

30-Apr-2026

XPO, Inc. (XPO)

Q1 2026 Earnings Call

CORPORATE PARTICIPANTS

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

OTHER PARTICIPANTS

Ken Hoexter

Analyst, BofA Securities, Inc.

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Scott H. Group

Analyst, Wolfe Research LLC

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Jonathan Chappell

Analyst, Evercore ISI

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Stephanie Moore

Analyst, Jefferies LLC

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Thomas Wadewitz

Analyst, UBS Securities LLC

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Jason H. Seidl

Analyst, TD Cowen

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Daniel Hultberg

Analyst, Oppenheimer & Co., Inc.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Eric Morgan

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the XPO Q1 2026 Earnings Conference Call and Webcast. My name is Kevin and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

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

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

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

Good morning, everyone, and thank you for joining us. I'm here with Kyle Wismans, our Chief Financial officer; and Ali Faghri, our Chief Strategy Officer.

This morning, we reported record first quarter earnings with strong momentum across the business. Companywide, we delivered adjusted EBITDA of \$319 million, up 15% year-over-year, and our adjusted diluted EPS was \$1.01, up 38%. In North American LTL, we increased adjusted operating income by 20% and we delivered an adjusted operating ratio of 83.9%. That's an improvement of 200 basis points year-over-year, which is also well ahead of normal seasonality.

These results mark a clear acceleration of our performance, driven by the disciplined execution of our strategy. It starts with customer service, where we continue to make significant progress. In the first quarter, we reduced our damage claims ratio below 0.2%, with damages at a record low. This is the service metric that matters most to LTL customers. We've developed new AI-driven technology that addresses damages by improving how we load our trailers. These tools evaluate load quality in real time and help us protect our customers' freight.

We're also running one of the fastest networks in the industry with the largest number of standard one-day and two-day lanes. Our mix of speed, coverage and safe handling, combined with reliable on-time performance, is delivering a superior experience for our customers. And this is translating into better commercial outcomes, including stronger pricing and ongoing market share gains.

We've also built our network to support growth by investing ahead of demand across our workforce, fleet and service centers. These are the three main components of capacity to move freight for our customers. On the real estate side, we've added density in growth markets and we continue to operate with more than 30% excess store capacity. This allows us to run our network efficiently today and respond quickly as volumes recover.

Another area where we invest to gain a competitive edge is in our rolling stock of tractors and trailers. We have one of the youngest fleets in the industry with an average tractor age of 3.9 years. This gives us an advantage with reliability, safety and lower maintenance costs. Trailers are just as critical to capacity because they enable more efficient freight flows across our network. We have manufactured more than 20,000 trailers since the start of the freight down-cycle.

And from a labor standpoint, we have a proprietary workforce planning model that uses technology to flex labor hours as demand changes. This allows us to improve productivity while maintaining high service levels. Taken together, our investments in capacity are creating strong operating leverage that will enhance our bottom line as the cycle turns.

Another strategic lever is pricing, where we saw continued momentum in the quarter with underlying trends that improved each month. As demand recovers, customer place more value on carriers they can rely on for both capacity and consistent service. And that translates into stronger pricing and continued share gains for us. One area where we're continuing to earn market share is with local customers. In the first quarter, we grew shipments in this high-margin channel by mid to high single digits, an acceleration from the prior quarter.

We're also continuing to shift toward higher quality freight, including shipments that need our premium services. The demand for our rollout offering was a key driver of our margin improvement in the first quarter. And we're seeing increased adoption in verticals like grocery and healthcare, where we fill a definite need as customers in these segments have service-sensitive freight.

In short, we have multiple levers we can execute and a long runway to build on our momentum with a double-digit pricing opportunity over the years to come.

And lastly, another important driver of our outperformance is cost efficiency. In the first quarter, our productivity improvement of 4% was well above our long-term target of 1.5%. We achieved this by ramping our technology to ensure that the benefits are both durable and scalable. Specifically, we're leveraging proprietary tools that use AI to improve planning, optimize freight flows and enhance day-to-day network execution. This is especially valuable in linehaul and pickup and delivery operations where the savings can be significant.

For example, we've rolled out our pickup and delivery tools for route optimization to about half the network and we're seeing tangible efficiencies, including fewer miles and more stops per hour. We expect to have this tech fully implemented by the end of the year.

And to bring down our purchased transportation costs, we've reduced outsourced miles to some of the lowest levels in our history. This has given us a more flexible cost structure that mitigates our exposure to rises in truckload rates. Importantly, these initiatives are driving structural improvements that will scale as volumes recover, creating further opportunities for margin expansion.

In closing, our strong start of the year reflects the strength of our model and the consistency of our execution. We have a clear line of sight to achieving an LTL operating ratio in the 70s, driven by ongoing service improvements,

profitable share gains, above market yield growth and robust cost efficiency across our network. Increasingly, all four of these drivers will be propelled by our proprietary technology and AI.

We also see a significant opportunity to further compound earnings, as we expect to generate billions of dollars of cumulative free cash flow in the coming years, accelerating share repurchases and debt reduction. This is how we're building our path to long-term value creation for our shareholders.

With that, I'll turn it over to Kyle to walk through the financials. 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 capital allocation. For the first quarter, total company revenue was \$2.1 billion, an increase of 7% year-over-year. Revenue in our LTL segment grew 5% to \$1.2 billion, primarily driven by higher yield and fuel surcharge revenue.

On the cost side in LTL, we continue to operate more efficiently and with less reliance on purchased transportation. Our productivity gains in the quarter helped mitigate the impact of wage inflation, linehaul insourcing and volume growth. Our salary, wages and benefits expense increased year-over-year by 4% or \$27 million.

On purchased transportation, we enhanced our structural cost improvement by further reducing our use of third-party carriers. This will help us control linehaul costs as the cycle recovers and truckload rates rise. Depreciation expense increased by \$8 million, or 10% year over year, reflecting our continued investments in the network to support long-term growth.

Turning to profitability. We increased adjusted EBITDA companywide by 15% to \$319 million. Our adjusted EBITDA margin was 15.2%, an improvement of 100 basis points from the first quarter the prior year.

In our LTL segment, we grew adjusted operating income by 20% to \$198 million and adjusted EBITDA by 16% to \$290 million. Our LTL adjusted EBITDA margin improved by 230 basis points to 23.6%.

In our European Transportation segment, adjusted EBITDA was \$33 million. And in our corporate segment, adjusted EBITDA was a \$4 million loss.

Returning to the company as a whole, we reported operating income of \$174 million for the quarter, up 15% year-over-year. And we grew net income by 46% to \$101 million, representing diluted earnings per share of \$0.85. On an adjusted basis, diluted EPS was \$1.01, an increase of 38% year-over-year.

Moving to cash flow and CapEx, we generated \$183 million of cash flow from operating activities in the quarter and deployed \$104 million of net capital expenditures. We ended the quarter with \$237 million of cash on hand after repurchasing \$30 million of common stock and paying down \$30 million on our term loan facility. Combined with available capacity under our committed borrowing facility, our total liquidity at quarter end was \$837 million.

Our net leverage ratio was 2.3 times trailing 12 months adjusted EBITDA, down from 2.4 times at year-end 2025, continuing the trend of the last two years. We expect a meaningful step up in free cash flow generation this year, with momentum building over the next few years. This should accelerate the pace of share repurchases and deleveraging.

Before I wrap up, I want to highlight an update to our full year 2026 planning assumptions. We now expect our adjusted effective tax rate to be in the range of 23% to 24%. This is reflected in the latest investor presentation. Our other planning assumptions for the year remain unchanged.

With that, I'll hand it over to Ali to walk through our operating results.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

Thank you, Kyle. I'll start with our LTL performance where we delivered another quarter of strong execution and outsized margin expansion. Shipments per day increased 3% year-over-year, while weight per shipment decreased 2.8%, resulting in tonnage per day turning positive by 0.1%.

We're continuing to drive profitable growth in the business by increasing the number of shipments, improving network density and prioritizing both freight quality and mix to support yields and margins. Our mix is managed to specific objectives, including share gains with local customers and market penetration with our premium offerings. And we're showing that we can achieve these objectives in any environment.

Looking at the first quarter trends year-over-year by month, January tonnage was flat, February was up 0.1% and March was down 0.4%. Notably, shipments per day trended up each month. January was up 1.2%, February was up 3% and March was up 3.8%. For April, we estimate that tonnage will be down about 1 point compared with last year, outpacing typical seasonality, and that weight per shipment will improve sequentially and on a year-over-year basis versus March, also trending better than seasonality.

Turning to pricing, we delivered another quarter of above market performance with yields up 4% year-over-year, excluding fuel. Importantly, our strong pricing trajectory is continuing to trend up. We expect both yields and revenue per shipment, excluding fuel, to accelerate on a year-over-year basis and improve sequentially through the balance of the year. We're driving this internally through continuous improvement in service and externally with our local customer base and premium offerings. These channels are both gaining traction with customers.

Looking at first quarter profitability in LTL, we reported a 200 basis point improvement in our adjusted operating ratio year-over-year. We also improved margins sequentially, outperforming normal seasonality by 100 basis points. This reflects our momentum with pricing as well as the application of our technology, which excels at productivity and cost control. Most recently, our AI tools are enabling precision planning and execution in driving operating efficiencies consistently across the network.

Turning to Europe, we continue to generate strong results. First quarter revenue increased 11% year-over-year. This was our ninth consecutive quarter of growth on a constant currency basis. And we delivered another quarter of adjusted EBITDA growth that was better than seasonality relative to the fourth quarter.

Before we move to Q&A, I'd like to summarize the key drivers of our momentum in LTL. First is above market pricing growth, which we support by ensuring our customers receive strong service. This dovetails with our focus on mix and freight quality. And as I mentioned, we expect our pricing trajectory to accelerate as we move through 2026. At the same time, we're creating structural cost advantages in our network through productivity gains, capacity investments and the ramping of our technology. Each of these levers has a sustainable impact on our best-in-class margin expansion and each represents significant upside as the cycle inflects.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Ken Hoexter from Bank of America. Your line is now live.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Hey. Great. Good morning. Congrats on strong performance here as we see some rebound. But, Ali, maybe just – or Mario, talk about contract renewals. You talked about strong pricing. Should we see a deceleration in core pricing, given the acceleration of fuel? Maybe just talk about the mix there. And then, Ali, just given the impact on that, your thoughts on sequential operating ratio. If we're outperforming seasonality by a sizable amount here in the first quarter and you're getting that pricing, does that accelerate and continue to outperform seasonality as we look into the next quarter or two?

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Yeah, you got it, Ken. This is Mario. So our contract renewals in the first quarter accelerated from where we were in the fourth quarter. They were up in the mid to high single digit in Q1 of this year. Now, we also expect from a yield perspective an acceleration, as Ali mentioned earlier, both from a yield and fuel perspective and revenue per shipment perspective on a year-on-year and sequentially in Q2 and through the rest of the year.

In terms of OR outlook, based on what we have seen so far here and what we delivered in Q1, we do expect another strong quarter of margin performance in the second quarter. If you look at seasonal trends over the long term, we typically see our OR improve 250 to 300 basis points sequentially from Q1 into Q2, and we expect to comfortably outperform the high end of that seasonal range in the second quarter. This would also mean that on a year-on-year basis, we expect to improve OR in the second quarter more than we did in the first quarter. There's even a path for us to get to an OR with a seven handle. I mean, obviously, we'll see how the rest of the quarter here will roll out. And this would be overall a strong outcome, given that we're still in the early innings of what could be a recovery here.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Wonderful. Thanks, Mario.

Operator: Thank you. Next question today is coming from Richa Harnain from Deutsche Bank. Your line is now live.

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Q

Hey thanks. Good morning, gentlemen. So, yeah, I guess I just want to better understand what's happening on the pricing and weight per shipment side. I believe revenue per shipment was expected to come in mid-single digit range for the year, weight per shipment to be roughly flattish. We're starting the year below target on both. Also, revenue per hundredweight was not as strong as I would have expected despite the lower weight per shipment. So just trying to understand, obviously, Mario, you said you saw continued momentum in the quarter [ph] or Ali, you (00:19:03) said pricing should accelerate. I just want to make sure that those are still targets for the year,

appropriate targets. And then, obviously, comps are a factor. But just generally, what's going to get us back to the acceleration phase? Thank you.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Yeah. Richa, it's Kyle. So just really want to highlight a little bit on yield. So as we talked about for the first quarter, we had another strong quarter of pricing performance. I think as Mario mentioned, a lot of the strong pricing translated to our OR outperformance in the quarter. So for Q1, we were 100 basis points better than normal seasonality. On a year-over-year basis, we improved more than 200 basis points. And based on the pricing improvement we're seeing here in March and April, we would expect both the yield and rev per shipment, ex fuel, to accelerate on a year-over-year basis in Q2 and through the rest of the year. I think what's important is reflecting an increasingly a constructive pricing environment as well as a lot of internal initiatives to help drive price further in the future.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

And then, Richa, on the weight per shipment side specifically, so if you look at Q1, our weight per shipment was down 2.8% on a year-over-year basis, but that was up about 2 points sequentially versus the fourth quarter. And that's very consistent with the typical step up that we see as we move from Q4 into Q1.

Now, weight per shipment for us can bounce around from month to month. Specifically, if you look at Q1 for us, we did ramp out the rollout of some of our premium services throughout the quarter. We're also taking a lot of share with local customers, and both of those channels do come with a lower weight per shipment profile. However, they are very accretive to our margins. And ultimately, that's what drove that meaningful OR outperformance in the first quarter.

Now, I think more recently, what's more encouraging is that weight per shipment trends have started to improve. So here in the month of April, weight per shipment was down about 1 point on a year-over-year basis. That was about 2 points better than typical seasonality. Usually we see weight per shipment decline sequentially from March into April and we actually saw it increase sequentially. And ultimately, that's what gives us confidence in that weight per shipment trend improving as we move through the balance of the year.

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Q

All right. Great. Thank you.

Operator: Thank you. Our next question is coming from Scott Group from Wolfe Research. Your line is now live.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Hey. Thanks. Good morning, guys. So, with – the tonnage update's helpful, but I feel like comps get a little easier as the quarter goes on. Obviously, we got big tailwind coming from fuel. Any sort of directional thoughts on how you guys are thinking about sort of like total rev per day trends for the quarter? And then, just given Q1 and Q2 guide, like, it feels like there should be good upside to the full year OR guidance of 100 to 150 basis points. Any sort of updated thoughts on how the full year OR could now look? Thank you.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

So, Scott, I'll start with the second quarter in terms of the moving pieces and then pass it to Mario on the full year. In terms of Q2, from a tonnage standpoint, if you just roll forward normal seasonality from here, and keep in mind, we do have slightly tougher comps in the month of April and May, and then June gets much easier on a year-over-year basis, we would expect tonnage to improve in each month of the quarter, and that would put full quarter tonnage flattish on a year-over-year basis.

From a pricing standpoint, as Kyle noted, we do expect our yield, ex fuel, and revenue per shipment, ex fuel, to accelerate on a year-over-year basis here in the second quarter. We'd expect our yield to be comfortably in that mid-single-digit range here in the second quarter. So that should give you kind of some of the moving pieces in terms of the top line outlook.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

And Scott, for full year OR, I mean, as you mentioned, we delivered here in Q1 better than expected OR outlook than when we started the year. And we do expect Q2 to also be better than what we expected from the beginning of the year. As I mentioned earlier, we do expect to comfortably outperform the seasonal trend into Q2 from Q1 and improve OR on a year-on-year basis more than we did here in the first quarter. So it's fair to say that we have a high degree of confidence in potentially outperforming our outlook of 100 to 150 basis points of margin improvement this year.

Now, there are also more things that can go – well, I mean, from a volume perspective, so far, volume has tracked in line with our expectations, Q1 through to April, but we are hearing more positivity from our customers. So if we start seeing volume inflect as we head into the back half of the year, where underlying demand continues to pick up steam, then, obviously, all of that would be upside to our forecast. If you look on the pricing side, as Ali mentioned, we expect an acceleration in Q2 for both yield and rev per ship. And we expect that to continue through the balance of the year as well.

When you look at the cost side, our execution has been excellent. I'm very proud of the team in terms of having – typically, Q1 is a volatile quarter. But you couple that with fantastic AI and technology tools we launched, we've only so far launched our P&D optimization AI tool for half our network and we haven't even done the large locations yet. And if you look at our performance in the first quarter, we improved productivity by 4 points. If that continues to compound through the rest of the year, all of that could be upside as well.

So, again, we started the year with a lot of momentum in terms of Q1 and Q2 and we – it's still early in the year, though. Obviously, as we make progress here, we'll update on the full year as we continue to deliver those kind of numbers.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay. Good stuff, Mario. Thank you.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Thank you.

Operator: Thank you. Our next question today is coming from Fadi Chamoun from BMO Capital Markets. Your line is now live.

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Q

Hey. Thank you. Good morning, Mario and team. I think you touched on this a little bit. I'm not clear. I understand the revenue per shipment year-on-year and quarter-over-quarter, I think, was the weakest performance that we have seen since 2023. And you talked about mix and few other things. I just want to make sure I understand why you've seen this deceleration in Q1. And obviously, you're talking about an acceleration going forward. I suppose that's driven by the yield.

But my main question really outside of this clarification is, can you talk a little bit about what you're seeing from the customers' conversation in terms of what the demand outlook looks like? Weight per shipment seem to kind of be moving a little bit in other direction. Are you seeing more pallets? Are you seeing – like, what are you seeing on the kind of core organic demand environment with your customers?

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Sure, Fadi. This is this is Ali. I'll start with the revenue per shipment trend, then pass it to Mario to speak about the customer demand outlook. From a revenue per shipment standpoint, as I noted, that can bounce around from quarter-to-quarter. And specifically, for Q1 for us, we did see a lot of progress with some of our mixed initiatives around local growth, around premium services, which, again, those do come at a slightly lower weight per shipment profile, but very accretive to our margins. And that's what drove that strong margin outperformance we had here in the first quarter.

Now, I think what's been encouraging for us is we've started to see that pricing trend accelerate as we move through the first quarter and that acceleration continued here into the second quarter from an underlying yield standpoint. At the same time, we're also seeing that weight per shipment trend normalize as well on a year-over-year basis.

So that acceleration that we're seeing in yield, combined with that normalization on a year-over-year basis and weight per shipment, ultimately, that's what's driving that positive outlook on revenue per shipment accelerating here into the second quarter. And that's consistent what we've seen here in the month of April as well.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

And Fadi, when you look at overall the demand outlook, we are hearing more optimism from customers. As you know, every quarter, we do a survey with our top customers and we ask them what are you expecting for the back half of the year, now since we are at the end of the – or beginning of the second quarter here. And we are hearing more optimism where double the number of respondents that expect an – or that now expect an acceleration into the back half of the year relative to where they were in the first half of the year. And there were nearly no customers that expect a deceleration in the back half of the year. We haven't seen those kind of survey results going back to 2021, which is very encouraging when we see what we're hearing from the customers.

Now, if I break it down, retail has been positive and consistently we've seen good demand on the retail side. On the industrial side, we're hearing a lot of the optimism, but we haven't seen it yet materialize in big tonnage swings. As you know, Fadi, if you go back, since we've been in an industrial recession now for three years, and a

freight recession in (sic) [for] three years, volumes in the industrial economy are down in the mid-teens plus. And what we're seeing now with ISM being over 50 for three months to kick off the year is very encouraging.

In terms of subsectors of the industrial economy, electrical continues to be good. Equipment for ag is doing well. Chemicals is doing well. And just recently here in the month of April, we are seeing auto showing some legs as well. So as we continue to see if that ISM, which typically takes, call it, three to six months to materialize into high volumes, if that materializes, as we head into the back half, with the customer expectations, this could be a great setup in terms of seeing more of that demand coming now from the industrial side of the economy as well.

So, again, early innings, but we're hearing much more optimism than we did a quarter or two ago.

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay, great. Thank you.

Operator: Thank you. Our next question today is coming from Jonathan Chappell from Evercore ISI. Your line is now live.

Jonathan Chappell

Analyst, Evercore ISI

Q

Thank you. Good morning. Mario, I want to touch on the productivity comment again in one of your previous answers about the potential for that to compound. 4% obviously is significantly greater than your long-term target. So can you help us understand how you did so much better in 1Q from a productivity perspective? And is there a bit of, I don't know, front-loading, so to speak, that compounding at such a level may be just too high of a bar, at least for the remainder of 2026, as we think about the margin progression from here?

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Well, overall, in the quarter, Jon, we did launch our new AI tool for P&D and route optimization and it's now rolled out to half our network. And we're seeing measurable results out of the new AI solution with fewer miles, more stops per hour in our P&D environment. Now, we already had implemented a number of solutions for linehaul, if you recall, middle of last year, end of Q2, heading into Q3 as well and we are still seeing the wraparound effect of these improvements. We've also launched updated models for our dock efficiency and we continue to compound those as we launch more and more changes to it.

Now, as you know, though, technology, Jonathan, is not – usually, it's not a linear path. I mean, there's always you launch something, you get a lot of feedback from the field on how to make it better and then you keep on improving those algorithms. And if you look at AI, AI learns from the actual outcomes. So for every AI algorithm that we have, we typically compute the standard error of how the outputs are comparing to what the ideal output would look like and we keep on refining them over time as well.

Now, all of these tools and very strong execution in the field by our operators has contributed to that 4% productivity pickup in the first quarter, but we'll see how the year progresses from here. I mean, we do expect to be above our target of 1.5% for the full year. And what you see here in the first quarter supports pretty strong compounding as well, but we're taking the conservative view on this. And we will see kind of where this goes from here, but AI is getting smarter.

Jonathan Chappell

Analyst, Evercore ISI

Got it. Thank you, Mario.

Q

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

You got it.

A

Operator: Thank you. Our next question today is coming from Jordan Alliger from Goldman Sachs. Your line is now live.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Yeah. Hi. Good morning. Just sort of curious, can you – given sort of some of your comments and hopefully improved trend on the tonnage, can you talk to your excess terminal capacity, have you seen changes in that? I think previously you were somewhere in the 30% range. Has that started to move lower? And then sort of tied into that, in terms of thinking about a sub-80% operating ratio over time, what would be required in terms of excess terminal capacity to sort of get below that level? Thank you.

Q

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

Yeah, you got it, Jordan. If you look at – by the end of the first quarter, first starting with our network capacity, we had more than 30% excess door capacity, which is a sweet spot to be in as an LTL carrier in a softer freight environment and expecting the demand to inflect at some point and accelerate from here. So we feel great about where we are on that.

A

And keep in mind, over the last three years, we added 15% more door capacity, but not all capacity is created equal, because if you look at a certain market where you were tight versus another market where you have enough capacity, that tight market could cause a bottleneck in your network. So where we've added this capacity, were all in markets where historically we were capacity constrained, think of in Atlanta, Georgia, think in Texas, think Kansas City, think Columbus, Ohio, Indianapolis, Minneapolis, all of these are markets – Nashville, all of these are markets where historically we didn't have enough capacity and now we have fantastic terminals, large breakbulk locations that would enable us to support our customers when that upcycle comes.

In terms of other forms of capacity, one is around the trailer side. Trailers are the currency by which we move freight in our network. And as I mentioned earlier, we've added more than 20,000 new trailers to our fleet over the last three years. So all of these investments that had an impact on our depreciation expense being up and despite that, we have been improving OR dramatically over that period of time. But all of these would enable us to support our customers when that demand kind of comes in.

In terms of getting to an operating – a full year operating ratio into the 70s, all of the things that we are doing would enable us to get there, but the biggest contributor is around yield and yield performance. Today, we have a double-digit pricing opportunity for us to catch up with our best-in-class peer. And that comes through the three levers that Kyle mentioned earlier on, where the first one is that continuous improvement in service. But if you look at this quarter, our claims ratio was sub-0.2%. And it's going to take us – a bit of time for us to eventually

become number one. That's the goal. But overall, it's going to enable us to get more price and more premium freight from our customers.

The second lever is around premium services. We have launched a dozen or so incremental services that we are offering our customers. And today, when we started our plan, 9% to 10% of our revenue came from accessorial revenue. We're up to 12% to 13% and our goal is to get to 15% as we continue to compound those. And the third component is growing business with that small to medium-sized customers. So that alone gives us a massive runway even without a macro recovery for us to get into the 70s from an OR perspective.

Now, you start seeing demand [ph] being flat (00:34:04) and we have the capacity to handle it and be able to support our customers. I mean, we see very strong incremental margins that come through that. Here in the first quarter, our incremental margins were 58%.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC



Thank you.

Operator: Thank you. Our next question is coming from Stephanie Moore from Jefferies. Your line is now live.

Stephanie Moore

Analyst, Jefferies LLC



Great. Good morning. Thanks, everyone. Mario, I think in the past, you talked about total volume declines in this freight down cycle to the tune of maybe 15%, 20%. You can correct me on that. But as you think about what you view as XPO's ability to recover, if not the majority or even more so of that volume compression that we've seen over the course of the last several years, and then at the same point, can you talk about labor capacity? I think we talked a lot about door capacity, but where your labor capacity stands today? And then, what would be required as you start to look at bridging that volume gap for the last couple of years? Thank you.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.



Thanks, Stephanie. If you look at industry volumes, as you said, based on the cyclical factors we've seen here with the ISM sub-50 through end of last year for the better part of three years or we call it three-year freight recession, we have seen the industry volumes be down in that mid-teens plus, somewhere in the 16 or so points over that period of time.

Now, keep in mind, two-thirds of our customers are industrial customers. So they have been impacted meaningfully by that freight slowdown over the last three years. Now as we mentioned earlier, we've seen that pickup in overall industrial demand. So this could be the early innings of an industrial recovery here.

Now, in terms of our ability to handle incremental volume, the current excess door capacity we have will comfortably get us into that plus 15% more freight into our network to be able to handle that inflection point and potentially more given that we have added a lot of that incremental capacity in markets where historically we were capacity constrained.

Now, looking at the labor side, usually, we want to make sure that our head count is commensurate with what we are seeing in the volume environment and have enough buffers, because in LTL, you can imagine, if you have – on average, each one of your drivers or dock workers are working 40 hours a week and they work now 45 hours a

week, that alone is giving you double-digit more labor capacity in terms of hours and shifts that you can deploy. But if we continue to see that sustained demand environment lead to higher volumes and a full – eventual full recovery, we would need to add head count and we can leverage our driver training schools, where today we can operate these in 130 terminals. And Stephanie, it's a great program where we get some of our dock leads or dock workers who are doing a fantastic job, and we invest in them where we train them to get their CDL license, then join our ranks and then have great careers with us over the years to come as they become a professional driver.

We also – if you look over the last few years, we have had a meaningful decline in our turnover rate of drivers and dock workers. I mean, the whole leadership team has spent a lot of time in the field and listening to our employees and making sure that we are taking action on their feedback. And that has led over time with lower turnover as well of both drivers and dock workers. So, first, you got to hire – or replenish your turnover and then hire for growth. And we feel great about our ability to do that, given where we are today.

Operator: Thank you. Next question is coming from Chris Wetherbee from Wells Fargo. Your line is now live.

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Q

Yeah. Hey, thanks. Good morning, guys. I guess a couple of questions here. So as we think about the outlook for the back half of the year, you noted the customer sentiment improvement. And I guess, I wanted to think about what productivity might look like in the context of improving volumes. So you guys have done a wonderful job through what's been a pretty challenging freight environment. But if we start to see tonnage grow and shipments grow more consistently, what do you think the productivity opportunity is relative to that 1.5% sort of longer term target? Can be sort of that 4% sustainable? Just want to get a sense of maybe how that plays out.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Sure. Chris, this is Ali. So from a productivity standpoint, as volumes start to improve, we would expect productivity to only accelerate. Historically, when we've been in periods where we've been in a volume growth environment, so, for example, if you go back to the four quarters after Yellow went bankrupt, we were growing volumes in that, call it, low to mid-single-digit range for a period of four quarters after that. We were improving productivity in that mid-single-digit range on a consistent basis through that period. So ultimately, as volumes start to improve, we do think there's more upside to that 1.5 points of productivity.

Now, as Mario noted, here in the first quarter, we were able to drive 4 points of productivity in a flat volume environment. So clearly, we have a lot of opportunity to drive upside just through our own initiatives, even without a volume improving. But I do think the volume upside here gives us more confidence in delivering upside to that 1.5 points of productivity that's in our outlook for the year.

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Q

And just a quick clarification, as you guys think about a point of productivity, we're still thinking about somewhere in that like \$20 million, \$25 million range, that's roughly the way to be thinking about it on a gross basis?

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Each point of productivity, Chris, is somewhere in that \$25 million to \$30 million of incremental EBITDA.

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Perfect. Thanks so much.

Q

Operator: Thank you. Next question is coming from Tom Wadewitz from UBS. Your line is now live.

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. Good morning. So wanted to ask you a little bit more about the kind of what's in your assumptions for 2Q and what your customer feedback points to. It seems like things aren't off to the races, but they're improving. And I think that's – I think we talked about industrial. That's true. So, in terms of what you bake into your commentary on 2Q, is that just essentially normal seasonality in your kind of tonnage and shipments per day comments? And then, does the customer feedback maybe lead you to think that there's a good chance that later in 2Q or second half, you actually see the market do better than normal seasonality and show some acceleration?

Q

Ali Faghri

Chief Strategy Officer, XPO, Inc.

So in terms of the tonnage outlook, we are just rolling forward normal seasonality. So if you roll forward what we saw here in April into May and June, that would put full quarter tonnage flattish on a year-over-year basis.

Now, as you noted, as the demand environment starts to improve and we see this continuation of above seasonal volume performance, there certainly could be upside to that outlook. But I think we think the more appropriate way to think about it is just rolling forward normal seasonality through the rest of the quarter here.

Our expectation also is, as Mario noted, not only is that OR improvement is going to accelerate here on a year-over-year basis in Q2 versus Q1, but that we'll also see earnings growth or EPS growth accelerate on a year-over-year basis in Q2 versus Q1 as well.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay. But – so we should look at that as upside. And I guess, Mario's comments on the survey, given the kind of best results in terms of second half look you've seen in a number of years, that would be kind of upside to the way you're looking at things?

Q

Ali Faghri

Chief Strategy Officer, XPO, Inc.

I think that's a fair way of thinking about it.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. Okay. Thank you.

Q

Operator: Thank you. Next question is coming from Brian Ossenbeck from JPMorgan. Your line is now live.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC



Hey. Good morning. Thanks for taking the question. Wanted to see, Mario, maybe if you can talk about the context around the accelerating price and yields. You mentioned the gap to core pricing, but obviously rolling out some of the better mix in accessories and new markets. So is there any way to maybe put some context around the relative change, or at least the rate of change? And what's driving that from each of those different buckets?

And then, I guess, relatedly, you talked a little bit about fuel impact in the press release. It's a big topic for LTL and it's hard to narrow down. But it looks like there was a bit of a net benefit this quarter. Just wanted to see how you're thinking about that and how we should be modeling that into second quarter as well, given what we know now with energy prices? Thanks.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.



Thank you. You got it, Brian. So, first, I'll start with the high-level levers for pricing that I mentioned earlier on. So if you look at the size of the opportunity for us over the years to come, it's a double-digit runway for us to catch up with our best-in-class peer on the pricing dynamic.

Now, if you break it down in terms of where that falls through, the lion's share of that, about two-thirds, comes from an improving service product where we are able to get more premium freight from our customers and higher quality freight. And we expect that to cause us to outperform typical yield trends in the industry by about 1 point per year on top of what we're seeing in the industry.

The second lever, the cadence is still unchanged for us, which is on the premium services side. We do expect the growth in these segments of business. We have another, call it, three points of opportunity ahead of us just in that category alone. And we also expect to be at roughly a run rate of 1 point per year on incremental above-market pricing, driven by us growing our market share in those premium services.

And Brian, just to kind of give you an example, a lot of them, if you think of a Must Arrive by Date or a retail store rollout, or many of these services, today, we are under clubbed in terms of our market share of the overall industry versus how much market share we have in each one of those premium services. It's anywhere between the low to mid-single digit type market share contributions in those. And we expect that to at least get to our overall market share of the industry, which is about 10%, and kind of continue to grow from there, given the improvements in our service product.

And then finally, on the local account side, we are roughly halfway through. When we started our plan, we were at 20%, as a percent of total, were local accounts, and our goal is to get to 30%. And our local sales team has been doing a phenomenal job meeting with customers locally and onboarding more of that business.

Just to give you an example. In the first quarter alone, we onboarded more than 2,600 new customers in that channel, which was an acceleration from where we were in the last year on a quarterly cadence basis as well. And that's roughly around 0.5 point of yield per year we expect to get.

So the best way to think about it, if you look at a multi-year runway, where if the market – as you know, in LTL, if the market is soft, industry yield could be up low single digit and we'd expect to outperform that by 2 to 3 points. If the market is normalized, it would be – call it, industry pricing would be in that mid-single-digit range and we expect to outperform that to all these dynamics I mentioned by 2 to 3 points. And ultimately, if we start seeing an

inflection in the macro, where capacity is down and you start seeing the demand come up, then, obviously, industry pricing would be in the mid to high single digit, and we expect to outperform that.

So that's how we think about it from a cadence perspective. And we're seeing these dynamics here in the near term, as you will see what we'll deliver in Q2, Q3 and Q4. And I'll turn it over to Ali to discuss the fuel side.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

And Brian, on fuel specifically, obviously, there's been a lot of volatility in oil prices here more recently. So ultimately, we're going to see how diesel prices trend through the rest of the quarter. We would expect our fuel revenue here to be up on a year-over-year basis in the second quarter.

Just one thing I'd point out is, naturally, as fuel prices go up, our revenue increases, but so does our cost to procure that fuel as well. I think ultimately, if you zoom out, customers see our prices inclusive of fuel. All LTL carriers have very similar fuel surcharge structures in place.

And when you're thinking about our second quarter outlook, specifically, and our ability to outperform seasonality, ultimately, that's being driven by our strong operational execution. It's being driven by that above-market pricing growth we're delivering, our profitable market share gains as well as some of the ramping momentum that we're seeing on the productivity side as well.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Okay, great. Thanks very much.

Operator: Thank you. Next question is coming from Jason Seidl from TD Cowen. Your line is now live.

Jason H. Seidl

Analyst, TD Cowen

Q

Thanks, operator. Mario, team, nice quarter. Appreciate the time. There's been a big spike in truckload spot and contract renewal rates. Wanted to maybe walk through any potential upside this may provide to both your tonnage and also your pricing outlook as we move throughout the rest of 2Q and the rest of 2026.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Well, Jason, when you look at truckload versus LTL, as we've said in the past, we expect that with the lower truckload rates through the trough of the truckload cycle, we have seen roughly around 2 to 3 points, call it, in that low to mid-single digit, industry LTL tonnage has moved from LTL to truckload.

And we believe that kind of falls in two categories. One would be heavy shipments where when the truckload rates came down to that \$2 mark with fuel, what you have seen is effectively the breakeven point of an LTL shipment to move over to truckload come down to about 15,000 pounds or so. And we estimate that to be somewhere in the 0.5 point to 1 point worth of industry volume that had gravitated or went over to the truckload industry.

The second category is usually large customers have TMS systems that can optimize based on multiple LTL shipments. If the rate of truckload is now more desirable, where these shipments can still make service, and that's

very important, then they would convert that over to truckload as well. And we estimate that on a combined basis, both of these to be, again, 2 to 3 points.

Now, as you point out, with the truckload capacity that has gone out of the market and with both spot rates going up, although contractual rates are starting to go up, but they haven't seen yet that mega increase here. But as these continue to go up, you're going to see more of that conversion of those truckload shipments come back to LTL. Now, if we see that inflection happen, accelerate in the back half of the year, obviously, you will see that, call it, [ph] 3 points (00:48:03), come back to the LTL sector faster than not, but we'll see how that kind of materialize.

And one key point there, Jason, as well, is that we have, with the insourcing of third-party linehaul, and keep in mind, we've been doing this for now more than three years, we have been able to reduce our exposure to truckload rates meaningfully. And what that means, as those truckload rates go up, our cost structure will stay in check because we are using our own drivers and equipment to move that freight in the linehaul network. So that's something we're excited about here in the next upcycle because that's going to give us much higher incremental margins by keeping that cost category in check.

Jason H. Seidl

Analyst, TD Cowen

Q

Yeah. You guys have clearly been putting yourself in a better position for the TL upcycle. But just so I'm clear that any move of those, call it, 2 to 3 points back towards the LTL sector is upside to the guidance that you're giving us.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

That's correct. So if we see those – that tonnage come back to LTL, obviously, us and all the carriers will benefit from that type of a move. And it's going to put more pressure on the overall LTL capacity – industry capacity as well, which over time would lead to higher industry pricing, too.

Jason H. Seidl

Analyst, TD Cowen

Q

Mario. Appreciate the comments.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Thank you. Appreciate it.

Operator: Thank you. Next question is coming from Ari Rosa from Citigroup. Your line is now live.

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning. So Mario, I wanted to ask to get your thoughts on competitive dynamics across the industry. To what extent do you think competitors are also sitting on available capacity? And does that impede XPO's ability to take share? Just kind of speak to the level of share gain that you expect to take, especially as the cycle accelerates? And also, to what extent maybe there's a tension between winning share and pushing yield, if you're seeing that or how you're thinking about kind of elasticity there? Thanks.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Yeah. So, Ari, first, if you look at overall industry capacity, if you look at pre-pandemic, so if you look at 2019 or pre-Yellow bankruptcy, when you look at where we are now on industry terminal count, that is down roughly around, call it, in the high single digit, low double digit range, in terms of service center count. And then if you look from a doors perspective, overall door count is roughly down about mid-single-digit over that same period of time. So today, you have less capacity than you've had either pre-pandemic or call it, post-pandemic, but pre-Yellow bankruptcy.

Now, it's natural whenever demand has gone down over the last three years, with the industrial economy being slow, demand is down 15 points. So today, we have more than enough capacity as an industry, to be able to handle 15% less volume. But as that starts to inflect, what Jason asked earlier on about the truckload conversion back into LTL, coupled with the industrial economy at some point [indiscernible] (00:51:00) that ISM continues to show those strong signs of life, then, obviously, you're going to start seeing demand go up and then you would have carriers that won't have enough capacity compared to those volume increases.

Now, we feel we're in a great position because we have been planning for that for the last three to four years, adding door capacity, adding equipment and making sure that we are very well positioned to capitalize on that, and importantly, service our customers the right way. That's what it's all about. Taking care of the customer. So that's how we think about it.

In terms of pricing versus volume, we don't think about it in those terms. We think about it more that we have a opportunity to improve overall our yield performance, given those three levers I mentioned earlier on. And this has multiple years of runway. But if you see the demand go up, you would see overall industry pricing go up. And we expect to outperform that by 2 to 3 points per year over the years to come as we continue to execute on our strategy and plan.

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Very helpful. Thank you.

Operator: Thank you. Next question is coming from Scott Schneeberger from Oppenheimer. Your line is now live.

Daniel Hultberg

Analyst, Oppenheimer & Co., Inc.

Q

Hey, good morning. Thanks, guys. It's Daniel on for Scott. Could you please discuss how you think about the top line outlook for Europe? How you anticipate performing versus the market? And secondly, how do you think about opportunities to improve the margin for that business? Thank you.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Hey, Scott, it's Kyle. So, the European business continues to perform really well in what's been a pretty soft macro for some time now. If you look at the first quarter, we grew organic revenue for the ninth consecutive quarter and the team delivered another quarter of strong EBITDA growth, really outperforming seasonality.

To your second question about thinking longer term on margins, we have a strong plan to improve profitability in Europe, both this year and next year. And we're really following a similar playbook to what we've done in the US. So we're going to take meaningful cost out there. And we're executing on that now and we'll continue for the rest of this year. We're also expanding the sales force, driving more premium services and growing in new verticals, [ph] similar to what (00:53:00) we see here. That includes growing in aerospace, luxury goods and thinking more about our warehouse offering.

And I think lastly, as one of our bigger levers here in the US has been pricing, they're also looking at pricing, too, and they have a great service product. They want to make sure they get compensated for that service product. So we feel really good about Europe and where they're headed in the future.

Daniel Hultberg

Analyst, Oppenheimer & Co., Inc.

Got it. Perfect. Thank you.

Q

Operator: Thank you. Next question is coming from Ravi Shanker from Morgan Stanley. Your line is now live.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Great. Thanks. Morning, everyone. Two-parter. Maybe the first one is just on the cycle itself. This is the first upcycle that you guys are going in with a much lower reliance on PT. So how do you think about driver inflation, especially as the TL market kind of tightens up and maybe that pressure kind of spills over into LTL as well?

And maybe kind of a bit of the off-the-wall kind of big picture question for you, Mario. I know XPO today is a product of the bigger XPO breakup, but do you feel the need to have a logistics operation within the company, just given the traction some of the brokers are having and maybe the direction the industry is going down? Thank you.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

I'll start with the second half of the question. I mean, overall, we're an LTL carrier and we're focused on being an LTL carrier. So, we don't see a logistics offering adding value. The runway we have in terms of margin expansion and EBIT and op income growth over the next four, five, six years is tremendous ahead of us, Ravi. So we don't see a need to – a combination of both top line growth as well as meaningful margin expansion is what will enable us to grow earnings meaningfully over the years to come.

And there's another dynamic associated with that, which is we are accelerating free cash flow generation. As I mentioned earlier, we expect to generate a cumulative billions of dollars of free cash flow over the years to come, which will further compound that earning growth. A combination of paying down debt and buying back shares is going to enable us to return the capital back to shareholders after we invest back in the business.

So we see these as being the levers for long-term value creation for us here. We also do intend to, at some point, sell our European business. So it's a question of when, not a matter of if. And when we do that, it's going to be an acceleration of our capital allocation story.

In terms of the lower reliance on PT for drivers capacity that you mentioned, so typically, in LTL, obviously, our turnover of drivers is meaningfully lower than what you see in the truckload industry. And it has also improved a lot over the years, given our focus on our frontline worker and listening to them, and feedback loops, and adding

new trucks and taking care of the customers from a service perspective. So we have seen the turnover of our drivers and dock workers come down meaningfully.

And as I mentioned earlier on, we have an ability to hire our – or train our own drivers through our driver schools. So in an upcycle, we would lean on that where we have the capacity to graduate up to 2,000 drivers per year, where we actually pay their wages and we actually invested in them and eventually, they become a professional driver with us. So that's how we think about driver capacity in that upcycle and being able to add to it.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question today is coming from Eric Morgan from Barclays. Your line is now live.

Eric Morgan

Analyst, Barclays Capital, Inc.

Q

Hey. Good morning. Thanks for taking the question. I wanted to follow up again on the 2Q OR comments in LTL. Mario, I think you mentioned a seven handle. It could be a possibility this quarter. So just wondering if you could expand a bit on what gets you there. Are you saying that, if volume accelerates over the next couple months, that's a possibility or can you do that with the flattish tonnage number you noted for the full quarter? And also, just maybe how fuel plays in there, does it become less likely if diesel prices come down a bit from here? Thanks.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Yeah, you got it. So Eric, if you look at the quarter as a whole, as Ali mentioned earlier on, if you think about our tonnage for the quarter, and April for us was slightly better than seasonal trends when you compare it to March, with also a pickup in weight per shipment as well. Now, if you roll forward seasonality of April through the rest of the quarter, that implies that tonnage will be, call it, flattish for the quarter. So if we see that tonnage do better, then obviously there's more upside here.

Now that said, if you look at the first quarter, though, our first quarter was in line with our expectations on tonnage, yet we still outperformed on margin improvement and earnings growth in the quarter. So there is a path for us to get there, even if tonnage stays flat through the quarter.

Now, going back to the other levers, one lever is around yield. We are seeing a yield acceleration, as Kyle mentioned, here in the month of April, higher contract renewals in the first quarter. Our premium services continue to compound. Our additions of new small to medium sized customers continue to accelerate. So if we see yield accelerate beyond our expectation, that could be incremental to our margin improvement.

And then, when you look at it from a cost perspective, we are not expecting the same level of productivity improvement as Q1, although we are launching our solutions to more terminals. So in theory, we could get more so. So we'll see how that kind of plays out through the rest of the quarter here. But we – it's just one month in and we have two more months to go. But no matter how you look at it, we do expect to outperform – comfortably outperform the high end of the seasonal range of sequential improvement from Q1 to Q2 and generate a very strong margin improvement here in the second quarter. With that path to the seven handle, we'll see what the quarter has in store for us here for the next two months.

Eric Morgan

Analyst, Barclays Capital, Inc.



Appreciate it.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Chairman and CEO, Mario Harik. Please go ahead.

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

Well, thank you, operator, and thank you, everyone, for joining us today. We're off to a great start of the year with accelerating momentum and we expect another year of strong margin improvement and earnings growth. We look forward to updating you on our performance next quarter. With that, operator, end the call.

Operator: Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2026 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.