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XPO - Q2 2017 XPO Logistics Inc Earnings Call

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PRESENTATION

Operator

Welcome to the XPO Logistics Q2 2017 Earnings Conference Call and Webcast. My name is Michelle, and I'll 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 the forward-looking statements and the use of non-GAAP financial measures. During this call, the company will make forward-looking statements within the meaning of applicable securities laws, which by their nature involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the forward-looking statements. A discussion of factors that could cause actual results to differ materially is contained in the company's SEC filings. The forward-looking statements in the company's earnings release or made on this call are made only as of today, and the company has no obligation to update any of these forward-looking statements, except to the extent required by the law.

During this call, the company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the company's earnings release and the related financial tables or in the Investors section on the company's website at www.xpo.com. You can find a copy of the company's earnings release, which contains additional important information regarding forward-looking statements and non-GAAP financial measures in the Investors section on the company's website.

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

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Thank you, Michelle, and good morning, everybody. Thanks for joining our earnings call. With me in Greenwich this morning, are John Hardig, our CFO; Scott Malat, our Chief Strategy Officer; and Tavio Headley, our Head of IR.

We delivered a very strong second quarter. We've reached a record level for revenue. We hit a new high for net income and we achieved a company best for adjusted EBITDA. Our expanded sales force continues to be on a roll. Through June, we signed up new business of $1.43 billion, that's up 62% from a year ago. And we built up our global sales pipeline to more than $3.3 billion, a new high-water mark.

On a year-over-year basis, we again improved margins in both transportation and logistics, as we grew EBITDA faster than revenue. We also generated strong cash flow from operations of $216 million and free cash flow of $98 million ahead of expectations.

These positive results are being driven by 3 factors: our leadership positions in some of the fastest-growing parts of transportation and logistics; our strength in e-commerce and our cost-out initiatives. We will continue to significantly invest in technology and in our sales organization.

In North American LTL, in the second quarter, we delivered the best adjusted operating ratio in more than 20 years. We have a large number of initiatives underway in LTL to generate new business, increase yield, improve trailer utilization and continue strict cost controls, among other initiatives. Since we acquired the LTL business, we've nearly doubled the adjusted operating income from $233 million in 2015 to $430 million in the trailing 12 months through June.

We're ready to return to the M&A market to find similar acquisitions that will add value for our customers and significantly accelerate our returns to shareholders. The equity offering we closed last week prefunds future acquisitions and demonstrates our financial capacity to sellers. Given the strong momentum in our current operations, we raised our targets for adjusted EBITDA to at least $1.365 billion for this year and at least $1.6 billion for 2018. These numbers don't include any benefit from future acquisitions.

And with that, I'll ask John to review the second quarter numbers in more detail.

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

Thanks, Brad. Revenue for the quarter increased to $3.76 billion versus $3.68 billion a year ago. Excluding the North American truckload unit that we divested last year and the impact of foreign exchange and fuel, organic revenue growth was 7.5% compared to 4.4% last quarter. Net income attributable to common shareholders for the quarter was $47.6 million compared to $42.6 million last year. Adjusted EBITDA, a non-GAAP measure, was a company record high of $371 million compared to $355 million last year, which included the divested truckload business.

Revenue from our transportation segment was $2.41 billion versus $2.42 billion last year.

Operating income increased 4.4% to $160 million and adjusted EBITDA increased by 2.5% to $283 million. Excluding the divested North American truckload operation, we grew transportation segment revenue by 5.2% and adjusted EBITDA by 13.7%, resulting in a 90 basis point improvement in adjusted EBITDA margin.

In less-than-truckload, we grew revenue by over than 7%, while at the same time, achieving a 20-plus-year record for adjusting operating ratio. Tonnage per day increased by 7.1% year-over-year in the quarter, an improvement from 4.8% last year. We increased shipment volume by 3.2% and increased weight per shipment by 3.8% reflecting our strategy to target heavier freight. Although this heavier freight increased revenue and profit, it reduced our revenue per hundredweight metric, excluding fuel by 0.3%.

Contract negotiations were much stronger in the second quarter. Pricing on like-for-like contract renewals increased by over 4.5%. This is a significant sequential improvement and based on July results and our current forecast, we expect the revenue per hundredweight trends to improve in both

Q3 and Q4. On an adjusted basis, excluding amortization of intangibles and integration costs, we improved operating ratio by 90 basis points to 84.6%.

In last mile, we continue to generate remarkable growth. We increased revenue by 14.8%, due primarily to higher volumes in our e-commerce network, which continues to gain momentum with online sales of heavier goods. While achieving this exceptional rate of growth, we maintain strong net revenue margins of over 30%.

In freight brokerage, we continued to take share and grew revenue by 10.2% year-over-year. This growth was led by truck brokerage and expedite.

Intermodal grew at a slower rate in the quarter, but growth did improve sequentially. The ground freight market tightened in the quarter resulting in lower net revenue margin. However, we more than offset lower gross margins with higher productivity and increased earnings from this segment. We won a significant amount of new business in truck brokerage in intermodal in the first half of the year, which we expect will drive higher growth, as these contracts ramp up through the second half.

In our European transportation operation, revenue was down 5.1% in U.S. dollars to $615 million. However, revenue was up slightly after adjusting for foreign exchange, fuel and 2.5 fewer workdays.

Growth in dedicated truckload, LTL and brokerage were partially offset by declines in our nondedicated full truckload operation. We continue to improve margins through overhead cost management, operating efficiencies, improved asset utilization and procurement savings.

Our Logistics segment had a strong performance in the quarter, both in North America and in Europe. Revenue increased 4.7% to $1.395 billion. On a constant currency basis, we increased revenue by over 8%. Operating income increased 25.8% to $64 million and adjusted EBITDA increased by 15.1% to $123 million.

In European logistics, revenue increased 5.5% to $737 million. Excluding the impact of foreign exchange, we increased revenue by over 12%. We drove this exceptional growth through new contract starts, notably with e-commerce and food and beverage customers. Revenue growth was led by operations in the U.K., the Netherlands and Spain. We expanded margins and achieved excellent EBITDA growth through centralized procurement and continued productivity improvements.

In North American logistics, revenue increased 3.9% to $658 million. We generated outstanding growth in contract logistics, which grew high single digits year-over-year, resulting in significant improvement in earnings. This was partially offset by revenue decline in managed transportation. We are beginning to turn the quarter in managed transportation. We had 2 notable wins in the quarter and our sales pipeline has picked up substantially.

Corporate SG&A was $39 million or $5 million higher than last year, due mainly to an increase in equity compensation expense, which is tied to the price of our common shares. Interest expense for the quarter decreased more than 20% to $74 million from $95 million a year ago as a result of the debt pay down associated with the North American truckload sale and the 2 repricings of our term loan we completed in August of 2016 and March of this year.

Net capital expenditures for the quarter increased to $118 million from $91 million last year. We remain comfortable with our full year guidance of $430 million to $455 million. CapEx was utilized for new project start-ups in North American and European supply chain, IT investments across the company and maintaining our fleet.

We reduced the average age of our North American less-than-truckload tractor fleet to 5.4 years versus 5.7 this time last year.

Our cash flow from operations for the quarter was $216 million and free cash flow was $98 million. As we've communicated in the past, our free cash flow generation is weighted heavily towards the second half of the year and we remain confident of achieving at least $350 million of free cash flow this year.

We ended the quarter with $291 million of cash and $970 million of liquidity, including availability under our ABL facility. These numbers exclude the $290 million of cash proceeds received last week from our common share issuance and the $348 million of additional proceeds we will receive in the future when we exercise the common share forward option.

Now I'll turn it over to Scott.

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

Thanks, John. Starting with our operating environment. In North America, it's an industrial-led economy for the first time in a few years. That's good for our LTL business. Retail is growing more slowly, although e-commerce continues to be very strong. The truckload market tightened up in late May through early July, which is a possible good sign for the economy. Capacity has loosened in the past few weeks, typical of seasonality.

In Europe, economic trends have improved and consumption has increased sequentially through the year, especially in France following the elections in May. European manufacturing, retail and especially e-commerce are all growing faster now than in the first half of the year.

Companywide, July was a strong month for us. We had a broadly favorable macro environment and now we're gearing up for back to school and the holiday season.

Turning to our operating segments. In contract logistics, we're growing fast in both Europe and North America. The biggest areas of growth have been e-fulfillment and reverse logistics. Traditionally, retailers have established networks for store delivery, but direct-to-consumer and omnichannel distribution have different requirements. E-tailers and retailers are hungry for capacity. We're winning this business because of our scale, our technology and ability to move fast. We have the scale with our 162 million square feet of logistics space worldwide and that number is constantly growing, as we sign new customer contracts. And with technology, we're using sophisticated data analytics and automation in our logistics facilities to design customized solutions that help our customers achieve greater order accuracy, reduced inventory holding costs, shortened distribution cycles and create less waste in return logistics.

One of our specialties is predictive analytics. We're using it to support direct-to-consumer fulfillment and returns. We can test products to determine characteristics and associate those with order fulfillment history. By predicting the flow of goods and future returns, we're able to help our customers sell more successfully online.

The logistics space is wide open for the development of exciting technologies. We're in the midst of designing a next-generation logistics facility in collaboration with a large customer. It's a testing ground, where we're bringing together in a highly integrated way all the things we do extremely well and using that as a launchpad for innovation. We'll push each technology success out to our 750-plus logistics facilities around the world. That's our logistics segment.

In transportation, we continue to generate strong growth in our last mile business. We won significant new appliance and mattress contracts. And we're continuing to invest in our e-commerce network with plans to add 10 new delivery hubs this year. This will bring our network to 55 last mile hubs in North America. In the second quarter, our IT team deployed new technology tools for last mile in route planning, that enables us to drive even more efficiency in our growing network.

In LTL, we're ramping up volumes. Our investments in local account executives, our feet on the street are paying off. We've also hired over 650 new dockworkers in the last 6 months to support our growth. At the same time, we're delivering our best ever LTL margins.

Our transformation in Big Data, teams are using labor analytics to model an optimal solution for any given day based on the amount of work forecasted. They look at things like pickup and delivery hours, dock hours, overtime, part-time and full-time labor. That's the next big efficiency for us in LTL, workforce utilization aligned with engineered standards. This work is going on in a highly coordinated way in both North America and our European transportation businesses.

So we have strong momentum going in both logistics and transportation. We're on track to meet our higher EBITDA projections for this year and next year as well as our free cash flow targets. The bridge from 2017 to 2018 is mid-single-digit organic growth and approximately 100 basis points of margin improvement to reach 10% EBITDA margin. Our ongoing initiatives include cost reductions in areas like procurement, real estate, back-office efficiencies, labor productivity and asset utilization.

Our centralized procurement team has achieved annual savings of over $90 million so far, and we are on track to generate about $160 million of run rate procurement savings by late 2018. We also have transformation teams working on improving the effectiveness of our sales force through targeted investment, training and cross-selling collaboration. Now that we have a larger and more professionalized sales force driving record growth, we can refine our pricing strategies and serve our customers more cohesively as One XPO.

With that, we'll turn it over for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Chris Wetherbee with Citigroup.

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

Wanted to touch base on sort of free cash flow, in particular the outlook for the second half of the year. So I understand sort of the back half weighting of free cash, but maybe, if you could help us sort of bridge the gap between sort of where you stand today and maybe how you think you can end up at $350-plus million. I'm guessing CapEx probably has something to do with it as well as some of the deferred payments in the fourth quarter. But maybe, if you could give us a little bit more color on that would be helpful?

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

Sure, Chris. This is Scott. Free cash flow will accelerate in the second half. We'll likely do more free cash flow in the third quarter than the second and our best free cash flow quarter of the year is fourth quarter of the year, because we get more inflow of working capital in that quarter.

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

Okay. Can you give us, I guess, I'm just maybe looking for a couple of the benchmarks maybe to get there. And how do we think about sort of working capital in the context of the acceleration that you guys have seen that's been very strong on the top line?

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

Yes. In terms of working capital, we did see a good use of working capital in the second quarter of the year and really heavier than expected in the first half, mainly because the organic growth was higher than expected. But we do see a drop. As Scott was saying, we do see a drop in activity in the fourth quarter, typically over the third and that allows a lot of that working capital to come back off the balance sheet and generate cash flow. As Scott said, the CapEx is a little more heavily weighted in the third than the fourth and that also will push more cash flow into the fourth quarter.

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

Okay. All right. That helpful. I appreciate it. And then, I guess, Brad, maybe take it a step back and thinking broadly about sort of M&A and obviously you've done some prefunding here and I think you've had some public comments about maybe size of transactions and sort of what they're looking for. But if you could give us a little bit more color maybe on timing and again sort of the end market area that you want to focus on from an M&A perspective. I mean, how soon should we expect something to potentially happen here?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

On the bigger deal or deals, not soon, because we're just starting conversations and these things take time. We are in discussions with smaller deals that are -- the purchase price would be in the hundreds and millions of dollars, not in the billions of dollars and those could come at any time along the way. In terms of the end markets, it's the same end markets that we're in or something that's very closely adjacent to what we're in. It's basically the same things that we're doing and it's the same geographies that we're in. Now because these are larger deals, larger companies, they, like us, are typically not just in one country and often not just one part of the world. So they could be global companies, but the primary emphasis is on Western Europe and North America.

Operator

Our next question comes from the line of Ravi Shanker with Morgan Stanley.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Brad, you guys have been talking about the growth of last mile for a while, and I think one of the biggest piece of evidence of that was, I think, Amazon starting to sell appliances on their website. I just wanted to see if you are involved in that. And whether you are or if you're not, kind of what do you think the impact on the big-box retailers will be from that move, given that you guys are exposed to those customers?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Sure. Well, in general, just -- and not speaking about any one specific, as more heavy goods are sold online, that's a good thing for us. As the largest player in last mile heavy goods, we win a fair share of that business.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Got it. But do you also believe that that space is getting more competitive on the supply side. I mean, given that you have seen a few new players announced that they're getting in. Are you seeing -- are you coming across more guys in the space?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

It's always been competitive, Ravi. There are many, many different suppliers of last mile logistics. We're the biggest. We like to think we're the best. Service quality matters a lot in that service offering. You're going right into people's homes. And we've built an entire network, an entire business based on very high levels of customer satisfaction. And because of our scale, we get the best contract carriers. We're able to -- because of our density and because of our size, we're able to give them more steady work and give more stops per hour, and we pay well. And we also have software that we invested tens of millions of dollars in that's patented that gives real-time feedback to our retail customers and our e-tailers on customer satisfaction scores in the moment. And all those things combined explain why we're growing at 15% in that business.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Got it. And just lastly, the next-generation logistics facility sounded really interesting. Can you share some more detail there in terms of what technologies are you trialing and kind of what the time horizon for that being rolled out is?

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

Sure. This is Scott. We've been -- we'll ramp it up through the rest of this year and into the beginning of next year. We have advanced supply chain software that enables us to quickly implement automated equipment. So, for instance, we're deploying autonomous robot-assisted picking in our warehouses, which is very efficient, also improves the safety of our employees by lessening the physical strain. We're using wearable technology like optical automation, which drives accuracy, sometimes called smart glasses. If we picked the wrong barcode for example, the glasses go red. We're using drones for inventory management, which again improves the accuracy for the customer. And then we have an Internet of Things initiative. For visibility, we deploy pallet-level sensors, especially for high-value items. Those are some of the kind of things we're working with.

Operator

Our next question comes from the line of Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

So just going back to the picture of M&A, obviously the currencies have been pretty volatile, the euro is up significantly, the pound is up as well, the trade-weighted dollar is down quite a bit. And so I guess, how does that affect how you think about purchasing power when it's come to future M&A? Or are you more or less kind of currency agnostic, when you maybe can do some funding in the local currency. And then just on the business impact, if you could just give us an update on what these currency moves do to your hedging program. And if you've seen anything from an operations perspective. The freight flows have really started to shift your customers because of some of these moves in FX so far this year.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Okay, I'll take the first part and John can talk about the hedging. We're not currency agnostic because we're an American-headquartered company and we report in dollars. So we have to take that into consideration. That being said, the percentages that currencies have been moving are -- while important on a certain level in terms of M&A, they're not moving up and down 20% or 30%. It's small percentages. So it's not going to change our M&A strategy in the near term. John, you want to take the part about -- the second.

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

Sure. We have hedged our currency exposure to the pound and the euro against our earnings. We don't hedge our revenue. So as foreign exchange rates change, our revenue will fluctuate with that. But our adjusted EBITDA will really be unaffected by currency changes because of the hedgings this year and next year. We do have a large unrealized loss that hits the P&L related to the unsettled hedges or -- the options in the contracts that we've bought to, to create those hedges. But on an adjusted basis, as each of those settles in each given period, there really should be no big impact to earnings.

Brian Patrick Ossenbeck - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Okay, got it. And then maybe for Scott or Brad, have you seen any sort of appreciable impact on operations or awards from your customers, as some of these currency movements have gotten some momentum throughout this year?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Not really. Business in Europe is very, very strong. Even in the U.K. with Brexit coming on since the election, that's stabilized and organic growth is very, very strong. The same thing in France. France is not our best performing country, but it's a better performing country than it was before the election. So it's more political influences than it is currency. So don't see any changes on flows because of that.

Brian Patrick Ossenbeck - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Okay, great. That's helpful. So last quarter, you mentioned the intermodal contract that you won was, I think, the biggest one ever for the history of the company. But you also just mentioned that intermodal growth is a little bit slower even though it was up sequentially. So I think that contract was ramping up sometime in April, so maybe if you could just give us an update on that segment in general and how that large contract is starting to play out for the business?

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

Thanks, Brian. It's Scott. We had 2 big contract wins in intermodal. One's ramping up. It did start in April and it ramped up through the second quarter. The other one is not ramping up until 2018, in early 2018. We're working with a customer and getting ready for that. Our volumes are trending up in intermodal. Our margins are still pressured in that business because cost of transportation has moved up in both the drayage and the rail side. And it's a very competitive space. It's a tighter truck market. If you get more moves over to intermodal then that's an opportunity for us if we see some tightness in the back half.

Brian Patrick Ossenbeck - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Okay, got it. And last, just housekeeping one. You talked about the pipeline, how it's getting some momentum this half of year. Last year, obviously you were at 62%, but what was the second half of '16? What did that look like? Just trying to think about what sort of comps you're up against as you exit 2017?

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

Yes. The second half of '16 was pretty consistent on a run-rate basis to the first half. So obviously, if we continue to see this kind of growth rate in 2017, it will have the same impact to the win rate for new business. One interesting note on that is, we are winning larger deals. We are winning deals of larger size and that's one thing that's contributed to the $1.43 billion of new business that we closed in the first half. The sales organizations that we have here and in Europe are larger or upgraded. We've hired over 160 new local account executives in LTL here. We've tripled the size of the strategic account managers here in the United States. We've started a strategic account manager program in Europe and that's got some nice traction to it. We've been investing money in advanced training programs. And all those investments are paying off quite a bit.

Operator

Our next question comes from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

So first question is just on the contracts you won in last mile. Just wondering, if we should expect last mile revenue growth, which has obviously already been so strong, to accelerate? And then do you think the type of growth you achieved in the second quarter, organic growth of 7.5% is achievable next year? I know the guidance is kind of based on your typical mid-single-digit organic growth, but given the growth you're achieving, the new business wins you're achieving, I'm just trying to understand the potential for 2018?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Good morning, Amit. I'll take the last mile and I'll ask Scott to take the next year's. Last mile is growing at 14.8% in 2Q. It's trending right about the same, just maybe 20 basis points higher in July. July continues to be very, very strong. I don't think it's going to trend up much higher than that.

Again, we focus on extremely high levels of service in that business. So we're selective what business we take on and we're happy with mid-teens organic revenue growth there. Scott?

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

And then in 2018, you're right, mid-single digits is what we put in our model. Absolutely, we expect that we could do better than that with the cross-selling initiatives, with the pipeline we have today, with the sales force more -- even more ramped up. We absolutely think we can do better than that. We think at this point, given what we know about the macro, it's prudent to expect very low GDP growth and expect 5% sales growth.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Yes, I agree. Okay. On the M&A, Brad, just a follow-up from me. You mentioned that acquisitions or potential acquisitions are going to be in existing business lines. I mean, to be fair that doesn't really help us much, given you guys play in most if not all parts of the supply chain. So maybe just approaching it a different way, if I could. If you could talk about how potential acquisitions would affect, I guess, the asset intensity of the business and then if you could just also help us around valuation parameters, because there are a lot of assets out there, some obviously are more expensive than others. If you could just tell us where you're willing to go from a valuation standpoint. And how comfortable you are with -- in terms of shrinking that interest coverage ratio?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Okay. So a lot of points in there. In terms of asset intensity, when you look at the larger global companies, they usually have some level of assets in them. But primarily, we're looking at asset-light companies, some more light, some not as light, but basically asset-light. Having said that, we're not looking at the ones that are trading at 14x, 15x EBITDA and then you have to pay a premium on that. That wouldn't make any sense for us because -- it would make sense strategically but it wouldn't make sense financially because we have to live with the cost of capital that we have. And for the time being, our stock is trading at less than 8x next year's EBITDA. So we have to take that into consideration. In terms of overall valuation as a whole and what we can pay, we can stay within 5 or less times leverage and still between the EBITDA that we have in our existing company, the liquidity that we have in our existing company and the EBITDA that we'd be buying pay up to $7 billion or $8 billion for an acquisition without going -- raising more equity and without going over 5x EBITDA on the leverage. Does that answer your question?

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Yes, that's great. One housekeeping one from me. I'm going to go over my 2, just one quick one. John, this is for you. There are new accounting standards associated with how you book contract-related revenue, I guess it goes into effect next year. Can you just talk about that and if that affects the contract logistics business and then I'm done?

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

Yes, sure. We've done an extensive analysis of that new accounting rule. And it really will not have any impact on our revenue at all materially. It will be very de minimis.

Operator

Our next question comes from the line of Brandon Oglenski with Barclays.

Brandon Robert Oglenski - *Barclays PLC, Research Division - VP and Senior Equity Analyst*

Brad, can you just talk to us about the timing of the equity offering here, because I think if we go back through the transcripts for the last couple of years, we would have said, not we but the company would have said we don't need to pursue M&A right now. We just did Norbert and Con-way. We want to make sure that we get the businesses running together in line and on target for costs out. We have a lot of opportunity internally. I guess, is this year's signal to the market that you think that strategy has worked? Or is there still a lot more to come on the integration of those businesses?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Well, there is not much more to come on the integration per se. The integration is winding down. There is, however, a lot more to come on the optimization, on the increase in the profitability of those businesses. We have a slew of projects in both what was Con-way and what was Norbert Dentressangle to cross-sell, to take costs out, to provide best practices, to training. There are so many different things that we're doing to raise the growth rate on both of those businesses. But with the integration largely behind us it frees up time, it frees up management bandwidth. We didn't have the time frankly in the last couple of years to be doing integration and be doing acquisitions. Both of those things are a full-time job. But now we do. So we're going to pursue the M&A market again.

Brandon Robert Oglenski - *Barclays PLC, Research Division - VP and Senior Equity Analyst*

Okay, appreciate that. And then quickly on the guidance. Can you guys talk about what you're implying in 2018 for cost opportunities in the organization, because you're almost at the 10% EBITDA margin now, if I'm calculating that correctly. So is there still -- maybe there is upside to that margin target or there is more cost to come? Or is there more on the growth side?

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

This is Scott. There is about 100 basis points of margin improvement. You're right that we did have 9.9% EBITDA margins in the second quarter, but that's somewhat seasonal. We'll have 9% or above margins this year. We'll likely have 10% or above margins next year. And then we have mid-single digits growth in top line.

Brandon Robert Oglenski - *Barclays PLC, Research Division - VP and Senior Equity Analyst*

Okay, so the components there haven't really changed then?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

No, it's the same components. Same plan, same execution. On the procurement, Brandon, it's worked out very well. We've had over $90 million of saving so far in the big categories of trucks and material handling equipment and temp labor and tires and facilities management and a bunch of others. But there's so much more to go, I mean, so much more to go. We have in process now RFPs for trailer rentals and for maintenance and repair, for small parcel shipments. We're a big shipper of small parcels and we divide that over 3 different vendors, we're putting that up to global RFP for all our outbound logistics from our 750 warehouses. Our merchandise, our uniforms, our travel, we have years to go to do RFPs on all the different categories. So we just -- we're picking the lowest hanging fruit and the biggest hanging fruit first.

Operator

Our next question comes from the line of Todd Fowler with KeyBanc Capital Markets.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Brad, can you talk about at this point the strategy for North American LTL going forward. Is the focus at this point is going to be more on growing the top line? And I understand that it is probably some mix shift and some focus on some heavier weighted shipments. And then can you comment on what sort of margin improvement we should expect off of that business into 2018?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Yes, good morning, Todd. So as you saw from the release, we had the best OR in at least 20 years. I say at least 20 years, because it's probably forever but we can't find the Con-way records past 20 years, and we're very proud of that. We brought down OR from the mid-90s before we brought it to between 87% and 88% this year. I mean this season it was even lower than that. But we're still lagging best-in-class OR by 500 or 600 basis points and that's the opportunity. So we think there is a very real opportunity to improve the OR by 100 to 200 basis points a year. We think that's very, very achievable. Now the part of your question is about where does that come from. It comes from a few things. It comes from sales. And as I mentioned earlier, we did hire 160 new local account executives in LTL. It comes from cross-selling. It comes from technology. Everybody knows that we have an industry-leading commitment to investing in technology and we spend $425 million a year in technology. What may not be broadly known is $130 million of that investment a year is on LTL technology. So business intelligence, data analytics, optimizing pricing, labor productivity. We've spoken before about this huge opportunity in trailer utilization, where right now about 65% of our trailers are utilized and about a 1/3 of our trailers are empty. And that is far from best-in-class. Best-in-class is 85%. So we're about 20 points below best-in-class in trailer utilization. And we're going to keep chipping away at that every year until we bridge the gap. We're also working on network planning tools. We're doing routing tools for both the line-haul and P&D optimization and we have continuous improvement opportunities in cost out, especially the global procurement that I was mentioning before. So a whole host of activities going on in LTL to not rest on our laurels that we've improved the profitability so much, which we have, but to strive for better and better profitability going forward.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

No, that sounds good and I've got at least 15 years of history with that business and that was the best I could remember. So I appreciate those comments. But it sounds like, Brad, that there is a lot of opportunity that's left, but realistically on an annual basis, you're thinking of 100 to 200 basis points of margin improvement is how we should think about annually and then longer term there is a bigger piece in the future.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

That's absolutely correct.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Okay. And then just for my follow-up, I would appreciate your perspective looking at the North American freight brokerage net revenue margins here in the quarter. What do you see is kind of a normalized range for those margins going forward? I understand that there is a cyclical component and Scott, there's been a lot of commentary about the tightness in the truckload market, particularly in June. How do you see the net revenue margin performance of that business going forward with some of the competitive factors that are going on? And I know that your business, in particular, is focused on gaining some efficiencies. So your comments around that business and particularly the margin profile would be helpful.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

We don't know. We don't know what truck brokerage margins are going to do over the next few years because there're a lot of question marks about things that haven't happened yet. We don't know what Amazon is going to do. We don't know what Uber is going to do. We don't know how some of the smaller brokers are going to fare once ELDs come in and some of the smaller carriers get put out of the business. We don't know how the cycle is going to play out. So we really just don't know. We know in the second quarter that there was a big squeeze because purchase transportation costs went up, the spot market tightened and net revenue margin was lower, but we saw in July the market becoming looser and margins have expanded. So it's a question mark.

Todd Clark Fowler - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Well, maybe I could ask it this way, so for what you do know and what you saw or what you've been seeing recently, is most of that the cyclical component of what can happen in the brokerage market versus changes in the competitive landscape?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Oh, I think what happened in the second quarter was almost entirely cyclical. I don't think there was any big secular change that caused that. I can't think of what that would be. There haven't been any big new entrants doing lots of new volume in the business. I think it was nearly entirely because the spot market got tighter and prices went up on the cover. We get most of the businesses on contract for us and for many of our big competitors. So we know we're going to get paid. What we don't know is what we're going to cover that. We don't know where we're going to purchase transportation at because you do that in the spot market on a monthly basis. So when that spot market goes up, it squeezes the margins. But I don't think that was any deep secular change in the second quarter, not just to say that there could not be a profound change in the model going forward, because there very well could be, but I don't think that should be read into the second quarter.

Operator

Our next question comes from the line of Scott Schneeberger with Oppenheimer.

Scott Andrew Schneeberger - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Starting off, the $1.43 billion of new business wins annualized in the first half of this year is quite impressive. And then you mentioned in the press release $3.3 billion of pipeline there. Could you talk about the mix of transportation versus logistics? And maybe some commentary on end market or vertical? And then following up on that, your thoughts on how that might affect your build versus buy contemplation of that pipeline versus your acquisition pipeline.

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

Okay. I will take the first part of the question and then maybe I'll pass it off to Brad for the buy versus build question. On the pipeline, supply chain has really picked up pipeline, especially in North America, we're about 50-50. It's 48% supply chain, 52% transportation. As you would expect in the closed/won business, in the second quarter, that's a big quarter for closed/won for transportation. So about 3/4 of the closed/won in the second quarter was in transportation and about 1/4 was in supply chain. If we look at the big areas of wins, we had a lot of wins in European transport. There in European transport, especially in dedicated truckload, the dedicated piece of truckload and in LTL, we had some big wins and the growth is improving. And then even in the North American asset-light parts of the business, like in brokerage and intermodal, we had some big wins in the quarter. Those are the big standouts.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

And the second part of your question, Scott, about how does the success in the sales momentum affect our desire to have in the M&A program to buy more assets or less assets. We made a decision in 2015 to have some level of assets, about 1/3 of our business and to have a lot of business that's non-assets, about 2/3 of our business. That mix feels good. It's clearly working. That strategy is gaining momentum. It's showing not just in the sales numbers but in the bottom line numbers too. So nothing has changed in our strategy on that basis. I don't think we're going to buy something that's purely asset, that's something -- that's not a direction we're taking the company. But something that's got a blend of assets and non-assets, that would be interesting to us.

Scott Andrew Schneeberger - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Great. And then just as a follow-up, I think you mentioned of the 55 hubs in last mile and building that out. With the elevated growth, just curious what we should think about for your expenses in that category and margin impact looking out over the next year or so?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Well, we are expanding our last mile network. We're going to add 10 new hubs by the end of this year and that will give us 55 last mile hubs strategically located across the United States going into 2018. And then in 2018, our plan is to grow that to 85 hubs by the end of 2018. We're doing that so that we'll get close to the customer and reduce transit times. And with this network, we'll be within 100-some-odd miles of 90% of the entire U.S. population. So that is a trend that you're seeing in the transportation business all across the country, where it's more DCs and more stocking locations that are closer to the customers. You're seeing shorter runs, tighter supply chain cycles. So that's where the puck is going and that's where we're skating to. In terms of the investment in that and the cost, we don't want to publicly disclose that for competitive reasons, but we are committed to significantly invest in our expansion of our last mile business, because we want to keep serving our customers. Our retail and e-tail customers, particularly on the e-commerce side and omnichannel side, are growing super, super fast. So we want to be their preferred partner. So in order for us to do that, we must keep investing in our network and growing our network.

Operator

Our next question comes from the line of Ariel Rosa with Bank of America Merrill Lynch.

Ariel Luis Rosa - *BofA Merrill Lynch, Research Division - Associate*

So I wanted to start by returning to the free cash flow question that had been addressed a little bit earlier. Was hoping you could maybe give a little bit of a guide on the cadence and timing for CapEx in the second half. And if you see that kind of scaling down and what your top priorities are there? And then separately, if you could give any guidance around asset sales that would be helpful?

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

Yes, in terms of CapEx, we mentioned earlier that's going to be more heavily weighted towards the third quarter than the fourth. We've gone through that half of our CapEx budget for the year. Our guidance remains the same. So we'll do about the same amount of CapEx in the second half, more of that will fall in third than the fourth. It's coming in the areas of the fleet, we mentioned that we're keeping the fleet at its current age or slightly younger. We're investing in the fleet and so that's where some of the capital is going. And then we've had a very significant uptick in growth in our supply chain business. And so the investment in those facilities, those warehouses, all the hardware and software that goes into those facilities is also a big use of the CapEx this year. And in terms of the...

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Asset sales.

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

The asset sales. We have been running asset sales a little bit higher than expected this year, mainly that's because of the investment in the fleet that we're doing. So we're buying trucks and then we're selling some of the used equipment. We have also had some real estate sales this year, a few terminals and warehouses here and there in the network. And so it's been running slightly a little bit higher, but our net CapEx forecast for the year remains the same.

Ariel Luis Rosa - *BofA Merrill Lynch, Research Division - Associate*

Okay, great. That's helpful. And then on the LTL side, I saw the revenue per hundredweight went negative this quarter. Obviously, a lot of peers reported some pretty strong pricing growth and some tightening in the market. So I was just hoping you guys could dig into why that went negative and if we can expect that to strengthen in the second half.

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

We do expect it to strengthen in the second half. Like in the first quarter, we increased the weight per shipment by 3.8%, in this case, it was up to 1,382 pounds per shipment. It's consistent with our strategy to target heavier freight. We like heavier freight. It lowers our -- if you look at revenue per hundredweight metric, it lowers that, but it improves our profitability by -- it reduces our cost per hundredweight. So the net result was an improvement in operating ratio. And that said, because of the like-for-like pricing being up over 4.5% in the quarter, we'll likely see that revenue per hundredweight metric improve in the third quarter and then again in the fourth quarter.

Operator

Our next question comes from the line of Allison Landry with Crédit Suisse.

Allison M. Landry - *Crédit Suisse AG, Research Division - Director*

So I wanted to follow-up on intermodal. Obviously, you've talked about recent contract wins. But is it fair to assume you haven't yet achieved the goals that you talked about when you first acquired Pacer in terms of improving the network balance and box turns and so forth? Obviously, we all know the market has been weak for the last couple of years, but what I'm really getting at is, if you would look to acquire another intermodal carrier to build scale and improve density more quickly, is that something that makes sense for your franchise?

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

Allison, it's Scott. We have improved the metrics for intermodal, but it's been offset by lower margins with higher purchase transportation cost. So, for instance, in a quarter, the box turns were up another 1.5%. The empty miles were down about 70 basis points. We're using more of the fleet of contract carriers that we have relationships with. So we're using -- about 85% of our business is going on fleet that we have a relationship with, that's up from the mid- to high 70s last year and prior years. So we are doing and -- we are doing things and we've improved the technology and the on-time pickup and delivery is at an all-time high right now. We are doing things to offset that net revenue margin. But that said, it is a competitive environment. It hasn't been a big growth area intermodal for the last several years, because of where fuel prices were, because of how loose the capacity was. But within that environment, we are lowering SG&A.

Allison M. Landry - *Crédit Suisse AG, Research Division - Director*

Okay. And I guess, as far as the part of the question in terms of would it make sense for you guys to look to acquire another carrier to build out your scale more quickly. Do you think that is something that is on the table as you think about M&A?

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

We're not going to comment about specific targets like that because intermodal is just a small handful of potential companies. So we don't want to make a comment positive or negative about that.

Allison M. Landry - *Crédit Suisse AG, Research Division - Director*

Okay, that's fair enough. And then obviously, we hear a lot about contract wins sort of across the business and e-commerce and I think previously, you've talked about 25% of the overall book of business being e-commerce and retail. But I was hoping you could help us sort of carve out the retail, traditional retail component versus e-commerce. And then if possible, if you could frame it by geography or line of business, that would be really helpful?

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

Well, e-commerce is a big part of our business and it's a very strong growing part of our business. We have the largest e-fulfillment platform in Europe. So business just comes to us as a result of that scale. And we have the largest last mile logistics for heavy goods to people's homes and apartments and increasingly that is more and more bought online. So that's growing really fast. We have the largest, I wouldn't we say the largest because it's hard to get the numbers. We have a leading, maybe the largest, maybe one of the top largest omnichannel distribution supply chain businesses here in the United States. And that grew -- I think it grew, it was probably like 45%, right?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

About 45%.

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

Yes, about 45% omnichannel retail grew in the second quarter in our North American supply chain. So that was really off the charts growth. And of course, we do a lot of reverse logistics, do a lot of returns management and that's got high growth. It's very difficult to isolate exactly every order, what came over the Internet and what came from bricks-and-mortar because we may be running a facility and we're told from our customer, okay, here are the destinations, but we're not told in many cases how that originated. We are not privy to, did that come over the Internet or did that come from a walk-in customer. We are privy to that in our omnichannel, where we've designed and are managing the website for customers, that we see. We'd been speculating to some extent to break it out between bricks-and-mortar and e-commerce. But it's a lot of e-commerce, no doubt about it.

Allison M. Landry - *Crédit Suisse AG, Research Division - Director*

Okay. And is that 25% sort of some combination of retail and e-commerce. Is that still a good number to think about as far as the percentage of the overall portfolio?

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

It is. It's a little bit above that. It's about 26%. If you look at supply chain, it's actually the majority of our European supply chain business. It's about 55% of our European supply chain business. Overall, in supply chain, it's about 35%. So we have a lower percentage in North America, where we have a growing presence and growing very fast.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

That will probably grow over time, that 26% Allison, because the customers themselves are growing fast and we're taking more than our fair share of the growth in that. And the next acquisition might very well have a big e-commerce component to it, we don't know. So e-com will probably be a bigger percentage over time.

Operator

Our next question comes from the line of Jason Seidl with Cowen and Company.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Brad, one sort of general question, just on employees overall here on the domestic front and the labor market seems to be tightening. We're hearing from some of the other companies that it's getting harder and harder to attract people. Can you walk us through that and how that might affect results going forward? Should we expect that line item to start creeping up a bit?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

It will. Unemployment is low and labor markets are tight. So it's a competitive market. We stay very close to what the market is paying in every single location. And our philosophy is to be competitive. Our philosophy is to pay at or a little above frankly what the market is, so we get the cream of the crop. So that is something that we spent a lot of time on and we've been executing well on being able to manage our labor count. But it's something that we have to keep paying attention to because it absolutely is a tight market and with the economy improving, I don't see any reason why it's not going to continue to be tight.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Is there any one area where you're seeing more pressure than another?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Yes. I mean, we are always stack ranking the different MSAs around the country and in Europe. And it's a long list and those -- there's different rates of improvement and stagnation. But it's fairly -- I'd say it's a fair statement to say across the board labor here and in Europe is tight.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Okay, fair enough. My next question, going back to intermodal, you mentioned obviously it's a nice contract win. Can you talk a little bit about your view on how you price some of those contract wins, considering that intermodal pricing tends to lag truckload pricing a bit and we're looking at most likely a higher truckload pricing marketplace in 2018? And can you also -- clue is in if you've had any -- if you've seen any service disruptions out in the east on intermodal?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

We haven't seen any major service disruptions. There's always some here and there and we can't add anything to the commentary that's already public out there about that. In terms of intermodal pricing, the contracts that we've won, we've priced in a way that is lucrative for us, it's profitable for us. It works. The reason it works is it matches our network. So those big contracts were awarded to us, they weren't just exclusively shopped to us, but just matched our network. So in intermodal, it's like LTL, it's a network business. And someone can offer freight to a few companies and get wildly different pricing back, because they have different networks. They have different parts to their network that they have too much freight and too little freight in and therefore, they are less aggressive or more aggressive on price because it's more additive or less additive. So in the case of the one very large contract that we had with intermodal, that just matched our network perfectly.

Operator

Our next question comes from the line of Kevin Sterling with Seaport Global Securities.

Kevin Wallace Sterling - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Brad, let me ask you the e-commerce question in a different way, because FedEx and UPS are really trying to get these large items out of their network with massive charges they're putting on you because obviously they clog up their network and we know about 3PD and what you're opening there and the growth there. But is there opportunity within LTL? And if so, are there synergies between your LTL division and 3PD to continue to capitalize on this last mile growth, in particular heavier goods growth?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Yes and no. There're definitely synergies between LTL and last mile in terms of cross-dock capacity. So we are now starting to utilize our LTL cross-dock capacity for last mile where it makes sense to do that. That's absolutely a good thing to do and we're going to keep doing it. We're doing the same thing in supply chain, where we have a dark space that we can use and that's appropriate in the right location for last mile. So why -- at least something from Prologis got lessened, we love them, but why should we pay rent to someone else when we can already have the space ourselves and we can get it for free. We don't see, however, a lot of synergy between our truck part of the business in LTL and last mile, because it's a completely different model. In LTL, you have a single driver. You don't have teams. And in last mile, you have 2 folks, who are doing the carrying and the assembly and the installation and that's not easily done by a single LTL driver. It's almost impossible to keep high service levels and frankly to even keep the driver if we're going to ask them to go up a couple of flights of stairs and install washing machines.

Kevin Wallace Sterling - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Got you. And last question, as you know, a lot of talk about M&A obviously, but as you look at larger deals, do you have the technology bandwidth to add these deals to your platform? Or do you think we'll -- could we see a step-up in IT spending following a deal?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

We do. We do have sufficient IT platform to acquire a company or a number of companies and bring them onto our platform. So when we're looking at companies to buy, if they have mediocre technology or just average technology, that's perfectly fine with us, because it comes on to our platform and in principle it should show greater productivity once they're on our technology.

Operator

Our next question comes from the line of Bascome Majors with Seg (sic) [Susquehanna].

Bascome Majors - *Susquehanna Financial Group, LLLP, Research Division - Research Analyst*

We talked a lot about acquisitions. I wanted to think about -- from a financial perspective, would you buy anything that wasn't accretive on a free cash flow per share basis? And as you kind of think about fixer upper versus maybe a well-functioning business and maybe some of the valuation parameters implied for each. If it is a fixer upper, how long -- what sort of timeframe should we think about to achieve sort of your longer-term profitability goals for the kind of deals you're looking at?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Bascome, our goal is to create significant shareholder value from our next M&A phase. M&A takes a lot of effort, there's a lot of time that goes into it. It puts stress on the organization. There is risk involved in it, that's all fine as long as there is a big return from that. So we are not interested in doing a deal or deals that are dilutive to earnings or free cash flow. That's not going to get us a gold star. And with respect to fixer uppers, we might buy a fixer upper. We might buy a company that's functioning very well and can function even better as part of a larger company where it has synergies with us. But -- that's not determined yet. In terms of the timeframe, if we do buy a fixer upper, there's just got to be a realistic timeframe, but a very clear path like we had with Con-way, where we knew exactly what we were going to do and we just executed on that plan and it delivered the results. It has to have a very clear plan.

Bascome Majors - *Susquehanna Financial Group, LLLP, Research Division - Research Analyst*

I appreciate that. Just one last one as my follow-up on free cash flow. I mean, you took the EBITDA guidance up about $40 million over a 2-year period, I believe you held CapEx outlook flat, but the free cash flow forecast didn't move up as well. I realize it's not a huge amount on the $900 million. But is there any offset that helps with the bridge from the uptick in EBITDA to kind of steady free cash flow outlook?

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

Bascome, it's Scott. First of all, we feel very confident in our free cash flow for this year and for next year. We are generating a significant amount more free cash flow every single year, last year to this year, this year to next year. When we looked at the EBITDA after taxes and with sales up, we have high working capital investment, the difference in free cash flow is not material enough to change what was already a target that we were comfortable with.

Operator

Our last question comes from the line of Jack Atkins with Stephens.

Jack Lawrence Atkins - *Stephens Inc., Research Division - MD and Airline, Airfreight and Logistics Analyst*

So Brad, I guess, just to go back to the M&A question for a moment, because I know it's been asked a bunch, but I want to ask a little bit differently and more specifically, I guess, when you conceptually think about the goal to become a global supply chain solutions provider to global customers, can you achieve that goal without a larger freight forwarding presence? I guess, when I look at your portfolio of services, it seems like the one major mode that really lacks scale would be in freight forwarding and I would just love to get your thoughts on that?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

In the perfect world, ideally, it would be nice to have global forwarding too. If we were able to find and transact in global forwarding that makes sense from a financial perspective, we'd be open-minded to that. But life's not perfect, so we might not be able to find something that exactly matches. We have to go out and see what's there.

Jack Lawrence Atkins - *Stephens Inc., Research Division - MD and Airline, Airfreight and Logistics Analyst*

Okay. Got you. And then lastly, I guess, it has been touched on earlier in the call, but certainly we saw some tightening of the truckload market in the second half of the second quarter. From what Scott was saying in his prepared comments, things seemed to have eased a bit here over the last couple of weeks with seasonality. What are your thoughts on just the broader truckload cycle? Sort of where we are in that cycle? Just given the size of that market, it impacts so many different modes, I would love to get your thoughts on that?

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Well, I think from the macro point of view, what we're seeing in North America is an economic recovery that's industrial-led. So that's benefiting us in LTL, where a large percentage of our customers are industrial. It's benefiting us on the industrial portion of our supply chain business. It's not benefiting us much on the truck brokerage business. We're also seeing a lot of the e-commerce business growing the fastest of anybody and bricks-and-mortar retail growing, but growing very tepidly. The truckload market definitely took most people, certainly us, by surprise with the amount and the quickness that it tightened up in late May and through early July, which is a possible good sign for the economy, I'm not sure, but capacity, as you said, seasonally has loosened in the last few weeks. And if you look at Europe, economic trends have improved, consumption has increased sequentially over the course of the year. We're clearly seeing an uptick sequentially each month in end demand, especially in France following the May election. And it's manufacturing, it's retail, especially e-com, it's all growing faster now than in the first year -- first half of the year.

Jack Lawrence Atkins - *Stephens Inc., Research Division - MD and Airline, Airfreight and Logistics Analyst*

Okay, great. And then just one last housekeeping item, John I may have missed this in your prepared comments, but are there any changes to the full year interest expense, D&A or tax rate guidance from the guidance you issued after the first quarter?

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

There is not.

Bradley S. Jacobs - *XPO Logistics, Inc. - Chairman and CEO*

Thank you all for listening to the call more than an hour. We, and especially I, am going to have to practice on being more succinct. But it was a very satisfying quarter. Lots of beats and records on a slew of metrics and the future looks very bright. Have a good day. Thank you very much. Bye-bye now.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.