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XPO - Q3 2015 XPO Logistics Inc Earnings Call

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

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

## CONFERENCE CALL PARTICIPANTS

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## PRESENTATION

**Operator**

(Operator Instructions)

Please note this conference is being recorded. Before the call begins, let me read a brief statement on the 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 natures, 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 Investor's section on the Company's website, at www.xpo.com.

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

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

Thank you, operator, and good morning from Ann Arbor, Michigan. Thanks everybody for joining our call. I'd also like to welcome to the call all of our new employees from the former Con-way and the former Menlo. With me here today are John Hardig, our CFO; Scott Malat, our Chief Strategy Officer; and Tavio Headley, our Director of Investor Relations.

Well, as you saw last night, we delivered third quarter results that far exceed our targets. We achieved significant margin improvement across all our lines of business. We grew both net revenue and EBITDA by more than 6 times. We grew organic EBITDA by 77% on organic revenue growth, ex-fuel, of 3%.

We completed the Con-way acquisition last Friday and all the acquired operations, Con-way Freight, Menlo Logistics, Con-way Truckload, and Con-way Multimodal, are all now operating under the single global brand of XPO Logistics. The integration is off to an excellent start. I'd like to particularly thank the outgoing management for their extremely helpful cooperation in the pre-integration planning. It is really paying dividends.

We held countless town halls and group and individual meetings with the Con-way employees prior to closing, and challenged the whole organization to contribute their best ideas on how to take a customer service to an even higher level while running the business more efficiently. This week, we held kick off events around the globe and if you've been following us on social media you'd know that Team XPO is highly engaged.

You'll recall that at the time we announced the deal, we said we would improve profitability by at least $170 million to $210 million over two years. I'm happy to report that we have already taken out more than $30 million of cost, primarily due to headcount reduction, adjustments in vendor contracts and the elimination of public company cost. We have a high level of confidence that we will hit our profit improvement target.

Last night, we announced that we hired Tony Brooks as president of our LTL business in North America. Tony is a 30-year industry veteran, who has run three of the largest transportation fleets in North America. He's a high-energy, high-impact leader with 11 years in LTL with Roadway and he has managed complex networks at Cisco Foods, Dean Foods, Sears, and PepsiCo Frito-Lay. I'm looking forward to working closely with Tony and executing our growth plan in LTL. Welcome aboard, Tony.

Looking at the Company overall, the Con-way synergies are just one piece of our larger plan to drive up profitability over the next few years. Our business in Europe is going very, very well. We beat budget on both topline and margin.

We've increased the EBITDA in our European transportation business by 26% in the quarter. We increased our logistics EBITDA in Europe in the quarter by 17%. And now on an annual basis, we are now at one $1.1 billion of adjusted EBITDA, company wide, post Con-way. Next year, we're targeting full-year adjusted EBITDA of at least $1.25 billion, and our target for 2018 is $1.7 billion of EBITDA. That's $200 million more EBITDA than our previous long-term target.

The components of how we will get to that one $1.7 billion of EBITDA are very clear. In our LTL business, there's $170 million to $210 million of profit improvement opportunities to start with. We also have a host of other initiatives designed to run the business more efficiently.

Around the world, we're also addressing underperforming locations and unprofitable customers and lanes. We're redesigning our entire organization with one global sales force, one global IT organization, one global HR group, one global procurement team, and one global back-office.

And we will continue to cross sell our multi-multimodal services to our more than 50,000 customers. This is a huge lever for growth that's right on our doorstep.

Today at $15 billion of revenue, we've established leading position in key areas of transportation logistics where there's strong secular demand. Now our laser focus is optimize our global franchise, execute on opportunities to increase our profitability, and create dramatic long-term value for our customers and shareholders.

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

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

Thanks, Brad. We increased gross revenue in the quarter by $1.7 billion, or 257% year-over-year. Adjusted EBITDA was $166 million in the quarter, up 586% from last year. The increase was due to a mix of acquisitions and margin improvements.

By division, gross revenue for our transportation segment was up 128%. The increase in net revenue was even greater on a year-over-year basis, up 152%. This was due mainly to the acquisition of Norbert and margin expansion.

We increased net revenue margin in every single transportation business unit across the Company. Transportation net revenue margin was 22.6% versus 20.4% in the prior-year quarter. The increase in margin was due mainly to the expansion of our North American truck brokerage margins, improvements we made in our last mile operating performance, and the acquisition of Norbert.

In our North American brokerage and intermodal business, we increased gross revenue by 21%. We continue to generate strong volume and margin growth in truck brokerage. This was partially offset by weak volumes in intermodal, as we shed unprofitable accounts.

The intermodal market was also generally slower, due to lower fuel prices, which narrows the cost advantage of rail versus truck, especially when truck capacity is loose. In last mile, the demand for home delivery of heavy goods continues to gain momentum, driven primarily by e-commerce sales. We increased gross revenue by 50%, and net revenue margin increased 165 basis points over last year, due to operational improvements in our field operations.

In Europe, our transportation business exceeded expectations. Volumes were ahead of plan in our dedicated fleet, LTL, and brokerage businesses. The measures we're taking to improve pricing and cost management, as well as some impressive wins in our UK business, all contributed to improvements in both margins and earnings in Europe.

Our logistics segment once again performed well in the quarter. In North America, we continue to grow earnings through strong operating management in the field. Our logistics business in Europe is performing significantly ahead of plan, due primarily to new business wins, especially in the UK.

We begin work on a wave of new contracts in the quarter representing over 100 million euros of annual new business. And we won several large contracts that will start up in the next two quarters.

In addition, we addressed some unprofitable contracts, and are now serving these customers on a more equitable basis. In corporate, second quarter SG&A expense was $22.8 million, essentially flat from a year ago. Corporate expense included $4.7 million of one-time transaction expenses related to acquisitions, $1.4 million of non- cash share-based compensation expense, and $1.2 million of litigation costs.

To help you with your models in the fourth quarter, we expect depreciation and amortization to be in the range of $145 million to $150 million, based on our current estimate for Con-way intangible amortization. Interest expense in the quarter will be in the range of $75 million to $80 million, excluding the one time commitment fees related to the Con-way financing. Starting in 2016, when the acquisition of Con-way is fully reflected, we would expect D&A to be in the range of $165 million to $170 million per quarter and interest expense to be in the range of $85 million to $90 million per quarter.

Our effective tax rate was negative in the quarter. The valuation allowance in the US limited our use of our US deferred tax assets, while our European operations generated pretax earnings resulting in a small tax expense despite a consolidated pretax loss. We expect our fourth quarter affected tax rate to be in the range of 18%-22% and the Con-way acquisition will result in the release of that allowance.

We have a very strong liquidity position following the closing of Con-way. As of November 3, we had approximately $530 million cash on our balance sheet. Concurrent with the acquisition, we increased our existing ABL revolver to $1 billion, which is completely undrawn. We ended the quarter with $5.8 billion of debt and capital leases, pro forma for the Con-way acquisition.

Before I hand the call off to Scott, I want to share some data from Con-way's performance in the third quarter prior to our ownership. Con-way performed as we expected in the quarter with revenue coming in lower but with a better improvement in pricing.

Con-way's consolidated revenue decreased 6.8% year-over-year to $1.4 billion, primarily due to lower fuel revenue and a decrease in transportation management revenue at Menlo. This was partially offset by higher base freight rates, and operating income excluding $6 million related to the sale -- of the sale to XPO was $84 million.

Con-way Freight, which is the LTL business, had revenue of $906 million, a 4.3% decrease from last year. While pricing improved, it wasn't sufficient to offset the decline from lower fuel surcharge revenue and lower tonnage.

Revenue per hundredweight, or yield, excluding fuel surcharge, continued to be strong and was up 4.2% for the quarter. When you include fuel surcharge revenue yields declined 1.4% in the quarter compared to last year. Daily tonnage declined 3.1%, reflecting softer demand and the impact of pricing initiatives.

LTL operating income was $68 million in the quarter, for an operating ratio of 92.5 in line with 92.4 last year. Con-way's logistics business, Menlo, reported third quarter gross revenue of $387 million, a 12.8 % decrease from the prior year quarter. This was primarily due to a 19.3% decrease in revenue from Transportation Management Services or TMS.

Menlo net revenue was $189 million in the third quarter, or flat compared to last year, and operating income increased 15.1% to $9 million mainly due to growth and operating performance improvement at warehouse management sites. At Con-way Truckload, revenue in the quarter was $144 million, a 9.7% decrease from last year. The majority of the decline was due to a 45.6% decrease in fuel surcharge revenue.

Excluding the fuel impact, Truckload revenue in the quarter was unchanged from the prior-year period. Truckload operating income was $9 million in the quarter for an operating ratio of 93.7 compared to 93.3 a year ago.

Now I'm going to turn the call over to Scott and then we will go to Q&A.

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

Thanks, John.

From a macro standpoint, US volumes continue to be sluggish, which is having a mixed impact on our business. We been able to drive lower transportation costs and higher margins that more than offset lower volumes. It's a different picture in Europe, where the macro trends have been improving especially in Spain, UK, and France.

We see a clear path to significantly increase the profitability of our business without the need for much topline growth. Con-way is a good example of this. We're executing on the $170 million to $210 million in savings that we originally identified, with a clear line of sight on each item in the plan.

A large piece of the savings is in procurement. Our North American and European teams are running a global procurement summit in France this week. We plan on strategically sourcing everything from trucks and equipment, to fuel, temporary labor, IT hardware, and office supplies.

This is a large opportunity. We're talking about $3.6 billion of addressable spend company wide. So even a small percent of savings will be meaningful.

We also have significant potential in LTL to improve pricing, to better balance lanes, and improve utilization. And we are planning a number of initiatives to optimize pickup and delivery, while maintaining our industry-leading on-time service record in mitigating damage.

We've been having lots of calls and meetings with the sales force. Were holding a national sales summit next week, to re-align the combined sales force, plan our go-to-market strategies and identify cross-selling opportunities.

We have 1600 salespeople globally. This is one of the largest, most experienced, and well-rounded sales organization in the industry. And we're charging them with offering customers our complete range of services. With market leading positions in many of the fastest-growing areas.

We can add a lot of value to customers. Our service range offers us cross-selling opportunities to grow even if the market doesn't. Our strategic accounts team is continuing to make significant inroads with new customers.

We told you about a big win last quarter in the US for a new logistics contract with a European customer. Right now, we are in advanced stages with seven other large customers, where we're cross-selling our services across the pond. In one case, it's a joint proposal to do work in both North America and in Europe.

These are customers where we already had strong relationships. We can help them expand internationally, by supporting supply chain strategies that have worked for them on their home turf. And we have a lot of additional opportunities bubbling up through the organization.

Another thing that's rising to the top of our priorities list is the synergy between LTL and last mile. These two networks are highly complimentary.

Our LTL platform in North America improves our national density to better reach the end cut consumer. This is especially important to our e-commerce customers. We now have a comprehensive network to move everything from pallets to large format consumer goods.

We've won over $111 million in annualized new sales so far this year in last mile, with accounts tied to e-commerce making up a significant portion of this new business. We're in the start up phase on a number of new contracts that will drive growth well into next year.

In Europe where we're also a leader in less-than-truckload, the two services are just as complimentary. We've made good progress toward developing our last mile business in Europe and are pursuing several sizable opportunities there which will be supported by our LTL network. We have additional ways to increase the profitability of our business. For example in Europe, we've uncovered opportunities to address locations that are under earning. There are detailed plans in place to either turn these locations around or to close them.

We expect to continue to improve our North American transportation margin as we gain scale and as our sales reps increase in tenure. This is all in addition to the secular growth offered by our end markets.

So we have many avenues to grow our profits and we're in a strong position to drive that growth in any operating environment. We've met or exceeded every financial goal we've announced over the last four years.

We're confident in our outlook for this year and our long-term financial targets. With that, operator, we will turn it over to questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Rob Salmon, from Deutsche Bank.

**Robert Salmon** - *Deutsche Bank - Analyst*

With regard to the near and long-term targets, I appreciate the additional visibility you guys are providing with us.

They've strayed a little bit from your recent top and bottom line forecast and I'm curious if this is a strategic shift, in that you guys are making a statement that there's EBITDA improvement independent of the economy? That you guys see internally or is this more aligning your street targets with how people at XPO are compensated?

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

Two things there -- one is, we are not impervious to the economy. The economy -- our business is certainly dependent on GDP, our business is dependent on the level of industrial manufacturing activity, our business is certainly dependent on retail activities. So we are very much part of the global economy, there's no question about that, of course. There are many things that we are doing, and will continue to do, and are planning to do, that regardless of what the economy does, will improve the cost structure of this business very, very substantially.

For example, procurement. Now as a $15 billion company, with almost $14 billion of cost, the opportunity to chip away at hundreds of millions of dollars of that $14 billion of cost is very concrete. And procurement is one big bucket that's independent of the economy.

So now we are one of the biggest purchasers in the world of trucks, of trailers, of fuel, of tires, of office supplies. We have $550 million of temporary labor on a global basis, equipment that goes in warehouses, IT services, and supplies. So, there are many categories of products and services that we are buying independently around the globe that we'll consolidate into a global sourcing basis that we will save very, very substantial amounts of money on.

That's one example of things that we're able to do regardless of the economy. But we clearly will be affected by the economy.

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**Robert Salmon** - *Deutsche Bank - Analyst*

I appreciate that color. If I shift gears a little bit to the 2016 EBITDA guidance, can you give us a sense of the organic EBITDA improvement you're looking at -- the XPO businesses, excluding Con-way; and then how much of the 170 [million] to 210 [million] of profit improvement you're expecting in 2016? It sounds like you've already achieved over 30 million in regard to those synergies and any other either puts or takes we should be thinking about as we're updating our models for next year?

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

Thanks, Rob. In terms of the long-term, we're looking for 15% EBITDA growth over the next several years and the $170 million to $210 million is included in the guidance to get to 2018. We're expecting about half of that to roll in through 2016. The other half to roll into 2017 so that we'll be at the full run rate of $170 million to $210 million by the third quarter of 2017. So when you look at 2016 you'll get a portion of that, half of the savings, that's $170 million to $210 million.

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**Robert Salmon** - *Deutsche Bank - Analyst*

Appreciated.

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**Operator**

From Citigroup, Chris Wetherbee.

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**Chris Wetherbee** - *Citigroup - Analyst*

I wanted to touch on that 2016 guide again for a second trying to think about the business as it stands right now and maybe how it should grow going forward.

I think you're at about 1.1 billion EBITDA run rate and maybe seasonality has something to play into this because I think the performance in the third quarter would maybe suggest a little better than that, but I guess as you think about the Con-way piece of it at least next year when you think about the $30 million you've got, it looks like we're at about 525 run rate based on the numbers, John, that you gave out?

Just curious how we should think about the growth there as we think about 2016?

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

I think -- today we are on about it $1.1 billion EBITDA run rate. You're right in that the third quarter is a little bit seasonally stronger than the fourth quarter. All else being equal you'd expect third quarter to be stronger than the fourth quarter.

As an aside, Con-way will only be included in our results for the fourth quarter in November and in December. December is one of the weakest months of the year.

So, you'll get a much lower number when you're looking to fourth quarter than that run rate, but as you move into 2016, you start with that $1.1 billion, which is an average type run rate of the year and actually the reported number would be below that -- we've been increasing our profitability as we went through 2016. And then you have growth on top of that from $1.1 billion to $1.25 billion, which includes some of the cost savings that we outline plus organic growth.

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**Chris Wetherbee** - *Citigroup - Analyst*

Okay, so you are still looking for organic growth in Con-way in 2016?

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

Yes, absolutely.

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**Chris Wetherbee** - *Citigroup - Analyst*

That's helpful. I wanted to get a sense -- the organic revenue growth versus the organic EBITDA growth at the businesses. It seems like you're going through a bit of a culling process on the intermodal side and maybe even on the [new breed] side. Could you give us some help in terms of how much of that impacted the net revenue growth and maybe what's a bit more of a normalized number? Just tried to get a sense of how that is flowing through the business right now.

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

Sure.

One of the biggest areas is in intermodal. In intermodal there was one large customer and some other customers that were not making money. So, we decided to raise price or to let them go somewhere else. And then backfilled in with other customers that are more profitable.





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So, in intermodal our revenue was down about 17%. If you exclude intermodal from organic growth, we have organic growth of about 10%. So, in that case there was a large percentage of the intermodal piece that was tied to customers that were called out.

If you look in contract logistics, both in North America and Europe, there's been a significant numbers of opportunities to work with customers on the contract to become more profitable if they were under earning. Or in some cases, we have wound down some contracts in North America and Europe, and that was a sizable percentage as well.

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**Chris Wetherbee** - *Citigroup - Analyst*

That's helpful. Final question -- when you think about the 2018 targets, I know they're exclusive of incremental M&A, but from a free cash perspective it seems particularly once you get past some of the deal cost in 2016, the free cash will ramp up meaningfully. I wanted to get, Brad, your rough sense on conceptually how you think about it -- a decent amount of wood to chop in the short term with Con-Way but as we get out into 2017 and probably more likely 2018 what do you do with the cash?

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

Well, first we will pay down debt with cash. And improve the leverage of the Company.

Not this year, meaning not the rest of this year or next calendar year, I don't think those will be the time to be doing big acquisitions. I think we have much better use of our time to focus in on the beautiful business that we put together and improve the level of customer service and improve the profitability, just make it all hum as one coherent global organization.

We can revisit the acquisition trail after that, but that's not our near-term focus at this point.

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**Chris Wetherbee** - *Citigroup - Analyst*

That's helpful.

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**Operator**

From Credit Suisse, Allison Landry.

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**Allison Landry** - *Credit Suisse - Analyst*

Congratulations on the quarter and closing the deal. Thinking about [Pacer's] historical relationship with the UP and the intermodal volume declines we are seeing there, maybe as well as some of the lingering service issues on the case ESM, can you talk about where you are with respect to your original goals to drive cross-selling synergies and improve asset utilization?

Maybe how you see each of those playing out over the next 12 to 24 months when you consider your strategy to increase intermodal for substituting for line haul at Con-Way freight.

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

Thanks, Allison. In intermodal we've improved profitability significantly from what we bought it and from a year ago, while revenues were down significantly. One of the ways that we've been able to do that is through participation rates. We've been able to move more of the freight on the owner operators that work exclusively with us.

In terms of empty miles and other different pieces -- metrics, it has not improved as much. Some of that has to do with volumes. Volumes in intermodal in addition to the fact that we did take out some of the larger customers in the business, volumes have been relatively weak. You noted some of the reasons. Cross-border Mexico did have a tough quarter.

And overall fuel prices being low and truck availability being high, it's not a positive driver of volumes in intermodal but despite that we're able to improve the EBITDA. As we look forward we have a big opportunity to continue to add some business with the cross-selling to replace business that was lost.

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

We still are a big believer in the intermodal trends. We think over the long period of time, intermodal will absolutely be increasing because it's still cheaper than truck. But, for right now, that's an area of our business that the volumes been a little weaker.

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

From a customer service perspective we're completely mode agnostic. So if intermodal at one point in time is better for our customers that's great -- we have that to offer to them. If truck is better for them at a certain point in time or in a certain situation that's fine, too.

And the beauty of having a very diversified multimodal model is that at any one point in time, most our businesses are doing just fine, some of them are doing not so great, and some are doing really great. So, if we're in a certain part of the cycle where intermodal, for example, is a little bit soft, that's okay because the truck and truck brokerage part is doing much better, sometimes it's different parts of the cycle.

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**Allison Landry** - *Credit Suisse - Analyst*

That's really helpful. Thanks. How are you thinking about net CapEx at Con-way in 2016 relative to the 300 million they were expecting to spend this year? In the event that the US is headed for a broader recession is this one of the levers you think you can pull and maybe to what extent could you reduce that capital budget?

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

Allison, it's John Hardig. Thank you for that question.

In terms of CapEx next year, this year we're going to come in a little under $300 million at Con-way in terms of total net CapEx. We don't expect that to grow a lot. Even if the economy were to stay consistent with where it is now, in fact we will be looking to drive more utilization out of this network over time, and that could actually reduce our total CapEx need as we go forward. I think if the economy were to get soft and we wanted to manage that CapEx spend, we have a lot of flexibility to do that.

One of the great things about LTL assets is that you run them for 10 years and every year you are replacing only a tenth of your fleet and that allows you to defer CapEx for a good period of time when you have an economic downturn. When you look at what Con-way did in 2009 you see that they cut back their CapEx dramatically and certainly we've got the flexibility to do that if we need to.

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**Allison Landry** - *Credit Suisse - Analyst*

Thank you.

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**Operator**

From Morgan Stanley, we have Alex Vecchio.

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**Alex Vecchio** - *Morgan Stanley - Analyst*

Brad or Scott, it's been about two months since you signed the Con-way deal and presumably you've learned a lot more about the company, than you had to during your diligence prior to announcing the agreement to acquire it.

So, can you talk a little bit to what the incremental things you may have learned about Con-way and specifically the extent to which there are more opportunities for improvement that may be even incremental to the goals you've established right now in this 170 to 210 in terms of synergies to the extent that there are more opportunities that you've learned about?

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

Alex, there is a ton of opportunity. There are so many initiatives that we have begun to improve the business.

And it starts from the sales force. It starts in the sales organization. We're having two big sale summits this week and next week. We are energizing the sales force and connecting the sales force through the rest of the organization.

We're studying the freight that we're taking and purging unattractive freight, or making sure that we're charging for it appropriately.

We are growing the business with small and medium-sized customers as well as the 3PLs in order to balance the network. We're looking at rates all across the spectrum on a lane by lane, customer by customer basis, and we're optimizing those rates. That means raising them where it makes sense and lowering them where it makes sense, and we're not going to casually wave accessorials.

If we're going to do lift gate, if we're going to do residential deliveries, if we're going to do inside deliveries, if we're going correct bills due to leeway, if there is excessive lanes we're going to charge fairly for that. We're going to collect on that. We will optimize on [PND] with optimization software, with route planning, and load planning.

We're going to increase every possible way cross dock efficiency and build on the great safety ratios that we've got already. We're going to install dimensioners, which aren't installed yet in the cross docks.

We're going to decrease wide haul costs by bringing more of the line haul on to our own trucks, and by purchasing transportation more efficiently. We going to rollout -- we're going to accelerate the IT roadmap to support all these projects.

And then we're going to continue to rationalize the back office and to capitalize on the synergies with the rest of XPO. I mentioned before the procurement opportunity which is really, really a mess. Much larger than I originally expected.

Then there's the cross-selling opportunity. All the ways that we can take the customers here at the former Con-way and former Menlo and offer them services other than LTL and other than logistics that they've already been doing with the company prior. This is a really, really big opportunity.

And to offer all our customers service at LTL and the services that Con-way/Menlo were offering before. It's really a world of enormous amounts of opportunity and now bringing Tony in next week we're going to work closely and really execute on all these.

The team is very, very invigorated here. The team here in Ann Arbor and throughout the rest of the former Con-way organization and the former Menlo organization -- the morale is very high and very united and determined to increase the profitability of the business and increase customer satisfaction as well. Already from a high level of customer satisfaction, but bring it up to another level. I could keep going on for hours, but these are the main things off the top of my head that we're working on at the moment.

**Alex Vecchio** - *Morgan Stanley - Analyst*

That's really helpful color. Thank you for that.

The next thing I wanted to ask about, was on the deferred LTL offering that I think you're planning to roll out? Could you maybe provide some more rationale behind that initiative, and then maybe talk to what extent this is going to impact Con-way's density and profitability going forward? And what kind of capital investments or costs would be required associated with the rollout of the deferred service offering?

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

Sure. I have to get in the habit of not saying Con-way Freight --XPO LTL. We all used the names Conway and Menlo, we've retired those names (inaudible).

So, in our LTL division of XPO Logistics, we offer more next-day and two-day LTL lanes than anybody. We are the premier provider of [car] service in LTL.

What I want to do is build on that terminal network, build up on that service organization to also offer an economy product, a deferred product, for longer shipments that is a very large market which Con-way really wasn't going after very intensely at all. So, that's something that we absolutely will roll out. We will not roll that out in the next six months. That is something that is a one to two-year project, because it has to be done carefully and mapped out and engineered and [big] IT components added to it and compensation components to it and its a lot of detail to that.

At the cross-dock, it has to be very carefully planned out and executed flawlessly so that it is not a big miss on customer service. But we're doing that. We have resources associated to that, dedicated to it, that will take one or two years to open up. That is not a top of the list project right now.

It's an important one, it's one that's going on the other side of the room. But the things I mentioned before about sales, and about purging the unattractive freight, about doing more business with small and medium-sized customers in the 3PLs, and charging for accessorials, and P&D optimization software, and the cross-dock efficiency, and the dimensioners, or all of those things -- the procurement. Those are the main things that are immediate that were jumping on, like our hairs is on fire.

**Alex Vecchio** - *Morgan Stanley - Analyst*

Great. That's very helpful. Appreciate the time.

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

Thank you.

**Operator**

From Oppenheimer, Scott Schneeberger.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

To focus on contract logistics it looks like a lot of happened in the quarter and a bunch of new contract wins. Could you speak to what verticals, and a little bit about that North American, Europe opportunity and then follow up on that would be a little bit of your discussion on shedding of unprofitable business in logistics?

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

Scott, it's John Hardig. In terms of the wins in Europe they were pretty broad-based, all across the board in terms of -- their customer base which is a broad industry vertical exposure.

So I wouldn't say there was any one particular vertical that was a stronger than another in terms of wins. Although they have had a lot of retail and e-commerce wins of late that have been driving a lot of their increased activity level.

And in terms of shedding business, it's been mainly in North America, where we been shedding some accounts. And I would not say that those were any particular vertical, either.

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

Something to add to that also a lot of the wins in Europe were in the UK -- a big jump. To back up John's point, we're looking to mix new customers and existing customers. We have no end market that's more than 15% of our total, so retail is our the largest end market at 15%, and food and beverage is 12%, and then it starts to fall off after that. So, we are very well diversified across those and in terms of our new wins it's been very much a broad-based new customers.

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

Scott, on the subject of unprofitable customers and unprofitable [lanes], we are not a nonprofit business. We are a for-profit business. We have over 50,000 customers and I'm sorry to admit, there's a fair chunk of them that were losing money on and that's not fair.

We have costs and obligations to our shareholders and employees. We need to basically go to those customers and have discussions about pricing and, or when contracts expire, not renew them. Because we are not in the business of doing unprofitable business. That's not what we're here for.

So, unprofitable locations, unprofitable customers, unprofitable lanes. This should not be in our vocabulary.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Thanks, guys. That's helpful. Going over to the transportation side -- Scott, following that up on your response to Allison's questions, in intermodal it sounds like there is some attrition and calling of revenue right now. When you anticipate a swing back to revenue growth in intermodal and I imagine it will take some time to get some things through but could you just elaborate a little bit there?

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

I expect things to grow from here. We have culled some freight and made lanes more profitable. It will take another few quarters for us to lock that. So in terms of year-over-year growth, sequentially we been growing, but year-over-year you'll start to see that in the beginning of next year, second quarter of next year.

The service levels have come back on the rails. What will determine how much converts to intermodal or not is really the difference between the pricing on intermodal versus trucking.

And as I said before to Allison, we're agnostic on that. We serve our customers intermodal and we serve our customers with truck -- whatever makes the most sense. I think that will be the main determining factor.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Thanks very much, guys.

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**Operator**

FBR capital markets -- John Mims.

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**Zeke Kramer** - *FBR Capital Markets - Analyst*

This is Zeke Kramer in for John. I have a few questions around labor. First, can you talk about the Teamsters strike in October and any impact that you think that might have on the fourth quarter?

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

Zeke, I believe the Teamsters have wasted their time chasing the former Con-way and chasing XPO. They've had no success, and this year they had three unionization attempts against roughly about 100 employees in three locations in Con-way before we bought them and they were defeated in two of them and -- they withdrew on the third. Probably because as in most cases, unions withdraw votes when they think they're not going to win them.

The employee base here at XPO is happy to work for XPO. They're not interested in having an intermediary between us and them. I really don't view the unions as a serious threat. I do view it as a distraction and kind of a nuisance.

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**Zeke Kramer** - *FBR Capital Markets - Analyst*

Thanks. More broadly, can you discuss any warehousing and logistics labor issues and any shortages there? Then, what kind of wage pressure you're seeing given the minimum wage hikes, and lastly, any geographical pockets of labor tightness?

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

On the labor, it has been something that has been front-page news. We've done a very good job of planning. We've done a very good job of going back to some temporary labor that we used in other years and have had no issues in terms of getting temporary labor to ramp up during seasonal periods. So it really hasn't been an issue in North America and in Europe it hasn't been as much of an issue overall.

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**Zeke Kramer** - *FBR Capital Markets - Analyst*

Great. Thank you.

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**Operator**

From Cowen, Jason Seidl online.

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**Jason Seidl** - *Cowen Securities LLC - Analyst*

A couple of quick questions. Have you guys had any feedback from some of the other less than truckload carriers providing services to your brokerage operations now that you've acquired Con-way? Have any backed down from doing business with you guys?

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

Yes, a couple have backed down -- not a material amount whatsoever. I consider that petty. We deal with other 3PLs all the time in most of our businesses is here and in Europe we have a great relationship with our competitors. Sometimes were providing capacity, sometimes we're using their capacity.

There's no reason in the world that 3PLs can't figure out, and even capacity providers can't figure out, how to do business with each other in an ethical way, a fair way, a reasonable way; in a commercial way that makes money for both sides. We have no problem with that. But some companies have psychological issues with that. So be it.

**Jason Seidl** - *Cowen Securities LLC - Analyst*

Fair enough. You mentioned, Brad, that you were agnostic, whether you ship something intermodal or broker something on truck for your company. I get that, but how is intermodal going to increase its volume now with an improving rail market? Are they going to have to come back on price or just wait for fuel to eventually increase?

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

It's still cheaper to move by intermodal versus truck. It's very important to have good service levels.

We've been very focused on investing in technology in that area, through the rail optimizer, to improve our service levels. The service levels are approaching and very close to truckload levels and the price is less expensive.

We continually believe that just by the hidden hand of free market, business is going to migrate from truckload to intermodal. I don't think that's changed over the long-term. When you do have service disruptions, and then prices of fuel are low and the amount of a discount for intermodal versus truckload narrows, between all those factors are not going to get a big drive of conversion.

But over the long-term we expect that to pick up again.

**Jason Seidl** - *Cowen Securities LLC - Analyst*

And Scott, where would you say we are now intermodal service versus trucking service on a comparative basis? I know we've improved, but where are we comparatively?

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

It's a few percentage points. In general, truckloads are in the 97% range -- we have a little bit higher than that in our division. Intermodal is generally in the mid to lower 90s.

**Jason Seidl** - *Cowen Securities LLC - Analyst*

That's good color. One final question -- Europe has had a plan -- one of your competitors in Europe talked about seeing increased competition in France. Is Norbert gaining market share in its home market? And what is the split with Norbert between France and non-France today?





THOMSON REUTERS

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

You mean XPO Logistics Europe?

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**Jason Seidl** - *Cowen Securities LLC - Analyst*

Yes.

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

XPO Logistics Europe -- I would use a baseball analogy -- (inaudible) hit the leather off the ball (inaudible) - that would be the American way of looking at Europe. Baseball's big over there. XPO Europe is doing great. We beat EBITDA in Europe logistics 17%. We beat transport EBITDA by 26%. These are great numbers.

Are we taking market share? We probably are. We're not doing that consciously. We are just focusing on ourselves and our customer service and on sales and rewarding our sales people for doing a good job and running the business well.

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

And overall, France is about 13% of our combined pro forma sales including Con-way. UK is about 10% and Spain is about 4%.

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**Jason Seidl** - *Cowen Securities LLC - Analyst*

We'll say they're kicking the leather off the football -- i.e. soccer ball. I appreciate the time as always.

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**Operator**

From Barclays, Brandon Oglenski.

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**Brandon Oglenski** - *Barclays Capital - Analyst*

Good morning. Scott or John, I joined the call a little bit late did you talk about organic growth? I heard it at transportation if you back out the intermodal business that you trimmed, I think you said 10% growth but what was the organic growth rate for logistics this quarter [two]?

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

We didn't own logistics last year for the full quarter. The first logistics business that we did acquire was the former New Breed, now XPO Logistics supply chain. That was in the middle of the third quarter of last year. In general, EBITDA growth in that business has been the low double digits.

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**Brandon Oglenski** - *Barclays Capital - Analyst*

Okay and was that consistent this quarter, too?

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

It was, yes, it's very much in line. Interesting, since we made that purchase our business in supply chain has beaten budget very consistently. It has been a very, very well-run business in North America, in supply chains and we've beaten budget almost every single month. If not every month. There might have been one in there that I'm not picking up -- almost in every single month we've beaten budget.

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**Brandon Oglenski** - *Barclays Capital - Analyst*

In that context, last time you updated the long-term guidance you did provide organic growth of 7% to 9%. Can you talk to what growth rates you're assuming now for year 2018 targets that you put out there?

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

We're assuming mid-teens EBITDA growth. In terms of top line we would expect that to slow as it has now. That will be based on business that we are culling, business that we are passing up for, in favor of higher-margin business. And it will depend on the economy. In general we're looking for significant margin improvement over the next several years and the opportunity could be upwards of 200 basis points and mid-teens percent EBITDA growth.

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**Brandon Oglenski** - *Barclays Capital - Analyst*

Okay. I think some of the concern that might have crept into the stock a little bit here is that you've done so much on the acquisition side that maybe the organization lost a little bit of focus around growth but it doesn't appear to be that.

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

Absolutely not. We certainly have done a lot of acquisitions. We have done 16 acquisitions in 4 years.

At the same time, the organization has been laser-focused on operational excellence, on closing the books promptly every single month, and having a very [deep] analysis and operating view of what the plan was, taking corrective action as needed, and being very focused on customer service and having high customer service levels. The business has been run very, very well. As if it wasn't a highly [acquisitive ] company.

It will run even more efficiently now that we've got time to step back and focus more of our management time solely on non-acquisition activity. But, it's been focusing on growth. It's been focusing on customer service from day one.

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**Brandon Oglenski** - *Barclays Capital - Analyst*

Thanks for that, Brad. John, when we think about EBITDA of about $1.25 billion next year, how do we reconcile that to what you expect free cash flow to be? I know we talked about Con-way CapEx could we talk about overall CapEx expectations for next year?

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

Sure. Overall CapEx for 2016 we think will still be slightly under $500 million for the year.

So when you think about cash flow, we're going to have $1.25 billion of EBITDA, CapEx will be just under $500 million, interest will be, for the year $340 million to $350 million or so, and we're not going to be a federal US taxpayer next year but we'll pay a little bit of European tax. So, total income tax cash paid will be something under $20 million next year.

Working capital is going to be something around $70 million or so next year. And that will grow with revenues in the mid-teen percent as we look beyond 2016.

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**Brandon Oglenski** - *Barclays Capital - Analyst*

Appreciate it, thank you.

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**Operator**

From William Blair, Nate Brochmann.

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**Nate Brochmann** - *William Blair & Company - Analyst*

Brad, obviously you have a lot of opportunity ahead of you here with-- a lot of people alluded to, a lot of heavy lifting. Could you talk about where you see the challenges as you shift from more the acquisitive story to the more organic growth story and where you do -- you pointed out all the opportunity but in terms of the process -- whether it's a slow grind or whether a faster pace, and what are the opportunities that are a little bit quicker versus a little bit longer?

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

It's a fast grind -- certainly not a slow pace. It's not a slow grind.

It is being on top of the details. Being very well organized and having a clear plan. A clear time and responsibility mapped out, having a high-level accountability. Making sure that all parts of the organization know what all the other parts of the organization are doing and how everyone fits in to the main goals of the whole Company. Keeping everyone's morale up and engagement up. Keeping everyone focused on the plan, on results, on achievements. That's what we're doing -- pure meat and potatoes execution which is the best part of the business, focusing on customers, customer satisfaction, sales, sales, sales, efficiencies at every level.

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**Nate Brochmann** - *William Blair & Company - Analyst*

And then that's the process side -- how about the technology side in terms of going in there and overlapping everything under the one platform. Obviously, you guys have invested a lot there. You talked a little bit more about the process with the technology integration and then what the opportunities are once you get that all in place?

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

Technology something we're very good at. Integration is something we're very good at.

We have hundreds of millions of dollars a year invested in our IT organization and we are committed to continue doing that. There are ways to optimize the businesses [aps] that we have acquired by applying technology -- we had a lot of success in our prior acquisitions in bringing technology to them. And some of the acquisitions we've gained from great technology and I'm extremely confident that the IT roadmap that's going to support the initiatives that I mentioned before here at the LTL business are going to be really solid. And we've already had a lot accomplished even though we've only owned the company for less than a week.

Transferring all the emails over, keeping the whole thing stable, getting the website over, and getting the social media over, and getting the OpEx and CapEx plans for IT rationalized and getting the IT organization rationalized; we've already renegotiated, or are in the process of renegotiating those IT contracts. There's a lot going on.

Mario and his team are now fully -- the former Con-way IT organization is all part of the same IT organization. It's not our organization and their IT organization, it's one IT organization. They are busy rolling out all of the systems and prioritizing them to support all the strategic plan levers that I mentioned earlier in the call.

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**Nate Brochmann** - *William Blair & Company - Analyst*

And then finally -- thanks for that -- finally, then, you've always been focused on people from day one and that's been something that I know you've always been laser focused on.

How do you personally now as CEO, looking at this broader organization with a fair amount of moving pieces to it, how do you approach the business now differently, as you have the pieces of the puzzle that you want and now it's about putting them together? How do you shift your role in terms of thinking about that and how you think about the people you have in place and running a slightly more complex business?

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

My role is exactly the same it has been. I'm the CEO. The buck stops here.

I get a lot of opinions from a lot of great people and a lot of people smarter than I am. And a lot of people who know their part of the business better than I do.

And at the end of the day, I and the board pull it together and sign off on a strategic plan and I'm in charge of making sure that the whole team stays unified in executing the plan. The same exact role I've had all along. It's the same role I've had in all my companies.

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**Nate Brochmann** - *William Blair & Company - Analyst*

Fair enough. Thanks.

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

Thank you.

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**Operator**

From Wells Fargo, Casey Deak.

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

Just wanted to ask -- in your prior targets that you had out there with the $23 billion in revenue, imbedded in there was $4 billion of organic growth. Is that a number that we should still anticipate? Does that change at all with Con-way coming in the mix? Just your thoughts around that $4 billion organic over the next three years.

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

It does change. We will have higher margins over the next several years because of the acquisition of Con-way. So, our opportunity is to get North America potentially into the double digits -- margins from the 7.5% on a blended basis it is today and from an overall organization we have the opportunity to improve our margins around a little over 200 basis points over the next several years.

So that the organic EBITDA growth will be higher. That's why we raised the targets and brought them forward a year. The larger piece will come from margin improvement.

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

Good. And one last one for you. On the legacy -- what was Con-way Manufacturing? I don't know how you're labeling that today, but how does that fit into the overall plan? Do you view that as a strategic fit, I know that Con-way talked about it as a differentiator they had access to back trailer capacity coming out of the yards. Does that fit into your overall plans going forward?

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

We haven't made any decisions on that piece. I would say that it does give you an advantage, especially if the 33-foot rules were to come into effect, where you would have a dedicated facility just working on that transition from 28 foot to 33 foot. So it could give you an advantage. We haven't made a decision but it is a well-run business. We've looked over the numbers and it's very efficient and very well run. We haven't any long-term decisions on it.

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

Thanks for the time.

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**Operator**

From KeyBanc Capital Markets, Todd Fowler, please go ahead.

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**Todd Fowler** - *KeyBanc Capital Markets - Analyst*

Good morning, Brad. It's not like this every November in the midwest -- I hope you know this from the weather standpoint. On a near-term basis, if we adjust for the acquisition costs for Con-way here in the fourth quarter, would your expectation be that you'd be positive from an income standpoint in the fourth quarter?

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

No. From a net income? Let me address that.

There is EBITDA and there is net income. We have an issue in that we've been a very acquisitive company, and due to all those acquisitions, we're going to be amortizing intangibles, not cash, intangibles, for many years -- for a long time to come. So from a GAAP basis you're going to be seeing loses at least another year, maybe longer, because of the significant non-cash amortization that we're going to have. In addition, you've seen in this quarter, for example, you've seen a lot of non-cash accounting charges related to the equity offering that we did earlier -- about $42 million non-cash charge. That's strictly an accounting rule that we have to hit it.

You saw $32 million of non-cash amortization of intangibles from previous deals that we did. And then what will go away, what will improve, is that the expenses that are cash expenses associated with deals will go away. For example, in this quarter in the previous quarter we just reported there were $25 million of one-time expenses for transaction integration costs: lawyers, bankers, audit fees, third parties, consultants, things involved in integration.

And we also had $16 million of interest expense in the quarter where there was a negative arbitrage, where we had pre-funded and raised debt, that we were paying interest on, in this case $16 million of interest in the quarter before we closed on Con-way. Money was sitting in the bank earning almost nothing and we're paying interest on it.

Those kind of acquisition cash charges will go away. But the amortization of the non-cash, amortization of intangibles, there going to be there. If people have a problem with that they should talk to FASB and the SEC, not us.

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

This is John. We are still finalizing the intangible valuation of Con-way, so right now we're working with a loose estimate and the accountants aren't finished with that work yet. That's a big question mark in terms of the fourth quarter.

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

Like we said, the seasonality -- it will be lower than the third quarter, so you would expect the 166 to come down a bit. And then in Con-way we're only getting two months out of the year and -- two months out of the quarter instead of three months and one of those months is December, which is a very slow month in general.

So maybe $65 million added from the Con-way business. So it's not indicative of a full quarter.

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

But we are free cash flow positive in the quarter and we will continue to increase the amount of free cash flow positively going forward.

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**Todd Fowler** - *KeyBanc Capital Markets - Analyst*

I appreciate -- I understand all of that. Of course I think that most of the street is focused on the EBITDA growth, but it is helpful to get your perspective on the context on what's happening from a net income perspective, because it is a question and is an area that people look at. All of that is helpful.

My second question -- a little longer term but going back to the 2018 guidance and the fact that you don't have acquisitions in there, when I model out what the free cash could look like on some of the numbers that John gave, I'm coming up very easily under three terms levered, maybe under 2.5 terms levered as you get out to 2018, that seems what within your prior comfort range.

I guess just to be clear why not put acquisitions in the numbers? Is that because of where the capital markets are now -- and kind of the view on leverage? Is there something else you thinking about as far as not including acquisitions in the 2018 targets at this point?

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

It's just not our focus right now. Our focus right now, and the biggest lever we have to pull, to improve value, to create shareholder value, is to improve the businesses we have today. To optimize our existing operations.

We have a major opportunity to increase margins, to make the organization work better together. From global procurement, to cross-selling, to all the opportunities there in front of us.

It's not something we're focused on for at least the next 12 months. If we have done that, taken advantage of more those opportunities, and we look forward and it makes sense to focus on acquisitions in future years, well then, we'll talk about those.

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

We are focused on four things -- we are focused on bringing levels of customer service to higher and higher and higher levels, and being known and respected in the industry as a provider of world-class customer service in each one of the service groups.

We are focused on having a workplace where employees are a magnet for talent -- where people don't want to leave. They just want to come, come, come to us -- a real engaged workplace.

We are really focused on shareholder returns. And fourth, we are focused on reducing our debt level.

So from all four of those strategic goals, acquisitions is not the right thing, right now in our lifecycle. But now we can achieve all four of those things by slowing down that whole acquisition bandwagon and focusing in on operations.

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**Todd Fowler** - *KeyBanc Capital Markets - Analyst*

Sounds good. Good luck.

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**Operator**

From Stephens, Jack Atkins.

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**Jack Atkins** - *Stephens Inc. - Analyst*

Brad, several people have tried to get you to comment on organic growth that's assumed in the guidance. I know there is some hesitancy to do that, but could you maybe explain why organic growth is slowing in your outlook, when theoretically there's a significant amount of revenue synergies to be had in this model, now that you have all these different businesses tied together?

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

So organic growth, obviously is very important and there are countervailing forces helping and hurting organic growth. On the help side we've got a very focused sales force worldwide, and we've incentivized them and with the new acquisition we're proving -- going to improve the incentivization program, so that people are motivated on selling, selling, selling; particularly cross-selling.

We have so many thousands and thousands of customers that we're only doing one or two service offerings to. And they -- we can help them. We have other service offerings that we're very good at -- that we are number one or two at and we're are going to sell to those. That's going to help organic growth.

What's going to hurt organic growth is timing -- the economy is sluggish. It's still growing -- growing at low single digits but it's growing. But it's not growing gangbusters.

The other factor that's going to hurt organic growth, that is going to be a negative factor, is we're going to shed lots of unprofitable business. There's no reason to continue business that's losing money or to double down on business that's growing money just for the sake of posting a revenue growth. It makes much more sense to focus on profitable business.

Now, that all being said, mid-single-digits organic growth is a very reasonable and to some extent conservative assumption that we feel comfortable with.

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**Jack Atkins** - *Stephens Inc. - Analyst*

Thank you for that color, Brad. Then, you talked publicly, Brad, about selling the former Con-way Truckload business if a potential suitor were to come along.

I guess the rationale that you guys put out there for doing the Con-way transaction was it provided assets when capacity gets tight. Could you maybe explain why selling the Truckload business would make sense in that scenario?

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

Well, we might sell the Con-way Truckload business or we might not. The business is actually performing better than most truckload companies right now, even though you have a freight environment for truckload where tonnage is soft. Low count there has been holding flat. It's positive on a sequential basis.

We get a 20-day rolling report on various metrics and in that trailing 20-day report revenue is up, year over year, which is impressive especially with fuel being down. And our revenue excluding fuel is above last year and the main reason that we're bucking the trend is that 35% of our truckload revenues cross-border Mexico, and that is a different dynamic than the US market.

Grade promoted miles up over 2014, though slightly, and our empty miles in truckload have improved versus 2014. It's about 9% versus 9.5% last year.

So, there are some good things going on in Con-way Truckload. That being said, we have received serious interest from a number of parties, who are spending time and spending money on lawyers, and hired bankers, and so forth and as a public company, we are going to take those very seriously. And we have a little process going on and we're going to bring that to a head fairly soon and we will make it official.

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**Jack Atkins** - *Stephens Inc. - Analyst*

Thanks for the time.

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

Thank you, Jack.

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**Operator**

This concludes today's conference. Thank you for joining. You may now disconnect. Thank you.

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