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XPO - Q3 2016 XPO Logistics Inc Earnings Call

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PRESENTATION

Operator

Welcome to the XPO Logistics third quarter 2016 earnings conference call and webcast. My name is Michelle, and I will be your operator for today's call.

(Operator Instructions)

Please note, this conference is being recorded.

Before the call begins, let me read a brief statement on behalf of the Company regarding forward-looking statements and the use of non-GAAP financial measures. During this call, the Company will be making certain forward-looking statements within the meaning of applicable Securities Laws. Which, by their nature, 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, or in the Investors section on the Company's website at www.XPO.com. You can find a copy the 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.

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

Thank you, good morning, everybody. Thank you for joining our third quarter 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 Investor Relations.

As you saw last night, we had a tremendous quarter. We reported record third-quarter results for net income, for cash flow from operations and for adjusted EBITDA. We generated free cash flow of $65 million, and raised our full-year free cash flow target to at least $175 million.

In Logistics, we are winning new contracts on both sides of the Atlantic, and at the same time replenishing our billion-dollar pipeline with new bids. Our North American Logistics team has traction in new verticals where we had little or no penetration before.

In less-than-truckload, we achieved stunning results by staying laser focused on execution. Our team's intensity is a big reason why on a year-over-year basis LTL operating income was up a remarkable 40% in the quarter.

Our performance is being driven by our strategy, which is to run the business in a highly-integrated way, bringing our technology, scale in leadership positions to bear to help our customers succeed. We are number one or close to number one in each of our major offerings, and we are operating in the fastest-growing sectors of the industry. The upshot is that we are delivering outside value to customers at an accelerated pace, with substantial flow through to our investors.

We are also taking company-specific actions to improve both growth and returns. Last week, we sold our asset-based truckload business to TransForce for $558 million in cash. The truck-load operation was nice but relatively small business that ranks 19th in the US.

This strategic sale is expected to increase our growth rate and improve our return on capital. It should also lessen our cyclicality, reduce our CapEx spend and strengthen our balance sheet. Between the proceeds from the sale and our opportunistic refinancing of $2.6 billion of debt in August, we decreased our expected cash interest expense by about $63 million a year.

Importantly, our profit improvement opportunities are largely in our own hands. For example, our plan to generate $1.35 billion of adjusted EBITDA in 2017 is largely based on company-specific actions that are independent of the macro. We are centralizing large parts of our procurement, deploying a highly-efficient global technology infrastructure, and locking down savings in real estate, facilities management and many other areas.

Each time we execute on a profit improvement, we get the full-year benefit of that improvement in succeeding years. That will be the case in 2017 with our many initiatives this year.

So in closing, I will reiterate what we said last quarter. We reached a positive inflection point in the evolution of our business, with a well-defined plan to meet our goals. Our third-quarter results confirm it.

Now I will turn the presentation over to John to review the numbers in more depth.

John Hardig - *XPO Logistics Inc - CFO*

Thank you, Brad.

We delivered an excellent quarter in a generally soft market. Revenue increased 57.2% to $3.7 billion. Both EBITDA and free cash flow were very strong. Adjusted EBITDA for the quarter was $353 million, net income was $21 million and adjusted net income was $50 million. These results include a full quarter from the North American truckload business we sold last week.

Our organic revenue growth was 7% in the quarter, which is an adjusted non-GAAP number. Our strongest growth was in our Last Mile and supply chain operation, both North America and in Europe. Offset by market softness in intermodal and asset-based truckload, which we've now divested.

Revenue in our transportation segment was $2.4 billion during the quarter, up 73% over last year. And adjusted EBITDA was up 172% to $253 million, primarily due to the acquisition of Conway and significant profit improvement initiatives undertaken this year. Operating income in transportation was $125 million.

Within our transportation segment, in Freight Brokerage, we increased revenue by 6.5% year over year. Net revenue margin declined to 16.3% from 20.6% last year, due to margin declines in intermodal, expedite and truck brokerage.

In truck brokerage, excluding the impact from former Conway operations, we grew volumes organically by 18% year over year, while margins were approximately 240 basis points lower from a year ago, due to lower revenue per load. Margins in truck brokerage bottomed in July, and improved sequentially into October.

In intermodal, the market remained from continued excess truckload capacity and low fuel prices. In less-than-truckload, we had another exceptional quarter. Operating income was up 40%. On an adjusted basis, excluding amortization of intangibles and integration costs, operating income increased 62%. This improvement was driven by a 512 basis point increase in adjusted operating ratio.

Revenue per hundredweight, excluding fuel surcharge, increased 4.5% year over year and daily LTL tonnage declines moderated to 5.3% in the quarter. Reductions in national account tonnage continued to be partially offset by increases in tonnage from local accounts.

In Last Mile, we continued to generate strong growth. Revenue growth was 14.5%, driven by new contract start ups, especially in e-commerce. We are the leader in this booming market, and are feeling an extraordinary uptick new business opportunities. Last Mile net revenue margin increased 50 basis points in the quarter from improved carrier utilization and benefits of our scale, as volumes increased with existing accounts.

In our European transportation operation, revenue was 2% lower than last year primarily due to changes in foreign exchange rates and lower fuel revenue. Average daily shipment volumes across Europe increased to approximately 3%, and pricing was up marginally.

Revenue growth was strong in our UK and France operations, particularly offset by a more competitive pricing environment in Spain and Eastern Europe. We have been reducing cost through operating efficiencies and procurement initiatives to offset what has been generally a week pricing environment.

Our Logistics segment had an exceptionally strong performance in the quarter. Revenue increased 35.6% to $1.3 billion, and adjusted EBITDA increased to $126 million due to the acquisition of Conway, along with strong organic revenue growth and margin expansion both in North America and in Europe. Operating income in our Logistics segment was $75 million.

In European Logistics, revenue was slightly lower than a year ago due to foreign change translation. Excluding FX, European Logistics revenue growth was very strong. Driven largely by new contract starts, notably with e-commerce and food and beverage customers.

Revenue growth was led by our operations in the UK, Italy and the Netherlands. Margins were broadly higher than last year due to our ongoing initiatives to address underperforming operations and improve overall productivity at our site.

In North American Logistics, revenue more than doubled, due primarily to the Conway acquisition as well as organic growth. Areas of strength included the e-commerce in technology verticals, while traditional retail was weaker. We grew EBITDA faster than sales by increasing site productivity, consolidating vendors and eliminating redundant support function.

Net capital expenditures for the quarter was $72 million. We are reducing our CapEx guidance for the year to approximately $450 million to $460 million, primarily due to the sale of our truckload business. Free cash flow for the quarter was $65 million, due to strong EBITDA performance, working capital improvement initiatives, lower CapEx and lower interest expense.

We raised our guidance for free cash flow to at least $175 million from $150 million for the full year. Adjusted for the sale of truckload, our new guidance is based on a $10 million to $20 million increase in our normalized cash flow from operations. This is excluding the sale of truckload which was expected to report $20 million of EBITDA for the last two months of the year. While we've not finalized our CapEx budget for next year, we expect free cash flow to step up meaningfully in 2017.

Depreciation and amortization for the third quarter was $162 million. We expect D&A in the fourth quarter to be in the range of $155 million to $160 million, including one month of D&A from North American truckload.

Interest expense was $93 million for the quarter. Given the refinancing we did in August and the debt reduction from the truckload sale, we expect interest expense to be $81 million to $83 million in the fourth quarter.

We ended the quarter with $360 million of cash and over $1 billion of liquidity. Our ABL credit facility was undrawn at quarter end.

Yesterday, we updated our prior targets for adjusted EBITDA for 2016 and 2018. For 2016, we are targeting adjusted EBITDA of at least $1.245 billion, which is status quo with the prior target after accounting for a $20 million impact from the truckload sale. For 2018, we are targeting EBITDA of at least $1.575 billion, which again is status quo after accounting for truckload.

We also issued a full-year 2017 target of at least $1.35 billion of adjusted EBITDA. This is a 17% increase over our prior 2016 target, after excluding the truckload operation for the full year.

Now I'll turn the call over to Scott.

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

Thanks.

As John said, we've been successful in outperforming in a sluggish environment by executing on company-specific SG&A initiatives, maintaining strong value-based pricing and capitalizing on e-commerce growth. In addition, over 35% of our revenue is derived from less cyclical contract logistics where we have being seeing an uptick in sales opportunities due to the trend towards outsourcing.

Over the next few years, we have a number of margin opportunities that are independent of the macro. We see a clear bridge to a 10% EBITDA margin in 2018, up approximately 200 basis points from the margin we are tracking for in 2016 after adjusting for the truckload sale.

One big area of margin expansion is procurement. We're now benefiting from centralized purchasing of temporary labor, office supplies and some other categories. We have generally gotten between a 2% and 10% reduction in pricing in these categories.

We have more RFPs currently underway that address $1.5 billion in total spend, and we have future rounds that will address an additional $1.5 billion in spend. We expect savings between 2% and 20%, it's a wide range depending on the category.

Areas such as trucks, facilities management and IT are likely to yield larger benefit than areas such as fuel and packaging. Overall, we are increasingly optimistic about our cost savings opportunity given the early results with completed RFPs.

We have a number of cost-out projects underway that are specific to our business unit. For example, we are now up to $130 million in run rate savings in the former Conway operation, against our original goal of $170 million to $210 million by year-end 2017.

The most recent cost savings have been in procurement and IT. We'll get the full-year benefit of these initiatives in 2017.

We are delivering a very successful year in North American LTL, which is now aligned with XPO's culture of accountability. We are number one in on-time pickup and delivery, and we are getting even better thanks to the most dedicated drivers and dockworkers in the industry.

We are executing the LTL plan we outlined a year ago. We continue to reduce unnecessary costs, and maintain discipline on price. We revamped the success metrics, and increased incentive compensation. We rolled out P&L's for every service center, and communicated clear objectives all while raising already high levels of customer service.

We are building on these continuous improvements by rolling out operational tools. Workload planning tools will drive productivity in the pickup and delivery operations by assigning freight to drivers in a more analytical way. We're rolling out new pricing analytic algorithms, and we are developing customized engineered standards for each service center to improve dock productivity.

We also have significant margin opportunity in our European LTL organization, where we have several initiatives in place focused on operational excellence and pricing. We are working together across the Atlantic using a similar playbook that's been successful in the US to incorporate best practices in customer service, cross-dock operations, maintenance, safety, training and HR.

We also doing a lot of exciting things in sales to continue to outpace the market. We're in the process of doubling the size of our strategic account Management Team, or SAMS, which are our most senior salespeople across the organization.

Our global scale has enabled us to attract experienced salespeople from the industry that are coming to XPO because we offer the ability to sell multiple modes. As a result, we've been seeing a big increase in top-to-top strategic meetings with enterprise customers, and that's leading to more cross selling.

80 of our top 100 customers already use us for more than one service line. Approximately 21% of the sales we generate from these customers come from secondary service lines, up from 14% a year ago.

We're generating great sales results in contract logistics. We won a number of new large deals in both Europe and North America. Our customers are selecting us because we're developing customized solutions with our advanced technology.

The warehouses we run are becoming high-tech hubs with a combination of automated systems and robotics. It's leading to important new efficiencies for customers. For example, the ability to customize products on the fly very close to fulfillment.

In North American logistics, we've closed over $300 million of new business so far this year, which included $175 million of new business won in the third quarter alone. Our win rate has accelerated to about 33% this year, up from historical levels of approximately 25%.

We are in the start-up phase on a number of new contracts that will drive growth into 2017. We won three new e-commerce facilities in the quarter, and brought them online in just 30 days. It typically takes at least six months to complete similar projects.

In Europe, we have won over EUR330 million of new logistics business through the first nine months. This growth is being fueled by our e-fulfillment platform.

We're also seeing progress with our sales efforts in North American LTL. Almost all of our other customers have LTL freight. Our sales teams are working with our customers, especially in Last Mile and Truck Brokerage to offer multiple services.

Our local sales volumes in LTL are up from a year ago, and for large customers in 3PL's we've invested in additional national account executives that are incentivized to grow profitable freight.

We also have a sales pipeline of over $0.25 billion in our North American Last Mile business that has strong ties to the e-commerce supply chain. We've closed nearly $75 million of new Last Mile business through the first three quarters.

So overall, we have a number of cost-savings initiatives that will continue to bear fruit. We're also confident that our sales will continue to outpace the market. Our strategy is paying off, and we're heading into 2017 with exciting momentum.

Operator, with that, we'll turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Chris Wetherbee, Citi.

Chris Wetherbee - *Citigroup - Analyst*

Great, thanks. Good morning, guys.

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

Good morning.

Chris Wetherbee - *Citigroup - Analyst*

Wanted to touch a little bit on free cash flow cadence as we move into 2017. John, you had mentioned that we're starting to see some strength there, and should see some inflection higher as we move forward.

The $175 million plus I think includes a decent bit of Conway costs, but could you help us bridge that? It seems like you started at $300 million-ish type of number and then moved higher for next year. But wanted to get a sense of maybe what some of those moving parts were more specifically for 2017 cash flow?

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

Sure, thanks, Chris. This is Scott. On cash flow, we had about $150 million or so of one-time expense in 2016. That will decrease significantly something less than $50 million in 2017, we'll also have higher EBITDA.

We're working on CapEx budgets today, working on it through the end of the year. We'll have a much more updated view of CapEx, but will be excluding now about an $85 million run rate on an annual basis in what we typically spend in truckload.

Chris Wetherbee - *Citigroup - Analyst*

Okay. Would you expect the sale of truckload to be accretive to free cash next year, or is it neutral? How do you think about that?

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

We think it is neutral to accretive to free cash flow.

Chris Wetherbee - *Citigroup - Analyst*

Okay, that's helpful. And then just wanted also talk about organic growth a little bit. How should we think about of revenue and EBITDA growth in the quarter on an organic basis?

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

Organic revenue growth in the quarter was 7%.

Chris Wetherbee - *Citigroup - Analyst*

And do you have EBITDA?

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

No, so we give organic growth with everything outside of Conway and in things like FX, and fuel, and that was the 7%. And then we also breakout LTL results very specifically.

Chris Wetherbee - *Citigroup - Analyst*

Okay. And one last one before I turn it over here. Just on Conway or in the LTL business, as you think about your progress relative to your target, any update to those targets? Do you think -- you're obviously making good progress towards that, how do you think about that going forward?

Is it more opportunity as you're continuing to uncover the business here? How should we think about the run rate of Conway as we move forward?

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

Well, we obviously killed it in LTL in the quarter. Operating income was up 40% apples to apples year over year. It's unusual, think about transportation in any industry to see a business growth with operating income 40% in a year.

How did we do that? Pricing, pricing was up 4.5%, and although volumes were down 5.3%, much of that was low margin money-losing tonnage that we wanted to lose.

So a year ago, we articulated a strategy of going in, analyzing our freight customer by customer, lane by lane, and figuring out where we are making money and where we're losing money. And all the places that we were losing money, we came up with plans to get it to at least breakeven. And we're not completely done with that process, but we are far along on it.

Volume and revenue was up on local accounts, which is something we're trying to grow strategically. OR improved quite a bit, 89.1% versus 92.5% last year.

What we did is we went in, we created a culture of accountability where results matter. We reduced unnecessary costs, we stayed disciplined on price, we revamped the success metrics, increased incentive -- the portion that's incentive compensation and tied that compensation to the success metrics.

Tony rolled out P&Ls for each service center, which they hadn't had previously for a few years, gave them very clear objectives of what was expected of everyone. And what I guess I'm most proud about is even though the financials have improved quite a bit, they were done while simultaneously raising the already high levels of customer service. So that was phase 1 so to speak.

And maybe those things are continuing, but what's the next phase? The next phase is, we are rolling out operational tools and technology.

We're giving a playbook across the whole network to drive consistency in our operating approach across the whole network. We're giving workload planning tools to drive productivity in P&D by assigning freight to drivers in a more analytical way, and we're rolling out new pricing analytic algorithm that's done more scientifically. We're also giving customized engineered standards for each service center in order to approve the dock productivity as well.

So I'm not going to go on because we have a couple hundred different work streams and initiatives to continue to grow the profitability of LTL. And continually, continually capitalize on our leadership position in terms of service, and continue to improve our already leadership standard of on-time pickup and delivery. So LTL is a success story all around.

Chris Wetherbee - *Citigroup - Analyst*

Yes, it sounds like lots of opportunity. Thanks very much for the time, guys. I appreciate it.

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

Thank you.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks, morning, everyone. Brad, I think you've said in the recent past that the XPO story through 2018 is not necessarily a revenue story, it's more of a cost story. But towards the end of your prepared remarks, I think you went through a pretty strong pipeline of new business that's coming up. Is that changing, and are you also becoming a revenue story in addition to being a cost story?

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

We're both stories. We're growing the top line organically. We have a very invigorated salesforce.

We're doubling the size of our strategic account managers, because there's more business than we can handle with the existing size. Doing lost of cross selling, that's resonating very strongly with our customers. If you look at our top-100 customers, 80 of them are now using -- of the top 80 of our 120 customers, 21% of them of the sales for those customers is being generated from secondary service offerings which is up from 14% year ago.

The cross-selling in our big customers is absolutely taking hold. So you see a lot of cross-selling between intermodal and truck brokerage every day. You see cross-selling between intermodal and LTL, and customers definitely want to talk about multiple lines of business.

So there is an effort to grow the business on the top line organically, but you are right, there's a bigger opportunity for just improving how the business is run. And transferring best practices across the whole organization, we have 450 or so cross stocks around the world. There's a bell curve of their efficiencies, their productivities.

We have a big effort out to get them all to the top of the curve. We have about 750 contract logistic warehouse facilities, again, we've got a bell curve, and we're measuring the best practices we've got in the top performing warehouse facilities and rolling those out to all the rest. And there's a whole slew efforts that we are doing to improve the margins to the business, to take the margins from 8% or so to 10% or so over the next couple of years.

And one of the biggest ones is procurement, so it's a cost opportunity. We've got the first wave of procurement initiatives covering $4.3 billion of global spend, and that's represented by about 80,000 suppliers.

And the plan is to reduce those 80,000 suppliers to 10,000 suppliers over the next three years, and ultimately have 2,000 suppliers accounting for about 80% of our procurement spend. So there's a big opportunity to take cost out simply from running RFP after RFP, and selecting who do we want to be our long-term strategic partners for our supplier base.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. Very helpful. And just a couple of follow ups for Scott maybe.

Scott, you mentioned that you're still working on the CapEx budget for next year, but can you just tell us if there are any big lumpy items that could meaningfully send that number up for next year that we need to keep in mind? And also, can you just confirm that the amount of the TL EBITDA that you had modeled in for 2018 was the amount by which you actually took down the guidance or was it more? And also, what that number was for 2017? Thanks.

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

On the CapEx, there's nothing right now that would say that there's a lump. The only thing we could think if we win a very large project, if they are big, big opportunities that -- we are working on big opportunities at all times in the pipeline.

Could that effect CapEx? It could, and that's why we're working on the budget. But as of now, no, there's nothing lumpy about it.

In terms of the truckload EBITDA, there's about $20 million of EBITDA expected from truckload in the last two months of the year. So the guidance is totally status quo of that. It was about $115 million a year, and we expected that to grow over the next several years. So that's what's been excluded from the guidance, so nothing has changed.

Ravi Shanker - *Morgan Stanley - Analyst*

Great, thank you.

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

Thank you.

Operator

Amit Mehrohtra, Deutsche Bank.

Amit Mehrohtra - *Deutsche Bank - Analyst*

Yes, hello, good morning. Thanks for taking the question. I just had a question with respect to the plan for achieving the $300 million in annual net cost improvement.

I certainly don't want to belittle the target or achievement, but I guess on the cost base of, call it, $14 billion, I just imagine that the cost potential could be quite a bit more than that. I was just wondering if you could talk to that?

Obviously, there's some inflation and others of the cost structure that's maybe eating into the gross savings. Just try to get a better perspective. And do you see actually the potential to maybe exceed the current net savings target? Thanks.

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

Thank you. There's a lot of work streams around cost take out and expense reduction. Procurement is clue the biggest one, and we've got RFPs going in temporary labor, and office supplies, and tractors and trailers and tires, and facilities management and real estate, and IT, and the list goes on. These are all areas that we are often largest purchaser or one of the largest customers of the vendors for these.

So we have got a certain level of price when we were a $1 billion company a few years ago. We got a better price when we were a $3 billion, and a better price at $5 billion, and a better price a year or so ago when we were $9 billion, and we're going to get a better price now that we're close to $15 billion.

So that's just axiomatic that we're going to get better pricing as a result of our increasing size. And that is the biggest chunk of the several hundred million dollar cost reduction opportunity.

Now, there's a lot of things we're working on that are completely independent to the macro, and there's some things that are either dependent or partly dependent on the macro. So the things that are independent of the macro are first of all, things that we did throughout 2016 that were layered in we'll get the full-year benefit of that next year. So we have tailwinds going into 2017 on that.

We have business unit initiatives in every single business unit. We're right in the thick of budget season, and every single business unit is coming up with ways to be more efficient. Not just in the field, but in corporate parts of the organization as well, finance, HR, IT, transformation activities taking place, and all of those increase our level of efficiency and our service and also our cost structure.

We have initiatives going in real estate to reduce our dark [space] to do better lease management, to do better facilities management. And we've got a bunch of labor productivity initiatives in many parts of our business, particularly in LTL and in supply chain. And as I mentioned before, cross fertilizing best practices.

So all those things I just mentioned are more or less independent of what's going on in the macro. Even if we went into a deep recession next year, we will definitely be buying many categories of our spend at cheaper prices.

There are other things that either dependent of quasi dependent in the macro. The cross-selling opportunity, the penetration of our existing customers.

So there's things that we control and there's things we don't control, but there's so many opportunities to improve the profitability of the Company. We have a great deal of enthusiasm about 2017 and 2018.

Amit Mehrohtra - *Deutsche Bank - Analyst*

Great. So I understand that, I guess maybe my question is that $300 million target is a net number. So it's net of just regular cost inflation in the other areas of your business.

And so the question is, is that can you give us a number? Is it $100 million to $200 million of cost inflation that you are dealing with, and so your actual cost savings are quite a bit above that so you can achieve a number like a $300 million net savings number?

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

Well the cost inflation will be nowheres near that. Cost inflation varies in the different types of things that we buy. They're usually low-single digit, they're not big amounts in this economic environment.

Amit Mehrohtra - *Deutsche Bank - Analyst*

Okay. Can I just ask you one quick one related to what you were talking about in terms of cost savings? It seems like a big chunk of what you are doing is targeting the actual cost and the actual spend, but it also seems a piece of it is also aimed at optimizing the cost structure and maximizing the operating leverage in the business when the volumes do come back. And just wondering if you can talk to that, and how you see the contribution margins evolving based on some of the cost actions that you've done?

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

That's absolutely correct. And by the way, it's not just the cost per unit reduction, which is very, very important especially here and now, but it's also the total value of the total cost of the ownership. So for example, we're absolutely reducing the costs of our trucks of our tires, and we are very laser focused on getting the right price for those things.

But we're also focused on how do the trucks and the tires get us maximum fuel efficiency? So we spend hundreds of million dollars a year on fuel. How do we get lower fuel costs by having optimal tires, optimal trucks, and the lower maintenance costs for that and training the drivers at how to optimize the breaking so that everything is flowing in a more [six sigma] way.

Amit Mehrohtra - *Deutsche Bank - Analyst*

Right. So can you help us with a number in terms of what you think the incremental margins are on the perspective revenue growth?

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

Sure, the incremental margins are in the range of 12% to 14%, but it doesn't matter on where the business comes in. So there's some parts of our business like LTL where the contribution margin, incremental contribution margin will be much higher. And there's some areas like supply chain or truck brokerage that will be lower, but it all averages into the 12% to 14% range.

Amit Mehrohtra - *Deutsche Bank - Analyst*

Okay. One nitpicky item for me is on LTL profit improvement. There was a pretty big improvement in that other line item. Just wonder if you could provide a little color so we get a sense of what maybe the moving parts were from a structural standpoint? Thank you.

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

Other operating expense in LTL? The biggest decrease in that year over year was technology. We took out a lot of costs from the technology infrastructure, and there was a lot of different items including claims, professional services, T&E and some other scattered items that were much smaller amounts.

Amit Mehrohtra - *Deutsche Bank - Analyst*

Okay, great. That's all for me, thanks, guys. Appreciate it. Good quarter.

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

Thank you.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks, good morning, and congratulations on your truckload sale and the strong quarter. I'd like to just start off talking on LTL. Obviously, another mid-single-digit yield increase adjusted.

It's very strong. It was sequentially down from the improvement you had in the second quarter. So if you could just address, one, the seasonality and maybe comps you have as you go into fourth quarter, and your progress in your customer conversation? Thanks.

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

Sure, Scott. Thanks very much, it's Scott. So there is seasonality in the business when you look from second quarter to third quarter, the biggest increase is sales, wages, employee to benefits.

That is the merit increases that we incorporate in the middle of the year, so that's the typical seasonality from 2Q to 3Q. 3Q to 4Q, you tend to see a much lower amount sales because, especially the back half of December things really fall off, and you'll see a higher OR. So the improvements year over year will still be significant, but certainly the OR will be much higher than it was in the third quarter.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. And just on progress on conversations with your customers there and repricing?

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

It's going well, a large amount of those are already behind us, Scott. Those conversations have gone smoother and smoother as the last year has progressed.

When we first bought Conway, a lot of customers were concerned about what we're going to do. They were concerned of will we improve service or not, and now a year has gone by and people see not only the service great, it's greater than it was. On-time is better, damages are lower, everything is going wonderful, so that was very big relief and encouraging to customers.

On price, yes, we have been taking price, and we're taking price because that's what the market is doing. The market is very different than it is in truckload. It's loose in truckload, it's tight in LTL, and the right thing to do is to charge the right price, the fair price, that reflects the high level of service that we do.

So there's very few companies, you can count them on less than one full hand that can provide the level of service that we do in LTL. The on-time pickup, the on-time delivery, the low levels of damage.

So this is worth something more to a customer than someone who doesn't have the most next-day and two-day lanes, maybe it's someone who doesn't have a network that covers 99% of all the zip Codes. So we've been capitalizing on price, but customers are okay with that by and large because they're getting something better for it.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks. And just Last mile, very strong, continues to be. Curious about the pipeline, both North American and European with what you're seeing there, and maybe some discussion of what you've won recently?

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

Last Mile was the best performer in the Company this quarter in terms of growth. Revenue was up about 15% in Last Mile. That was a combination of new contract start ups, especially in e-commerce.

We had much higher shipment volumes in general. We did have lower fuel revenue. Overall, I would look at Last -- I'd characterize Last Mile as a booming market, where we are the clear market leader and growing faster than an already fast-growing market.

So there's an extraordinary uptick in new opportunities in Last Mile. Net revenue margins are up 50 basis points in Last Mile.

Specifically to your question about the sales backlog and the sales closings, we closed $80 million in Last Mile in the first nine months. Today, there's a record sales pipeline over $0.25 billion, that's the most pipeline the pipeline has ever been. So Last Mile is growing very, very strongly.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

That's good, thanks.

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

Thank you.

Operator

Brian Ossenbeck. JPMorgan.

Brian Ossenbeck - *JPMorgan - Analyst*

Hey, good morning, thanks for taking my call.

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

Morning.

Brian Ossenbeck - *JPMorgan - Analyst*

So just going back to free cash flow for a second. If you could just give us a sense on how you payed down a decent amount of debt? What's up next from a retirement perspective?

You've got some 7.5%s due 2018, I think, but I believe there's make whole provision in there. So when you get to free cash flow, you're going to have lowered cash interest expense. So just curious to see how much debt retirement can play into that growth as to look into 2017 and then into 2018?

John Hardig - *XPO Logistics Inc - CFO*

Sure, this is John Hardig speaking. You are right, out next major maturity will be those 2018 Conway bonds. They do have a 7.25% rate, and they have a make whole provision on the call feature.

So they are very expensive and somewhat uneconomic to call those. So that will be the next big event that we have. Obviously, we have reduced our cash interest by about $60 million a year with the paydown that we did with the proceeds of the truckload sale and the refinancing in August. So that's going to be a good tailwind next year and into 2018. We will look to pay down debt with excess cash as we go, focusing mainly on the term loan which is something we can prepay with no penalty and has a higher rate than [VBL].

So now we're in a position, we are in a phase in the Company in the evolution of the Company where we are generating positive free cash flow and increasingly large amounts of free cash flow. We can use that cash flow to pay down debt, although we've just pay down a bunch of debt and the debt level we have now is extremely manageable and very comfortable.

We can use that cash for stock buybacks at some point if we want to. We can use that stock -- we can use that cash for dividends as well. It's a nice position to be in where we're generating free cash flow, and increasing higher levels of free cash flow.

Brian Ossenbeck - *JPMorgan - Analyst*

Okay. Thanks for the color on that. And the other thing that's just helping cash flow a little bit here has been I think averaging like $20 million of assets sales for the last five or six quarters.

Can you just give us some detail on where that is coming from as you continue to imagine it? It seems like it started when you brought Conway in house. Is that something that you would expect to continue into next year?

John Hardig - *XPO Logistics Inc - CFO*

Yes, it's John again. So every year we're going to have some equipment sales. Generally, we keep our LTL fleet until end of life, so there's not a lot of LTL equipment being sold.

But we do turnover the truckload fleet in Europe, and we run that fleet on average about 3 to 4 years, and so every year we're going to have some sales related to that. We didn't have as much North American truckload sale this year, and then of course we've sold that business now so there won't be any of that going forward. But generally, we have a little bit of that every year.

Brian Ossenbeck - *JPMorgan - Analyst*

Okay.

John Hardig - *XPO Logistics Inc - CFO*

And we guide to net CapEx which is net of the sale. We have to go back -- FX, yes.

Brian Ossenbeck - *JPMorgan - Analyst*

Right, okay. So I guess the last one is just a small one. One the drainage side, just wondering now that Hanjin bankruptcy is a few months old, is there still stranded containers chassis that you're really having to deal with in day-to-day operations, or is that more of a non event now? Or was it really even an impact to your business line the first place?

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

Hanjin was a small non-material impact overall directly, but it did tighten up the markets in some locations. Like LA is very tight right now, you're seeing some tightness in the Midwest, LA, the rest of the country is a little bit more loose. But I think that some of that tightness had to do with Hanjin.

Brian Ossenbeck - *JPMorgan - Analyst*

All right. That's it for me, thanks for your time.

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

Thank you.

Operator

Allison Landry, Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

Hello, good morning. Just wanted to dig into the contract logistics business in Europe for a second.

I know this was one of the first times that we saw a gross margin decline year over year, and I know there was a lot of FX involved in that. Just wondering if it's dragging EBITDA at all, and how we should think about that impact going into 2017? I guess what I'm asking is should we expect to seek European contract logistics support EBITDA growth into 2017? Thank you.

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

European logistics has gone extremely well. The growth has been very strong, and excluding FX, the growth was in the high-single digits.

About half of our European logistics business is in British pounds. We're fully hedged on currency for the euro and British pounds through 2018, so over two years out, but that hedge is on EBITDA it's not on revenue. So you'll will see the impact on revenue for the next -- of currency.

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

Contract logistics, here in North America contract logistics in Europe are very similar in some ways, and a little bit in some ways too. So here in the states, we have 10 different verticals that we do business across. Omni-channel retail, aerospace and government, automotive, industrial, technology, food and beverage, chemical, healthcare, energy, agriculture, CPG, consumer packaged goods, and it's spread out through those different verticals.

In Europe, we also have many verticals but we are particularly strong in two things, e-commerce and cold chain. And fortunately for us, at this part of the cycle and this time in life, e-commerce and cold chain are doing very, very well. And because we are leaders in [equal filmage] and because we are leaders in the cold chain, business comes to us. We're on the list for every RFP, and customers want to do business with the leader.

Allison Landry - *Credit Suisse - Analyst*

Okay, great, thank you. And back to North America, just wondering if you could share with us, number one, how much of LTL today is tied to e-commerce?

And I guess thinking about growth in LTL volumes going forward, how much of a volume increase could you handle with the number of service center doors that you have in place today? That would be very helpful, thank you.

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

It's interesting, it's hard to measure and quantify that very carefully. But our general sense is the amount of e-comm business we are getting in our LTL is something around 10%, but that's not a scientific very validated bottoms-up number. That's anecdotally how it feels.

You remember that in LTL, most of our customers are manufacturers and industrial companies, so it's less of an e-comm trend there than there is in say our Last Mile or supply chain, but we are dealing a lot with retailers. Now long term, there is a hypothesis there is a school of thought that says that e-commerce will benefit LTL as the fulfillment centers continue to proliferate closer to urban areas and you have these shorter supply chain differences, and much of that will go LTL.

Allison Landry - *Credit Suisse - Analyst*

Okay, great, thank you.

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

Thank you.

Operator

Brandon Oglenski, Barclays.

Eric Morgan - *Barclays Capital - Analyst*

Hey, good morning, this is Eric Morgan on for Brandon. Thanks for taking my question. I just wanted to follow up on core growth.

I think to get to the $15 billion of revenue next year, that's like 6% or so top line. And I just -- I know you mentioned a lot of new business in cross selling, but just want to get a better sense for your confidence in that type of outlook? Maybe if you could just walk us through the components of how you get there, and what your macro assumptions are?

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

So, it probably won't be $15 billion, we're probably closer to a little over $14.5 billion, $14.6 billion, we'll round to $15 billion, but I don't think it will be $15 billion. Remember, we've sold truckload, so that took out $535 million or so of revenue, so we're entering in the year now at about $14.1 billion ish of revenue. So maybe revenue will grow circa $0.5 billion and that will get us up to a little over $14.5 billion, that's the general neighborhood of what the revenue expectation is for next year.

Eric Morgan - *Barclays Capital - Analyst*

Okay. And could you just comment a little bit on what the macro risk is there? What your assumptions are for GDP on industrial side, consumer side?

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

So we do have some risk. We're not completely 100% independent of the macro. So for example in our LTL business, our industrial customers have been having a very difficult time the last almost two years.

Nevertheless, we've been able to grow the profitability of that business, and increase already high level service levels. So there's ways to adapt to a market that's in a funk, which is what LTL has been.

If retail business is soft, which it has been by the way recently, that doesn't help us, that hurts us. That's a bad guy not a good guy. But because we have the e-commerce present that even though the bricks-and-mortar business maybe soft, the e-commerce coming from retail goes up.

There's different geographies that we're in, we're in 34 different countries. So the point want to make is, part of our strategy has been to be very well diversified, well diversified by geography, well diversified by type of customer, well diversified by service offering. And because of that diversification, there will always be some parts of the business doing better than others and vice versa.

So taking into consideration all the puts and takes, assuming the economy is roughly the same as it is right now, a global GDP of in the neighborhood of 2%. I think the numbers we've put out there make a lot of sense and are very achievable.

Eric Morgan - *Barclays Capital - Analyst*

Okay, I appreciate that. I did just have one quick one on cash flow. In the prepared remarks, I think you mentioned some working capital initiatives. If you could just elaborate on what you're doing there, and how that might play out next year?

John Hardig - *XPO Logistics Inc - CFO*

Sure, we've been working hard on working capital, we're really going after both DSO and DPO. We've built a team around that to look at the Company globally, measure those items the same way across the whole Company. And do things that are really basic blocking and tackling, paying your vendors when the payments are due, not paying them early, managing those terms as we're going through an entire procurement initiative where a lot of the contracts with vendors are being renegotiated and renewed over the next 12 months.

Every time we do that, we're going to be looking at the payment terms on those very, very closely, and then just having a rigor and a process around collecting from customers, and making sure we're going after that very aggressively. So it's not any rocket science, it's basic blocking and tackling, but something we're very focused on.

Eric Morgan - *Barclays Capital - Analyst*

All right, thanks for the time.

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

Thank you.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

Hey, good morning, guys, thanks for the time.

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

Good morning, Jack.

Jack Atkins - *Stephens Inc. - Analyst*

So the CapEx guidance, it's not CapEx I think the mid point of the guidance reduction there was $32.5 million. Is that all tied to the truckload business, John, or how should we think about the other moving pieces there?

John Hardig - *XPO Logistics Inc - CFO*

The vast majority of that is tied to the truckload business.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Got you.

John Hardig - *XPO Logistics Inc - CFO*

Over $25 million of that is truckload.

Jack Atkins - *Stephens Inc. - Analyst*

$25 million truckload, okay, great. And then we've seen a couple of press releases from I think the Teamsters announcing some individual terminals and was just the facilities where they've had both reunionization. Could you maybe talk about how widespread are they targeting your organization, and then are you going to have to make any concessions on the comp or benefits line to maybe [warrant] that effort on their part?

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

Hey, Jack, this is Scott. The Teamsters, they win a small amount of cherry-picked elections. We think the total numbers will be immaterial.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. I don't think I heard you comment on October tonnage and pricing trends in the LTL business. Could you maybe give us an update on what you've seen so far in the fourth quarter?

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

So far, the trends in LTL on a year-over-year basis on tonnage have improved. Pricing continues to move up, but on a year-over-year basis the comparisons get a little more difficult. So you'd start to see a moderation on both price and volume.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Could you quantify that at all or are you (multiple speakers) numbers?

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

It's like a point on price point on volume in both the ways.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, and then last question and I'll turn it over. On the currency impact you talked about the top line impact. I believe you said that you are hedged on the EBITDA through 2018.

How would that flow into the P&L? Are you getting any benefit from a margin perspective? I'm just trying to understand how the currency hedges flow through the P&L. I guess would be specifically in the logistic business where we're seeing that?

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

Well, we have hedging contracts, Jack against our EBITDA. So we've hedged EBITDA, as Scott said, and not revenue. So that's the way they work, and it's basically an offset in our SG&A related to those hedging arrangements that we have with investment banks.

So we have -- it's a mix of options and forwards, and those mature every month based on the amount of EBITDA we expect to generate in those currencies that month. And as those contracts expire and pay out or don't pay out, then those would hit the SG&A line.

Jack Atkins - *Stephens Inc. - Analyst*

So would that would be in the other SG&A line then in the logistics segment? Just wondering why that particular line had a such a significant decline.

John Hardig - *XPO Logistics Inc - CFO*

It actually it's below operating income, so in a mix of there's a foreign currency adjustment line that's below operating income in an other line. It will be in a mix of those two lines on the P&L.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Thank you again for the time.

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

Thank you, Jack.

Operator

Todd Fowler, KeyBanc Capital Markets.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Great, thanks, and good morning.

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

Todd, first of all, I owe you our sympathies. I know this is a tough morning for you.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Brad, I appreciate you saying that. It was definitely a late night, it was a fantastic game. I'm a little bit tired this morning, but it's a reminder of what it's like to be in Cleveland.

We were brought back to reality. But I feel good that the Indians were able to take the Cubs the distance and then a little bit. So it was a good season, and looking forward to next year.

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

Good attitude.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

I've been conditioned to say that over 40 years. So I guess wanted to spend a little bit of time on contract logistics. The results there were pretty strong here this quarter.

How do you think about the margin profile of that business longer term? To me what it sounds like when you're talking about the cost savings piece, that it seems like more of the cost savings is maybe more concentrated outside of contract logistics.

The gross margins on and EBITDA basis are getting closer to where you're company target is. In contract logistics, what is the longer-term margin, and how do you see some of the cost opportunities in that business going forward?

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

So our strategy in contract logistics has never been to grow margins, it's to grow the business. It's to charge a fair price for the very sophisticated high-technology solutions that we bring to bear. But it's not to grow margin, it's to grow the top line and have a fair margin.

Margin could be actually even slightly down, but that's not the focus. It's a not margin story.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. So a lot of the things that you're talking about on the cost side and some of the leverage pieces is really more focused outside of contract logistics and this is going to be more of a top line and revenue piece for this segment?

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

Yes, there is some cost-savings opportunities and initiatives in contract logistics. There's the vendor rationalization, it's getting better rates on temporary labor, it's getting a tighter facilities management. So there definitely are cost control initiatives in contract logistics, I don't want to give you the wrong impression.

But our strategy has not been to push on price, our strategy has been to maintain price and grow volume. And by the way, I'll give you one example -- and they're grow -- in our contract logistics both in Europe and in North America, the top line growth is growth initiatives are working. I'll give you just one example.

We've won three new e-comm facilities from one customer who previously would really not give that all to one customer, particularly right before the peak season, like Christmas season, so the holiday season. So they gave us all three to us, and we've brought them all up in 30 days. That's a process that usually takes many months, so I'm very proud of what we are doing in contract logistics both here and in Europe. Okay. No, that helps. I know that you're always mindful on the open, so I'll ask just two quick ones.

What's the expectation for the pipeline in Last Mile? Realistically, how much growth can you take on in that business a short period? I understand it's large pipeline.

Can you monetize a lot of that a short time period, or is that something that comes in over the course of a couple of years? And then my second question would be, John, the interest expense that you gave for the fourth quarter, is that right run rate for 2017 or does that step down based on the debt pay down from the sale of North American truckload?

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

Scott, this is Scott. I'll answer the first one, and then I'll turn it over John for the interest expense.

On Last Mile, our business was very scalable. As our non-asset base we have a very good network of contract carriers that we can scale up with. We generally are growing in the 15% type of range a year, but there are some very large contracts that could come through that could take that type of growth rate materially higher and we'll have to see how it goes.

John Hardig - *XPO Logistics Inc - CFO*

Yes, on the interest question, the full-year interest for next year, we're looking at about $310 million to $320 million. Of that, about $15 million is non-cash. So that will give you a sense of what a full-year run rate is after the sale of truckload and the refinancing in August.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. Very helpful, guys, I have got to go get another cup of coffee right now.

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

Thanks a lot.

Operator

Tyler Brown, Raymond James.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Hey, good morning, guys.

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

Morning, Tyler.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

John, will the sale of truckload result in a loss in Q4 versus the tax space? And if so, will that help your NOLs, and when should we expect you to become more of a full-cash tax payer? Just ballpark.

John Hardig - *XPO Logistics Inc - CFO*

Yes, thanks for the question. There will be no gain or loss from a tax perspective on the sale of truckload.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Okay. So no change in the cash tax status from that?

John Hardig - *XPO Logistics Inc - CFO*

That's correct.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Okay. Scott, can you just help us build the EBITDA bridge from the $1.245 billion to the $1.350 billion next year? It sounds like the big puts are savings on procurement, additional LTL savings, maybe some modest organic growth, but the takes will be the loss from the truckload EBITDA. Just hoping you could give us some more details on the size of those buckets, and maybe how we get there outside any change in the macro?

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

Sure, our EBITDA excluding truckload is somewhere in the range of $1.15 billion in 2016, so that's taking out truckload. We will get the benefit of the things we already completed in 2016 fully in 2017.

We have the procurement. We have the business unit initiatives that we talked about. We have some back-office efficiencies.

There's real estate, and Brad was talking about the dark-space reduction. Lease management, renegotiating and then facilities management.

We have organic growth that we've talked about in the mid-single digit. And then there's a lot of labor productivity initiatives, like we're rolling out new software in Europe which tracks our employees through the day so we can come up with a plan that makes them more efficient, and then we have cross-fertilization of best practices that we talked about. Especially in LTL on two sides of the ocean.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Okay, yes. So it sounds very idiosyncratic though, it's really not dependent ultimately on the macro changing much?

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

That's correct.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Okay. All right, thanks, guys.

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

Thanks, Tyler.

Operator

There are no further questions at this time. I would like to turn the call back over to Mr. Jacobs for any closing remarks.

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

Thank you, operator. So this was a great quarter, and we reported record third-quarter results for net income, for cash flow from operations, for adjusted EBITDA. We generated free cash flow $65 million, we raised our full-year free cash flow target for this year to at least $175 million, LTL operating income up 40%.

We completed the strategic sale of truckload to increase our growth rate, and improve our return capital. We've got a super invigorated sales organization globally. We have got a whole host of company-specific actions that are independent of the macro, especially in procurement. We'll be going into 2017 with full-year's benefit of the profit improvement initiatives that we've layered in throughout 2016, and we introduced a new 2017 EBITDA target that's up 17% over 2016's pro forma numbers.

So great quarter, congratulations to all of our employees and thank you to our customers. Have a great day, and talk to you next quarter. Bye-bye now.

Operator

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