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**XPO, Inc.** (XPO)

Q4 2025 Earnings Call

## CORPORATE PARTICIPANTS

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

**Kyle Wismans**

*Chief Financial Officer, XPO, Inc.*

**Ali Faghri**

*Chief Strategy Officer, XPO, Inc.*

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## OTHER PARTICIPANTS

**Ken Hoexter**

*Analyst, BofA Securities, Inc.*

**Scott H. Group**

*Analyst, Wolfe Research LLC*

**Fadi Chamoun**

*Analyst, BMO Capital Markets Corp. (Canada)*

**Jonathan Chappell**

*Analyst, Evercore ISI*

**Jordan Alliger**

*Analyst, Goldman Sachs & Co. LLC*

**Stephanie Moore**

*Analyst, Jefferies LLC*

**Chris Wetherbee**

*Analyst, Wells Fargo Securities LLC*

**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*

**Ravi Shanker**

*Analyst, Morgan Stanley & Co. LLC*

**J. Bruce Chan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

## MANAGEMENT DISCUSSION SECTION

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

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

During this call, the company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the company's earnings release and the related financial tables, or on its website. You can find a copy of the company's earnings release, which contains additional 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 Chairman and Chief Executive Officer, Mario Harik.

Mr. Harik, you may begin.

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### Mario A. Harik

*Chairman & Chief Executive Officer, XPO, Inc.*

Good morning, everyone, and thank you for joining us. I'm here with Kyle Wismans, our Chief Financial Officer; and Ali Faghri, our Chief Strategy Officer. This morning, we reported another quarter of strong execution to close out the year. Companywide, we delivered fourth quarter adjusted EBITDA of \$312 million and adjusted diluted EPS of \$0.88. Excluding real estate gains in both periods, adjusted EBITDA increased 11% and adjusted EPS increased 18% year-over-year. In North American LTL, we generated adjusted operating income of \$181 million, which was up 14% from the prior year. And we improved our adjusted operating ratio by 180 basis points, significantly outperforming normal seasonality. We've now expanded our LTL margin by 590 basis points since 2022, which marked the start of one of the most prolonged freight downturns in history. This speaks to the resilience of our strategy, and it will continue to serve us well this year and in the long term, regardless of the cycle.

The key components of our strategy are fully within our control, and I'll start with our most important lever, customer service. In 2025, we reduced damages and improved service quality to new company records, reflecting our focus on providing a superior customer experience. We're achieving this, by balancing our network more precisely, reducing the number of freight rehandles and implementing tighter operating processes at the service center level. And critically, our stronger service performance is translating directly to better commercial outcome. As a result, we've been able to earn higher prices and gain market share by providing consistent world-class service. When we make ongoing investments in the business, we're strengthening the connection between service quality and value creation.

For example, we've deliberately invested in the network ahead of the upcycle to create more than 30% excess door capacity. This has given us the flexibility to operate more efficiently in the current environment, and we're positioned to respond quickly in a recovery.

On the equipment side, our average tractor age at year end was 3.7 years, giving us one of the youngest fleets in the industry. This improves reliability and safety, while reducing our maintenance costs per mile to the lowest level in our history. From a labor standpoint, we're staffed to support any near-term increases in demand, while maintaining our high service levels. Combined with lower employee turnover and the national scale of our driver training schools were well positioned to flex labor efficiently as volume grows. Each component of our capacity has a role in making sure we realize significant upside from our operating leverage when demand recovers.

Next is pricing, which has a direct correlation to margin performance. Throughout 2025, we saw customers place more value on our service as reflected in the pricing gains we earn. For the full year, we grew yield excluding fuel by 6%. It was also the third consecutive year that we improved revenue per shipment for every quarter. In addition, the expansion we're driving with local customers and premium services is contributing to our above-market pricing growth. These revenue streams come with higher margins, and we see long runways for both as core parts of our business. Another highlight of 2025 that contributed to margin was our improved cost efficiency.

This was underpinned by productivity gains and a lower reliance on purchased transportation. Productivity improved roughly 1.5 points for the year, with a ramp in the second half from our latest technology rollouts. These are proprietary applications that use AI for planning, freight flow management and network operations. Importantly, we've completed a successful pilot of our AI-driven route optimization tools for pickup and delivery. And now we're expanding this internally developed technology to nearly half of our service centers this quarter. We expect this to further reduce overall miles and improve stops per hour across a cost category of nearly \$900 million. And on purchased transportation, we exited the year with the lowest level of outsourced miles in our company's history, at 5.1% of total miles.

This has given us greater control over service quality and a more flexible cost structure. These cost efficiencies will scale with volume, and we expect the benefits to margin to grow over time. To sum it up, we've entered 2026 from a position of strength following a year of significant progress and outperformance. While we're pleased to have reported above market results for another four quarters, we have multiple drivers to improve our LTL operating ratio well into the 70s in the years to come and a substantial expansion of our operating margin. Number one is pricing. When we see a double digit opportunity to surpass the market and pricing growth over time by continuing to enhance service quality and revenue mix.

Another key is our investment in capacity ahead of the cycle. We've built excess capacity across our network, positioning us for profitable share gains and operating leverage as demand recovers. And we have a long runway to improve cost efficiency and productivity through network applications of AI at scale. These are all high impact initiatives that are already driving results. Importantly, our progress will be amplified by the billions of dollars of cumulative free cash flow we expect to generate in the coming years, starting with a meaningful acceleration in 2026. This will fund an increase in share repurchases and debt reduction to further compound our earnings growth.

With that, I'll turn it over to Kyle to walk through the financials. Kyle, over to you.

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## Kyle Wismans

*Chief Financial Officer, XPO, Inc.*

Thank you, Mario, and good morning, everyone. I'll walk through the fourth quarter financial results followed by our balance sheet, liquidity and capital allocation. For the total company revenue increased 5% year-over-year to \$2 billion. Revenue in our LTL segment was \$1.2 billion, up 1% from last year, as our increase in yield more than offset the decrease in volume. Turning to cost, we continue to make progress in key areas that relate directly to margin. On a year-over-year basis, our salary, wage and benefits expense decreased 1% or \$7 million, driven by strong productivity gains, and our purchased transportation expense decreased 46%, or \$20 million as we continue to in-source linehaul miles and optimize the network.

This is a structural cost reduction that will help support stronger incremental margins as truckload rates rise when the freight market recovers. Depreciation expense increased 11%, or \$9 million, reflecting our ongoing investments in equipment and capacity to support long-term growth. Moving to profitability. Total adjusted EBITDA was \$312 million for the quarter, with \$285 million generated by our LTL segment. Excluding gains on real estate transactions, adjusted EBITDA increased the year-over-year by 11%, both for the company as a whole and for the LTL segment.

In Europe, adjusted EBITDA was \$32 million. While corporate adjusted EBITDA was a loss of \$4 million. For the total company, fourth quarter operating income was \$143 million. Net income was \$59 million and diluted earnings per share was \$0.50. Net income includes \$14 million of gains on real estate and equipment, as well as \$33 million of restructuring expense. This was primarily from previously granted equity awards related to the transition in Board leadership. On an adjusted basis, diluted EPS was \$0.88. Excluding \$0.08 per share of real estate gains in the fourth quarter of 2025 and \$0.21 per share in the fourth quarter of 2024, adjusted EPS increased 18%.

Turning to cash flow and CapEx, we generated \$226 million of cash flow from operating activities in the quarter and deployed \$84 million of net capital expenditures. We ended the quarter with \$310 million of cash on hand, after repurchasing \$65 million of common stock and paying down \$65 million on our term loan facility. Combined with available capacity under our committed borrowing facility, total liquidity at year end was \$910 million. Our net leverage ratio at year end was 2.4 times trailing 12 months adjusted EBITDA for 2025, down from 2.5 times for 2024 and significantly lower than the 3 times we reported for 2023.

As we look ahead, we expect to meaningfully increase free cash flow generation this year and over the years to come. This will enable us to accelerate share repurchases, while also continuing to strengthen the balance sheet through debt pay down.

Before I close, I'll summarize this year's planning assumptions to help you with your models. For 2026, we expect total company gross capital expenditures of \$500 million to \$600 million, interest expense of \$205 million to \$215 million. Pension income of approximately \$14 million. An adjusted effective tax rate of 24% to 25%, and a diluted share count of approximately 118 million shares. These assumptions are included in our latest investor presentation.

And with that, I'll turn it over to Ali to cover the operating results.

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## Ali Faghri

*Chief Strategy Officer, XPO, Inc.*

Thank you, Kyle. I'll begin with our LTL operating performance, where we continue to execute well and expand margins despite the challenging freight environment. On a year-over-year basis, our shipments per day declined 1.6% and weight per shipment was down 3%, resulting in a 4.5% decrease in tonnage per day. These trends reflect ongoing softness in the Industrial sector, but importantly, we're continuing to take share in the most

attractive parts of the market. We're growing our business with more profitable local customers and by expanding our premium service offerings. Local shipments now represent approximately 25% of revenue, up from 20% just a few years ago. While premium services are now about 12% of revenue, up from less than 10% previously.

These are deliberate shifts in our mix that will make increasing contributions to volume, price and margin performance. Looking at the quarter, month-by-month compared with the prior year, October tonnage was down 3.8%, November was down 5.4%, and December was down 4.5%. On shipments per day, October was down 1.4%, November was down 2.2%, and December was down 1%. In January, however, we saw an improvement. Our January tonnage was roughly flat year-over-year, which outperformed normal seasonality. We saw this positive trend even with the impact of the major winter storm at the end of the month, which we estimate had about a 3 point impact on tonnage.

Turning to pricing. Our yield performance in the fourth quarter continued to be strong, increasing 5.2% year-over-year excluding fuel. Both yield and revenue per shipment improved from the third quarter, and revenue per shipment has now increased sequentially for the 12th consecutive quarter. We're gaining price through value delivered, supported by strong service quality, continued growth in the local channel and our premium offerings.

Moving to profitability, our fourth quarter adjusted operating ratio in LTL improved by 180 basis points from the prior year, accelerating from the third quarter and significantly outperforming normal seasonal pattern. We're driving this margin expansion through a combination of pricing, cost initiatives and productivity improvements enabled by our proprietary technology. Even in a soft demand environment, these structural advantages are allowing us to outperform our peers and keep elevating that performance over time.

Turning to our European business, our results continue to trend favorably. On a year-over-year basis, revenue increased 11%, supported by our eighth consecutive quarter of revenue growth in Europe on a constant currency basis. Adjusted EBITDA increased 19% year-over-year and performance tracked better than normal seasonality relative to the third quarter.

To wrap up, our fourth quarter performance highlights the strength of our strategy. We're managing through a soft freight market while continuing to improve, mix, deliver consistent pricing gains, and expand margins. We're also making targeted investments in the networks to generate high returns over time, and our proprietary technology is leveraging AI for cost and productivity improvements. Together, these capabilities position us to outperform in the current environment and accelerate results as demand 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] Our first question comes from the line of Ken Hoexter with Bank of America. Please proceed with your question.

**Ken Hoexter**

*Analyst, BofA Securities, Inc.*

Q

Hey, great. Good morning. So, I guess you mentioned Ali, there at the end, ex storm it sounds like tonnage would have been up about 3%. And you're outperforming seasonality given the thoughts on ISM, maybe your initial thoughts on how significant we can see this outperformance or versus your normal trends. Talk about what your normal trends are for first quarter for both revenues and OR, and what you think that indicates for the year if you keep this seasonal outperformance.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

Yeah, hey, Ken, this is Mario. So, when you look at January for us, tonnage was flat on a year-on-year basis and shipments were up by about a point for the month. And when you look at that on a relative basis compared to December, that was a couple of points better than normal sequential seasonality from December into January. And this was after December being roughly about a couple of points also better than seasonality relative to November as well.

Now, as you mentioned and Ali mentioned earlier, we did see an impact from the winter storm. And we do estimate that to be three points for the full month, so that outperformance would have been even higher versus seasonal trends. Now, what's driving that? We are seeing both from a demand perspective, a bit more strength, especially on the industrial side in the month of January. But a lot of it was the company specific initiatives that we have been driving in terms of gaining market share and higher margin and accretive business. From one perspective, we continue to grow in our local accounts segment or the small to medium sized businesses that we are growing. Through the course of 2025, we added about 10,000 of these customers to our book of business.

And similarly, we are growing in new verticals that in the past we were not growing in. Examples are grocery consolidation, where through the back half of last year we nearly tripled shipments in that segment of business. And we're also growing in areas like healthcare where we onboarded few large customers in that space as well, that are very service sensitive. And obviously they're seeing all the great progress that we are making there as well. So, it's a combination of underlying strength and market share gains in both segments of the business is what we're seeing here. In terms of OR outlook, if you look at typical seasonality for us from the fourth quarter to the first quarter, if you look over the long-term, we typically see OR deteriorate by about 50 basis points sequentially.

And we do expect to outperform that normal seasonality here in the first quarter. And we do expect to our OR – for our OR to improve sequentially from Q4 into Q1, which is a strong overall outcome driven by all of our initiatives in pricing and cost efficiency and AI. And obviously, the volume environment here being a bit better as well.

**Ken Hoexter**

*Analyst, BofA Securities, Inc.*

Q

Great. Thank you, Mario.

**Operator:** Thank you. Our next question comes from the line of Scott Group with Wolfe Research. Please proceed with your question.

**Scott H. Group**

*Analyst, Wolfe Research LLC*

Q

Hey, thanks. Good morning. So, Mario, helpful color on Q1. I know in last year you gave some thoughts about how to think about full-year margin improvement. I'm wondering if you have similar thoughts this year on the LTL side. And then maybe if you can just give us an update on where we are on the local penetration and where you think that can go. Thank you.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

You got it, Scott. First of all, for the full year, we do expect another strong year for both margin improvement and earnings growth in 2026. Starting with OR, we'd expect our OR to be in the 100 basis points to 150 basis points of improvement for the full year, which [ph] of course (00:20:52) would be an acceleration relative to what we saw last year. And that's without a meaningful macro recovery. So, this is assuming that again, we're not going to see the market pick up, although we're obviously with ISM earlier this week, if that strength continues that would change the outcome. So, if we do see the macro recover, we would expect to drive upside through to our results.

And the primary drivers for that is that we do expect another year of above-market yield growth, driven by all the initiatives that we are driving in that arena. And similarly, we also expect another strong year in cost efficiencies, and that's driven by our AI initiatives. I mentioned earlier that we are in the process now of launching our new internally developed AI route optimization technology for pickup and delivery, and we expect to roll out half our network here in the quarter. So, as these build momentum through the course of the year, we do expect more cost efficiencies as well. And a lot of these are still early innings.

On the volume side it's still tough to predict. Again, there are good signals here, good signs as we kick off the year. But we'll see how this kind of progresses from here. In terms of local accounts, we – so last year we've added approximately 10,000 new local accounts to our book of business. If you recall, Scott, initially when we started targeting that segment of business, we were at 20% of the total book was small to medium sized customers. And our goal was to get to about 30% in a period of roughly five years, and that's equivalent to about 2.5 points of yield, about 0.5 point a year of outperformance driven by that segment of business.

And we are currently at 25% of the book is small and medium sized customers. We're about halfway to our target of 30%. And we expect that to continue over the years to come as we continue to onboard more of these customers.

**Scott H. Group**

*Analyst, Wolfe Research LLC*

Q

Appreciate it. Thank you, guys.

**Operator:** Thank you. Our next question comes from the line of Fadi Chamoun with BMO Capital Markets. Please proceed with your question.

## Fadi Chamoun

*Analyst, BMO Capital Markets Corp. (Canada)*



Thank you. Good morning. Mario, I wanted to go back to the comment that you made about the cost efficiency. I think you said 1.5 points of productivity gains. I think it was last year. And you talked about technology and AI optimization and some of the things you're implementing affecting \$900 million of cost base. I just wanted to kind of dive into what kind of, productivity target, like we want to think about cost savings opportunity as we go into 2026. What does this envelope look like?

And I just want clarification on the prior couple of questions discussion. It seems like you're attributing a lot of the kind of January improvement or your volume performance to the XPO initiatives that you are doing and not necessarily to any meaningful improvement in the end market or in the demand environment. We saw one of your peers talk a little bit more favorably about the demand, and talked a little bit more favorably about the progress in the weight per shipment, which we didn't see in your numbers. And I'm just wondering, if there is a more clarification you can provide on that. Thanks.

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## Mario A. Harik

*Chairman & Chief Executive Officer, XPO, Inc.*



Yeah. So, Fadi, when you look – I'll start with the second question and then come back to AI and cost efficiency. On the volume side, we did see both. So, when you look at our outperformance in January, it was a component where if you take a step back in December, we did see more strength on the retail side, and we had a few projects with customers like retail store rollouts through the course of December, that also helped our results to outperform sequential seasonality from November into December. And then the outperformance in January was a combination of both. From one perspective, we saw a switch in a better demand environment for the industrial economy, but it's still overall early innings, Fadi.

So, if you look at the ISM, where new orders were at 57%, the ISM itself was at 52%, these are very strong numbers. We are still not seeing that level of ISM performance materialized in the underlying demand. However, the industrial demand in the month of January has strengthened compared to where we were in the fourth quarter, and that's a very positive sign. Now, on top of the performance of the ISM and the industrial complex. Beyond that, we were able to drive all of these initiatives, which we have been working on through the course of all of 2025 and prior to be able to continue to onboard highly profitable business to the overall mix. I think, the outperformance was driven by a combination of both company-specific, but also early signs of life in the industrial economy, which is very positive.

In terms of your first question on technology and AI. We are very excited about the opportunity ahead of us. And if you look at last year and over the last few years, but last year specifically, we were able to improve productivity by about 1.5 point for the full year, and that was driven by our tech initiatives. And that accelerated in the back half of the year to above two points of productivity improvements. Now, when you look at 2026 and beyond, there are multiple levers where we are using AI to improve our cost structure. The first one is around linehaul and linehaul efficiency. We've discussed this in the past where for every point of improvement in linehaul, we get approximately \$16 million of profits for the full year.

Now, for every point of P&D efficiency improvement, it's now slightly higher than what we discussed in the past about \$900 million worth of cost. And this is where we piloted our new technology across 12 service centers in our network last quarter. And we're going to be accelerating the rollout here in 2026. And then for every point, it's \$9 million to the bottom line per year. Then on the dock side for every point is about \$4 million of improvement per year. So, this kind of gives you the magnitude of impact.

Now in terms of our expectation, what we currently expect for 2026 is a low-single digit improvement in productivity as well. But based on what we're seeing with these initiatives and what's the run rate we're exiting at last year, there is a case where the upside could be all the way up to mid-single digit, but we're still early innings at this point. And we'll see how these start compounding over time as we launch those capabilities. And of course, we're using AI in pricing and in supporting our salesforce as well. So, we have multiple other initiatives to continue to improve our operating performance through technology as well.

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**Fadi Chamoun**

*Analyst, BMO Capital Markets Corp. (Canada)*



Thank you.

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**Operator:** Thank you. Our next question comes from the line of Jonathan Chappell with Evercore ISI. Please proceed with your question.

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**Jonathan Chappell**

*Analyst, Evercore ISI*



Thank you. Good morning. Mario or Ali, on the revenue per shipment side 12 straight quarters of sequential improvement, which is obviously really good. It feels like the year-over-year rate of change is starting to decelerate. And now we're down to 3% in 4Q can you help us think about what you're assuming for 2026? And also, is that a commentary? Maybe that's slowing rate of change on now that you've reached 12% accessorial, it's maybe a little bit harder to get incremental accessorial impact. Or is that more indicative of maybe a pricing environment that doesn't have the same momentum as it may have had last year?

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**Ali Faghri**

*Chief Strategy Officer, XPO, Inc.*



Sure. Jon, this is Ali. So, we expect a strong year from a pricing improvement standpoint here in 2026. For revenue per shipment specifically, we'd expect revenue per shipment to be up somewhere in that mid-single digit range, similar to our expectation for overall yield growth. From a weight per shipment standpoint, we'd expect weight per shipment to be roughly flattish on a year-over-year basis. So, that's going to help drive an improving trend year-over-year for our revenue per shipment here in 2026. The other way you can think about it, Jon, as you mentioned, the 12 consecutive quarters that we've improved revenue per shipments through the fourth quarter, we'd expect that trend to continue here through 2026.

So, we expect to continue to grow revenue per shipment sequentially each quarter as we move through the year. And that's going to be driven by all of the initiatives that we're executing on the pricing side. In particular, there's a lot of runway for us on local customers. Mario and Kyle talked about it earlier in terms of getting those local customers up to 30% of our overall book of business and a similar trend on premium services. A few years ago, we were about 10% of our book of business was premium services. We're at 12% currently. However, we see a path to 15 plus percent over time. So, there's a long runway there for us to continue to expand our offering and continue to drive that above market yield growth and pricing growth here in 2026 and beyond.

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**Jonathan Chappell**

*Analyst, Evercore ISI*



Thank you.

**Operator:** Thank you. Our next question comes from the line of Jordan Alliger with Goldman Sachs. Please proceed with your question.

**Jordan Alliger**

*Analyst, Goldman Sachs & Co. LLC*

Q

Yeah, hi. Thanks. Just sort of curious. Obviously, you guys are doing a good job from an XPO perspective. I'm thinking, though, out over the next several years or a couple years, if we do, if some of these demand indicators do wind up becoming more fulsome and, we get an inflection across the LTL industry, can you talk a little bit about, overall LTL industry capacity relative to what sort of price or yield reaction, would occur if the industry itself went from down volumes to positive volumes. And again, in the context of overall industry capacity? Thanks.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

Yeah, well, if you look at overall industry capacity, it has been relatively flat over the last decade. And while there were a few carriers besides us who have added capacity, others have been also reducing LTL footprints. And you also couple that with the bankruptcy of Yellow a few years ago, you tend to see that capacity has gone down quite a bit. Now in terms of how much has it gone down by, if you look – if you compare, pre-COVID, so 2019 to where we are today on overall service center count, the industry is down 11 points over that period and on door count, it's down 6 points. If you compare it to pre-COVID to post-COVID to where we are, I mean, pre-Yellow to post-Yellow, so if you go 2022 to 2025, both service center count and door counts are down 6 points over that period.

Now when you compare that to what volume has done over the same period. Keep in mind, we have been in a sub-seasonal industrial environment now for three years, with the ISM being sub-50 for the most part. That has caused LTL volumes to be down in the mid to high teens, give or take, in terms of shipment count across all public and private carriers over the same period of time. So, as volume, if what we're seeing here in the ISM continues to gain steam, which at some point it would, and usually the ISM is inversely correlated with the fed fund rate. So, when we start seeing that fed fund rate continue to decline and you see the ISM start to pick up again, at some point, you won't have enough capacity in the sector compared to what we're seeing – what you would see from a demand recovery.

There is also another dynamic that has happened over the last few years, and that's between public and private carriers. When Yellow went bankrupt, a lot of that freight ended up going, or more of that freight ended up going to the private carriers than the public carriers. So, the private carriers are currently more strapped on capacity than the public carriers and obviously in our case, we have more than 30% excess door capacity to be able to support that recovery, whenever that recovery comes. So, it's very fair to assume that when you start seeing the watermark of overall demand go up and as capacity starts to dry up, you're going to see more and more customers go to the carriers that do have that capacity. And naturally, you will see the pricing dynamic of the overall industry continue to raise on average.

And as Ali mentioned earlier on, we have multiple initiatives to catch up with our best-in-class peer, where we see a double-digit opportunity of incremental pricing growth just to catch-up to those pricing levers, through the three levers that we mentioned earlier on. So, it would be not only positive for the tonnage environment, but definitely very positive for the year for pricing environment as well.

**Jordan Alliger**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you.

**Operator:** Thank you. Our next question comes from the line of Stephanie Moore with Jefferies. Please proceed with your question.

**Stephanie Moore**

*Analyst, Jefferies LLC*

Q

Hi. Good morning. Thank you. I guess I appreciate the color so far for January and your thoughts for the quarter. But clearly you guys have invested quite a bit, through a Network 2.0 and the likes, so maybe as we think about what your incremental margins could look like in an upcycle, that might be helpful because clearly, I don't think looking at historical results would be probably that relevant given the investments that have been made over the last several years. So, any help you can give us, Mario, on incremental margins would be appreciated. Thank you.

**Kyle Wismans**

*Chief Financial Officer, XPO, Inc.*

A

Hey, Stephanie, it's Kyle. So, if you think about incremental margins, we'd expect to be comfortably above 40%. And if you think about the contributors to that, the biggest is yield. So, we were talking about that earlier. But if you think about yield, it's going to have a really strong flow through the bottom line. And we're going to have a lot of our initiatives really just coming through to fruition now. So, you think about local shipments continuing to grow, as Mario mentioned, you think about accessorial continuing to grow. That's really going to help us drive really strong incrementals from a yield perspective. And then if you think about where we are from a demand and capacity standpoint as Mario just talked about, we're in a great position to continue to deliver. If you think about the structural improvements we've made, not only in the count of service centers and our tractor and trailers, but also reductions in structural costs. So, again, we've been able to really improve our third party linehaul spend, get that down to 5%. And if you think about the AI initiatives that continue to help us drive more productivity, both from a P&D standpoint, as well as on the dock, we're in a great position to not only capture more of that revenue, but also do it with a high amount of productivity. So, from our standpoint, we should be easily in the 40% range when you think about incremental margins in an upcycle.

**Stephanie Moore**

*Analyst, Jefferies LLC*

Q

Thanks, Kyle. Appreciate it.

**Operator:** Thank you. Our next question comes from the line of Chris Wetherbee with Wells Fargo. Please proceed with your question.

**Chris Wetherbee**

*Analyst, Wells Fargo Securities LLC*

Q

Hey, thanks. Good morning, guys. Maybe one quick clarification question, Mario. You talked about the assumptions for the operating ratio in 2026. And you noted no macro improvements [ph] before, can I (00:35:33) get a sense of what the actual tonnage sort of underlying tonnage assumption is in the 100 basis points to 150 basis points OR for 2026, and then maybe zooming out a little bit and thinking about CapEx and cash flow. And so given the capacity that you have. You noted the tractor age is on the lower side, maintenance per mile is low as well. How do you think about that going forward? And then as you balance that kind of cash out relative to returns to shareholders, how you think about that, that'd be great.

## Ali Faghri

*Chief Strategy Officer, XPO, Inc.*

Hey Chris, it's Ali. I'll answer the first part, then pass it over to Kyle. In terms of the tonnage assumptions, if you just roll forward normal seasonality from January, that would put full year tonnage roughly flattish year-over-year, and that would be supportive of that 100 basis points to 150 basis points of OR improvement that we expect for the year. Now, to the extent that you see that above seasonal volume performance that we've seen in the last couple of months continue through the rest of the year, there would be meaningful upside to that OR outlook that we've talked about. So, ultimately, it depends how volume trends through the rest of the year. But overall, we expect a strong year of margin improvement with or without a macro recovery.

A

## Kyle Wismans

*Chief Financial Officer, XPO, Inc.*

And then, Chris, if you think about CapEx, so when you think about CapEx for last year, we spent about, on the LTL business, about 12.4% of revenue on CapEx. And if you think about what we'll do this year, that's going to moderate a couple points. So, we're obviously lapping a year of significant network expansion. So, you think about the service centers we brought online. In addition, we had a lot of fleet additions that brought our third party linehaul down to 5.1%. So, we think about this year that number will come down probably more towards tough the midpoint of our long-term guidance range of 8% to 12%.

A

What that's going to do for us from an overall free cash flow standpoint, it's really going to increase our free cash flow. So, if we think about 2026 for us from a free cash flow standpoint, we should be up north of 50% year-over-year. And that's going to be a combination of both lower CapEx spend as well as our continued improvement from an income basis, Mario talked about with OR improvement. So, when you think about what that can do for us, that's going to give us a lot of flexibility going into this year to do really two things.

So, now we'll be able to continue the effort on buying back shares, so last year we repurchase about 125 million shares. That'll accelerate as a free cash flow continues. But then we're also going to have the flexibility to help continue to pursue our long-term target of being 1 to 2 times leveraged. We've paid about \$115 million of term loan B this year. Again, that'll accelerate as well. So, we're going to have a lot of cash this year, and that's giving us a lot of flexibility moving forward to have the highest return for our shareholders from that cash.

## Chris Wetherbee

*Analyst, Wells Fargo Securities LLC*

Got it. Thanks very much. Appreciate it.

Q

**Operator:** Thank you. Our next question comes from the line of Richa Harnain with Deutsche Bank. Please proceed with your question.

## Richa Harnain

*Analyst, Deutsche Bank Securities, Inc.*

Thanks. Operator. Yeah. One quick clarification from me. And then a general question, but the clarification is the outlook for the quarter Q1 to achieve margin expansion sequentially. What are you baking in as the assumption for tonnage? Do we expect this better than seasonal lift that we saw in January to continue for the rest of the quarter? Are you assuming more like seasonal trends for February and March. And then, the bigger picture question, Mario, in the past, I believe you suggested that in the next upcycle, price is going to lead. Just wanted to get an update on that. If you have this double-digit, I think, you said 30% excess capacity on a door level. Why

Q

wouldn't you improve pricing consistent with what you've been doing, but have sort of volumes lead in driving revenue growth to effectively soak up that excess capacity, drive strong incremental which you guys are speaking about. And then that 30% if you can translate that for us in terms of, what that means in terms of how many shipments you can absorb, how many more shipments you can take on, I should say, without further investment in real estate, or maybe how much you can do without taking on more trailers and people. That would be helpful. Thank you.

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**Ali Faghri**

*Chief Strategy Officer, XPO, Inc.*

A

So, Richa, this is Ali. I'll start on Q1, then pass it to Mario. So, for Q1, from a tonnage perspective, if you just roll forward normal seasonality off of January through the rest of the quarter, that would imply full quarter tonnage being flattish on a year-over-year basis. And keep in mind, that does also factor in the tougher comps through the rest of the quarter. And that's really what's underpinning the OR outlook that we talked about in terms of outperforming normal seasonality and also improving OR sequentially from Q4 to Q1. Ultimately, it is still early in the quarter. March does have the largest impact on the quarter as a whole. So, ultimately, that will be the biggest swing factor and probably a better indicator of whether this better than seasonal volume performance we've seen here in January is sustainable.

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**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

And Richa, when you look at the overall pricing and in the context of an upcycle, so generally in our business and our industry, it's a capacity constrained industry. So, obviously for the last three years we have been in a depressed industrial demand environment, which has made the industry have enough capacity for the volume that we are seeing. But when that volume in the industrial economy starts recovering, you won't have enough capacity. And when you think about an LTL network, profitability and margin generally comes from yield, comes from pricing in terms of how we think about it. So, naturally, typically in a downcycle, you tend to see the industry be up low single digit on pricing; in a good cycle you would see it in the mid-single digit. And whenever you are in an upcycle, you could tend to see that being in that mid to high single digit type increases in pricing. Now, given that we have initiatives to be able to bridge the gap from us, from where we are today to where our best-in-class peer, we have a double-digit pricing opportunity to go capture.

And that's when you normalize our shipment characteristics in terms of weight per shipment and length of haul compared to our best-in-class peers. So, our goal through the initiatives we just mentioned. Whether it's premium services, whether it's small to medium sized customers, whether it's continue to get a more profitable mix of business, we're going to be driving those pieces to get a few points above market pricing through all of these components, on top of the industry's pricing going up. Now in terms of our ability to gain more tonnage, obviously, in an upcycle, we will also gain more tonnage, but we generally we would want to get more price because that's going to have a higher flow through to the bottom line as well.

Now, when you look at the volume side and how much we can handle, so typically in an LTL network you need approximately in the mid-teens excess capacity to be able to handle the up and down cycles related with beginning of month versus end of month type volume fluctuations, or what a Monday would do versus a Friday would do, or what beginning of the quarter versus end of the quarter would do. So, that fluctuation typically you need about 15 points or so of excess door capacity. So, you can handle those up and down. So, we see anywhere between the mid-teens to the low 20% range of incremental volume we can get with our current door capacity. And beyond that we would be expanding further and adding more physical capacity.

Now there are also other forms of capacity like rolling stock and obviously people as well. And on the rolling stock side, we feel that we are in a great, great position. Over the last 3, 4 years, we have added more than 19,000 new trailers to our fleet, and we have added more than 6,000 new trucks to our fleet, giving us today one of the youngest fleets in LTL. Our average fleet age is 3.7 years as we exited the year, so we're feeling great about being able to capitalize on that and importantly, to be there for our customers when that upcycle starts to be able to move their freight and provide great service for them along the way.

**Richa Harnain**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you.

**Operator:** Thank you. Our next question comes from the line of Tom Wadewitz with UBS. Please proceed with your question.

**Thomas Wadewitz**

*Analyst, UBS Securities LLC*

Q

Yeah. Good morning. And, congratulations on the momentum in the business. The – I wanted to see if you could talk a little bit about underlying inflation. It sounds like you got some pretty helpful productivity opportunities related to the tech and AI initiatives. OD had their call yesterday taking that, kind of, talked about higher inflation, I think, 5% to 5.5%. So, maybe a bit higher versus 2025. So, maybe a thought on how you see underlying inflation. And then when you weave in productivity, does your kind of – do you get maybe more overall cost benefit and into the margin in 2025 – or excuse me, in 2026 or just how do we look at those different pieces together? Thanks.

**Kyle Wismans**

*Chief Financial Officer, XPO, Inc.*

A

Yeah. So, if you think about it in the long-term. So, we did think cost per shipment is going to be up somewhere in the low single digit range. And the way to think about that. So, for us core wage inflation is in that 3% to 4% range. And then on top of that we see higher benefit costs of maybe a point or two. But as you imply I mean we expect to offset that with our productivity initiative. So, from an AI standpoint that's going to help us, whether it's linehaul, pickup delivery or dock drive further improvements there. And then I think from a labor standpoint, just more broadly in the fourth quarter, we delivered two points of labor productivity. We'd expect that to continue. So, if you think about on a net basis once you account for that productivity, we would expect our cost per shipment to be in that low single digit range despite having that core wage inflation and higher group or higher increase from benefit cost.

**Thomas Wadewitz**

*Analyst, UBS Securities LLC*

Q

So, do you think underlying inflation is much different from last year or kind of similar?

**Kyle Wismans**

*Chief Financial Officer, XPO, Inc.*

A

I think, it's going to be similar. So, if you think about wage inflation, it's going to be similar. I think, what we're seeing it, and I think others in the broad space are seeing some of the benefit cost, the insurance costs are a bit higher this year than prior. But I think on a net basis you're going to be pretty similar on a cost per shipment.

**Thomas Wadewitz**

*Analyst, UBS Securities LLC*

Okay. Thank you.



**Operator:** Thank you. Our next question comes from the line of Brian Ossenbeck with JPMorgan. Please proceed with your question.

**Brian P. Ossenbeck**

*Analyst, JPMorgan Securities LLC*

Hey. Good morning. Thanks for taking the question. I just want to see if you can give a little bit more color on two areas of the market. First would be just the – it's called the vertical or industry expansion into things like grocery and healthcare. What's the rate of change you expect in 2026, and does that fall under the premium services or something else? And then just given the move in spot truckload market and worries about capacity getting a little bit tighter, have you started to see any truckload spillover to any sort of degree, I know it's not necessarily a big part of your business, but curious to see if that's starting to happen. Thanks.



**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

Thanks, Brian. Well, first starting with grocery, we see that as being a large market that we're going to continue to ramp in. We estimate the size of that market, Brian, to be in the \$1 billion market size range. And it does come with very good margins. Now, today, it's a small part of our business as we continue to grow our market share in it. And predominantly there are two carriers that manage the majority of grocery consolidation business in the industry. And we're starting to make now more and more inroads into that part of the business.



We have achieved preferred carrier status now with a number of large grocers, and we have nearly 200 incremental customers in our pipeline that we want to go after. But if you look at it again, today we are in the low single digit percentage of total industry size of the 1 billion dollars' worth of grocery, and our goal is to continue to grow through that 2026 and beyond as we continue to gain market share.

Now, in terms of if that's a – it is a premium service from the perspective that you do get the base charges for the actual freight. But then there is a service on top of that, which is your consolidation service that you are offering to the grocers. The way that business works is once you achieve preferred carrier status with a large grocer, that we have a lot of these smaller companies that are shipping into the grocer, and we consolidate that freight at a destination terminal before we actually do a trailer drop to that particular grocer, where they can optimize their own docks by not having to deal with multiple shipments coming in through the course of the day, as an example. So, this has a benefit both on the overall volume side as well as on the premium side given it's charged through a accessorial mechanism as well.

The second component on the truckload to LTL shift. We do think that as truckload rates go up, you will see some of that freight that has left the LTL segment to go to truckload come back to LTL. But we've always thought that this is a small number. When you look at direct conversions between heavy shipments that are call it 14,000 pounds, 15,000 pounds and 16,000 pounds, this is where it's usually sub 1% of an LTL network. So, we see some of that would be coming back to LTL with heavier weight per shipment as truckload rates go up.

The second component is typically customers who are using a transportation management system, they can optimize multiple LTL shipments into truckload granted if the service can be – service requirements can be met.

We estimate that when truckload rates are lower, you see a bit more of that conversion. But we only estimate that to be a couple of points.

So, when you look at it on a full numbers basis, we estimate somewhere in the low to mid-single digit range of tonnage that has gone to truckload would be coming back to the industry. Now in LTL 2 to 3 points of industry volume, that's a decent amount that we would expect to come back into LTL whenever truckload rates are recovering. But one – also, one last thing, Brian, I would say, and that's more of a – that would help us with higher incremental margins in the next upcycle is the fact that we have reduced our reliance meaningfully on purchased transportation. So, you can imagine as truckload rates eventually recover by 20%, 30%, that's going to be a much lower headwind on our P&L, because only mid-single digits of our linehaul miles at this point are outsourced, and we're planning on taking that number even further down here in 2026, which would further isolate our P&L from any truckload rate increases through the course of the year or 2027.

**Brian P. Ossenbeck**

*Analyst, JPMorgan Securities LLC*

Q

All right. Thanks, Mario. Appreciate it.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

You got it.

**Operator:** Thank you. Our next question comes from the line of Jason Seidl with TD Securities. Please proceed with your question.

**Jason H. Seidl**

*Analyst, TD Cowen*

Q

Thanks, Operator. Mario and team, good morning, guys. I think a lot of questions have been sort of directed or dancing around sort of a longer term outlook. The last time you gave an update, it was from 2021 to 2027 and you looked at an OR improvement of at least 600 basis points. And you're tracking quite nicely to that, given sort of your productivity initiatives, given and then hopefully an industrial recovery and a greater push into sort of your premium and as well as your local services, how do you see sort of the next couple of years in terms of your OR improvement? You just had Old Dominion come out and not give a date around it, but talked about sort of a longer term sub 70% OR. So, I was wondering, where do you think XPO's North American targets could sit?

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

Well, overall on the long-term, if you compare us to our best-in-class peer, I mean, we have all the levers to be able to get there from an OR perspective. It's just going to take time as we continue to execute. And as you said, Jason, and what was over the last three years, a historic freight recession, we were able to improve our operating margin by nearly 600 basis points. While the rest of the industry took a meaningful step backwards on overall margin performance.

So, when you look at that, we do expect our OR over the years to come – to eventually get in the low-70s from an overall margin perspective, and it's all the levers we have discussed in the past. From one perspective, we still have a double-digit pricing differential between us and the best-in-class peer through the three levers that we mentioned, a better service product over a longer period of time has led to some of that outperformance. And our

goal is to effectively get an incremental point per year on that over the years to come to continue to bridge the gap.

On the accessorial side, when we started our plan three, four years ago, we were at 9% to 10% of our revenue was accessorial revenue. We're up to 12% now and our goal is to get to 15%. So, that's an incremental point per year over the next three, four years. And then on the small to medium sized customers, when we started our plan, 20% of the book was effectively those kind of customers. And our goal is to get that to 30% and we're halfway through. So, we have another 2 years to 3 years to be able to bridge that gap.

So, these are the kind of levers on the yield side. When you look at the cost efficiency side, we have been able to improve effectiveness or efficiency, overall productivity across our network quite a bit, a combination of technology and AI as well as the investments in capacity by having larger service centers, we can operate our network more effectively and still see a big runway ahead of us. I mean, we are assuming in our plans a low single digit productivity improvements per year. But when you look at what AI is doing these days, I mean, there's more upside there as well. Then you couple that with as the volume environment recovers and our ability to take market share in some of these new verticals like healthcare or grocery consolidation, this kind of further give us incremental tonnage as well.

So, if you add all these things up, and again, we will see whether these are early signs of an upcycle or not, it's very tough to call the cycle, but without the cycle, we've been able to improve margin and have a long runway of margin improvement. And obviously if we have help from the cycle that's only going to accelerate our plans and eventually we want to get our OR well into the 70s, and eventually at some point in the 60s as well.

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**Jason H. Seidl**

*Analyst, TD Cowen*

Q

And Mario, following up to your comments on what AI can do to your productivity measures, I mean, how meaningful do you think that could be? Could it sort of double your expected productivity gains?

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**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

Well, overall, as we roll them up still in our expectation, because every time you roll out a new technology solution, you have certain targets. But then as you roll it out and you keep on doing changes to it, and you train the AI further, and as it learns from the actual changes and the real freight seeing in the network, it keeps on evolving. In our current expectation, it's a 1.5 point, back of – half of last year we had gotten to above 2 points of productivity. And some of these early solutions could have more upside, as I mentioned earlier on. But we'll see how these kind of get rolled out. We take them a step at a time and we keep on investing in them. And our team iterates on them and we – the 1.5 point could be conservative, but we'll see kind of how that materializes here over the quarters and years to come as we launch some of these solutions.

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**Jason H. Seidl**

*Analyst, TD Cowen*

Q

That's fair. Appreciate the time and color.

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**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

Thank you.

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**Operator:** Thank you. Our next question comes from the line of Ravi Shanker with Morgan Stanley. Please proceed with your question.

**Ravi Shanker**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thanks. Morning, everyone. Just a quick follow-up on the local accounts. Can you just remind us again of kind of who do you compete with for those local accounts. And how does the cyclical or seasonality of those accounts maybe differ from national accounts or maybe they don't.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

A

A great question, Ravi. If you look at the local accounts, generally, we estimate that the industry is roughly a third of LTL shippers in the industry, so about 30% are small to medium sized customers. So, they are – and think of a small to medium sized customer as being say a small manufacturer that is shipping five pallets a week, as opposed to a large company that could be out of one location shipping 200 shipments in a given week.

Usually they have less density, and usually they operate at a higher margin because effectively, as an LTL carrier, we don't get the same density that you get with a large customer, where you might be doing things like trailer pools or swaps, it effectively makes your cost structure a bit more efficient.

Now, in terms of who – where we – as I mentioned earlier on, we're halfway through our plan to catch up with the rest of the industry and we have more runway to go here. In terms of who we compete with, it's every carrier out there. Both the regional guys and the large national networks. So, we are competing with every other carrier like we've always had on capturing that market share for these local accounts.

Now, growing with them is usually easier said than done. And the reason why you need a great service product and you need great relationships with the customer, and this is where our local sales force are doing a fantastic job growing that segment of business. We have increased the size of the sales force by about 25% over the last few years, and as they ramp in productivity, they're being able to be out there meeting customers face to face and onboard more of that business, again, onboarding 10,000 new accounts through the course of 2025, which I couldn't be more proud of.

Now, in terms of the cycle and how it impacts small to medium-sized customers versus larger customers. Usually the larger the customer, they use the TMS system to optimize their freight flow. So, naturally, what you tend to see in the down cycle, larger accounts, their weight per shipment stays relatively flat. It might still come down a bit, but you see their shipment count come down more. For local customers, what you tend to see is a higher impact on weight per shipment because naturally, if they had a customer who was buying three pallets worth of fasteners, now maybe they're buying two pallets worth of fasteners subsequently having a lower weight per shipment.

So typically – that seasonal changes when the cycle is down, weight per shipment is down. When the cycle is up, weight per shipment is up versus the larger that customer you tend to see when the cycle is down, you can see shipment count is down. And then when the cycle is up you see shipment count being up.

**Ravi Shanker**

*Analyst, Morgan Stanley & Co. LLC*

Q

Very helpful. Thank you, Mario.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

You got it, Ravi.

A

**Operator:** Thank you. Our next question comes from the line of Bruce Chan with Stifel. Please proceed with your question.

**J. Bruce Chan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Hey, good morning, guys. Helpful commentary on the different target end markets so far. I was wondering if you can maybe give any comments on pricing trends or negotiating behavior at this point in the cycle between them, like renewals or bid frequency for SMBs versus enterprise, for example?

Q

**Kyle Wismans**

*Chief Financial Officer, XPO, Inc.*

Yeah. If you think about renewals, what we're seeing in the fourth quarter is pretty consistent with what we saw in the third quarter. So, we've been pretty consistent from that standpoint. And you think about the cadence of renewals. So, typically we have about a quarter of book that renews every quarter. But one thing to keep in mind is that when you think about local accounts, many of those are on our standard tariff items. So, they get impacted by the GRI. That's about a quarter of the book gets impacted by the GRI versus individual negotiations.

A

**Operator:** Thank you. And we have reached the end of the question-and-answer session. I would like to turn the floor back over to Mario Harik for closing remarks.

**Mario A. Harik**

*Chairman & Chief Executive Officer, XPO, Inc.*

Thank you, operator, and thanks everyone for joining us today. As you saw from our results, we're outperforming the market based on our own initiatives and disciplined execution. Even without a recovery in the demand environment, we expect strong margin expansion and earnings growth this year. And if the recent pickup in demand continues, we're well-positioned to capitalize on it and accelerate our results even further. With that, operator, please end the call.

**Operator:** Thank you. And this concludes today's conference and you may disconnect your lines at this time. We thank you for your participation.

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