunity to optimize our linehaul network. And when we think about where we put those doors, we're thinking not only about the P&D side and that opportunity for incremental business, but also the opportunity to smooth out our linehaul network.

And Mario, I think, has an additional comment on that.

Mario A. Harik
Yes. And also, Amit, I'll tell you, a lot of it also goes back to customer feedback. And I've spent a lot of time with customers since I've taken over this role. And with my time with customers, for example, one of the markets we want to expand the number of doors in is Southern California, where I recently met with one of our large customers. And their immediate feedback was, sign us up; as soon -- we're going to -- as soon as you open up the new terminal there, we want to be first in line to tap into that capacity.

So although across the network, we have 15% extra capacity, we're seeing more demand in certain markets where there are pinch points for us, where we don't have enough doors to be able to support all the customer demand we're seeing there. So by expanding the network in those specific markets, we can effectively better service our customers and get more volume in those markets.

And as Matt said, on the linehaul side, a lot of these -- so take, for example, the market like Atlanta, which is one of the major areas of the South and it's also the gateway into the Florida region, as well, from a linehaul standpoint. So you think about that market expanding in it, gives us both the linehaul capacity and the local steady operation capacity, as well.

Amit Singh Mehrotra
Got it. And I know I'm asking more here with one additional question. But hopefully, you allow me to. Brad, last quarter, in the third quarter transcript, you used the word “non-core” to describe some businesses with the XPO. I don't think I've ever heard you use the word “non-core” when describing any business at XPO over the last 10 years. And so I don't know if that was a deliberate distinction. If you can just expand on what businesses you think are noncore, why you think they're noncore? Because obviously, the company spun off GXO, that's been a huge success. Just trying to understand if you're happy with the way XPO is today? Or if we should read into something in terms of calling -- characterizing some businesses as actually noncore?

Brad Jacobs
I'm very happy with what XPO is today, but I'm also always looking for ways to create more shareholder value, and that's our mission in life, and we'll always be open-minded about that.

The stock -- we're accomplishing a lot of great stuff, but the stock is trading at 7-point-something times EBITDA and 12-point-something times on a PE basis, which are quite significant discounts to the market.

So we've heard suggestions for various strategic alternatives and asset sales, and we're not going to comment on any of that publicly. And there's a rationale for keeping all of our lines of business. They're good businesses. The numbers are up and to the right. There's also a rationale for divesting some of our lines of business. We could take the proceeds. We could pay down debt. We make this investment grade faster. We’d become more of a pure-play, which, as you've seen with the spin, investors like pure-plays. So I'm very happy that we have multiple, numerous alternatives to create shareholder value.

Operator
The next question is from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz
I know you've had a lot on LTL, but I guess that's an important topic. So I wanted to ask a little bit more about the path. Do you think -- I guess, in terms of network efficiency, is the capacity add really a key factor that builds? I know you talked about drivers, trailers, some additional doors. Is that a key driver for improving fluidity and productivity? Or is that the wrong way to look at it?

Mario A. Harik
It's a combination of both. But for the most part, it's positioning capacity for getting more market share or getting more volume. So overall, if you think about -- let's talk about capacity from a real estate perspective.

So today, we have excess capacity of roughly around 15% across the network. However, some markets have pinch points where we don't have enough capacity or enough doors. I mentioned earlier, for example, the Southern California market, where we see obviously both high demand on imports. But at the same time, it's a high consumer market as well. So when we think about it from a doors perspective, it's a combination of adding more doors to handle more freight, but also adding more doors to handle more fluidity in the linehaul network and breaking points where we need more of that capacity moving forward.

On the equipment side and the people side, obviously, it's mostly focused on getting more volume. The more trailers you have, the more trucks you have, the more people you have, you can effectively move more freight for customers.

Now a lot of the plan on the real estate side, you also have to think through that there's a 6-month ramp for any real estate -- or any set of doors that we add in terms of ramping into the volume. So a lot of the benefits would be in 2023 and beyond as we think about adding those doors over the course of the year. And then obviously, we'll get the margin benefit through the course of the year as well from the ones we add this year.

Thomas Richard Wadewitz
You've talked a fair bit about tonnage growth, that that's become more important lever for you. I don't think I've heard a comment on the call of what the right ballpark is for how much tonnage growth you would expect this year. So I don't know if you have a thought on that.

And then I guess, just shifting gears to tonnage growth, is tonnage growth a key lever for the margin improvement? Or is that really more just shift to another gear, and that helps on top line growth? Because I guess if you look at some LTL models, it does seem tonnage growth is key to the margin. But obviously, it could be a stronger top line or it could be that and a margin driver.

Mario A. Harik
It's a combination of both. So when we think about, again, delivering on the margin improvements, it's driven by volume, pricing and operational efficiency or cost. So our plan includes the volume growth through the course of the year. However, it's a low single-digit volume growth assumption for the full year that obviously starts with being down low single digits in the first quarter, which is obviously seasonally better than where we were in the fourth quarter and then would ramp through the course of the year for a full year low single-digit improvement in volume.

Now, also volume -- so not only there's a flow-through of EBITDA from the volume itself, but there's also the fixed cost leverage that you get by adding more volume to the network. But when you think about margin improvement, it's a combination of volume, pricing and operational efficiency to drive that.

Brad Jacobs
Thank you. The hour went by fast, but it's over. So let me conclude by saying we have a ton of momentum in LTL. The year is off to a very good start. Our action plan is working. We expect to generate at least $1 billion of LTL EBITDA this year and more than 100 basis points OR improvement.

In truck brokerage, we continue to perform at best-in-class levels. In Q4, we grew loads at 22%. And over the last 8 years, our truck brokerage growth rate has been 3x the industry’s, and we expect to continue to significantly outperform going forward.

On the balance sheet, we're on track to reduce leverage to 1 to 2x by the first half of next year, and we're determined to close the significant valuation gap of our stock versus our peers.

So thank you, and we look forward to seeing you at the upcoming conferences. Have a great day.

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