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XPO - Q1 2015 XPO Logistics Inc Earnings Call

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PRESENTATION

Operator

Welcome to the XPO Logistics first-quarter 2015 earnings conference call and webcast. My name is Paulette and I will be your operator for today's call.

(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 security 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. 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, including its outlook, 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.

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, at www.xpo.com.

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

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, operator, and good morning, everybody. Thanks for joining our call. With me today are John Hardig, our CFO; Scott Malat, our Chief Strategy Officer; and Tavio Headley, our Director of Investor Relations.

As you saw last night, we reported our first-quarter results and announced our planned acquisition of Bridge Terminal Transport, or BTT. We increased our gross revenue by about 2.5 times our first-quarter revenue last year. Net revenue was up almost four-fold, and EBITDA was $29 million for the quarter.

One of the biggest takeaways from our performance is that it reflects the benefits of our diversification. We generated strong results in last mile and expedite; and in our Logistics segment, we had better-than-expected levels of activity from our aerospace and telecom customers. These gains offset a weak spot market for freight brokerage and the disruption to our intermodal business from the West Coast port slowdowns.

Last week, when we announced our agreement to acquire Norbert Dentressangle, we told you that we would be updating our year-end run rates for this year. We have now raised those targets to a revenue run rate of at least $9.5 billion and EBITDA of at least $625 million by December 31. That's more than twice the EBITDA target we set just three months ago. These numbers reflect our expectation that we'll exceed our 2017 targets two years early.

Turning to BTT, we've identified three main categories of synergies: there are cross-selling opportunities; there is the ability to say yes to customers and take on more freight when drayage capacity is tight; and we can also increase our service levels to customers by using contracted owners-operators rather than third-party carriers. BTT is one of the largest asset-light drayage providers in the United States. We will gain about 1,300 owner-operators, which will significantly expand our drayage capacity on the East Coast. And, Companywide, we will have over 6,200 independent owner-operators in our network for drayage, expedite, and last mile. That's a lot of capacity in hand to serve our customers with.

BTT has been in business for 33 years. It's a well-run operation with a long-standing history of customer loyalty. Their top 10 customers have been with BTT for an average of 19 years. The business serves about 1,800 customers in total, including many multinational companies. We are buying BTT for $100 million, which is about 8 times adjusted EBITDA of $12.4 million for the trailing 12 months ended March 31. Their revenue for the same period was $232 million. So, that's this week's acquisition news.

We also took a major step forward in building brand equity by aligning all of our services globally under the single brand of XPO Logistics. We've built XPO into a highly integrated, global supply chain provider, and the rebranding puts all of our services under one umbrella for freight brokerage, intermodal, technology-enabled contract logistics, last mile, expedite, and global forwarding.

We look forward to welcoming the employees of Norbert Dentressangle soon. Norbert has an exceptional team of professionals that impressed us when we did our due diligence. They will be a strong addition to XPO. We also very much look forward to welcoming the employees of BTT.

So, in sum, 2015 is off to an exciting start for XPO. We've announced three important acquisitions so far this year. US Logistics extended our leadership position in last mile and e-commerce. BTT will give us significantly more drayage capacity to serve our customers. And our purchase of Norbert Dentressangle will make XPO a top 10 global logistics provider, with a worldwide runway for growth. We're going to market as one highly integrated XPO offering a complete range of supply chain solutions, and that's resonating with customers.

With that, I will turn it over to John to review the quarter.

John Hardig - *XPO Logistics, Inc. - CFO*

Thanks, Brad. I'll first cover our results for the quarter. Starting with our top line, we increased revenue 149% Companywide over last year through a combination of acquisitions and organic growth. Organic revenue growth in the quarter was 10%, or 18% excluding the impact of lower fuel prices. Revenue in our Transportation segment was up 99%.

Our truckload intermodal businesses had a soft first quarter, as the West Coast port slowdown impacted volumes across all domestic ground modes and we saw a weaker spot market in brokerage. In last mile, the demand for home delivery of heavy goods remains strong. Last mile continued to grow its top line in the first quarter, and margins improved both sequentially and year over year, as we realigned the business to better make use of carrier resource. We are encouraged by the significant pickup in outsourcing we are seeing from some of our larger customers.

Our expedite business had a strong quarter. Disruptions from the port slowdowns increased demand for expedite service, as did some customer-specific projects. Transportation net revenue increased year over year by 108%, and Transportation net revenue margin was 21.6%, versus 20.7% in the prior-year quarter. The increase in margin was due to a mix of acquisitions and organic margin improvement in our brokerage and last-mile businesses.

We are very pleased with the continued strong performance of our Logistics segment. We benefited from better-than-expected levels of activity from our telecom and aerospace customers, as well as continued operating discipline and cost controls.

In our Corporate segment, first-quarter SG&A expense decreased to $14.8 million, from $21.5 million year ago. On a net basis, excluding the $10.8 million of transaction-related costs in 2014, SG&A increased $4.1 million year over year. The increase was due to the reclassification of employees to our Corporate segment following acquisitions, as well as an increase in professional fees. Corporate expense this quarter also included $2.3 million of non-cash compensation expense and $1.2 million of litigation costs. Our expectation for full-year Corporate expense remains unchanged, at $55 million to $60 million, excluding acquisition and integration costs.

Depreciation and amortization for the quarter was $34 million. Excluding the impact of the Norbert Dentressangle and BTT acquisitions, we expect D&A for the full year to be unchanged, in a range of $135 million to $140 million.

Net interest expense was $23.1 million for the quarter. Interest expense included $6.5 million related to the conversion of $35 million of principal amount of the convertible notes to common shares during the quarter. Following these conversions, the face amount of the convertible notes was reduced to $72 million at the end of the first quarter.

Our effective tax rate was a 48% benefit in the quarter. At the end of the quarter, we had $200 million of federal tax NOLs. Capital expenditures for the quarter were $11 million, largely consisting of IT spending. Our CapEx estimate for the year, excluding the Norbert and BTT acquisitions, remains unchanged at about $70 million. We ended the quarter with over $1 billion of cash on our balance sheet, and our $415 million accounts-receivable facility remains undrawn.

Now, I will turn the call over to Scott before we go to Q&A. Scott?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Thanks, John. From a macro standpoint, volumes picked up in March and April, which is typical seasonality. In the last half of April, volumes took another step up. Shippers are still feeling the sting of a volatile and expensive 2014, and that's kept them focused on locking in capacity and decreasing their spot business.

Regardless of the macro, we have a lot of opportunity for growth. It's been a very active bidding season, with shippers opening up the bid to more carriers in search of reliable capacity. Our strategic accounts team won business from 20 new tier 1 customers in the first quarter, and most of that was before the bid season started.

In last mile, we've won over $30 million in annualized new sales so far this year. We have a number of new technology projects underway in last mile to support the growth of our e-commerce business and to build on our industry-leading service levels.

In intermodal, we've recently been awarded business with some large companies in retail, and paper and packaging, including cross-border Mexico moves in food and beverage. Over 70% of our intermodal freight is now running on our new Rail Optimizer system, with the balance moving over in June. While the deployment of Rail Optimizer is still very new, we can see that it's giving us the ability to price more effectively, to operate more efficiently, and provide our customers with more visibility into their freight, all of which should translate into growth.

In our Logistics business, which goes to market as the supply chain service of XPO, we are investing in sales initiatives to market our best-in-class operational capabilities to a larger number of potential customers. In addition, cross selling is leading to more opportunities for our Transportation and Logistics segments.

Our acquisition of Norbert Dentressangle will also create many new avenues for growth. It's been exactly a week since we announced that agreement and, since then, the response from customers and the industry has been electric. Many of our automotive, retail, and manufacturing customers in North America have already had discussions with our sales people about potential European business.

The same is true in Europe. Many of Norbert's largest customers have been talking about their greater ambitions in North America, and others have significant US supply chains in place that can utilize our services. We see a lot of opportunity to accelerate the growth in Europe through this type of cross selling. We will also invest in Norbert's European e-commerce business, and we'll roll out our Freight Optimizer technology to super charge the growth of the truck brokerage network in Europe.

As you may recall, the acquisition of Norbert will happen in two steps. The first is our purchase of the two-thirds block of stock that's owned by the Dentressangle family. We hope to get through antitrust in the next several weeks and close on that majority block this quarter. We expect the second step, which is the tender offer for the remaining shares, to be completed in the third quarter.

At the same time, we will continue to work on other acquisition opportunities. We are in discussions with many different candidates. I think it is very likely that we will do at least one or two more deals by the end of the year, in either North America or Europe.

And, finally, we are able to take advantage of all these diverse opportunities because we've built the Company as a highly integrated organization. That's reflected in our new brand alignment under the global name of XPO Logistics. As part of the rebranding, we've launched our new website, at xpo.com. It serves as a single point of contact and access to our technology for XPO's customers, carriers, and potential employees.

It's been just 3 1/2 years since we implemented our growth strategy, and soon we'll be one of the largest logistics providers in the world, with a complete end-to-end range of supply chain services. But we're just getting started. We're excited about the growth ahead of us. We will take all of our opportunities into consideration. And once we've closed the Norbert acquisition, we expect to raise our long-term targets.

With that, operator, we will turn it over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Christian Weatherbee, Citi. Please go ahead.

Unidentified Participant - - *Analyst*

Good morning, guy. This is Prashant in for Chris. Congratulations on a great quarter. My question has to do with the one or two more deals you talked about by year end in either North America or Europe. Outside of North America and Europe, how do you view international opportunities for acquisitions in emerging markets, and what are the puts and takes for XPO to start expanding there?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Good morning, Prashant. In terms of emerging markets, we're not close minded to them. They're not off the table. But when we look at the pros and cons of different acquisition opportunities, emerging markets carry more risk. There's much more integration issues, there's culture issues, there's political, economic issues, there's controls and systems. It just becomes more challenging. That's all reflected in value. If there was something compelling on a value basis and we thought it was well run and well managed and came with great management and wasn't a fixer upper, we'd keep an open mind. But it's not our highest priority.

Unidentified Participant - - *Analyst*

Okay. Great. Just a follow-up. On organic growth, obviously fuel was a headwind in the quarter, and strong high teens growth in Transports was great. I was wondering how we should maybe think about organic growth ex-fuel for the remainder of the year? Any thoughts on that, and how much fuel might continue to play a headwind as we go through the year?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Prashant, it's Scott. We expect organic growth to continue about these levels for the rest of the year. Although fuel will play a part, with the lower prices in fuel, if it stays where it is, it will be somewhat in the same level. If fuel prices rise, our organic growth will rise. If fuel price decline, it will decline.

Unidentified Participant - - *Analyst*

Great. Thanks very much, guys. Appreciate it.

Operator

Allison Landry, Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

Good morning. Thinking about the [BBT] acquisition, do you see the need to build out more dray capabilities, particularly thinking about the US-Mexico border or the West Coast ports? And in that vein, are there other terminal operators that look attractive?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Good morning, Ali. Yes, drayage is tight in capacity. Drayage helps us serve our intermodal customers better. Drayage capacity and capabilities make us a more valuable partner to our rail carriers. So for all those reasons, we absolutely want to expand our drayage capacity. And tripling it with this BTT acquisition was a step in that direction.

So would we buy other drayage companies? Absolutely, we would. There's not dozens of them to buy, of size. So it's a small group. It's a small universe. So don't count on the next acquisition being a drayage company, but we like that space a lot.

Allison Landry - *Credit Suisse - Analyst*

Okay. Got it. Thinking about the 2015 guidance for at least $625 million of EBITDA, you guys are pretty much there, if you think about -- I think John mentioned on the last call XPO legacy, $225 million, and then layering on Norbert at around $390 million and then $12 million from BTT, it gets you to this $625 million. I'm just trying to reconcile that with the additional $1 billion of revenues that you expect on a run rate basis?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Yes, Allison. The $225 million was our target for year end for XPO, which is 50% organic growth on the growth that we had -- at the EBITDA run rate that we had at the end of 2014. So it's organic growth of 50%, then layering on Norbert and layering on BTT.

Allison Landry - *Credit Suisse - Analyst*

Okay. That makes sense. Thank you.

Operator

Rob Salmon, Deutsche Bank.

Rob Salmon - *Deutsche Bank - Analyst*

Brad, to follow up with regard to Allison's question on BTT, could you give us a sense of some of the expected cost synergies you guys see from this transaction? And also looking at your overall intermodal drayage capabilities, what percent are you guys currently doing with contracted capacity, similar to the independent operators that you guys are taking on with BTT and where will this transaction bring you as a percentage?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Okay. So there's the obvious back office consolidation, but that's not a significant amount and that wasn't the real reason we did this deal. The main categories of synergies are cross-selling opportunities. They've got some very great long-term relationships with customers. We've seen that in our other acquisitions, where we would be doing a little bit of business with a big customer, and then we would buy a company doing a lot of business with that customer, and suddenly we were able to penetrate all the other different services that we have with a completely different receptivity. So cross-selling opportunities is big.

Also, the ability to say yes to customers, to take more freight in tight markets when drayage capacity is tight, as it is right now. There's a lot of times, we have to turn down freight. We've got the rail capacity, but we don't always have the drayage capacity. Now we have three times a chance of having the drayage capacity. So that's a big synergy. And it's more cost effective and it's more reliable to use contracted owner operator capacity, rather than going with unaffiliated third parties. So right now, we've been outsourcing a lot of that to third parties. Now we're going to bring it much more in-house.

Rob Salmon - *Deutsche Bank - Analyst*

And can you quantify, in terms of the percent that's currently outsourced with regard to the drayage usage and maybe speak to where this will bring you in the Northeast to the percentage that will be running in-house across your intermodal franchise?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Rob, today in the mid-60%s, fluctuates a bit, mid-60%s runs on in-house network or contracted carriers that we work with. And we'd like to continue to increase that, so the contract carriers that work with us get more and more freight and they can make more money.

Rob Salmon - *Deutsche Bank - Analyst*

Makes a lot of sense. And Scott, in your prepared remarks, I think you'd mentioned that you won business from 20 new tier 1 customers in the first quarter. Can you give us a sense of what the annualized revenue run rate from those new contract wins were?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

On average, when you get a new customer in tier 1, they are trying you out as a tester position, so when you take an average, it's about $800,000 an account.

Rob Salmon - *Deutsche Bank - Analyst*

Good. That is helpful, guys. I'll hop back in the queue.

Operator

Bill Greene, Morgan Stanley.

Alex Vecchio - *Morgan Stanley - Analyst*

Hello, guys. It's Alex Vecchio in for Bill. In the past, I think you guys have talked about organic growth from a top line perspective, and you've suggested 12% to 13% growth to hit your prior 2017 guidance targets. Is there a way we can think about or quantify the pace of organic EBITDA growth over the next several years, as you build scale and continue to expand margins? And I think Scott, you may have mentioned that your prior 2015 guidance had assumed 50% organic EBITDA growth. I just wanted to verify that and how we think about organic EBITDA growth over the next few years.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

It did have organic EBITDA growth of 50%. We were at about $150 million EBITDA run rate exiting 2014, and we said we would be at $225 million organically. So that's the 50%.

We will continue to grow the bottom line faster than the top line over the next several years. That's due to a number of factors. One is the corporate expense that John had outlined of $55 million to $60 million this year, that will stay relatively flat. We have a full infrastructure. And as we grow the business over that fixed cost infrastructure, in terms of finance and technology and recruiting and training, we don't need to add another senior management team. We will continue to get leverage on that investment.

And then in our truck brokerage unit, we're continuing to get leverage over the investments we made in new salespeople. We brought on a lot of new salespeople. We're seeing margins go up every single quarter. It was significantly year-over-year, and we will continue to get leverage on that. So our EBITDA growth over the next several years will be faster than our top line growth by at least a few percentage points.

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Alex Vecchio - *Morgan Stanley - Analyst*

Okay. That makes sense. You guys had mentioned that there was an upswing in the spot market for freight brokerage in April. Can you talk a little bit more about which markets specifically you saw the strength? Is it more truck brokerage or intermodal, and maybe even end markets or geographies you've seen particular strength in?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

It's been relatively broad based, I would say, up until we saw that seasonal uptick in March, like you would expect. And then two weeks ago, it got a little bit stronger. You're still seeing routing guide compliance at very high levels, so the spot market hasn't picked up a significant amount. The amount of volume in the system has increased, but it's not spilling over into spot in a huge way yet.

As we look forward, what you typically see is volumes tend to build into the summertime, but then dropping off in July 4. So we were cautiously optimistic at the end of April, as volumes started to pick up. And then if volumes continue to pick up, as expected, that spot market should grow.

Alex Vecchio - *Morgan Stanley - Analyst*

Okay. That's helpful. Just lastly, switching to the Logistics results, a little bit lower in 1Q, sequentially, I assume that's largely seasonality. If we just stay focused on your core existing businesses right now and ignore Norbert for a second, how should we think about 2Q Logistics results from both net revenue, as well as EBIT or EBITDA sequential trend there?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

It was very strong for us. Logistics, when we brought that company, it was doing $77 million in EBITDA. Now in the weakest quarter of the year, which is first quarter, Logistics did $20 million. So on our weakest quarter of the year, we're still above the starting run rate. Louis and his team have done a great job in Logistics of executing on the existing business that they have. And that's a business where if you execute well, you can create all kinds of efficiencies and improvements. And they've done a good job at that.

And then aerospace has grown very well, as well as telecom. In the fourth quarter, you get the benefit of retail business and the e-commerce business that's attained, so you'll always have a larger fourth quarter than you do first.

Alex Vecchio - *Morgan Stanley - Analyst*

And then second quarter typically, do you have a sense of magnitude for how much that increases sequentially versus first on an EBITDA basis?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

You tend to increase revenue from first quarter to second quarter. It depends, 5% -- increase it from first quarter to second quarter. But you will have start-ups of new projects, as well. New customers tend to come on in the second quarter at a higher rate than other quarters, so your EBITDA will stay the same or maybe come down before going back up in the third and the fourth quarters.

Alex Vecchio - *Morgan Stanley - Analyst*

Great. Thank you much for the time.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Good morning, and congratulations on BTT. Curious there, how will that impact your empty miles dynamic? Just a little bit of color on your progress or pace there and what that acquisition means. Thanks.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Scott, the empty miles so far have been impacted by what we were talking about, the port strikes. And when you have slowdown in volumes from whatever types of disruptions, you're going to have more empty miles. So the empty miles have stayed relatively flat, at a time where you would think it would be improving, given all the improvements we made in technology and other areas. So we expect that's still on the come.

As we gain scale and density in a drayage network, we expect those empty miles to trend down and get all kinds of efficiencies for the business. The Rail Optimizer is just getting started. It's very exciting to get it in the hands of the users. We have over 70% of the freight moving through that, that will move in June. We'll have all of the freight going through Rail Optimizer. That should drive down empty miles.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great. Thank you, Scott. With regard to truck brokerage, can you give an update on hiring on sales force and what you're seeing with productivity trends? Thanks.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

On hiring, we expect to add about 200 people on a net basis this year in truck brokerage, and we're right on target. On productivity, we've been up significantly, in the range of 40% to 50% year-over-year on a revenue per salesperson basis.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thank you very much.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, Scott.

Operator

John Mims, FBR Capital Markets.

John Mims - *FBR Capital Markets & Co. - Analyst*

Scott, let me ask you one question, just following up on the organic growth numbers. I agree with one of the earlier questions that EBITDA growth rate is probably a bit more meaningful than revenue. So any clarification or framework you can lay on that going forward, more from an EBITDA basis than a revenue basis, I think would be helpful. But if you're talking in revenue mid-teens, is that including all of the cross-selling opportunities you see from these acquisitions? Or if you have the cross-selling opportunities all come to fruition, should you expect a higher organic growth rate as you layer these different things in?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

There's a number of different puts and takes we could -- the economy will also play an impact. In the first quarter, we grew 18%, excluding fuel. And when you're looking at the comparisons from a year ago, that's a big number, compared to what the volume was out there in the marketplace. So the economy will play a role. Cross-selling will play a big role in our opportunities. E-commerce will play a big role, both in contract logistics, in last mile, in what we're doing in Europe and North America.

So we have a lot of different areas of growth and a lot of pockets of growth that can drive it above that number. And then you have economy could go one way or another. But in general, mid-teens, to us, would be a very good growth rate and we would more than hit our targets. In the past, we've talked about 12% to 13% organic growth to hit our long-term targets. We will raise those long-term targets, because our opportunity set is greater than we had before, but the 12% to 13% organic growth was a good benchmark to think about.

John Mims - *FBR Capital Markets & Co. - Analyst*

Okay. That's fair. Looking at Logistics, on the direct OpEx number, we don't have much history, so it's a bit difficult to model the expense lines on the Logistics side. And I assume the bulk of the Norbert transaction will show up in the third quarter onward in the Logistics group. So how do you think about, when you look at OpEx running at 85%, 86% of net revenue, is there some seasonality framework, a scale framework we can think about how you model that number going forward?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Yes. So when you go from 1Q to 2Q, your revenue moves up, because you're bringing on new projects. Those projects typically come on with some start-up costs. So your margins are lowest on an EBITDA basis in the second quarter. Then you expect EBITDA margins to then rise into third quarter and fourth quarter, as that new business matures. And we'd expense the revenue to increase sequentially in each quarter in the year.

John Mims - *FBR Capital Markets & Co. - Analyst*

But just in terms of order of magnitude, if your direct OpEx was 85.9% or 86% in the first quarter, how big is that step up, typically, from first quarter to second quarter?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

I think total SG&A could be up over $1 million in total SG&A, if that helps. And then you'll have increased revenue.

John Mims - *FBR Capital Markets & Co. - Analyst*

Sure. Okay. That's helpful. Thanks a lot.

Operator

Todd Fowler, KeyBanc Capital Markets.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Just a point of clarification. On the $625 million of EBITDA, that only includes Norbert and BTT. Any additional acquisitions would be incremental on top of that?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

It would be. And we have the opportunity to take up those targets with additional acquisitions.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. And then Scott, the one to two acquisitions that you had talked about by year end, would that be ones that you have some line of sight and some visibility in? I'm assuming that you're not just saying that there's one to two acquisitions that you're considering, it could be more than that.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Could be. You never can tell with acquisitions. We do have a lot of companies we're talking with at once. We will finalize the financing package for Norbert, and then we'll continue to execute on the acquisition pipeline. There's a number of companies that we've been looking at that are very attractive and we're likely to execute on a number of them, one, two, potentially more than that, but really one or two is the goal for the rest of the year.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. That helps. And then maybe at a high level, Brad, if you can give us a sense of the $9 billion of revenue and the $625 million of EBITDA, how you see that broken out between brokerage, final mile, logistics and freight forwarding? I know that the business model has changed over the last week or so, but definitely over the last couple of quarters. So if you can give us a sense of how you see each of those as a percent of the pie, I think that would be helpful.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Sure. Let's look at what it comprises. Let's take the biggest chunk, which is Norbert. So Norbert is about $5.5 billion of historical revenue, and about $2.8 billion or so is contract logistics. Inside of that is the e-commerce and the reverse logistics and the e-fulfillment. Let's say $2.8 billion of contract logistics. And then they have about a little over $1.1 billion in freight brokerage -- non-asset freight brokerage, just like our freight brokerage. Then they've got about roughly $220 million of freight forwarding. And then they've got about $0.25 billion of dedicated. And then the rest of $1 billion-plus is asset trucking. That's the Norbert part.

Obviously, on the BTT part -- BTT, not the bank --

Todd Fowler - *KeyBanc Capital Markets - Analyst*

I was not trying to give anybody a free plug on that, that's for sure.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

We are diversifying, but we are not diversifying into banking. (Laughter) If you look at BTT, that's all drayage. That's a 100% drayage company. So we'll report most, but not all of that, in our intermodal division. Part of it is not intermodal drayage, but most of it's intermodal drayage. That will go into intermodal.

Our contract logistics business right now is running roughly at -- call it roughly $700 million, a little more. And then you've got freight brokerage is, depending on what you're calling freight brokerage and what you're including in that. Of course, we put that together in our Transportation segment, together with last mile, together with intermodal, together with expedite. And that's the balance of the business.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. I think that puts together the pieces.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

When you put them all together, absent new acquisitions, contract logistics is the biggest chunk of it. And that is by design. We like contract logistics for a few reason. Number one, barriers to entry. You just can't get into contract logistics. A lot of pieces to the puzzle on it. It's a non-commodtized business. It's got a high value-add component to it. You have these long, usually multi-year relationships with customers.

And we do a lot of specialized contract logistics. So in Europe, we'll be doing a lot of coal chain, we'll be doing a lot of chemicals, a lot of e-commerce, a lot of reverse. Here in the States, it is all highly engineered, complex contract logistics for aerospace, for e-tailing, for omni channel, telecom, reverse logistics -- sophisticated technology-enabled contract logistics. So these are high value-add businesses, both other there and over here.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. And that's the focus of where you want to be, from the lion's share of the revenue and the EBITDA?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

That's where the lion's share will be for the $9 billion. Where we grow from $9 billion to $15 billion to $20 billion, et cetera, over the course of time, will, to some large extent, depend on what we buy. And what we buy over the long term will more or less reflect the sizes of the end markets.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. And just one last quick one, if I could. Within the brokerage business, what is your break out between spot versus contractual at this point?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

It's edged up from about 75/25 spot versus committed to low [30%s] committed, a little under [70%] in spot. I'm sorry, go ahead.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

That moves up as you continue to sign the national accounts and move up in the route guides?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Yes. It's two things, really, Todd. It's we're going after that business more and developing that business more. And secondly, just externally, not proactively, the spot market was pretty tepid recently. The spot market has shrunk.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Sure. That makes sense. Okay. Thank you for the time this morning, guys.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you.

Operator

Jason Seidl, Cowen and Company.

Unidentified Participant - - *Analyst*

DOE average price of diesel, net of surcharge recovery, miles per gallon, including idle time and out-of-route miles, and fuel network management. Compared with last year, the drop in DOE prices, net of fuel decline, was $2.1 million of savings. The remainder was generated by investments in new tractors and trailers, managing driver behavior, negotiating better purchasing --

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Jason? I think we're conferenced in to another call. (Laughter) I'm sorry.

Operator

Casey Deak, Wells Fargo.

Casey Deak - *Wells Fargo Securities, LLC - Analyst*

I wanted to ask, if you could quantify, what is the profitability impact of doing a load in house on the drayage side versus contracting that out to a third party? Is there any way that you can put a ballpark number around that, percentage-wise?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

It's not only cost, it's about reliability. But it is 10% to 15% cheaper, tending to be, when you are giving dedicated freight to a network carrier that you have contracted rates to.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

It's reliability. And it's also being able to get the truck, in order to be able to actually provide the capacity.

Casey Deak - *Wells Fargo Securities, LLC - Analyst*

Okay. So you get it on both sides.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

We do.

Casey Deak - *Wells Fargo Securities, LLC - Analyst*

All right. Good. And can you expand a little bit on the spot market brokerage weakness? How did this impact, if at all, your cold start plans or any of you organic growth profile for the remainder of the year? And then looking at that, I know you said that April had picked up, but if there is a pronounced weakness in the market and the spot market doesn't rebound to its full potential, how do you address that, what levers to you have to pull? Because we really haven't seen that since you've built to the scale you are today, so want to see what you anticipate the impact to be and how you plan to address a weaker market, if that is the case in the future?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Right. Well, we've had plenty of experience and history dealing with a lousy spot market, because pretty much all of 2012 and 2013, it was a pretty lousy spot market in truck brokerage. And then a little over a year ago, things got really good, mainly due to the weather and all the capacity issues with the rails and so forth. So the majority of our history since starting XPO in the last 3.5 years, we have had a soft truck brokerage market, and that's created challenges and opportunities.

If you look at our freight brokerage cold starts, we're up to a combined revenue run rate now of about $280 million, all organically grown, and that's up from about $190 million a year ago. So you're seeing significant legs to that, even in a not so great recent market. In terms of how the market will unfold over the rest of the year, who knows? The spot market is the spot market, meaning it's the unplanned shipments that overflow from the contractual routing guidelines. And you don't know where that's going to go. You don't whether that's going to be a lot or going to be a little.

At the moment, pretty much there is 90%-plus routing guide compliance, in some cases significantly more than 90%. Ands a result of that, you're not seeing spillover to the spot market. That doesn't mean we can't grow. It doesn't mean there's no spot market. There's a lot of spot market out there. It's just less than it was a year ago. And you have to hustle that much more.

Casey Deak - *Wells Fargo Securities, LLC - Analyst*

So in reality, your plans for cold starts, your plans for your growth remain the same, regardless of the market?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Absolutely. Full speed ahead. We want to keep growing. We're not building a business for this quarter or next quarter. We're building a business for a long, long future. And truck brokerage is a big part of that. It's a service that our customers want. It's part of a package of services that our customers want. They want freight brokerage. They want last mile. They want expedite. They want contract logistics. They want intermodal. They want the whole package, the whole supply chain, and freight brokerage is a big part of that.

Casey Deak - *Wells Fargo Securities, LLC - Analyst*

All right. Thank you for the clarity.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you.

Operator

Jamie Clement, Macquarie.

Jamie Clement - *Macquarie Research - Analyst*

Was wondering if I could ask you a follow-up. Your comment about customer feedback over the last week since the Norbert acquisition was announced, I was wondering if you could give us a little bit more qualitatively the nature of some of those comments, the themes of those comments, beyond simply scaling capacity and that sort of thing?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

It's been, as Scott said, electric on both sides of the pond. I guess the word we heard most from our customers was wow. Customers are excited about a new player having come on the market a few years ago and now suddenly being able to offer a full package of services and being a leader in each one of those packages. So we've made a supply chain officer's job easier, as a result of our growth, as a result of executing on a strategy that was revolving around complete supply chain solutions, being a very highly integrated company. It is resonating with customers. The response from customers, both here and Europe, has been very, very positive in the last week.

Jamie Clement - *Macquarie Research - Analyst*

Okay. Great. And just a quick follow-up, bookkeeping. When you complete the tender for the two-thirds, will there be a period of time where you're going to consolidate Norbert and then have a minority interest deduction for, theoretically, a couple of months or a quarter, or however long that takes. Is that how this is going to work?

John Hardig - *XPO Logistics, Inc. - CFO*

That is technically how it will work; however, we do expect to complete the tender for even the minority piece during the quarter. We'll never report a quarter with a minority interest. But if it does roll over where we have less than 95% acquired at the end of the second quarter, then we would have a minority interest for a short period of time.

Jamie Clement - *Macquarie Research - Analyst*

Okay. Great. Was just curious about the way you were laying out the timing. It seemed like theoretically there could be a quarter, but that's very helpful. Thank you very much.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you.

Operator

John Engstrom, Stifel.

John Engstrom - *Stifel Nicolaus - Analyst*

Just trying to understand a little bit better how BTT ties into the current model. And when I think of BTT, I think of an East Coast port drayage company, whereas I think of Pacer, I'm thinking cross-border Mexico, domestic intermodal. Is there an opportunity here longer term to expand the reach of both of these networks to overlap more and gain synergies or, to your previous point, improve reliability? Is that time already here? Could you walk us through that just a little bit?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Sure. BTT is mostly on the East Coast. But if you go to the website and see the location map, it's really all over the United States. It's a national footprint. In terms of the former Pacer, which we've retired the name Pacer. We've retired the name Pacer Staff Training. We've retired the names of all the companies that we've bought. We're now all just XPO Logistics, one brand.

But when you look at our footprint for XPO Logistics Intermodal group, sure, we absolutely are strong in cross-border Mexico. That's historically a strong area for us. That's not all we're doing. We do plenty in the East, as well. We have a lot of business with the East railroads. Our customers have a lot of East business, and we are very strong in that and we're growing in that, as well. Mexico is a bigger percent of the puzzle, but that doesn't mean going forward we're not going to keep doing East, which we will.

When you look at BTT, just to get a flavor for their size, they do over 800,000 container moves a year. That is a big, big improvement to our business model on intermodal. It's better for our customers. We can say yes to them more, to be more reliable. It's a great thing having that. It's also better for our relationship with the rails. You know, the rails don't want you to make too much money on the rails. The rails want to you make money on the street, which is not their core competency. So the more we can be more efficient and cost effective and productive on the streets, on the drayage part, the more we bring to the table with the rail partners, the more they appreciate that. It deepens the relationship.

And if you look at our capacity as a whole, our related capacity -- and it's an asset-light model -- but if you look at our owner operator network, we have become a very significant asset-light independent owner operator trucking business. We had about 4,900 owner operators under contract with us between our expedite capacity, our intermodal capacity, our last mile capacity. We're adding another big chunk here from BTT that gets us up to 6,200 owner operators. I don't know exactly where we will come out in the rankings, but it's probably going to be something around 14th, 15th largest in the United States. And that's excluding the very significant capacity we have to serve our customers through what we're going to gain in Europe with Norbert Dentressangle.

John Engstrom - *Stifel Nicolaus - Analyst*

Fantastic. Thank you very much for that. And if I could ask just one follow-up question, how will this drayage business tie into your technology platform? And I'm thinking of that, just given that it's uniquely different than, say, brokerage or freight forwarding. Thank you.

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Thank you, John. That will be moved onto our Rail Optimizer system. We are excited about bringing it on there, drive more efficiencies, share visibility across the system. It has to be all on one platform.

John Engstrom - *Stifel Nicolaus - Analyst*

Fantastic. Thank you very much, guys.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

I guess, one more follow-up on BTT and then a couple of housekeeping items. With BTT, when you think about the customer base there, what portion of what is comprised of other logistics providers like yourself who utilize BTT's drayage services? And then what portion would be the actual shippers, if you can break it down that way?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Yes, I'll get you a percentage. If you look at the top customers, it's mostly the actual shippers and then the shipping lines. Those are the two biggest categories, by far.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. So other 3PLs would be a relatively small piece then?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

They're a distant third.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

By the way, Jack, just to that point, we'll gladly take the business from our competitor 3PLs. We have an interesting relationship with our competitor 3PLs. We do compete for business. But we cooperate with them all day long. We're giving them capacity, they're giving us capacity. When there's opportunities for us to both have win-win relationships, we're happy to do that, more than happy to do that.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Makes sense. Makes sense, Brad. And then on the truckload brokerage side of the business, as it stands today, I know it's sort of rolled up there within your Transportation segment, but how big, from a gross revenue perspective, roughly would you say your truck brokerage business is on a stand-alone basis?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Just the truck piece of it is roughly $800 million to $850 million on a run rate basis. We all think of it all together, because we work in truck, in intermodal. When you're visiting an office, they're doing both. The same person is doing both pieces. But that flexes back and forth between truck and intermodal.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Makes sense. On the intermodal side, what's your outlook for intermodal volume growth and intermodal pricing in North America over the course of 2015? Do you have an outlook for that you'd be willing to share?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Well, we expect intermodal to reaccelerate. In the first quarter, it was more of a flat volume type of period. Although you had accelerating through the quarter, you had more negative volumes early in the year in January and February, obviously during the port strike, and then you had positive volumes in the back half of the quarter. We expect it to grow faster than GDP for quite a while, because we'll see conversion of over the road trucking to rail. So this year could be mid- to high-single digits.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. From a volume percentage. And then on pricing, mid-single digits?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

I think on a revenue perspective, high-single digits is a good target for intermodal, and you'll get a few percentage points of price.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. And then on the intermodal side, are you guys running into any issues with rail inflation relative to the pricing you can pass on to your customers?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

When you look at rail inflation, as long as everyone in the market gets the same increase, what we're really thinking about is how efficient is our dray capacity? How efficient are we on the street? And how is our pricing trending versus how much it costs us to move on the street? If the rail increase -- which is 65% of the cost, the other 35% or so of the cost is going to be in the dray -- if the rail increase is the same for everyone, then that's just passed along, along with everyone else, to the customers.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Okay. So you don't expect that to be an issue. On the interest expense side, John, just for a housekeeping item, I think on the fourth quarter call, you said you expect annual interest expense to be $82 million to $87 million. Is that still the right way to think about it, ex any impact from your announced acquisitions?

John Hardig - *XPO Logistics, Inc. - CFO*

Yes, that's still accurate. Putting aside the Norbert acquisition and the BTT acquisition, and the final capital structure we'll have after we go out and raise the permanent capital to fund those deals. So just based on the balance sheet as it looks today.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. That's helpful. Thanks again for the time.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, Jack.

Operator

David Campbell, Thompson Davis & Company.

David Campbell - *Thompson Davis & Company - Analyst*

In looking at Norbert, looking in Europe, what do you think is more important in developing freight forwarding there? Is it road network or is it the contact logistics and building their freight forwarding business there? And is that different than in the United States?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

David, help me out. I didn't quite follow the question. Would you mind repeating it?

David Campbell - *Thompson Davis & Company - Analyst*

Yes, sure. I am trying to figure out what you think of road and rail, essentially road, and the contract logistics businesses you have in Europe, and will have with Norbert. Is that -- are they more -- which one is more important in cross-selling into getting more freight forwarding in Europe?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Okay. I get it now. Your question is, in order to grow our freight forwarding business, which is more helpful, having a hook with contract logistics or coming in through highway? Is that your question?

David Campbell - *Thompson Davis & Company - Analyst*

Right.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

I think it's both. But I don't think it's a big percentage increment better, from one or the other. But I don't think either of them are the main hook. The main hook to be able to serve a customer freight forwarding is, what are you able the buy capacity at? And that's the question of your size and how many lanes you're diversifying on and how many lanes you're concentrating on.

So our focus in freight forwarding has been on small and mid-sized shippers, where we can just service them, service them, service them. And now with putting together their $200 million-something of freight forwarding with our $200 million-something of freight forwarding, we're starting to get a little bit of critical mass where we can get better discounts with the air and sea carriers. That is really what we're bringing to the table is the pricing that we're getting with the air and sea, and also the level of service and the importance that the small and medium sized customers are to us. Does that answer it for you, David?

David Campbell - *Thompson Davis & Company - Analyst*

Yes, I think so. What you're saying is you can get better pricing for the freight if you combine it with contract logistics and road, is that what you're saying?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

No, I'm saying by combining their freight forwarding and our freight forwarding together, we're getting cheaper rates.

David Campbell - *Thompson Davis & Company - Analyst*

So it's building density.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Correct. And purchasing power, yes.

David Campbell - *Thompson Davis & Company - Analyst*

And that's the same as in the United States?

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Absolutely. No difference at all. It's the same liners, it's the same exact liners.

David Campbell - *Thompson Davis & Company - Analyst*

Right. Okay. Great. Thank you. Appreciate the help.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, David.

Operator

And our last question comes from Barry Haimes from Sage Asset Management.

Barry Haimes - *Sage Asset Management - Analyst*

Thanks, guys. Great week. What can you do to top it next week? (Laughter)

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

You could give us a little pressure, a little performance anxiety you're putting on us, Barry?

Barry Haimes - *Sage Asset Management - Analyst*

Congratulations.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you.

Barry Haimes - *Sage Asset Management - Analyst*

My question is what percent of Norbert's revenues can benefit from using the freight optimizer? And when you look at the margins of XPO compared to Norbert, do you see a gap that you can potentially close, and if so, can you give us any feel for that? Thank you.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Okay. Good question. A couple of things there. One is, let me make it perfectly clear that it's not like we great Americans are going to go over to Europe and it's all going to be a one-way transfer of information and we're going to improve everything they're doing not well. That couldn't be further from the truth. There's bunches of best practices that Norbert Dentressangle has developed over 36 years of dealing with the who's who of European [top] shippers that we're going to benefit from and we're going to get their best practices. And we are very much looking forward to that.

In terms of technology, we at XPO Logistics have made that a real core competency, and we have invested more pro rata than pretty much any other transportation logistics company that we're aware of. And we will absolutely share that technology, especially the freight optimizer, with the European operations. And we expect that they will see the same big ramp up in growth and efficiency and productivity there that all the acquisitions that we rolled it out to here will see, as well. And it's not just in the freight optimizer. It's all our technology, all the technology that our 650 IT professionals are always putting out, literally every week. It's a very large amount of IT.

Barry Haimes - *Sage Asset Management - Analyst*

Okay. But the actual freight optimizer that you used in brokerage, as an example, Brad does that apply to only their brokerage business or also their contract logistics business? I'm trying to get a feel for how much of their book, in effect, can benefit initially from what you've already got on that front?

Scott Malat - *XPO Logistics, Inc. - Chief Strategy Officer*

Sure, Barry. It's Scott. There's over $1 billion of truck brokerage-like business in Europe with Norbert. In contract logistics, there will be a lot of sharing of best practices in what we do in our contract logistics. That's not freight optimizer, that's more dealing with warehouse management, with transportation management systems, and we'll share best practices on both ends. But the freight optimizer applies to a little over $1 billion of the business.

Barry Haimes - *Sage Asset Management - Analyst*

Got it. Thank you. Appreciate it.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, Barry.

Operator

I will now turn the call over to Brad Jacobs for closing comments.

Brad Jacobs - *XPO Logistics, Inc. - Chairman & CEO*

Thank you, Operator. Very much appreciate everyone's attention and interest. Look forward to seeing you on the road and talking to you again in three months. Have a good day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.