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XPO, Inc. (XPO)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the XPO Q3 2026 Earnings Conference call and Webcast. My name is Carrie and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

Before the call begins, let me read a brief statement on behalf of the company regarding forward-looking statements and the use of non-GAAP financial measures. During this call, the company will be initiatives 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-looking statements. A discussion of factors that could cause actual results to differ materially is contained in the company's SEC filings, as well as in its earnings release.

The forward-looking statements in the company's earnings release or made on this call are made only as of today, and the company has no obligation to update any of these forward-looking statements, except to the extent required by law.

During this conference, 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 is 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 Investors section on 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. Thank you for joining us. I'm here with Kyle Wismans, our Chief Financial Officer; and Ali Faghri, our Chief Strategy Officer.

In the third quarter, we delivered strong growth and margin expansion as we continue to convert more business into higher earnings, company-wide. Revenue increased by 12% year-over-year to $2.4 billion. Adjusted EBITDA grew by 27% to $433 million, and adjusted diluted EPS increased by 59% to $1.70.

In our North American LTL segment, we reported 17% revenue growth and 35% growth in adjusted operating income to $293 million. This is the highest level of adjusted operating income in our history. Our adjusted operating ratio improved by 260 basis points year-over-year, significantly outperforming normal seasonality. We're executing a powerful strategy focused on service, investments in capacity, pricing, and cost efficiency. Each component reinforces the others, and together they are driving an acceleration in our results. You can see these connections most clearly at the core of our strategy, which is world-class service.

In the third quarter, we again delivered a damage claims ratio below 0.2%. For the shipper, damage-free delivery means fewer business disruptions, less time resolving claims, and greater confidence that their freight will arrive

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as expected. This is especially important to customers with time-sensitive or high-value shipments, who place a premium on working with a trusted provider.

Our service record positions us to earn more of this freight and further improve our mix. We view every customer interaction as being central to our success. Service quality earns us the next shipment and continuous improvement maintains our advantage. There is a strong connection between our network capacity and our ability to support customer relationships as they grow.

We're continuing to expand our presence in high-growth freight markets, most recently in Phoenix and Kansas City, where we opened two new locations this quarter. Strategically, we've positioned our network to handle significantly more volume with more than 30% excess door capacity to support growth.

We've also expanded and modernized our fleet, and we continually invest in our workforce. Together, these investments strengthen our network and allow us to move freight more efficiently, benefiting both our customers and our bottom line.

We're achieving a better balance of network density, utilizing more direct routes, and reducing unnecessary freight handling. And importantly, these investments lower our costs to serve and build significant operating leverage into the business. The same strategy informs our commercial initiatives, including pricing. We want to make sure the price we secure reflects both the quality of our service and the resources required to provide a world-class customer experience.

Our service quality puts our team in a stronger position to have these conversations. It also opens the door with customers whose freight requires greater reliability, careful handling, or specialized support, this is through our sales pipeline as well as with existing accounts. When customers see how consistently we deliver, we have an opportunity to serve more locations and handle more of that freight.

Local accounts and premium services remain important drivers to improve our revenue quality. These are areas where we continue to build lasting relationships and earn attractive margins by meeting specific customer needs. As an example, in the local channel this quarter, we increased the number of new customers we onboarded by 30% versus last year. The result is a strategic approach that connects pricing, mix, and share gains to the value we provide to shippers and the value we create for our shareholders. And we have a large opportunity to build on this momentum over time.

The final component of our strategy is cost efficiency driven by our proprietary technology. Our company has always had a technology focus, and now AI is accelerating that advantage. We're rolling out intelligent tools across our operations and seeing tangible results in how we route, handle, and deliver freight. Even in the early stages of these applications, we're moving more freight at lower cost and with improved service. In line-haul that means improving how we route freight and utilize trailer capacity. We're also running the network with fewer empty miles and freight rehandles. Since we rolled out a planning model that leverages AI, we've reduced rehandles by mid-single digits to the lowest level in over a decade.

In our pickup and delivery operations, our proprietary AI-based optimization tools are now being used on nearly two-thirds of routes. This tech factors in customer appointment windows, distance, and trailer capacity to arrive at the optimal route. Our drivers are making more stops per hour while reducing miles per shipment, and our workforce planning technology provided valuable support in the quarter, helping our service centers handle nearly 6% growth in shipment count with only a low single-digit increase in head count.

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We're also using AI to give our dock workers real-time feedback on their trailer loading techniques before freight leaves the dock. This contributed to a 20% reduction in damages in the quarter versus last year. Overall, we see AI as having a long runway for ongoing efficiencies and margin improvement.

And lastly, our insourcing initiative is working exactly as planned, reducing our exposure to rapidly rising rates from third-party carriers. We also have greater control over our line-haul operations when we move this freight within our network.

In summary, our third quarter results highlight the earnings power of our business, supported by a highly disciplined approach to both growth and margin expansion. We are building a business that can grow profitably, and we expect to achieve an annual LTL operating ratio in the low 70s or better over the long-term.

We expect our free cash flow to accelerate going forward, allowing us to continue repurchasing shares and reducing debt. These actions strengthen our balance sheet while further compounding our growth in earnings per share and enhancing shareholder value.

Now, I'll turn the call over to Kyle for the financial results.

Kyle Wismans

Chief Financial Officer, XPO, Inc.

Thank you, Mario, and good morning, everyone. I'll walk through our financial results, followed by our balance sheet, liquidity, and capital allocation. For the third quarter, we grew total company revenue 12% year-over-year to $2.4 billion. In our LTL segment, revenue improved to $1.5 billion, reflecting a 9% increase in revenue ex-fuel, with meaningful growth in both yield and volume.

Turning to cost in LTL, we continue to drive efficiencies across our operations, helping to mitigate the impact of higher freight volumes, wage inflation, and increased incentive compensation tied to our strong performance. Our expense for salary, wage, and benefits increased 11% year-over-year, or $72 million. Our costs for fuel, operating expense, and supplies increased 29%, or $66 million, primarily due to higher fuel prices.

And our purchased transportation costs increased by just $10 million, despite higher volume and rising truckload rates. Our insourcing strategy has significantly reduced our reliance on third-party carriers, mitigating this cost. Depreciation expense increased 3% or $3 million, reflecting our ongoing investments to expand network capacity and support long-term growth.

Moving to profitability company-wide, we grew adjusted EBITDA 27% year-over-year to $433 million. Our LTL segment generated $389 million of adjusted EBITDA, up 26%, and we improved margin by 190 basis points to 26.4%. LTL adjusted operating income was up 35% to $293 million. And our European Transportation Segment increased adjusted EBITDA to $48 million. In our Corporate segment, adjusted EBITDA was unchanged from the prior year at a $4 million loss.

Returning to our consolidated results, operating income increased 76% year-over-year to $288 million. Net income was $181 million, representing diluted earnings per share of $1.53. On an adjusted basis, diluted EPS increased 59% year-over-year to $1.70.

Turning to our third quarter cash performance, we generated $291 million of free cash flow. We ended the quarter with $260 million of cash on hand, after completing $123 million of net capital expenditures, accelerating our common stock repurchases to $150 million, and making $100 million of debt repayments. Combined with

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available capacity under our committed borrowing facility, our total liquidity at quarter-end was approximately $860 million. Our net leverage ratio improved to 1.9 times trailing 12 months adjusted EBITDA, compared with 2.1 times in the second quarter.

We continued to drive meaningful growth in free cash flow through a strong earnings performance and moderating capital expenditures. We're on track to more than double our free cash flow this year compared to 2025, and we expect to continue increasing it in the years ahead. This gives us significant flexibility to return capital to shareholders while strengthening our balance sheet. In October, we paid down another $75 million on our term loan to start the fourth quarter, bringing our year-to-date debt paydown to $275 million.

And 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 business, where we continue to capture profitable market share and deliver significant margin expansion. Compared with the prior year, shipments per day increased 5.8% in the quarter, while weight per shipment declined 0.7%, resulting in 5% growth in tonnage per day.

Volume growth remained consistently strong throughout the quarter, with shipments per day increasing 5.9% in July, 5.7% in August, and 5.7% in September. Notably, we accelerated our shipment growth in the accretive local channel, which contributed not only to volume, but also to margin.

Looking at tonnage per day on a monthly basis, we had year-over-year increases of 5.8% in July, 3.7% in August, and 5.4% in September. On a two-year stack basis, volume growth accelerated and outperformed normal seasonality each month of the quarter. This momentum continued into October, where we estimate preliminary shipments per day will increase in the mid-7% range, and tonnage per day will increase in the mid-6% range year-over-year, with both metrics outperforming normal seasonality.

More broadly, volume growth was driven by our differentiated service quality, our investments in capacity and our success in shifting mix toward higher-margin freight. Pricing remained a key driver of margin improvement in the quarter. Yield, excluding fuel, increased 3.6% year-over-year and improved sequentially. Revenue per shipment, excluding fuel, also improved sequentially and accelerated on a year-over-year basis.

Importantly, our pricing is continuing to strengthen, with year-over-year yield growth, excluding fuel, tracking up 5% in October and revenue per shipment growth up 4%. Given the momentum in our pricing trends, we expect both yield and revenue per shipment, excluding fuel, to improve sequentially and accelerate on a year-over-year basis in the fourth quarter compared to the third quarter.

Moving to profitability in LTL, we improved our adjusted operating ratio by 260 basis points year-over-year to 80.1%. Notably, our margin improvement accelerated from the second quarter on a two-year stack basis. We also outperformed normal third quarter seasonality by more than 200 basis points. These results demonstrate the strength of our LTL operating model and our ability to translate profitable volume growth and pricing gains into meaningful margin expansion.

Turning to Europe, we delivered another quarter of strong growth across the business. We increased revenue 5% year-over-year, marking our 11th consecutive quarter of growth on a constant currency basis. Adjusted EBITDA growth accelerated to 26% year-over-year, with positive contributions from each line of business. Based on

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current trends, we expect EBITDA growth to be even higher in the fourth quarter. In addition, we grew the sales pipeline by double digits, putting us in a strong position to capitalize on rising demand in key markets.

Before we move to Q&A, I'd like to close with a few thoughts on the momentum reflected in our results. Particularly, the gains we're making with mix and volume growth, our favorable pricing trends and significant margin expansion. We're also continuing to strengthen our competitive position through superior service quality, an expansive network, and a margin-oriented approach to market share.

At the same time, we're creating structural cost advantages through network optimization and expanding use of AI across our operations, giving us additional levers to improve efficiency, customer service, and profitability. Looking ahead, we see substantial opportunities to build on this momentum across the board with meaningful upside as the freight market recovers.

With that, 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] Please limit yourself to one question and one follow-up. [Operator Instructions] And our first question will come from Ken Hoexter with Bank of America.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Great. Good morning. Mario and team, great job on outperforming seasonality and strong margin gains. Just want to dig into the yield discussion, right, given a lot of debate on the underlying market and since that's a big focus on your ability to drive some of the outsized margin gains. So looks like revenue per hundredweight decelerated to about 3.5%, 3.6%. Maybe just talk about the environment there.

Ali, it sounds like you're talking about maybe some acceleration coming. And I guess maybe if you want to break that down, I know you've talked about, whether it's SMBs or different types of focus to get you the additional points, maybe where do we get that gains from here? Thanks.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Hey, thanks, Ken. This is Mario. We delivered another quarter of strong pricing, where we improved both yield and revenue per shipment ex-fuel sequentially. But we also accelerated our revenue per shipment on a year-on-year basis here in the third quarter from – relative to Q2.

Now at a high level, we always prioritize the yield flow through to margin. And if you look for us in the quarter here, we improved our operating margin by 260 basis points, which accelerated significantly on a two-year stack and outperformed seasonality by more than 200 basis points. Now, in the quarter itself, there were some mixed factors that impacted us from a yield standpoint. If you look on a year-on-year basis, Q3 versus Q2, our weight per shipment improved by more than a point, and our length of haul was down a few points. And both of these dynamics typically have a negative impact on yield.

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If you normalize for these shipment characteristics, our core pricing in Q3 accelerated relative to where we were in Q2. And as Ali mentioned earlier, here in October, our yield growth ex-fuel is tracking up 5% and revenue per shipment up 4%, as we're seeing our length of haul normalize this month, and we expect that for the rest of the quarter.

Now, if you look generally, if you zoom out just for Q4 as a whole, we do expect both yield and revenue per shipment ex-fuel to increase both sequentially and accelerate on a year-on-year basis as well.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Great. And just a follow-up on that seasonality and margins, right, Ali, I think you've always talked about maybe a 200 basis point deterioration in 4Q. I don't know if you want to kind of set your thoughts on where we see seasonality rolling on the operating ratio for the LTL side and maybe initial thoughts into 2027?

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

Sure, Ken. So we do expect another strong quarter here for margin performance in the fourth quarter. Now normal seasonality for us, Ken, is for OR to increase 250 basis points from Q3 to Q4. So normal seasonality would put our OR closer to an 83%. However, we do expect to significantly outperform that. And we would expect our fourth quarter OR to be below an 82%. Now that's a very strong outcome overall. It does imply another quarter of significant year-over-year margin improvement, and that's going to be driven by a combination of accelerating price, accelerating volume, and cost efficiency.

Now, for the full year, if you recall, last quarter, we had said that we expect north of 200 basis points of margin improvement this year. Based on our Q3 outperformance and the upside here in the fourth quarter, we now would expect our full year OR improvement of 250 basis points or better. So a very strong year as a whole.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

And for 2027, Ken, we do expect another strong year both for OR improvement and for earnings growth. I will give more color on the expectations once we report the fourth quarter here in a few months. But at a high level, if you look at where we're ending the year here, one, we continue to see continued industry volume improvement. And as we have shown this year, we expect to outperform that. And that's driven by profitable share gains through the course of the year and we expect that to continue in 2027.

We also expect another strong year of pricing performance. [ph] You'll have seen (00:21:48) the trend, as we exit the year, is looking solid, and we expect that to continue through 2027 and beyond. Then, the last component is on cost efficiency and our AI initiatives, all of these are in the early innings of delivering value for us in terms of efficiency, and we're going to capitalize on those further in 2027.

So if you take a step back, we do expect a strong year both for earnings growth and margin expansion. And obviously we'll give a bit more color on that once we report the fourth quarter.

Operator: And our next question will come from Chris Wetherbee with Wells Fargo.

Chris Wetherbee
Analyst, Wells Fargo Securities LLC

Q

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Yeah. Hey, thanks, guys. Appreciate it. So I guess maybe just coming back to the yields for a moment in 3Q because I just want to make sure we understand sort of the dynamics there. How do you think about sort of the 3.6% relative to any mix that was going on? I know weight per shipment was maybe a little bit higher than at least we were looking for. So maybe you can unpack some of the dynamics there and if you did see anything, whether it be from local accounts or other end markets that you were serving that impacted that? Because obviously it's a nice acceleration. Just want to make sure we understand what's going on between 3Q and 4Q on the yield side.

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

So Chris, this is Ali. I think the primary mix factor call out in the third quarter was length of haul, which was down a few points on a year-over-year basis. And that was worse than normal seasonality relative to the second quarter for us.

What we saw, Chris, in the third quarter was that as truckload rates really started to sharply increase, we did see more conversion of freight from truckload to LTL. Now that freight does tend to be heavier, but also more regional, and it comes with a shorter length of haul. For us specifically, we did reprice a lot of that truckload-like business. It doesn't always operate well in an LTL network. As you know, we're always focused on what has the strongest flow-through to margin.

And the reality is, is we are seeing a lot more attractive opportunities in the market with local customers and premium services as examples. I think, encouragingly, as we've now cycled into October, we are seeing that mix impact from length to haul start to normalize and seeing our length of haul trend higher as a result. And that is alleviating some of that impact on both yield and revenue per shipment.

And in addition, with accelerating core pricing is what's driving our expectation for pricing to accelerate here into the fourth quarter. So overall, from a mix standpoint, we would expect some of those factors that impacted us in the third quarter to be more in line with normal seasonality as we go into the fourth quarter.

Chris Wetherbee
Analyst, Wells Fargo Securities LLC

Q

Okay. Super helpful. And then just a quick follow-up on the tonnage side, I guess, do we assume the sort of mid-6s that you see in October? Is it like mid-single digits the way that you underpin the fourth quarter OR guide? Just want to get a sense of how you're thinking about some of the underlying dynamics within that OR guide.

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

Sure, Chris. So October for us, as I noted, tonnage was up in that mid-6% range on a year-over-year basis. And that did accelerate year-over-year. And on a two-year stack basis relative to September was also better than seasonality relative to September as well. Normally, we see tonnage decline in that low to mid-single digit range sequentially from September to October. And this year, October was a few points better than that.

I'd also point out that September was also better than seasonality for us as well. For the fourth quarter as a whole, if you just roll forward the above-seasonal trends we've been seeing here more recently through the rest of the quarter, that would put our full quarter tonnage not only accelerating from Q3's growth rate, but also accelerating from October's 6.5% growth on a year-over-year basis. And that does factor in easier comps that we have in both November and December.

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Operator: We'll go next to Jordan Alliger with Goldman Sachs.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Hi. Morning. Just sort of curious, you brought up or mentioned purchase transport, in your opening remarks is hopefully volumes continue to get better here, which it seems like they are. Can you maybe talk a little bit to PT and the insourcing and obviously there's elevated inflation out there and how you plan to use whatever levers you can to keep that line item in good shape and keep the in-sourced miles where you want them to be? Thanks.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Yeah. Well, Jordan, if you look at it, this has been a fantastic strategic plan for us over the last few years, because if you think about it, this year was the year where we are seeing truckload rates starting to inflect, and we spent effectively a good part of four years reducing that exposure on third-party carriers, but first, I'm talking numbers.

So when we started out plan, our outsourced miles were about 25%. Here this last quarter, we were in that mid-single-digit range, we're at 5.6% of miles being outsourced, and that's some of the lowest levels in our company's history.

Now keep in mind, in some markets, you always need some purchase transportation if you have a head haul market where on your own equipment with your own drivers you would have too much empty miles coming out of that market. It still makes financial sense to still use a small residual amount. But generally, we find that when we move the freight ourselves with our own drivers and on our own equipment, we typically also provide better service for the customer. We are more efficient with it. We can load trailers further in the network, and it's XPO employees who are moving, who are moving that freight. So we expect that number now as truckload rates go up, the breakeven point effectively keep on coming down, so effectively, we can – or we can lower our overall miles even further.

But currently, we feel good about where we are at the mid-single digits, but we don't see a need to increase that. And potentially over time, reduce it by a bit as we continue to execute on our plan. The biggest positive impact, if you think about an upcycle where both truckload rates go up and LTL rates go up, we're going to have a much lower headwind on our P&L from the rising impact of truckload rates, which leads to higher incremental margins in the upcycle and being able to have a higher flow through of our yield and volume increases to the bottom line versus if you had a higher exposure.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you very much.

Operator: Moving on to Stephanie Moore from Jefferies.

Stephanie Moore
Analyst, Jefferies LLC

Q

Great. Good morning. Thank you for the question. Look, I don't – I wanted to maybe touch on the free cash flow opportunity and others, I think 2026 is framing to be a pretty healthy free cash flow year. So any way you could magnitude just the free cash flow generation over the medium term. And as we think about your priorities of cash, any kind of update there would be helpful. And then if I could squeeze it in, thoughts on just the European sale. I

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think that's something that you talked about for some time, but any update there as well? And if that deal goes through same – if a deal does go through, what would be the primary capital – cash priorities? Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Yeah. Thanks, Stephanie. I'll start first on the European side, and I'll turn it over to Kyle for the cash flow. But overall, on the European sale, our intention and our goal is over the long term to be a pure-play North American LTL carrier that hasn't changed. And selling that business as a strategic priority of ours.

That's said, we're patient. We want to make sure we are maximizing the return we get on that business. It is a business that has scarcity value in terms of being one – either number one, two, or three in the segments of business we operate in, whether it's supply chain, whether it's LTL, whether it's dedicated solutions for customers predominantly in Western Europe. .

And if you look here more recently, the results are trending very, very nicely. I mean this quarter here, we improved EBITDA by 26% in USD or 27% on a constant currency basis, and we expect that to meaningfully accelerate in the fourth quarter in terms of growing EBITDA nearly by 40% on a year-on-year basis in that business. And that's driven by a strategy we are implementing to run the business more cost efficiently, but also focusing on overall pricing and how we price customer contracts for profitability and for margin like we do here in the U.S.

And the third component is investing in sales. We've added more than 40% more salespeople in Europe, are expanding in four new verticals with aerospace, luxury goods, health care, so a lot of the similar plan that we executed here, the team in Europe is doing a phenomenal job in driving that. And higher earnings and better results over time would lead to us eventually selling that business for the right price. And I'll turn it over to Kyle to discuss the cash and the cash flow.

Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

Hey, Stephanie. So from a cash standpoint, we expect to at least double our free cash flow here in 2026, that'd put us near – probably near $800 million for the year. And that's far ahead of our initial expectations for the year, driven by really two primary factors.

Obviously, we're seeing higher income and higher flow-through as Mark was talking about, we're also seeing lower CapEx. So over the long term, we expect our EBITDA conversion to accelerate both as earnings grow and given our lower CapEx needs. So we're expecting to generate billions of free cash in the coming years.

Now, as far as what we're going to do with that, we'll use our excess cash to both buy back shares and pay down debt. Already this year, we've repurchased $250 million of our shares. We actually accelerated those during the third quarter when the stock pulled back. That really reflects the confidence we have in the long-term value of our shares. We've also paid down $275 million of debt, including $75 million here in October. These actions will both ramp moving forward as our free cash flow continues to accelerate. So we look forward to generating billions of free cash flow, and we're going to use that to generate the highest return for our shareholders.

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

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Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey, thanks. Good morning. Can you just talk about the timing magnitude of your GRI this year? I don't know if there's a timing help that helps October or Ali, do you think that that 5% yield ex-fuel for October, that's a good run rate for the full quarter? And then maybe just if you can talk about net impact you saw for fuel in Q3 and sort of what you're embedding in the assumptions for Q4?

Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

Hey, Scott. This is Kyle. So consistent with other carriers, we did take our GRI recently, similar magnitude to last year. It's important to note that impacts mid, call it, 20% of our book. For us, the contract renewals have a much larger impact on our overall yields. Where that impact is really the local channel. We've obviously been growing that a lot over the last couple of years, but we still see a long runway for growth. And the GRI is one way we can align pricing in that channel to the world-class service we provide. I'll pass over to Ali.

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

And Scott, in terms of the pricing outlook for Q4. I mean, we do expect our yield, ex-fuel, to accelerate on a year-over-year basis versus the third quarter, also improved sequentially on a quarter-over-quarter basis as well. Our comps do get tougher as we move through the quarter, I would point out. However, the fact that we expect weight per shipment to normalize on a year-over-year basis in Q4 and still expect a yield acceleration, I think, speaks to the underlying improvement we're seeing in core pricing and contract renewals, which are accelerating currently here.

Now, in terms of the fuel impact for us, as you know, fuel has always been part of the economics for LTL carriers. Certainly, as fuel prices have gone up, we've seen our fuel surcharge revenue go up along with it, but obviously we've seen our cost to procure that fuel also go up. And there are many different impacts from fuel across our P&L, including many line items outside of just fuel operating expenses and supplies and an inflationary impact as well. So some examples, Scott, include purchase transportation costs, maintenance costs, and even cartage.

Now, for the fourth quarter specifically, we do expect diesel prices to normalize meaningfully from where they are currently through the rest of the quarter. And as a whole, we would expect our LTL fuel surcharge revenue to be flattish on a quarter-over-quarter basis relative to the third quarter.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Thank you, guys. Appreciate it.

Operator: Moving on to David Vernon with Bernstein.

David Vernon
Analyst, Bernstein Institutional Services LLC

Q

Hey. Good morning, guys. Thanks for taking the question. So Mario or Ali, I guess sometimes in conversations with investors, I get the feeling that share gains are almost always thought of as coming at the expense of price. You guys are growing shipments about 6%. OD is down 2%. Ex-fuels, yields are slowing maybe to 3.6%. Could you compare the freight you're winning with the existing book on yield, cost to serve, and margin? And any color

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on where it's coming from, sort of local, national accounts, 3PLs, or carriers that have lost service or capacity would be helpful. I'm just trying to differentiate between kind of the growth at the margin versus the improvements in the existing base?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Well, David, we don't believe that price and volume are mutually exclusive. And the Q3 for us is a great example of that, where we are driving strong growth on both metrics, and we expect both price and volume to accelerate here in the fourth quarter. And we are – if you look at the combined ex-fuel numbers, we're delivering some of the highest revenue growth in the industry, which is contributing to our strong margin improvement, which is, ultimately, what we prioritize for as an LTL carrier.

Now, going back to your question of where do we see that, because mix does impact overall what you're seeing both from a margin perspective and pricing growth perspective. And for us, a lot of our growth has been driven by growing with the small to medium-sized customers. So these are mom-and-pop shops, typically ship – a few shipments a week, where service is essential. If you don't have a good service product, these customers don't want to do business with you. And similarly, we're also growing it with premium services. This is where a customer would effectively want to have your ship – moving shipment from point A to point B, but then you're providing this incremental service for them as well, and we're seeing dramatic growth in that part of the business as well.

I mean, just to give you a data point, and I mentioned it in my opening remarks, but when you look at the small to medium-sized customers, here in Q3 of this year, we onboarded 30% more new logos than we did in the comparable period last year. And this tells you the momentum we are seeing in that channel, where effectively it has a better operating margin, and it's a great relationship that we have with the customers.

Now, if you zoom out and you look at our opportunities, we have a double-digit in the low to mid-teens opportunity in terms of catching up on pricing with our best-in-class peer. And over the years to come through a combination of slightly higher pricing than market driven by service, and those mix dynamic with premium and local accounts would enable us to grow yield over the years to come as we continue to gain market share in those highly profitable segments of business that we're going to continue to grow.

David Vernon
Analyst, Bernstein Institutional Services LLC

Q

So as you're going after that SMB channel then, I mean, is that business that would traditionally go through a broker, and you guys are really kind of attacking that part of the market? Or how do I think about like where that SMB freight would normally have been serviced?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

No. It would have been serviced by other carriers. So we're gaining market share from other carriers. Typically for that channel, they work carrier direct, where they typically work with one carrier only, because you can imagine if you're a small manufacturer in Ohio, you're going to, you have five shipments a week going all over the country. You're going to use one LTL carrier to move that freight for you, typically a national carrier because you want to be able to hit all the markets where your customers could be buying the product from.

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So the market share gains that we are seeing all across the sector, here this last quarter, as we saw some carriers also struggle on capacity, we were able to also gain market share. Some of these carriers have not invested as much in capacity as we have, as an example. But we are gaining market share again from the different carrier base based on us growing in that segment of business.

Operator: And our next question will come from Jonathan Chappell with Evercore ISI.

Jonathan Chappell
Analyst, Evercore ISI

Q

Thank you. Good morning. Ali, lost in this OR improvement run that you've had the last few quarters, the cost inflation, especially in salaries, wages and benefits, has been pretty elevated. I know you're trying to control more of your capacity. But are there any unique costs you can point to this year, maybe especially in the back half, as it kind of leaps to double-digit growth and any kind of normalization of that cost inflation going forward?

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

So Jon, this is Ali. So we did manage variable labor costs very effectively in the third quarter, and that's largely through leveraging our AI-driven proprietary labor planning tools that are allowing us to manage labor on a real-time basis. I'd point out that, for example, here in the third quarter, our shipment count was up 6% on a year-over-year basis relative to our head count, which was only up in that low-single digit range. So our ability to drive that gap really speaks to the productivity we're driving here. Now, from a salary, wages and benefits perspective, here in the quarter, they were up about 11% on a year-over-year basis.

In terms of the building blocks of that, it was primarily driven by higher volumes, which were up in that mid-single digit range. Then, we had another 4 points of about wages and benefits cost inflation. And then, there was about 3 points of growth in salary, wages and benefits tied to higher incentive comp. But importantly, on the incentive comp piece, that does reset as we head into 2027 and essentially becomes a good guy for us, as you're thinking about wage inflation into 2027.

Jonathan Chappell
Analyst, Evercore ISI

Q

Is there any way to judge the magnitude at this point of what kind of good guy that would be in 2027 as it shifts to a tailwind?

Ali Faghri
Chief Strategy Officer, XPO, Inc.

A

So, from an OR standpoint, it's north of 100 basis points of full year OR impact for us in terms of incentive comp. So at a high level, the fact that we expect to deliver 250 basis points or better of full year margin improvement while absorbing north of 100 basis points of incentive comp impact, which again resets as we head into 2027, really speaks to just how strong the underlying operating leverage of the business is currently.

Operator: And we'll go next to Jason Seidl with TD Cowen.

Jason H. Seidl
Analyst, TD Cowen

Q

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Thank you very much. Good morning, gentlemen. Impressive results. Mario, you guys have been growing above seasonality here, as you mentioned. I wanted to see if we could parse it between how much is sort of customer demand maybe improving and how much of it is just market share gains, from the excellent job you guys have done on service, whether it be in the SMBs or maybe some of your other premium service offering gains.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Well, Jason, we estimate it to be roughly around one-third market and two-thirds us in terms of growth. First, starting on the demand outlook, what we are seeing here in the back half of the year is continued positivity and year-on-year positive demand from the customers.

As you know, we do a quarterly survey, and we also are hearing that from our customers where they further expect acceleration. About half the customers expect a further acceleration in the first half of next year. But if you look at the back half, again, we're seeing retail customers be positive, but slightly. And we are also seeing the industrial on average being also slightly positive. You see the ISM having been in the mid-50s so far year-to-date, and we're seeing that materialize in higher tonnage in the industrial sector.

But if you think about the outperformance, I mean, obviously this last quarter we grew shipment count call it by 6% and tonnage by 5%, which is a meaningful acceleration. And we expect, as Ali mentioned earlier on, to further accelerate that in the fourth quarter, a lot of that is driven by those market share gains that we are seeing in those very accretive segments for us, growing with, again, with the small to medium sized customer. We're seeing a lot of success there and also growing premium services as well as some of the new verticals we've been targeting, whether it's healthcare or grocery consolidation. We're also seeing meaningful growth in some of these new segments of business where we were underrepresented in the past, and we continue to gain market share in those. But if I had to estimate it, I would say, one-third market, two-third us is how I would think about the volume or market share gains here for us.

Jason H. Seidl
Analyst, TD Cowen

Q

Well, Mario, that's great color. When you look at some of your, whether it be other premium services or sort of healthcare and grocery, where do you guys think you have the most opportunity from here on out in terms of growing your footprint?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

I think they are fairly well balanced overall. I mean, if you think about it, some of these are things like must arrive by dates, where if you think of a small consumer packaged goods company shipping into a big box retailer or a small manufacturer, or shipping into a large manufacturing plant where they want the product to actually be there within a certain time or date window. Today we have a low to mid-single digit market share in that segment of business, and our overall market share in LTL is, call it, 10%. So, there's a lot of room for us to get just to our existing market share size. But given our service product, we see even the opportunity to be higher there, in that example.

When you look at grocery, when we started the year, we were at call it this 1% market share, we are up by year end, we would be up to call it 3% to 4% market share of that segment of business. But that's $1 billion market that we are still in the early innings of penetrating as well. So, a lot of these, the way we think about them, almost every one of those categories has a big runway ahead of us and we're going to keep on capitalizing on it. And as

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we deliver great service for the customer and take care of their needs and show them all the love that we can, that's kind of what it's all about to be able to grow in those segments of business.

Operator: And our next question comes from Richa Harnain with Deutsche Bank.

Richa Harnain
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning. Thank you. So my question is on the TL spillover mix that you're adding, very helpful to hear how that may be negatively impacted the headline pricing metrics. But, Ali, you also mentioned that you're in the process of repricing that business, and it doesn't neatly fit into your network right now. Is there an OR headwind from all of that too that's embedded in your results that can improve over time as you more efficiently kind of build it in?

And then, bigger picture one. I guess, from Mario, the Mastio Survey this year, clearly you guys made some great progress. You had the best improvement in overall perceptions across various attributes. But in absolute terms, you still ranked more middle of the pack. And just, what do you think needs to be done to move higher? What's next for enhancing your service offering – you've already done so much. And how do you expect that to show up in financials?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Richa, first I'll start on the truckload business that Ali mentioned earlier on. So some of the truckload-like business doesn't always operate well in the LTL network, but it all depends on pricing. I mean, some of it operates at a good margin and we want that business, and some of it doesn't operate at a good margin, and we typically don't want that business. But usually whenever you have a heavy shipment that effectively is taking a big portion of a given linehaul schedule run, you really want to have a very high revenue per bill on that particular shipment to make sure you are offsetting your cost basis associated with that.

And this is where, again, we repriced some of that business that didn't make any sense for us, and we're always going to keep on focusing on that. I don't think that's something we do in one quarter, that's something we do every quarter. Whenever we see business, whether it's light or heavy or long-haul or short-haul, it doesn't operate at the desired margin, we're going to take the proper pricing actions on it to make sure that we get it where we need to on the performance side. And keep in mind, this is a cost-inflationary business. We ultimately got to make sure that we are getting paid fairly for the great service that we are offering our customers.

On the Mastio front, we've obviously made a tremendous amount of progress on service, our damage claims ratio here this last quarter was sub-0.2%, it's one of the best in the industry. We've made significant progress on our on-time performance over the last four to five years, and we're seeing improvements in every single KPI that touches the customer. We also this year, since you pointed Mastio, we did receive the Mastio Quality Award as well, which is something we're proud of and the team is proud of. And they are ranking us as, I believe, being the second best national LTL carrier when it comes to performance.

But over time, we also do our own surveys with customers, and we do that on a weekly basis. And overall, we are ranking at company records every single week and every single month that we are driving those surveys as well. So high level, I think the trajectory on service is very good, and we're going to continue on improving it over time and we're not going to settle until we're number one on service. That's the goal here.

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The goal is that when a customer ships with us, they know we're going to take care of them. Every interaction, whether how they interact with our employees, whether how we move the freight, whether how we deliver it damage free. That's the goal here, and it's going to take us – we're not going to get there overnight, but over the years to come, our goal is to become number one in service.

Richa Harnain
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks.

Operator: Our next question will come from Tom Wadewitz with UBS.

Thomas Wadewitz
Analyst, UBS Securities LLC

Q

Yeah. Good morning. So I think – well, I also want to acknowledge the good results in Mastio. I know there's a bit of a time lag in that, but I'm sure you're pretty excited to see that, that really nice progress. I guess one question on that. Does that – like, I'm sure customers see that pay attention. Does that give you kind of any more, I guess firepower to ask for increases? Or it's like they see what they see and the external surveys don't necessarily kind of give you more juice with asking for the rate increases? And then, I guess just on capacity. So, volume growth is great. It's great to have more shipments. And so that seems to be going really well. But then you also need more capacity. So, pretty clear, you're fine on doors. I know you bought a lot of trailers over the last couple of years, and new tractors. But just what about, like, drivers and kind of how much flex-up and how much growth you can handle? Or do you just need to, kind of ramp employees up more than the, call it, whatever, 2% or 3% that Ali talked about in employee growth in 3Q? Thank you.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Thanks, Tom. If you think about service quality improvements, we don't think about them as being like a switch where you improve service quality over a number of years and you just flip a switch and you get 10% higher prices. The way we think about it is through two components. As I mentioned earlier on, today, we have a double digit, call it, in that low to mid-teens opportunity of improving our pricing through a combination of core pricing improving as well as mix improving. But even the mixed improvements require high quality service.

As I mentioned earlier on, when you look at premium services or you look at small to medium sized customers, these are very hard to grow if your service quality is not in a very, very strong trajectory. And this is kind of how we think about it over the long term. But if you look at the double digit opportunity, more than half of it is driven by our ability to keep on improving service and being able to get the slightly above-market price improvement and roughly around, call it, 40% of it is driven by our ability to improve mix in both premium services and small-to-medium sized customers growing with that.

So we already are seeing the impact, because if you look over the last three to four years, we have been improving our yield above-market, meaningfully above-market, couple of 100 basis points, 200 to 300 basis points above-market per year. And that's driven by a combination of these two dynamics of being able to get a slight premium on year-after-year basis, given the service product, and then being able to improve the mix dynamic associated with that.

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Now, when you look at overall capacity, the way we think about it, there are three forms of capacity. One is what happens with your network, with your doors, where your excess capacity there. Two, is on rolling stock. And three is on drivers.

The first – effectively, we feel good on all of them, but effectively when you think about the first one, which is the door side, that requires the longest lead time to be able to add it. And over the last four years, we've added effectively 15% more doors to our network. We have over 30% excess door capacity, and we're feeling great about overall where our network is in terms of both the end of line markets as well as the core pipes in the network, making sure they are properly sized and they can handle a meaningful higher amount of freight as we move it for our customers.

The second area is around rolling stock. Similarly, we have expanded our trailer fleet by more than 30% and our tractors fleet by more than 20% over the years, over the last four years. That did come at a higher depreciation expense on the P&L, but even with that, obviously, we're dramatically improving our operating margins.

And the third component is on our drivers and kind of what's happening on labor capacity. And we feel great there as well. If you look at our head count over the long term, it's been flat over the last few years as we've managed costs through productivity and labor hours in a softer volume environment through the freight recession. And also our employee turnover, it's the best it's ever been. Our employee satisfaction is the highest it's ever been, and that effectively means you have to hire less people to backfill your churn before you hire for growth. And with the existing workforce we have, we can handle, call it, in the ballpark of low to mid-single digit more shipments with the existing people that we have with our workforce. And of course, we're going to be proactive as volume environment progresses from here, we're always going to add head count where we need it, but we feel good about where we are right now.

Operator: We'll go next to Bruce Chan with Stifel.

J. Bruce Chan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey. Thanks and good morning, gents. Mario, you talked about the P&D routing tools now being deployed at two-thirds of your facilities. Maybe you can just give us an update on where you stand as far as those optimization initiatives kind of the state of the union. When do you expect full deployment of the rest of that P&D routing opportunity? And are there any other big kind of efficiency initiatives that you have rolling out right now?

Mario A. Harik

Chairman & Chief Executive Officer, XPO, Inc.

A

Well, if you look at the overall proprietary – our proprietary tech and the AI initiatives we are driving, there's a lot of opportunity ahead of us. I mean, we look at this as being in the early innings of us deploying these technology solutions. But if I break it down first on the efficiency side, on the cost side, the biggest category for us is around linehaul first and how we improve linehaul. Here, this last quarter, we rolled out an enhanced AI model that enables us to plan our dock doors, so how we organize what trailer goes on a given door or another.

And as a result, we are able to effectively run fewer empty miles. And we have also reduced our rehandles by mid-single digits, and that's the lowest level of over a decade. Now, if you think about that technology, obviously, one, we're going to have an impact or a benefit heading into next year for the wraparound effect. But we also are continuing to improve how we route the freight within our network to improve that $1.6 billion of cost category in linehaul.

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On the P&D side, which is the one that you mentioned, so our new AI algorithms for route optimization are now rolled out to two-thirds of the routes. We do expect to get the network fully rolled out by early next year. Now, that technology, like any AI solution, effectively learns over time, so it's only going to get better. Currently, the improvements we are seeing out of it in those routes is, it's called in that low to low to mid-single digit improvement, but also we're seeing as the AI matures in given sites, that number is going up to a dramatically higher number as well. So we believe over the quarters to come, as we continue to tweak the technology and as the models continue to learn from existing data, that will only improve over time as well.

And then finally, on the dock side, we did launch a updated here this last quarter AI model for how we do forecasting for volume to match the labor that we have in our locations to the volume that we are seeing, inclusive of the forecast associated with that. And if you look here this last quarter, our head count was up low-single digits relative to our shipment count being up 6% in the network, but that's effectively on the operating side.

On the top line side, our new AI algorithm for pricing was something we're really excited for next year. And then, similarly, we launched new AI capabilities for our sellers, and you're seeing that in some of the performance and the growth of our small to medium-sized customer growth, along with a fantastic sales force driving those results. But when you give great people the right tools, we're obviously seeing a very strong momentum there on the results there as well.

J. Bruce Chan
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. That's super helpful. And just a quick follow-up. I know the math is complex, but is there a good way to think about how much of the above-seasonal OR progression is kind of tied to those proprietary tools?

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Well, high level, if you look at the long term, our expectation is to improve our productivity by 1.5 points to 2 points per year is how we think about it over the years to come, over a longer runway. And it's not always linear. Some quarters, you see us do a meaningful number higher than that; some quarters, in line with that. So depending on the quarters over time, you're going to see it be that way. But the goal is 1.5 to 2 years (sic) [1.5 points to 2 points per year] of productivity improvement per year, which would help us offset some of the cost inflation that we are seeing overall in wages or other cost categories.

Operator: We'll go next to Brian Ossenbeck with JPMorgan.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for the question. So maybe just come back to cost per shipment inflation ex-fuel at a high level. You've got yields accelerating. Mix is normalizing a little bit. You got the extra capacity, you just mentioned, Mario. So it looks like that line item is running LTL maybe 3.5%, 4% the last couple of years, ex-fuel. Is that sort of a good benchmark for the years ahead, given all the complexities we just talked about in terms of head count and productivity and whatnot? So any thoughts that would be helpful.

And then just to clarify, the truckload spillover, is that heavier-weighted shipments just needing a home to essentially move at sort of the last minute or when capacity is tight? Or is this more of the consolidation that we've seen before starting to unwind, given that truckload rates are quite a bit higher? Thanks.

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Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

Hey, Brian. This is Kyle. I'm going to start with the cost per shipment question. So over the long term, cost per shipment, we expect to be up in the low-single digit range and there's a few main drivers there. So, obviously, most of the P&L is really driven by labor, so our core wage inflation is in that, call it, 4% range. And we'd expect benefits to be another 1 point to 2 points on top of that.

Now, we're going to offset with the cost initiatives we have and some of the AI initiatives that Mario just talked about. So that covers linehaul, P&D, and dock. I mean, a lot of that ongoing labor productivity is really going to help us manage that cost impact. Now, obviously, when you think about margin, there's a large impact from a rev per shipment basis. And we would expect that to track above our cost per shipment. Again, it's going to be driven by our strong underlying pricing, as we already talked about, as well as the weight per shipment trends, which we're seeing here in this quarter. So that combination of really strong management of that inflationary pressure as well as strong pricing is going to help us drive strong margin outlook here and beyond.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

And when you look at the truckload spillover, typically, in LTL, usually, as I mentioned earlier on, it's not about whether a shipment is heavier or lighter or it's all about the margin, what your pricing is for. But generally, the reason why we're seeing some of that conversion come back from truckload into LTL is predominantly because truckload rates are up. So naturally, what you see in that environment is that whenever, over the last call it – so far this year, you have seen truckload rates go up meaningfully, and the conversion based on heavy LTL that have gone from LTL to TL is coming back to LTL effectively.

Now, we do believe it's a combination. Primarily, it's rate-driven, the fact that truckload rates are higher, but we also hear from some customers where they are dealing with tender rejections by truckload carriers, where they would want to send that back to LTL for service reasons as well. But we do believe the primary reason is more rate-driven, and then the secondary reason is capacity or tender rejections by truckload carriers.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks very much.

Operator: Moving on to Bascome Majors with Stephens, Inc.

Bascome Majors
Analyst, Stephens, Inc.

Q

If we look back over the last three or four years, you've driven a lot of profit outperformance on a mix of yield outperformance and productivity in the network. But if we look back over this quarter and next, volumes are starting to move up more than yield, which is, obviously, a great issue to have. Can we talk about the next two or three years? What you think the biggest drivers of your growth will be between volume, yield and margin? Do those look any different than what we've seen from you over the last three or four years? And what financial metrics would you emphasize as investors to really track to see where we are in this stage of your growth cycle? Thank you.

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Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

A

Thanks, Bascome. Well, if you take a step back, the core of our strategy is more yield-driven than it is volume-driven. However, if you think of an upcycle, if you look at what happened through the freight recession over the last three to four years, you have an LTL environment, an industrial economy in this country that is down in the mid-teens from an overall demand perspective.

Subsequently, LTL volumes were down on a mid-teen basis, but over that same period of time, you had capacity that exited the market. If you compare the industry today relative to pre-COVID or right after COVID, you have about 10% less service centers and about 5% less doors. So as the markets – and we invested in a lot of capacity, and when you think about that market starting to inflect, you're going to have a situation where you have certain carriers that will have the capacity like we do and others that won't have it, and we're going to be able to gain more market share over the years to come.

However, if you think about overall the algorithm of how we think about it, pricing comes first, volume comes second. And over the years to come, as I mentioned earlier, we have a double digit pricing opportunity for us to go capture through a combination of improving service product and being able to support our customers where they need us for growth, and a combination of onboarding new customers in segments of business that are typically higher margin, typically much more service sensitive, that we are seeing a lot of early inning success here, and we believe that's going to continue over the years to come. But that's how we think about it over time.

And ultimately, if you think from an OR perspective, I mean, you look at this here, obviously, as Ali mentioned earlier on, we'll end the year improving OR north of 250 basis points, and this is still in a market that we are not seeing a material improving in the macro. If you roll that forward over time, our goal is to get our OR in the low-70s and beyond as we execute on the strategy driven again by pricing, supported through service, driven by gaining market share and also by gaining cost efficiencies along the way as well. It's a massive runway ahead of us, Bascome.

Bascome Majors
Analyst, Stephens, Inc.

Q

Mario, thank you for that. And, Kyle, if you could put a period on that with what you think is the best financial metric to track, to really see you delivering on the progress you want to make over the next two or three years?

Kyle Wismans
Chief Financial Officer, XPO, Inc.

A

I mean, Bascome, it really comes down to OR, I mean, if you think about the way we look at the business and fundamentally what we need to do, it's really driving OR improvement in the business. So if you look at this quarter, we improved OR 260 basis points year-on-year. We did better than seasonality by 200 basis points. That's really where we're focused. I mean, the fact that we're able to improve OR north of 250 basis points for the year is a phenomenal number and represents all the efforts we've talked about so far in the call today.

Operator: And this now concludes our question-and-answer session. I would like to turn the floor back over to Chairman and CEO, Mario Harik for closing comments.

Mario A. Harik
Chairman & Chief Executive Officer, XPO, Inc.

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Thank you, Carrie, and thank you everyone for joining us today. As you saw from our results, we delivered another quarter of meaningful top and bottom line growth accelerating from the prior quarter. Our strategy continues to build momentum here in the back half of 2026 and is setting up 2027 to be another strong year of margin expansion and free cash flow growth. With that, I'll ask the operator to please end the call. Thank you.

Operator: Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines and have a wonderful day.

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