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XPO, Inc. (XPO)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

OTHER PARTICIPANTS

Ken Hoexter

Analyst, BofA Securities, Inc.

Scott H. Group

Analyst, Wolfe Research LLC

Jonathan Chappell

Analyst, Evercore ISI

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Stephanie Moore

Analyst, Jefferies LLC

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Thomas Wadewitz

Analyst, UBS Securities LLC

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Jason H. Seidl

Analyst, TD Cowen

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Christopher Kuhn

Analyst, The Benchmark Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the XPO Q3 2025 Earnings Conference Call and Webcast. My name is Stacy and I will be the 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 call 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 meanings 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 forward-looking statements.

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

During this call, the company may also refer to certain non-GAAP financial measures as defined under applicable SEC rules. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the company's earnings release and the related financial tables, or 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 Investor section on the company's website.

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

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Good morning, everyone, and thank you for joining our call. I'm here with Kyle Wismans, our Chief Financial Officer, and Ali Faghri, our Chief Strategy Officer. This morning we reported another quarter of strong execution.

Companywide, we generated adjusted EBITDA of \$342 million, and adjusted diluted EPS of \$1.07, both exceeding expectations. Excluding a nonrecurring benefit in the third quarter last year, adjusted EBITDA grew by 6% and adjusted diluted EPS by 11%. In our North American LTL business, we grew adjusted operating income year-over-year by 10% to \$217 million, and improved our adjusted operating ratio by 150 basis points to 82.7%, significantly outperforming seasonality.

We've now achieved 350 basis points of margin expansion over two years in a soft freight market, underscoring the power of our operating model. Importantly, we grew LTL adjusted EBITDA to the highest level of any quarter in our history at \$308 million.

The consistency of our performance highlights two inherent strengths of our business. First, it's our ability to drive above market yield growth and second, to optimize our network with high impact, proprietary AI and other technology.

The foundation of our operational strength is our world-class service, and is the most powerful catalyst of customer loyalty and margin expansion. In the third quarter, we reduced damage frequency to the best level in

our history and we improved on-time performance year-over-year for the 14th consecutive quarter. These improvements reflect the importance we place on delivering consistently for customers as a core tenet of our culture and the pride our team takes in meeting that goal.

We're also optimizing our network so that our facilities, fleet, and technology work together to reduce rehandles, shorten transit times, and increase productivity. These operational gains are being supported by the investments we've made in our network and equipment, which continue to enhance service quality and drive long-term cost efficiency.

Speaking specifically to our investments, we focus on high-growth freight markets, and we have one of the strongest LTL networks in the industry. We use the 30% excess door capacity in our network as a strategic tool, optimizing freight flows today, while positioning to capture profitable share gains and stronger incremental margins as the cycle turns.

On the equipment side, our investments have lowered the average age of our tractors to 3.6 years at quarter end, giving us one of the youngest fleets in the industry. A newer fleet, combined with the efficiency of our maintenance program, strengthens reliability, safety and service performance. In the third quarter, it drove a 10% reduction in our maintenance cost per mile. Together, these investments are improving efficiency across linehaul, dock and pickup and delivery operations while ensuring we have the right capacity in place to support growth ahead.

Turning to pricing, our service quality and focus on a more profitable mix drove another quarter of above market yield, growth and margin performance. In the third quarter, we grew yield excluding fuel by 5.9% year-over-year and 3.1%, sequentially. We also improved revenue per shipment, excluding fuel sequentially, for the 11th consecutive quarter. Underpinning this performance was the value shippers placed on our reliability and damaged-free service.

We're also seeing benefits from a richer mix of local accounts and premium services, both of which carry higher margins and contributed to the outperformance in the quarter. By vigorously executing our strategy, we're translating the strength of our service into industry-leading yield growth and meaningful margin expansion.

Turning to cost efficiency, our progress with productivity and AI continue to be a highlight in the quarter, while our reduced reliance on purchased transportation will insulate our cost structure when the cycle turns. Starting with purchased transportation, we improved outsourced miles to 5.9% of total miles, the lowest level in company history, and down from 25% a few years ago. Our lower reliance on third-party carriers gives us greater control over service quality and will support stronger incremental margins when truckload rates recover.

Notably, productivity was the largest contributor to our strong cost performance in the quarter, enabled by our AI-driven optimization tools, which are generating measurable returns. In linehaul, the models we deployed are driving meaningful reductions in overall miles run, as well as empty miles, and the impact of these gains accelerated throughout the quarter. More recently, we've rolled out automated mapping for door loading to streamline trailer utilization. This has already increased shipments per trailer by low single-digits versus last year. Linehaul represents our largest cost category at about \$1.6 billion per year, so the efficiencies we realized here has a significant impact on our P&L.

Pickup and delivery is another area where our implementation of AI solutions is showing strong potential and is in the early innings. Every local route we run, is precisely optimized for time, distance and number of stops. Collectively, these initiatives contributed to a year-over-year productivity improvement of 2.5 points in the quarter.

This reinforces how quickly AI is gaining significance as a driver of our margin outperformance, and we're just beginning to unlock its potential. As these tools scale, we expect ongoing enhancements to productivity, margins and the customer experience across our operations.

In closing, I want to frame today's strong earnings report within the context of the strategy that powers our model. Together, they keep us performing ahead of the market, independent of the macro. At its core, our model integrates a high-performing network of capacity with key markets, advanced technology and a culture that excels at delivering world class service and results at scale. And our applications of AI are amplifying our strategy, creating new opportunities to meaningfully expand our margins.

It's a dynamic combination and as the cycle turns, we expect our momentum to accelerate, driving greater upside to margin and 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 liquidity. For the third quarter, total company revenue was up 3% year-over-year to \$2.1 billion. In our LTL segment, revenue was also up to \$1.3 billion. Excluding fuel, LTL revenue grew 1% year-over-year, supported by ongoing strength in our yield. On the cost side, our salary, wage and benefit expense increased just 1% year-over-year due to productivity improvements.

Our AI driven tools helped offset the impact of inflation and the added labor cost from our insourcing initiative. We also drove additional efficiency gains across the network, including a 48% decrease in third quarter purchased transportation expense as we enforce more linehaul miles. Strategically, the insourcing we're doing now should significantly mitigate costs later when the cycle recovers and third-party carriers raise their rates. Depreciation expense in the LTL segment increased 11%, or \$9 million, consistent with our strategy of investing in capacity and equipment to support long-term growth.

Turning to profitability. Companywide adjusted EBITDA increased 3% year-over-year to \$342 million. In LTL, adjusted EBITDA was up 9% to \$308 million, and adjusted operating income was up 10% to \$217 million, both were company records.

We also expanded our LTL adjusted EBITDA margin by 180 basis points to 24.5%, reflecting strong pricing and operational execution. In our European Transportation segment, adjusted EBITDA was \$38 million and corporate adjusted EBITDA was a loss of \$4 million.

For the total company, operating income was \$164 million, and net income was \$82 million. Diluted earnings per share decreased to \$0.68, reflecting a \$35 million charge related to a legal matter dating back to Con-way in the 1980s, before we acquired the company. On an adjusted basis, diluted EPS was \$1.07, up 5% year-over-year. And lastly, we generated \$371 million of cash flow from operating activities in the quarter and deployed \$150 million of net CapEx.

Moving to the balance sheet, we ended the quarter with \$335 million of cash on hand, after repurchasing \$50 million of common stock and paying down \$50 million on our term loan facility. Combined with available capacity under our committed borrowing facility, this gave us \$935 million of total liquidity at quarter end. Our net leverage ratio was 2.4 times trailing 12 months adjusted EBITDA, compared with 2.5 times in the prior quarter.

Looking ahead, while we remain committed to investing in initiatives that support long-term growth, we expect our CapEx to moderate and free cash flow conversion to increase. This positions us with greater flexibility in continuing to return capital to shareholders, while strengthening our balance sheet.

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

Ali Faghri

Chief Strategy Officer, XPO, Inc.

Thank you. Kyle. I'll start with the review of our LTL operating performance, where we continued to expand margins and delivered record third quarter adjusted EBITDA despite a soft freight market. Shipments per day were down 3.5% year-over-year, and weight per shipment declined 2.7%, resulting in a 6.1% decrease in tonnage per day.

Notably, both shipments and tonnage per day improved year-over-year versus the second quarter, a positive trend we expect will continue for the fourth quarter. One key driver of this improvement in shipments per day was our local channel, where we continued to take profitable share. High margin local shipments now represent 25% of our total, up from 20% just a few years ago. This reflects the success of our targeted sales initiatives for these desirable customers and the strong appeal of our service quality.

Looking at monthly trends compared with the prior year, July tonnage was down 8.7%, August tonnage was down 4.7%, and September was also down 4.7%.

Moving to shipments per day, July was down 5.6%, August was down 3.4%, and September was down 1.5%. For October, tonnage is estimated to be down in the 3% range, in line with normal seasonality compared with September.

Turning to pricing, we delivered another quarter of above-market yield performance with 5.9% growth excluding fuel versus the prior year, as well as a sequential improvement. Revenue per shipment, excluding fuel, also increased sequentially for the 11th consecutive quarter, underscoring the momentum of our pricing initiative.

We expect to improve pricing sequentially again in the fourth quarter, supported by our premium services and growth in the local channel. Underpinning this, our data analytics and proprietary technology are becoming increasingly adept at aligning pricing with the value we provide to customers.

Turning to profitability, our LTL margins were exceptionally strong as we improved our adjusted operating ratio by 150 basis points year-over-year, exceeding our outlook, and we were the only public LTL carrier to expand margins this quarter. Sequentially, we improved our adjusted OR by 20 basis points in a quarter that typically sees 200 to 250 basis points of seasonal deterioration. It marks the first time we've achieved sequential OR expansion in a third quarter, aside from extraordinary years like 2020 and 2023, and it underscores the continuous improvement that is a hallmark of our strategy.

Looking at our European Transportation segment, we continued to grow the business and strengthened its position against the challenging macro backdrop. We increased third quarter revenue 7% year-over-year, while gaining wallet share with existing accounts and new customer wins. Adjusted EBITDA once again outperformed typical seasonal patterns, reflecting disciplined execution across our operation. In addition, we grew the sales pipeline by high single-digits, putting us in a strong position to capitalize on rising demand in key markets.

To close, I want to highlight what continues to set our performance apart. Our LTL results reflect industry-leading trajectories for profitability, cost efficiency, and operational excellence. We're consistently generating above-market yield growth earned through our service, while also increasing the contribution from high margin local customers and premium services. Pricing is a key driver of our margin outperformance, with a long runway to continue compounding these gains regardless of the macro environment.

And on the cost side, our deployments of AI are adding to the bottom line, driving meaningful improvements in productivity and network efficiency. All of these structural advantages are independent of the cycle, contributing to our outperformance today while positioning us to accelerate earnings growth as freight volumes recover.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question and answer session. [Operator Instructions] First question comes from Ken Hoexter with Bank of America. Please go ahead.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Hey, great. Good morning, Ali and Mario and Kyle. I guess, just a great job on operations and insourcing, I mean, just continued cost controls, but the key here, I guess, is the October tonnage you just noted was down 3%. Industry leader is, I guess, four times worse than that. Maybe, Mario, if you want to talk a little bit about, is that the systems now enabling you to address customers faster, better on pricing? And then maybe talk about, how you expect to outperform seasonality and then carry that over to your thoughts on margins into fourth quarter?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah. Thanks, Ken. Well, if you look at October tonnage for us, that should be down in the 3% range. We still have a few days here to close out the month but this is what we expect it to be. And that's largely in line with typical seasonality from the month of September into the month of October.

Now, if you think about the reasons of the outperformance, a lot of that goes back to our strategy is firing on all cylinders. I mean, from one perspective, our service product has never been better. We are onboarding more small- to medium-sized customers than we've had in the past. So far, year-to-date, we have added 7,500 local customers. And here this last quarter, we added another 2,500 local customers, and that's paying dividend.

And when you look at premium services that we are launching, customers are taking advantage of that. We want to be there for them, and these are services that customers are asking for, and they come at a higher yield, they come at a higher margin, but they also check the box where these are things we were not doing in the past for our customers. Over the last year-and-a-half, we launched half a dozen of these services, here the latest one was grocery consolidation in the second quarter. And we're seeing more momentum accelerate in those premium services as well.

So, these are some of the factors why we're seeing again an outperformance when it comes to the volume side. When it comes to the margin outlook, typically for us in the fourth quarter, we see a sequential increase of OR of

250 basis points from Q3 to Q4, and we do expect to continue to materially outperform that seasonality here in the fourth quarter.

And this implies that OR will also improve meaningfully on a year-on-year basis and accelerate versus where we were in the third quarter on a year-on-year basis, is our current expectation. And that will put us on the path towards delivering on our full year outlook of 100 basis points of OR improvement.

Now, keep in mind, Ken, this is the second year in a row where we meaningfully outperformed the industry, and that's our expectation. And we're still we're still in the early innings. I mean, if you if you roll forward, obviously, at some point in the cycle in a soft macro, we're improving margin, and whenever the cycle starts turning, we're going to improve it even more.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Wonderful. Appreciate the time. Thank you, Mario.

Operator: Next question, Scott Group with Wolfe Research. Please go ahead.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Hey, thanks. Good morning. So, Mario, just to follow-up, I know you said, you expect to help perform seasonality on OR in Q4, but any sort of color and magnitude. And then, I think any way you look at it, right, you're exiting Q4 with a lot of year-over-year margin improvement. Like, I know it's early, but any way to think about, any early thoughts on how to think about margin improvement into next year?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah. I'll start with next year just kind of to give some color on it, and then I'll have Ali just cover with more details of fourth quarter, Scott. But if you look at next year, obviously, we do expect a strong year of both OR improvement and earnings growth in 2026.

And this is even in the current soft macro environment. So, without assuming any macro recovery yet, which is not what we're hearing from customers, by the way. Customers are starting, we're hearing more and more from customers that they do expect a recovery in 2026, but we'll see what the macro has in store. But even without a macro recovery, we do expect to improve both OR meaningfully and the earnings as well.

Now, we will talk more about the specifics of 2026 once we report the fourth quarter. But at a high level, just from a building block perspective, we're going to continue to benefit from another year of above-market yield growth. As you know, Scott, we – with an early trajectory to bridge the gap between us and best-in-class on yield, and we still have 11 points to go get over the years to come.

In premium services, we're still, I would say, in the early to middle innings in terms of getting to the 15% target of accessorial as a percent of revenue. If you think of our local accounts for small- to medium-sized businesses, we are currently in the, call it, 25% range of the book is those kind of customers, and I would also get up to 30%. It's going to take a number of years for us to get there. So we still have a lot of runway in terms of all the initiatives that we are driving to deliver that above-market yield growth.

And the second category which we're very excited about is on the cost side with AI. We've launched multiple capabilities here in the second and third quarter that have paid dividends, and all of these are incremental to what we're doing. And we have another number of initiatives that are currently in pilot that are also showing very early signs of great numbers here, that we're going to be able to improve our productivity even further as we head into 2026 and 2027 and beyond as well. So, all of these are the levers that are that will enable us to drive this kind of performance, and this is without a macro recovery.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

And Scott, this is Ali, On the fourth quarter from a margin perspective, as Mario noted, we do expect to materially outperform seasonality here in the fourth quarter. If you just take the 100 basis points of OR improvement we expect for the full year, that would imply a modest sequential increase in our OR as we go from Q3 to Q4, but obviously much better than the typical 250 basis points of seasonal increase that we normally see as we go into the fourth quarter. And I think more importantly, Scott, what that implies is a pretty meaningful acceleration in our year-over-year OR expansion relative to the 160 basis points we just delivered here in the third quarter.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay, so in the ballpark of like 250 basis points of year-over-year improvement.

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

That's in the right range, Scott.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay. Thank you guys. Appreciate it.

Operator: Next question, Jonathan Chappell with Evercore ISI. Please go ahead.

Jonathan Chappell

Analyst, Evercore ISI

Q

Thank you. Good morning. It sounds like as we look past the fourth quarter yields going to be – continue to be one of the biggest drivers, especially if we're not expecting much of a macro improvement. Can you walk through some of these cost line items and how we should think about the cadence going forward? It seems like PT is maybe getting to about as low as it can get to, correct me if I'm wrong. So a lot of these AI initiatives, productivity, et cetera, does that mostly come out of maybe some of the bigger cost line items, salaries and wages, et cetera, just as a helpful framework to think about OR improvement potential next year without any volume?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

You got it, Jonathan. So first, Jonathan, when you think about the PT insourcing, that's only a modest cost benefit for us in 2025 even. And the reason why, when we insource third-party linehaul we've hired people, so that would show up in the salary, wages and benefits line. And we also added equipment, sleeper cab trucks for our Road Flex operation and that shows up in both depreciation and a higher set of miles from a maintenance perspective. The cost per mile there goes up as well.

On a net basis, if you look at the reduction in purchase transportation expense on the P&L and the addition of these incremental costs, that's only a very small cost benefit that we had in 2025 and here in the third quarter as well. The outperformance on the cost side had been coming from a better productivity. So if you think about it, in the third quarter, we improved productivity, which we measure as labor hours per shipment, has improved by 2.5 points, despite shipments being down about 6 points. And that's the bigger part of the outperformance.

Now, we're still in the early innings of delivering on these improvements. If you take a step back and you look at all the things we're doing from a technology perspective, from a field execution perspective, our operators in the field are just killing it. And you think about being able to manage and giving them the tools to be able to be more successful as well. We do expect that to compound over time and go up further on the cost side. But the best way to think about it would be, we have wage increases that obviously caused our overall costs to go up and other cost inflation, and then we offset with productivity and how we're operating and moving freight across the network as well.

Jonathan Chappell

Analyst, Evercore ISI

Thank you, Mario.

Q

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

You bet.

A

Operator: Next question, Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Yeah. Hi, good morning. Just sort of continuing out maybe, just thinking, longer term and let's say, we get to the point of inflection on tonnage, with all that you've done on PT and insourcing and these productivity benefits you're talking about and technology. et cetera, when we get to that point of inflection, can you maybe talk to how you're thinking about incremental margins, whenever that turn actually is, whether it be next year or whenever. And what can we see, or how do you feel that leverage will look on incrementals, thanks.

Q

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Sure, Jordan. It's Kyle. So if you think about incremental margins, we'd expect those to be comfortably above 40%, and if you think about the major drivers for that, yield that's going to be the biggest contribution to the top line growth. And that's going to support a really strong flow through the bottom line. And as Mario talked about, from a yield initiative standpoint, we're still in the early innings, there's a lot of runway to growth, whether it's growing premium as we've talked about, increasing local channel or otherwise. And if you think about as demand recoveries, again, we're in a great position to deliver those based on the structure we've put in place.

A

So, obviously, the PT coming down is going to insulate us from rising truckload rates. That's going to be the strong operating leverage. And you couple that with having world-class service and 30% excess capacity, we'll be in a great position to capitalize on a demand recovery in the market.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Thank you.



Operator: Next question, Stephanie Moore with Jefferies. Please proceed.

Stephanie Moore

Analyst, Jefferies LLC

Hi, good morning. Thank you. I wanted to talk a little bit about, maybe we think about the multiyear pricing opportunity. Clearly, you've made a lot of a lot of strides this year, that'll also create what will be more difficult comps in 2026 as well. So, barring we still don't see a major improvement in the volume environment, what's your degree of confidence that you can continue to see strength on the pricing front, as you think out over the next 12 months? Thanks.



Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Thanks, Stephanie. Well, if you take a step back and you think longer term, today the pricing, when we started our plan a few years ago, the price differential between us and best-in-class was 15 points. And that this is obviously ex-fuel and normalized for their network versus our network.



And today, although we are in the trough of the freight cycle, that differential is at 11%. Now we've always said it's going to take us five plus years for us to bridge the entire gap, and that's what kind of gets us excited about the future, is that the run rate on a lot of these initiatives are either in the early or middle innings, depending on the initiative for us to be able to continue to drive that above-market yield growth.

Now, if you think in the current market, the way we think about it, when we started our plan, we had roughly around 9% to 10% of our revenue came from what we call assessorial revenue. So, these are premium services, where let's say, you're moving the shipments for a customer in and out of a trade show, as an example, you would be charging this small incremental charge associated with that. And our goal is to go from 9% to 10%, up to 15%. As of last quarter, we were at 12%. So, we have another 3 points to go, and we expect to get that roughly about a point a year over the next three years.

If you look at small- to medium-sized businesses, when we started our plan, we were under-clubbed in that area. We were about 20% of the book were those type of customers, and now we've been able to add more and more of these customers with up to 25%, and out of the mix being small- to medium-size businesses. And our goal is to get to 30% at a clip of roughly, call it a couple of points per year. And every couple of points per year of more small- to medium-size businesses is an incremental half-a-point of yield if we get, just given these are smaller customers, they typically operate at a higher margin as well.

So we have another, call it, two-and-a-half years of run rate on that specific level for us to go. And then the last one was when we started the price differential on contract renewals was approximately about 8 points, and our plan was to scale that difference about the point per year, and we are a few points in, so we have another five years, call it, of incremental price we can get given the great service product we're offering our customers to bridge that gap as well. So the way we think about it, again, it's a big opportunity, it will take us a number of years to get there.

Even the soft state macro, we're delivering now for a few years in a row, above market yield improvement, given those levers, and we expect that to continue through the years to come. And when the cycle turns, that's going to accelerate even further as well.

Stephanie Moore

Analyst, Jefferies LLC

Q

And just one quick follow-up. I know you gave some commentary about moderating CapEx, and as we kind of put the pieces together in terms of your expectations on what we just talked about on yield and expectations to continue to grow margin through 2026, can you talk about what that means from just a free cash flow standpoint?

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Yeah, Stephanie. So if you think about free cash flow, just starting with CapEx for this year, I mean from a CapEx standpoint, we're going to moderate a couple of points, we think, on a percent of revenue basis. So last year about 15%; this year that'll come down a couple of points. And again, we're lapping here a significant expansion from a service center standpoint. And that's really a one-time spend in nature, as well as the fleet investments will come down as we've made a lot of progress on our line hauling source. So, if you think beyond this year, that CapEx number is probably closer to the midpoint of our long-term guided range. We said 8% to 12%; we're probably somewhere in the middle of that.

So what that's going to do for us is really help us drive even more cash flow when you think about next year. I mean, this year, I think we're going to grow north of \$400 million from a free cash perspective. And again, we're generating higher income. We'll get some benefit from lower cash taxes and that lower CapEx coming through. And I think, in the long term, as EBITDA continues to accelerate and earnings grow and we have a lower CapEx profile, we're going to generate much more cash in the future.

Stephanie Moore

Analyst, Jefferies LLC

Q

Thanks, guys. Appreciate it.

Operator: Next question, Fadi Chamoun with BMO Capital Markets. Please go ahead.

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Q

Yes. Good morning. I wanted to see if you can give us some kind of guideline of how to think about your pricing for the fourth quarter. You said that it would improve quarter over quarter, are we still looking at something in that 5% to 6% range? And, as we go into 2026, like are you seeing 150 basis points, I suspect that you're – like 100 to 150 basis point kind of premium pricing. Do you think that continue to be sustained as we go into 2026, based on some of these levers that you just talked about, Mario, as far as what's driving that premium pricing?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah, I'll start on 2026 and the long term, Fadi. So, we do expect to continue. As I mentioned, if you look at it on the accessorial side, we have 1 point, on the small- to medium-size businesses, we have 0.5 points. So all of these will be incremental to what the market is doing. Now, obviously, as you know, if the market goes up and

down, whatever the market does, we would also outperform it based on the company-specific levers that we are having, is how we think about it.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

A

Yeah, Fadi, if you think about it, you know, from the fourth quarter, on a year-over-year basis, we'd expect yield, ex-fuel, to be in a similar growth range on a year-over-year basis, what we saw in the third quarter.

Fadi Chamoun

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay, great. Thanks, everybody.

Operator: Next question, Chris Wetherbee with Wells Fargo. Please proceed.

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Q

Hey. Thanks. Good morning, guys. Maybe two quick questions here. First, as you think about tonnage in the fourth quarter, obviously, in line or maybe I guess the 3% decline in October. Can you think can you talk a little bit about what normal seasonality might mean for the full quarter in 4Q?

And then if you think about just sort of the pricing environment maybe more broadly, there's been some concern about pricing in LTL, particularly given where TL is now. I don't know, any thoughts there. Maybe contract renewals. It seems like the pricing environment is still fairly stable for you. You're getting better than sort of industry levels, just maybe some comments broadly on how you think the competitive environment looks today?

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Good morning, Chris. I'll start with the fourth quarter volume. So, October, as you know for us, tonnage was down in that 3% range year-over-year. Now, if you just roll forward normal seasonality for the rest of the quarter, that would imply full quarter tonnage being down in a similar range year-over-year as the month of October, perhaps a little bit higher when you factor in the tougher comps in November and December. But, for the quarter as a whole, we would expect it to look similar as what we saw here in the month of October.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

And on the pricing discipline, Chris. So we continue to see a constructive industry pricing environment. Going back to your question on contract renewals, for us, these accelerated in the third quarter versus where we were in the second quarter. And at a high level, I mean although we have been in a soft freight market, customers and we've been in a freight recession now for three years, yet we continue to see that very strong industry pricing. And there's a few reasons for that.

I mean, if you take a step back, this business is a cost inflationary business. We have to invest in equipment. We have to give our employees more wage increases. We have to invest in service centers. And customers do understand that for us to be able to provide that great service, we need to be able to invest in our network.

And on the industry capacity side, if you look over the last few years, there has been a significant amount of capacity to exit the market. When you look at pre-COVID levels compared to where we are today, you have 10% less industry terminals and you have roughly around 5%, 6% less doors. And if you compare it to pre-Yellow bankruptcy to where we are today, both terminal count in the industry as well as door count is down in that mid-single digit range.

So, a lot of the conversations that we're having with our customers, you could tell that our concerns that when that cycle starts turning, they want to make sure that working with a carrier that has the capacity to be able to support them while delivering a great service product for them as well. And all of these things lead to that, again, very disciplined industry where pricing stays steady. And again, we have to invest and that kind of manifests itself in the pricing environment there as well.

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Q

Okay. Got it. Thanks very much for the time. Appreciate it.

Operator: Next question, Richa Harnain with Deutsche Bank. Please proceed.

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Thanks a lot. So, just piggybacking off that last question, maybe, Mario, you can just flush out a little more around the competitive environment in terms of like maybe what your customers are saying. Any – down 3%, something very special is happening at XPO, but it seems like the broader industry is struggling a bit more. So, maybe you can talk about like again, just what customers are saying regarding overall macro trends and when maybe we could look forward to coming out of this malaise?

And then, in terms of like you just said that, certain customers are leaning more into quality, just talk about who's really struggling out there. Is it like on the private side, are you noticing more service disruption, and are you benefiting from that, and taking share from that category of the market? Thank you.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah. Thanks, Richa. Well, if you look at the customer demand outlook. As you know, every quarter we do a survey with our top customers, and we just wrapped up here the third quarter one last week. And what we're hearing from customers for the fourth quarter has been consistent with what we've been hearing from a freight recession perspective, where demand is still soft. We're not seeing the underlying tone from customers for the fourth quarter. So, for us, as we close the year, be bullish or bearish, it's kind of somewhere in the middle. It's fairly neutral on the on the demand side.

Now we are seeing differences between customers. Some customers are doing better than others depending on the segment of what industry they are in as well. Now, that said, for 2026, we are hearing more optimism in terms of the overall demand outlook. A large number of customers now expect an acceleration in 2026, which is encouraging to hear.

Now, if you take a step back, in our industry, typically LTL volumes are correlated with the ISM Manufacturing Index, which has been as you know sub-seasonal now, sub-50 for the better part of three years. However, when you look at periods of change in the fed funds rate, there is an inverse correlation between the ISM Manufacturing

Index, and the fed fund rate. So you can imagine a declining rate environment is going to over time just up the ISM and lift back up the industrial manufacturing economy here in the country.

The second area is around the Big Beautiful Bill that's simulating customers, thinking about pulling forward that capital or stop delaying that capital deployment to a certain extent to make sure they can take a benefit of that. You also hear about the stability around tariffs. I think tariffs have impacted the economy this year, given there was more uncertainty, so a lot of companies deferred their capital deployment accordingly.

But if you think about all of these things that are converging to 2026, a lot of these things would be behind us in the back-view mirror. But as I said, it is very tough to call the macro. I mean, what customers are saying, they do expect an acceleration, there's a lot of moving parts here with more leaning towards the positive side.

Now, if you break it down between the type of customers, in the third quarter, retail performed relatively better than the industrial counterpart. On the industrial side, which is two-thirds of our customers, machinery, electrical equipment, HVAC were stronger, while equipment or industrial for Ag was a bit softer. But overall, I mean, obviously you see where the ISM is at. Again, it's a tough to predict environment, but there is more optimism on 2026, and looking forward.

In terms of other carriers, it's tough to tell, because it's not necessarily that you have one carrier that will struggle across the entire book, but you have certain regions and certain lanes, and that kind of changes, again depending on the on the region, which carrier it is or which customer it is, as well.

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.



That's helpful. Thank you so much.

Operator: Next question, Tom Wadewitz with UBS. Please proceed.

Thomas Wadewitz

Analyst, UBS Securities LLC



Hi. Yeah, good morning. So, Mario, wanted to get to your thoughts on the next upturn and how important volume growth or share gain is. It does seem like whether you're the private players, like, wherever Estes, R+L, or whether you're kind of OD sitting there with 35% excess capacity. There are a number of players that are like, yeah, hey, when the market is stronger, we're going to take share. And then you got FedEx Freight is kind of a wild card.

I'm just wondering, you're improving service, getting a lot of price, which is great, do you need to take share in a freight upturn to kind of make your plan work, or is it just like, hey, you can grow with the market, and you continue to get better pricing, and you really do very well from a financial kind of a margin and earnings perspective, even if you're not growing above the market. So just thinking about kind of how important that volume lever is and beyond market growth when you think about the next upturn?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.



Well, if you if you take a step back, I mean, for us in the next cycle upturn, obviously, as Kyle mentioned earlier on, the incremental margins would be off the charts. And in a volume growth environment, you would have effectively earnings growing also at a very, very fast clip. Now, how we how we get there, there are three

dynamics at play. There is a pricing dynamic or a yield dynamic. There is a volume dynamic and there's the cost dynamic. And the beauty of it is that in the upcycle, all of these actually go in the right direction.

If you think about it last year, even in a declining poundage environment, we've improved margins by 260 basis points. This year, with poundage being down, causing that this single-digit plus range, we're improving margins meaningfully as well. So you can only, kind of if you if you roll back into a model, what tonnage increases, yield increases, and cost improvements would do, you have mega increases in terms of earnings and margin expansion.

Now in terms of how we get there first, starting with yield. If you look at our industry. Since the bankruptcy of Yellow and since COVID, you've had the private carriers have been up on tonnage over that period of time, while the public carriers are more down on tonnage, and the industry as a whole is down in the mid-teens, and that's pretty close to what you see. If you look at the US census data for industrial companies that we service in LTL, they have a similar amount of volume decline over the same period of time, about 16 to 17 points, not revenue decline, because they offset that with pricing, but volume decline.

So as the industrial economy starts coming back, you have, call it, in the mid-teens range of tonnage that is waiting to come back into LTL. While that volume starts coming back, you have the private carriers who some have added some capacity, but they will get tapped out on capacity faster than what the public carriers will be able to do. And carriers that have the excess capacity, we today, as of last quarter, we are north of 30% excess capacity, similar to the best-in-class carrier, and we will be able to support our customers there, who will be there for them for in the context of that upcycle.

Now, we don't want to be the biggest market share gainer. We want to increase market share. We want to grow market share, but we don't want to be number one. If you think about it, it's all about the mix of business that we have, and accelerating our yield growth associated with that as well. So we want to be the number one performer on yield improvement over that period of time.

And as the third dynamic on this one, Tom, is around cost control, if you look post-Yellow bankruptcy, volumes were about 7 points better than seasonality from Q2 of that year to Q3 of that year. And during the following two quarters, we improved productivity by 7 points and 5 points, so call it in the mid-to-high single digit range.

You couple that with the new AI initiatives we're launching, you can see in an increasing volume environment, productivity not improving 1 or 2 or 3 points, you will see productivity even improving at a faster clip. You would see linehaul density improving as well in our network. And all of these would drive lower costs on a per unit basis, which leads to higher margin expansion and more earnings growth associated with that as well.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Do you have a quick thought, just to follow-up within that, on what's your kind of productivity metric is, we should really focus on? You got a lot of things going on with AI and productivity, and then you've got the operating leverage, but what metric, or one or two metrics we should look at, just to kind of see the tracking on productivity?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Well, overall, every quarter we kind of give an update on – we typically counted because we want to combine it all together as labor hours per shipment. And this is what improved over the last quarter by 2.5 points and accelerated from where we were in the first half of the year.

But, internally, we use three predominant KPIs. One is around how many pallets per person, per hour, are we moving on our docks? What is the stops per hour we're seeing in our pickup and delivery operation in our city operation? And in linehaul, it's the combination of what we call load average, which is how much weight are we putting in a top equivalent of a trailer and what we call load factor, which is a component of miles and tons.

But, ultimately, when you combine all of these things, we look at them on a – eventually, you see it in the salary, wages and benefits line that would offset the cost inflation we would be seeing in wage inflation. But we typically give a hours per shipment as a proxy to these KPIs.

Operator: Next question, Brian Ossenbeck with JPMorgan. Please go ahead.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for taking the question. Maybe just two quick ones on the demand side. Are you seeing anything from the government shutdown from a direct or indirect effect? And I know you guys talk more about grocery and we've got the SNAP funding running out in a couple of days here. So, do you think that would have any sort of meaningful impact?

And then just maybe more broadly, truck markets got some optimism here that it might be recovering or stabilizing, any updated thoughts on how that's affected your book of business currently, either from a consolidation or direct competition perspective? Thanks.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Thanks, Brian. I'll try to cover all of that. If I missed one, just let me know. But first starting on the government shutdown. We don't expect that as being impactful overall to LTL volumes. I mean, usually, at least for us, we don't do much government freight, if any, and I believe most of our peers fall in the same category. So, there's no direct impact from that on LTL overall demand.

On some of the company-specific items that you mentioned, like grocery consolidation, that's a great opportunity for us, because when you look at that market as a whole, it's north of \$1 billion of size what we estimated to be. It's an attractive market, it's a high margin market, because effectively we use our network to help grocers consolidate freight from multiple inbound shippers into that locations, so they can free up that docks and have a more organized operation. And obviously, in our case, because you get that density at delivery, that kind of helps quite a bit in how we operate that business.

And historically, we've been under-clubbed in that part of the market. We had a very small share compared to our overall market share in the industry. And we did enhance this offering in the second quarter, and so far, here last quarter, we achieved preferred carrier status with six large grocers. And we had the pipeline of an incremental 100-plus customers that we are going after in that space. So we do expect that to be a growth market for us because we haven't been participating in it in the past as an example.

In terms of the truckload capacity impact to the LTL industry, we've historically said, Brian, that we – if you think of the direct conversion, it's small, it's sub 1% of LTL freight. Typically, it's over the 15,000-pound mark, where it might make sense in the trough of the truckload cycle to move it to truckload. When capacity exits, that would be a modest improvement, you will get to see that point come back into LTL.

The second area that we estimate that customers use TMS systems to consolidate LTL to truckload where it makes sense. And we estimate that to be in the low- to mid-single-digit range, about a couple of points of volume that would have left LTL and went to truckload, and as truckload rates recover, that's kind of convert back to LTL as well. So, you're talking, call it, in the low to mid-single digit range of incremental tonnage that would come with truckload rate coming back into LTL.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Thanks, Mario. Appreciate it.

Operator: Next question, Jason Seidl with TD Cowen. Please go ahead.

Jason H. Seidl

Analyst, TD Cowen

Q

Thanks, operator. Hey, Mario and team, congrats on the very solid quarter. You guys mentioned utilizing AI a bunch to sort of help improve your place in the LTL market. Can you maybe dive into that a little bit more, talk about some of the things that you guys that you sort of maybe have in the works now for the future? And then where do you think you are versus the rest of the peer group in terms of your adoption of AI in the marketplace?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah. Well, first, Jason, for us, it's a very, very exciting area of development. And it's first starts, I mean, as you know, for the better part of a decade, we have been investing in our technology infrastructure. So, unlike other carriers, we don't use mainframes, for example, we don't use old school systems that are all cloud-based and all hosted with Google Cloud. And this enables us to actually move quicker on being able to embed AI capabilities within the frameworks, within the applications that we are launching.

But, going to your question, there are five areas where we are applying AI and at different levels of maturity. Some are still in pilot that we're in the process of rolling out, and some have already rolled out. But two of the five areas are top line revenue generating, and then three of the areas are cost savings related.

On the top line, we are rolling out AI pricing bots that effectively you can crunch tens of millions of data points and be able to provide a better pricing for customers at the lane level and do this in a very, very effective way. We're still in pilot in that capability, and that would help us continue to ensure our above-market yield growth as we get smarter at how we price.

Number two is assisting our sales people through AI tools. For example, we built our own AI lead scoring set of algorithms, where effectively the AI analyzes, again in that case, hundreds of thousands of customers of who would be a good shipper with XPO.

So, to give you an example, today, if you have a shipper whose location is two miles down the road from one of our terminals, that is an industrial manufacturer, that obviously is going to have a high propensity of wanting to ship XPO with LTL, versus if you have a company that doesn't necessarily move freight that is 100 miles away from an XPO terminal, then obviously that would be less attractive for us. So, we're adding and we're also launching tools that help our sellers become more productive too. We just recently launched a tool that helps

organize our seller's day with it, even routes that customer visits to make it more effective for them to be able to see the most amount of customers in a given day in that local market.

But these are two sets of AI capabilities we're launching for top line growth. And there are three set of capabilities which we are launching on the cost side. And these are in linehaul and pickup and delivery and in dock efficiency. Starting with linehaul, as I mentioned earlier, we launched a new AI model that helps us with managing exceptions in our linehaul network, and we launched that in the second quarter and further enhancements in the third quarter.

Jason, just to give you an example, just this capability alone will reduced our empty miles by 12%, our diversions by more than 80%, and reduced our overall linehaul miles for the same amount of freight in the low- to mid-single-digit range.

On pickup and delivery, we are still in the early innings of launching enhanced route optimization algorithms. We're currently in pilot just in four terminals, and we're seeing great early results of those AI capabilities. And then on the dock side, we already have done tremendous progress there. Our smart tool with labor forecasting and how we manage how much head count you need for every shift, when does the shift start per person, when does it end per person? All of that is being done by AI as well. And that all of these tools ultimately are in the hands of our great operators in the field, who can then execute on that and deliver the kind of numbers we are delivering here.

Jason H. Seidl

Analyst, TD Cowen

Q

I appreciate all that great color. I guess my follow-up would be, something we haven't talked about much, which is Europe, and maybe you can give sort of the backdrop and the outlook for Europe. And are there any countries that are showing some strength that you talked about some of the positivity from your customers in the US?

Ali Faghri

Chief Strategy Officer, XPO, Inc.

A

Jason, this is Ali. So our European business continues to outperform in a soft macro environment. Here in the quarter, we grew organic revenue for the seventh consecutive quarter. Specifically, we're seeing outperformance in the UK and we've also accelerated pricing growth for the second quarter in a row. And all of that translated to adjusted EBITDA here in Q3, outperforming normal seasonality.

And we'd expect that to continue here into the fourth quarter as well. I think, typically what we see as we move from Q3 to Q4 is that EBITDA steps down, call it, in that \$10 million range sequentially. However, similar to the third quarter, we would expect to outperform that normal sequential step down in the fourth quarter, driven by the outperformance of the business.

Operator: Next question, Bascome Majors with Susquehanna International Group. Please go ahead.

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Q

Yeah, thanks for taking my questions. Maybe to follow-up on Jason's questions, bigger picture. When we look at Europe, it's, call it, 5% of your earnings and operating income, 10% of EBITDA, but it's, over 40% of consolidated operating expenses. And if we take a step back and think about cost takeout and profit improvement

opportunities, like what's directed specifically at Europe. And is there an opportunity to really move the profit contribution up a lot higher on that low base of profit, but high base of expenses? Thank you.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Thanks, Bascome. Well, similar to what we – obviously, the lion's share of our focus is on our North American LTL business, given the profit contribution as you highlighted to the overall company. But for Europe specifically, there are multiple levels that we are pursuing for growth. As Ali mentioned earlier, but obviously outperforming seasonality on profit growth from Q2 to Q3, and same thing with growing overall revenue in that business as well. But there are multiple cost takeout opportunities as well associated with that business and higher efficiency. Today we're either number one, two or three in LTL and truckload and in warehousing in Western Europe. And we also have a plan to expand margins.

Now, I don't think the margin expansion in that business is going to be anywhere near the magnitude of what you see here in the North American LTL business. It just has different costs. But at the same time, we are working on similar initiatives and you can see it here with performing better than seasonality on the profit line. And we do expect to do better in a good clip in 2026 as well, despite the softer freight macro in Europe. As I said, ultimately our goal is to sell that business, our goal is to be a pure play North American LTL carrier. We're patient. We want to make sure we get the right price for it. And whenever the time is right, we're going to sell that business and become a pure play North American LTL.

Operator: Next question, Christopher Kuhn with The Benchmark Company. Please go ahead.

Christopher Kuhn

Analyst, The Benchmark Co. LLC

Q

Yeah. Hi, good morning. Thanks for the questions, I appreciate it. Just thinking longer term, I mean, your shipments have exceeded best-in-class, it seems like the pricing opportunity could be even beyond the timeframe you've given and the service levels have been good. I mean, is there any reason over the long term that your OR can actually exceed best in class?

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Well, today if you look at the OR differential, more than the lion's share is driven by price and a combination of mix and price through the three levels I mentioned, Chris, earlier on. But if you break it down, I mean, when we started our plan, I think the margin differential was about 15, 16 points, and now that's down to about half of that to about 800 basis points, which is the remaining runway that we have. But as I mentioned earlier on, our price differential on a normalized basis is 11 points. And that goes back to actually operating our network more cost efficiently, given some of the AI tools and the optimization that we use machines for, to be able to optimize our cost structure.

Now, if you think over time as we bridge the pricing gap, there's no reason why our OR first going to get down to the 70s and the mid-70s and the low 70s, is kind of our expectation over the years to come, is how we think about it on the longer term.

Christopher Kuhn

Analyst, The Benchmark Co. LLC

Q

Yeah. That's helpful. Thanks, Mario. Appreciate it.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

A

Yeah.

Operator: I would like to turn the floor over to Mario for closing remarks.

Mario A. Harik

Chief Executive Officer & Director, XPO, Inc.

Well, thank you, Stacy, and thanks, everyone for joining us today. As you saw in our results, our strong execution extended our track record of continuous improvement and while expanding margins in the trough of the cycle. And we're positioning the business for years of outperformance going forward as well. With that, operator, please end the call.

Operator: This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.

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