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XPO - Q2 2015 XPO Logistics Inc Earnings Call

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PRESENTATION

Operator

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

(Operator Instructions)

Please note that this conference is being recorded. Before the call begins, let me read a brief statement on behalf of the Company regarding forward-looking statements and the use of non-GAAP financial measures.

During this call, the Company will make making certain forward-looking statements within the meaning of applicable security laws, which by their nature involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the forward-looking statements. A discussion of factors that could cause actual results to differ materially is contained in the Company's SEC filings.

Forward-looking statements in the Company's earnings release or made on this call are made only as of today, and the Company has no obligation to update any of these forward-looking statements, including its outlook, except to the extent required by law.

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

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

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

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

As you saw from the strong results we reported last night, we're continuing to grow the Company at a fast clip. We more than doubled our gross revenue year-over-year. We grew net revenue by more than four times. And we increased EBITDA more than fivefold; so some very strong growth.

Our acquisition of Norbert Dentressangle was the big news in the quarter. We bought a well-established company with long-term customer relationships. These are blue-chip companies that are a Who's Who of European business.

The Norbert integration is exceeding expectations. Our teams in the US and Europe have been working together closely and the rebranding to XPO Logistics is moving along quickly. Our team is doing a great job at taking a decades old culture that was focused on stability and excellent customer service and adding an additional focus on growth.

On the M&A front, we have an active, two-pronged pipeline of attractive acquisition prospects on both sides of the Atlantic. We have over $1.7 billion in available capital, including about $1.2 billion in cash, and an undrawn $415 million ABL facility. Last night we shared our target for full-year [2015] revenue of $23 billion and EBITDA of $1.5 million. We expect to grow organically at a rate of about 9.5% annually.

Our world view is the same today as it was in 2011. The global transportation and Logistics industry is the last large industry that is still not consolidated but should be. Our plan is to continue to capitalize on this trend for the benefit of our shareholders and customers as the industry evolves. Our team has put together a highly integrated platform that has a lot of growth potential embedded in our lines of business.

Now that we have achieved critical mass on a global scale, we have a huge opportunity to grow the business not just organically but also by acquiring complementary companies. Today at $9 billion, we have a tiny piece of the transportation and Logistics pie. And even when we're a $23 billion Company four years from now, we will still have a small share of the global spend.

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

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

Thanks Brad. We increased gross revenue in the quarter by $635 million or 109% year-over-year. Our results included 22 days of the Norbert acquisition and one month of Bridge Terminal Transport. $429 million of the $635 million increase came from the operations of Norbert and BTT.

Adjusted EBITDA was $80 million in the quarter, up 465% from last year. The increase was due to acquisitions, organic growth and margin improvement. The acquisitions of Norbert and BTT contributed $34 million of adjusted EBITDA.

Organic revenue growth Company-wide was 4%, or 10% excluding the year-over-year decline in fuel revenue. Gross revenue for our transportation segment was up 48%. The acquisition of Norbert added $186 million of transportation revenue in the quarter.

Net revenue in our transportation segment increased on a year-over-year basis by 59%. Transportation net revenue margin was 22.5% versus 21% in the prior-year quarter. The increase in margin was due to the improvements we made to our Last Mile operations, expansion of our North American truck brokerage margins, and the acquisition of Norbert.

In our North American truck brokerage business, despite a tepid truckload market, we drove strong year-over-year volume growth, and increased net revenue margins by 100 basis points. In Last Mile, the demand for home delivery of heavy goods continues to snowball, primarily driven by e-commerce sales. We won several large Last Mile awards this quarter, eight in June alone.

Revenues and margins have been on a nice upward trend in the Last Mile since late last year. Our Expedite business had another strong quarter. Some of the freight caught up in the West Coast port slowdowns spilled over into April and automotive production activity remained robust throughout the quarter.

Our Logistics segment continued to perform well in the quarter. In North America, we drove higher efficiency in our operations, while activity at our core customer sites continued at a strong pace.

We won several new contracts during the quarter that will contribute to revenue later in the year. Many of these were the results of cross-selling efforts with our transportation team. The acquisition of Norbert added $35 million of North American revenue to our Logistics segment in the quarter.

In corporate, second-quarter SG&A expense increased to $57.4 million from $50.1 million a year ago. Corporate expense included $39.8 million of one-time transaction expenses related to acquisitions, and $2.5 million of rebranding expenses. Excluding transaction, integration and rebranding costs in both years, SG&A increased only 4% year-over-year, reflecting strong cost control.

Corporate expense this quarter also included $1.9 million of non-cash share-based compensation expense and $1.4 million of litigation costs. Capital expenditures for the quarter were $31 million. Our net CapEx estimate for the remainder of the year is $90 million to $100 million.

Depreciation and amortization for the quarter was $56 million. We expect DNA for the third quarter to be in the range of $105 million to $110 million, including a full-quarter contribution from Norbert. Net interest expense was $36 million for the quarter. Interest expense included $9 million for debt commitment fees related to the Norbert acquisition.

We expect interest expense to be in the range of $58 million to $62 million in the third quarter, given our current capital structure. Our effective tax rate was an 11% benefit in the quarter. At the end of the quarter, we had $205 million of federal tax NOLs and we expect an effective tax rate of 18% to 23% in the third quarter.

I'll turn the call over to Scott then we go to Q&A.

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

Thanks, John. I'll start with the macro picture.

North America is continuing to grow at a moderate pace; transportation capacity remains relatively loose. And as a result, we've been able to increase our margins with lower purchase transportation costs. We expect to see demand pick up as the retail season kicks off, starting with back-to-school.

Within transportation, in North America we are especially excited about the Last Mile opportunity. Our Last Mile volumes have been solid with existing customers, and we expect to accelerate our growth with some new wins in e-commerce that will be ramping up. We're also working on securing some very large multiyear Last Mile contracts that we are uniquely qualified to handle.

In Europe we are consuming to see signs of economic improvement, especially in Spain and the UK. Over the last few weeks we met with a few dozen of our top European customers, and they say they're more optimistic about the macro environment now than they have been in years. These same customers gave us glowing descriptions of our customer service. Norbert was a company that, for 36 years, was focused on giving stellar customer service.

We will keep that strong focus on the customer, while accelerating our sales efforts and driving growth. We see a lot of opportunity to scale up our European operations by adding more salespeople, adjusting incentive compensation, and giving our employees the benefit of a common CRM technology.

We're excited about our e-fulfillment business that is taking off in Europe. And will install our proprietary Freight Optimizer technology to build on the more than EUR1 billion of brokerage business that we currently serve.

Many of our European customers are interested in high quality Last Mile Logistics. Europe has not developed its heavy goods home delivery as much as North America has, and there's a lot of room to improve customer satisfaction levels. It's a fragmented landscape with a lot of regional providers. There's a concrete opportunity for us to apply our technology and expertise and develop the Last Mile sector for heavy goods in Europe.

Our European operations have adopted the XPO Logistics brand with enthusiasm and the transition is going very smoothly. The XPO name is making its way across Europe. We had a high profile at the Tour de France, for example.

Our social campaign has taken off. It's with the hashtag we are XPO. It's being rolled out on our trucks and in print ads.

Even though the Norbert acquisition is just eight weeks old, we've already had our first big cross-selling win between North America and Europe. We will be opening an important e-commerce facility in Pennsylvania to serve the US footprint of an international fashion retailer.

This is a company that is a top-10 customer of ours in Europe where they have a big presence and they've been growing quickly in the US market. This is just one example of many opportunities where we can leverage the strong track records of both our European and our North American operations.

Our other acquisition in June was the drayage provider BTT, which came on board on June 1. Since then, the operations have been performing very well. Drayage capacity is in demand and our customers now have access to a larger network.

We're consolidating our facilities and increasing our lane density while eliminating costs. We are also sharing best practices across our drayage network, especially in recruiting and retaining the owner- operators in our system. Since we announced the BTT acquisition agreement, and just in May, those operations are up over 100 trucks.

In sum, we have delivered a strong first half of the year and will continue to push the pace on our many initiatives for growth. Employee engagement globally is off the charts high. We have a clear line of sight to $625 million in EBITDA on a run-rate basis by the end of this year, and we have a well-defined plan to grow to 2.5 times that amount over the next several years.

What that, operator, we'll turn it over to questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Rob Salmon, Deutsche Bank

Rob Salmon - *Deutsche Bank - Analyst*

Thanks, and appreciate you guys taking my question here. A little bit more clarification in terms of the longer-term guidance. Could you give us a sense in terms of what is embedded from a bottom-line leverage perspective from organic growth and what sort of acquisition assumptions regarding the price -- regarding the profitability of those companies and how that is playing into revenue and EBITDA that are growing at a very similar CAGR over the next several years?

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

Thanks, Rob. It's Scott. The assumptions embedded in the targets are organic growth over the next several years of 9% to 10% on the top line. It's important note we will grow EBITDA at a faster rate than that. For instance, in these quarters -- in this quarter and in 2015 we grew 10% organically ex-fuel this quarter and our organic EBITDA is more in the 40% to 50% range right now.

There are certain times we're getting a lot of leverage, but over the next several years we should expect 9% to10% organic growth on average. Some quarters above that; some quarters below that, but, in general, 9% to10%, with EBITDA growing at a faster rate. On top of that, we will deploy $5 billion in capital towards acquisitions. That $5 billion in capital will come from the existing cash we have on the balance sheet of $1.2 billion, plus free cash flow over the next several years, and then debt as we keep our leverage in the 3.5 to 4 turns of net debt to EBITDA.

Rob Salmon - *Deutsche Bank - Analyst*

Thanks. That's really helpful. As you think about that 9% to 10% organic growth rate, how much of a roll do you feel the freight markets are playing into hitting those targets? For example, if the economic backdrop gets softer, would there be an opportunity to use more leverage from the M&A standpoint to get to the top line targets you guys are hoping to achieve?

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

The macro environment does matter. We factored in relatively low growth of 2% to 2.5% GDP growth in both North America and in Europe. Right now in the euro zone we're growing much faster than that in the areas that we are exposed to.

The biggest areas we're exposed to are Spain. We do business in the UK and in France and Spain we're growing 3.5% to -- GDP is growing 3.5% to 4%. The UK is growing relatively in line with those levels. On a blended basis, the Euro zone is growing at a faster rate than US is. We factor into our estimates is 2%, 2.5% GDP for both. It will impact our revenue growth what that economic growth is.

In terms of leverage, we don't want to stay at, for any prolonged period of time, more than 4 turns of net debt. We will for certain acquisitions on a temporary basis and then figure out ways to delever quickly, either through growth or through fundraising, but in general we will look to keep that leverage at 4 turns and below on a more sustainable basis.

Rob Salmon - *Deutsche Bank - Analyst*

Perfect; thanks so much for the time.

Operator

Kevin Sterling, BB&T Capital Markets.

Kevin Sterling - *BB&T Capital Markets - Analyst*

Thank you. Good morning, gentlemen. Brad, help us -- your 2019 targets of $23 billion and $1.5 billion in EBITDA. Can you help us with the road map to get there? And then what I mean by that is as you think about XPO and the platform, what services do you need to add, what holes do you need to fill in? Maybe what are you missing?

You also mentioned a two-pronged M&A approach. I assume that means both global and North America. So maybe you could expand on that a little bit more too.

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

Okay. Thanks for the question. Let's back up for a second and start with who we are and then what we are evolving into. Who are we, in respect to the questions you asked, are we're roughly 50% of our profit comes -- when I say profit, I'm talking about EBITDA coming from North America. We're roughly 50% of our EBITDA coming from Europe, plus or minus.

We're roughly half of our EBITDA coming from contract Logistics. We're roughly half of our EBITDA coming from transportation. And we break out transportation comprised of Last Mile, intermodal truck, Expedite. We have a fairly balanced mix right now, both geographically and service line.

Now, long-term, to answer your question, I think we will be -- have a business mix that is more reflective as we get into the tens and tens of billions of dollars of the end markets. When you look at those different end markets, some are much larger than others. So Contract Logistics is a much, much bigger market than, say, Expedite, for example. You would expect us to be much bigger in Contract Logistics than Expedite when we're at $20 billion, $30 billion and $40 billion.

When you look at Last Mile, we're the leader in Last Mile by a long-shot. And we've made a lot of investment in that in order to get that status. We're going to grow that organically very, very, very fast, both here and in Europe, but you're not going to have the opportunity there to grow by acquisition because neither here nor in Europe do you have large Last Mile companies to buy. So that's an organic grower.

Intermodal is a question mark here in the United States because there's only a very few number of sizable acquisition candidates and they may or may not be very ripe to buy at the moment. It's unsure what our path is going to be on intermodal but -- in the United States, but surely in Europe there is no big intermodal company to buy because there is no big intermodal industry. The rail infrastructure is not as advanced there as it is here.

That is kind of the lay of the land as we're seeing it. Does that get you where you need to go?

Kevin Sterling - *BB&T Capital Markets - Analyst*

It does; thank you. That is very helpful. I really do appreciate that additional color. Let me touch on some of the recent acquisition activity in the space. Now we see UPS dipping their toe in the water. From a multiple perspective, are you seeing some multiples get stretched somewhat, maybe particularly domestically?

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

No. We obviously saw the UPS [Cowty] transaction. It looks like a really exciting transaction. But in terms of the way it affects the rest of the world, I haven't seen an effect on multiples or on seller expectations or on anything in the M&A world.

Kevin Sterling - *BB&T Capital Markets - Analyst*

Okay. Thank you. And one last question here. It sounds like some of your European customers now with the Norbert acquisition are asking for your help with growth opportunities in the US. One, is that a right read? And, two, maybe this cross-selling opportunity, is it a little bit better than what you initially thought when you first bought Norbert?

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

That is an absolutely correct read. That is a right read. There are -- we just came back from two trips to Europe in the last month and we met with dozens and dozens of customers.

There is a big buzz about XPO in Europe because we came out of nowhere and no one had heard us and suddenly we're all over the place. We did a big ad campaign; we met lots of customers and a lot of activity about -- around the name XPO in Europe right now. There is absolutely a big receptivity and willingness and desire with the top European customers we inherited through the Norbert acquisition to also do business with us in the United States. It's clear unequivocally black-and-white what is happening.

And we already have, even though we've only owned Norbert less than two months, we already had our first big win in Contract Logistics where a big Spanish retailer -- Spanish-based retailer, it's a global retailer, very large company, that has a growing -- small but growing presence in the United States, they only have about 50stores now, but they will have more. And they have a growing Internet presence. We've already signed a contract with them to open up a facility in Pennsylvania to do their e-fulfillment.

That's a customer that is a top-20 customer for us in Europe and I expect that's going to be a top-20 customer for us eventually here in the United States. That is just one example. Lots and lots of discussions going on.

The other way -- very interesting trend. In the customer meetings we've had, the big topic seems to be Last Mile in Europe. There is no very advanced last mile industry like there is in the United States. There's a lot of regional players. It's different players in different parts of the continent in the UK. And the level of customer satisfaction with Last Mile heavy goods delivery is lower in Europe than it is here.

So we have a big, big demand from customers in Europe to take our Last Mile expertise and technology that we have here and cross-fertilize it, bring it over to Europe and we have many customers who want to give us a trial test and see how it works. It is something very exciting.

Kevin Sterling - *BB&T Capital Markets - Analyst*

Thank you, Brad. That's very helpful. Congratulations and best of luck and you've come a really long way since I first met you a few years ago in Buchanan, Michigan, so best of luck to you.

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

I remember that meeting.

Operator

Chris Wetherbee from Citi.

Chris Wetherbee - *Citigroup - Analyst*

Thanks. Good morning, guys. The question on the long-term guidance. When you think about the 2019 outlook for $1.5 billion in EBITDA and $23 billion on the top line, the margin there, I think the implied margin is roughly the same as what the margins are today.

I guess when I think about the long-term opportunity of the business, I also thought about some margin accretions built into the core business over the course of time as you guys mature and really generate leverage on the operating base that you've put down. How should we think about that? Is there something in the acquisition market or how you think about that growth profile that might change that thought around margins? Any help around that would be great.

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

It's Scott. We do expect organic EBITDA margin expansion to get an EBITDA growing faster than revenue. You're right that the guidance implies 6.5% [EBITDAR] margins. Some of that is mechanical. The way we've been running our models for the last several years that has worked well is we billed in acquisitions coming on board at a 6% EBITDA margin.

So when we deploy that $5 billion in capital, just from a mechanical basis, we're bringing on 6% EBITDA margin business and it's diluting from that growth organically that you're seeing. It's very likely we buy companies that are above that margin and then if we buy Contract Logistics companies, for instance, where the blended margin will be much higher than that, we could buy other businesses that have lower margins where the revenue would be higher, but the margins would be lower. But generally what is happening is from a mechanical standpoint, the blended average comes out to 6.5%.

Chris Wetherbee - *Citigroup - Analyst*

So it's fair to say that you freeze acquisitions, the margins get better because there's that organic pace underneath it, so it's the fact that you're adding the $5 billion of acquisitions over the period of time, right?

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

Absently, Chris. It depends on the mix of the acquisitions.

Chris Wetherbee - *Citigroup - Analyst*

Okay. That is helpful. I just wanted to make sure I understood how you're thinking about it. If you could give us a little bit of color on the margin differentials within the Europe business now. The truckload business relative to the Logistics business, seems like there's a margin profile difference there. I wanted to get a rough sense of how we think about this as the first stub quarter, but going forward how that looks?

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

Hi, Chris, it's John Hardig. Obviously the transportation business in Europe has slightly lower margins than our Logistics business does. And it's mainly because of its non-asset based nature.

The EBITDA margins are running -- they were a little bit higher this 22 days that we owned them, but it's going to run 6% or so. The Logistics business is going to be a little bit higher. And, again, I think the transportation is a little lower, mainly driven by the non-asset based nature of the business versus the Logistics side.

Chris Wetherbee - *Citigroup - Analyst*

Okay. That is helpful. And if you will indulge me with one more, just one more here. I wanted to get a quick sort of thought on the current market within brokerage? Scott, I think you mentioned an opportunity for the retail market to pick up a little bit here back-to-school. How do see the market today sitting here in early 3Q? Maybe how that retail component looks would be great. Thank you.

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

So far in 3Q I would characterize it as relatively loose capacity. You can find a truck. We track inbound and outbound calls to carriers and our ratio of inbound calls from carriers has gone up, way up, so carriers are calling us and saying, Hey, what loads do you have for us? Do you have any freight for us?

And, in turn, that is taking down -- generally taking down purchase transportation across-the-board. So our net revenue dollars accelerated into July. Most of that has to do with increasing net revenue dollars per load. As you look into the retail landscape, it's too early to tell. You'll see a ramp-up through August with back-to-school. It will continue to ramp up and will be strong all the way until Thanksgiving. So it's too early to tell how that shapes up, but for right now it is relatively easy to find a truck.

Chris Wetherbee - *Citigroup - Analyst*

Okay. That is helpful color. Thanks for the time, guys. I appreciate it.

Operator

Alex Vecchio, Morgan Stanley.

Alex Vecchio - *Morgan Stanley - Analyst*

Hello, there. On Norbert, it's historically grown at a mid-single-digit organic growth rate. And it sounds like the cross-selling opportunities are coming to fruition which should help that accelerate. But can you -- Brad, can you comment a little bit on early reception or feedback from employees to the new incentive-based competition program you're rolling out at Norbert? And what gives you the confidence that organic growth rate will actually accelerate and help you get the total Company to that 9% to10%?

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

I have a lot of confidence that the growth rate in Europe is going to be higher than it was historically for a few reasons. Number one, they were operating -- we forget what 2007 and 2008 were like. It seems like so long, long, long ago. They have a different cycle. They've been operating, up until recently, in a prolonged malaise. They've had a poor external environment that, even if you are doing a good job, it's hard to grow when the customers aren't growing. That's point number one.

Point number two, as you mentioned, we're changing the compensation plan. We have not done that yet. Compensation plan -- some things we do very, very fast. Some things we are very careful not to do very fast.

Changing compensation plans have to been done methodically and communicated and get the buy-in and input of participation for lots of different stakeholders and has to be well thought out, because once you change a compensation plan, you don't want to be changing it again anytime soon. And you want to make sure that you're motivating people's behaviors to the exact things you want to be and not having unintended consequences.

But we have a lot of resources and a lot of effort getting that new compensation plan designed first and that we will roll it out later this year. Even apart from the compensation plan, it is very, very evident from the many, many employee meetings that we've had all across the UK and the continent that the organization there is ready for growth. They are embracing growth; they want to do it; their head is in the game.

It is something they want to do. They want to win; they want to become bigger; they want to expand; they want more market share; they want to serve their customers more; they want to offer more things. It is absolutely receptive in the environment there.

Now, there are several different levers we're going to push and we are pushing for growth. One is cross-selling, as you mentioned. We talked about that earlier in the call. Another is cross-fertilization and best practices. And, by the way, that is not a one-way street. that's a two-way street between Europe and the United States. Another thing is technology and automation.

One thing we're very excited about and our Europeans are very excited about is taking our proprietary XPO Freight Optimizer technology that we spent so much money and so much time and so much resources into getting this fantastic truck brokerage technology transferred over to Europe to take that more than EUR1 billion of brokerage business that we have and optimize it.

I'm very, very confident we can optimize that business and improve that business; we're putting that whole network on a network, which means you need to have -- that whole geography on one network, which takes a little time, takes technology rollout, takes investment and we're absolutely committed to doing that. The other things that we're pushing in terms of levers to grow the business there is expanding the size of the sales force.

So we look at the organizational chart and we just together, collaboratively, are saying where do we want to expand it? And clearly where we want to expand it is the size of the sales force and how the sales force is structured, getting increased sales force effectiveness and empowering them with a common CRM technology, which is a basic concept over here, but it really is not over there. Getting everyone on salesforce.com is a very, very important thing.

Other thing I would mention that gives me confidence in the growth that we are planning on having in Europe is we have a leading e-fulfillment position in Europe and it is growing very, very, very, very fast. It's grown 30% year-over-year organically. And the facilities that we visited that are doing e-fulfillment are very, very impressive. And the customers we visited who are e-commerce customers have very high expectations for their own growth.

That is something we're going to be putting more resources into. We're number one in e-commerce logistics in Europe; we're number one in the UK; we're number one in Spain. So a lot of opportunity there. So I could go on and on and on about growth in Europe. But I think you get the flavor of it, that we are very confident we're going to be able to grow and stimulate Europe and there is a lot of receptivity for that

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Alex Vecchio - *Morgan Stanley - Analyst*

Great, that was a very thorough and helpful answer there. That's helpful. And then on the acquisitions, the financing of the acquisitions. Scott, I think you mentioned the financing coming from the cash on the balance sheet. Free cash flow and incremental debt.

How are you thinking about incremental equity raises? Is it something you would entertain? Or is it something at this point you just don't plan on doing? How should we think about the equity component of financing transactions going forward?

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

The $1.5 billion in equity -- in EBITDA that we plan over the next several years does not depend on equity. But that said, the same way we've done it over the last several years, if we somehow come across a large opportunity or something that will increase our free cash flow per share in outer years, something that will be very accretive to what we're doing, we would take a look at it. That would be cherry on the top. That would be something we could earn in excess of $1.5 billion of EBITDA in 2019. It is something that would be on the table. It depends on the opportunities.

Alex Vecchio - *Morgan Stanley - Analyst*

Okay, that is helpful. And one last one here. You highlighted $80 million of transaction and integration costs in the quarter. That seems a bit high, but maybe I am missing something there. Can you talk a little bit about how much of that might be transaction versus integration? And do you expect the integration costs to be elevated going forward?

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

Hi, it's John Hardig. I will cover that. The vast majority of the $80 million that we incurred in transaction and integration costs were related to the transactions. And so that breaks down about $40 million of that was bank commitment fees, hedging fees for hedging the currency we had to pay in euros for the purchase. And then we had about $24 million of fees to advisors. And then we had additional purchase-price-type items that flowed through the P&L.

Of that total, really it was $92 million, if you include the restructuring and the rebranding; you had about $8 million of restructuring and rebranding expenses. So the vast majority, all but $4 million is related to either rebranding or the cost to close the deal.

Alex Vecchio - *Morgan Stanley - Analyst*

Okay, so very little on the actual integration expense itself?

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

Right. And on a go-forward basis, we will continue to have some restructuring charges related to Norbert. We are in the early innings of determining exactly what the detailed plans will be. We have some very good ideas of what we're going to do on a go-forward basis, but you will see some restructuring charges in the next couple of quarters.

Alex Vecchio - *Morgan Stanley - Analyst*

Okay, great. Thanks very much for the time.

Operator

John Mims, FBR Capital Markets.

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

Thank you. Good morning, everybody. On this Pennsylvania deal, which I could assume is for [Zara], what is the lead time for these type of buildouts in the US? I would think --and you highlighted there's a pretty deep pipeline of the European customers that you can cross-sell into the US. But what is the cadence of the startup costs versus the real revenue opportunity of putting these new distribution centers in for these big European retailers?

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

Normally a lead time for a project like that is a long lead time. Could be a year. In this case, one of the reasons that customer -- and we're not going to say the name of the customer -- has picked us and worked with us is because we can move fast, we can mobilize very fast. And [Louis's] group put together a plan to have that up and running in eight weeks from signing. And we signed it and we're well on the way to get that up and running.

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

Is that specific to this deal? Or as part of your sales pitch to XYZ, European guy, as we can move a year-long typical lead time to 8 to12 weeks?

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

We can't always do that. In this case, due to the specifications and due to collaboration, we were able to figure out a way to do that. I think one hallmark of XPO Logistics is speed, is agility, is moving, thinking clearly and moving fast. And this is one example of that.

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

Sticking with the Logistics side, a 1% operating margin this quarter. What is the right way of looking at that as you get the full quarter's benefit of Norbert plus you get a few more of these things up and running? What is the cadence of where that operating margin should be over the next couple years?

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

What number are you referring to?

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

The Logistics piece. Off of gross -- let me put up. I can't find it, of course.

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

John, this is Scott. There were some integration charges included in the Logistics side. If you take that out -- from an EBITDA perspective Contract Logistics will be in the 8.5 times % range; 8% to 8.5% range on an EBITDA basis. And then we can go through DNA with you separately to break out (multiple speakers). It's about 8% to 8.5% EBITDA margin on Logistics

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

Right. It was that [4.3%] number I was looking at, so -- But still, just from a pure operating basis, if that is full -- is that -- can that be a 5% margin business or --

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

On EBITDA, it's 8% to 8.5%. I will have to go through the DNA schedule and just grab with you. I'd happy to do it off-line and we'll break it out for you and give a piece. But on EBITDA, like I said, 8% to 8.5%

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

John, to be fair, that EBITDAR margin level that we are at on Logistics, we're comfortable with that, our customers are comfortable with that. Our plan is not to try to break that up. Our plan is to try to grow organically, get more business, satisfy our customers more, get repeat business, get additional customers in the door and just keep margin stable.

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

Okay. One last one on the margins. I know it's been touched on before, but I'm still trying to figure out how we should think about incremental margins over this big, long buildout timeframe. As you layer people on to this common system, as you have the synergies and your comments that EBITDA will grow faster than revenue, but then the long-term target is in line with where we are now. What is the right sort of incremental margin for broader XPO as you continue to build this out?

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

Hey, John, it's Scott. It's a blended average. Right now you're talking much different levels of organic growth on EBITDA than top line.

Like I said, we were at about -- to give you an example, we were at $150 million EBITDA run rate, on average, by the end of last year. Organically we will take that base and bring it to about $225 million. About 50% EBITDA organic rate. Because we're leveraging that $60 million in corporate expense, because our truck brokerage operations are just the increasing tenure of our sales reps, and becoming productive, but all those different reasons where leveraging -- and our incremental margins are a lot higher. Over the longer period of time, you can expect our EBITDA to grow at a few percentage points higher than revenue.

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

Sure. But the endgame is still -- I guess that's where I'm not quite understanding that. The endgame is still -- if you're talking about layering on more Contract Logistics, which is an 8% to 8.5% margin business, and the brokerage side is running at 6%, where you are now, how does that all equal 6.5%? Am I missing something?

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

Then you have -- like I said, 8% to 8.5% on the contract. You said -- yes, 5.5% to 6% EBITDA margins on transportation. Then you have about $60 million of corporate expense on top of that, right? So over the next several years, it will likely, on an organic basis, given the mix of business we have today, rise above 6.5%, but the 6.5% in the long-term guidance is based on us -- an assumption of buying companies that are in the 6% EBITDA range. That could be wrong or right and it will depend on the mix of business that we buy, but the organic basis will be above 6.5%.

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

That makes sense. Okay. Thanks for the time.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thank you. Good morning. I would like to start off talking -- the 9% to 10% organic growth rate for the total Company. I would be curious if you could elaborate a little bit, starting with Contract Logistics, of what you're assuming by segments? Contract Logistics and maybe some of the components of the transportation segment. Thanks.

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

I don't want to go detail by detail every little segment and break out organic growth. But generally speaking, you are going to see some higher, some lower, both by US segments -- by US -- not segments, US business lines, and you are going to see different parts of the cycle in Europe and North America.

The main point is when we do our analysis and we do a high-low, best-case scenario for each one of the service lines, each one of the geographies. We feel comfortable that the likely scenario is 9%, 10% blended throughout the cycle. There'll be times more than that. There will be times below that. There will be some parts of it that are exceeding; some parts that are missing. But on average, that's the level we feel comfortable with.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay. Thanks. Scott or John, what is implicit in free cash flow generation in this new long-term guidance? I know you are probably not going to give exact numbers, but where are you now? How do you think that builds? Any bit of help there would help us building out on the components of what goes into the capital structure and the acquisition build over the coming years. Thanks.

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

Sure, Scott. Basically you know what our EBITDA expectations are and what those margins are. We're going to have about 3.5 times leverage on the model in terms of what the long-term targets imply. And you can use that to figure out what the interest expense will be.

Working capital needs will run at around 5% to 6% of revenue as we -- that is on growth revenue as we grow the top line organically. And then CapEx runs about 2.5% of revenue a year and that's very consistent between both legacy XPO business and the European business of Norbert. That will give you a sense of how to think about cash flow overall.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay, thanks, I appreciate that. I'll throw one more in here, kind of biting on the commentary with regard to the Last Mile opportunity in Europe. Obviously you guys are a leader in North America in that business service offering. I'm curious what -- any elaboration you care to provide on go-to-market and how you would capitalize on that seemingly large opportunity overseas? Thanks.

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

It's Scott. We're starting with a landmark tenant, so we're working with a current customer where we're their largest Last Mile provider in North America and working on a contract in London. And getting going -- getting started with that landmark customer.

We have LTL networks or palletized networks set up throughout Europe. We are one of the largest providers of LTL in -- we are the largest in France. We are the largest in Spain. We are one of the largest in the UK, either one or two. So using that network we can then stage the goods and we can use that network to deliver the goods in Last Mile.

What we do is deploy the same technology we have in North America. We can use an owner-operator base very similar to what we're doing in North America. Like I said, we will start with one landmark tenant that we just -- we are getting started with now. And then we will try to grow it from there.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks.

Operator

Brandon Oglenski from Barclays.

Brandon Oglenski - *Barclays Capital - Analyst*

Good morning, everyone. John, I wanted to follow up on the cash flow question real quick. Given the integration costs that you went through and some of the fees that you had this quarter, should we start seeing positive cash from operations going forward now?

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

Yes, we definitely will see some positive cash flow in future quarters. The big drag this quarter, obviously, was the transaction-related expenses. So when you think about that $80 million of restructuring and transaction, all but about $20 million or $25 million of that was cash, so that was a big drag on cash flow this quarter. We also had a big uptick this quarter in terms of revenue activity, so we had a lot of AR that went onto the balance sheet, accounts receivable to support the growth of the business. On a go-forward basis, you will see positive free cash flow.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay. I didn't mean to get into such near-term on the call here, but I think that's important. Brad, what investors and Wall Street analysts have a really hard time getting their arms around is just how powerful culture change can be. Have you really had an impact on the Norbert organization? It really sounds like there's been some reinvigoration over in Europe and is that what is driving a lot of this confidence that you are going to see that higher single digit growth rate coming out of that organization?

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

I think it's fair to say that we have a certain positive energy about us that we've brought over there. I think what's more important is the receptivity -- it's a fantastic company that we bought. It is just a really solid company with solid people with solid customer relations who know what they are doing, who -- it's a really good organization.

If you come into an organization that's been focused on stability and customer service and maintaining the margin, which has mainly been their strategic focuses, which is all fine, particularly given the share ownership it had, it's not that difficult, frankly, for someone like us to come in and say, Okay, let's keep doing all that, but let's also focus now on growth, growth, growth.

I think the receptivity of the organization to grow is high. And the platform is very well-developed. It's like a giant that we're getting up on its shoulders and taking it to a new higher level.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay. Can you talk a little bit about the customer side? Have you seen customers now cross-utilizing more and more of your services? Is there any statistics you can provide us where you are seeing cross-pollination across all these lines of operations you have now at XPO?

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

Absolutely, Brandon. It's Scott. We're seeing a lot of cross-selling across the organization. I have some stats around cross-selling. It's about --

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

While you're looking for your stats, Scott -- so when you look at our customers, it's very rarely do you find -- it's almost never that you find a customer who only uses one mode in their supply chain. When you meet someone who is a supply chain officer or senior transportation person in a shipper, whether it's a manufacturer, whether it's a retailer, whether it's food and beverage, they are not thinking just by mode.

They are thinking, I got customers, I got ops, I got product, I got to move it from where it starts to get it to the customer. And they have ops people saying you need to do this in the most efficient way. Whether that ends up being rail or whether that ends up being truck or whether that means a tighter supply chain, doing more expedites, that is the puzzle that has to be solved. So our customers, by their nature, are multimodal.

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

And then just overall, to give you the numbers and to level set and we can track over the next several years. But our customers are already using us for a number of services, so 30 -- including Europe. We have combined Europe and said what services are they using of us? 32 of our top 50 customers, or two-thirds basically, are using us for multiple services. 15 of the top 50 are using us for three or more of our services.

We have a big opportunity to continue to grow that, to cross-sell more of those accounts and more of our services. The areas we've been strongest in, if you look at the numbers and the dollars, we been very strong in cross-selling retail. Retail's been sold in intermodal, in truckload, in Last Mile. We've also -- we are doing a lot in the auto category. Auto is using Expedite; also intermodal; also truckload.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay, I appreciate that. And I do want to as one more of you, Brad. Who do you view as your biggest competition right now?

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

Our biggest competitor is different in every line of business that we have. It's also different when you go to Europe versus here. In Europe, we're running into DHL and DB Schenker and [Quedenago] and Geodis and [Dosser] and companies like that don't have a big presence, if any presence, here in the United States. Here in the United States, we run into different competitors in intermodal where we are competing against J.B. Hunt and competing against Hub and other fine intermodal providers. But we're not running into them on Expedite, for example. That's a different world.

There is different competitors in different places. And as we get bigger, that's going to be even more accentuated where we are doing a larger geographic footprint and we're doing more comprehensive services, so we will be competing against different competitors in different spaces.

Brandon Oglenski - *Barclays Capital - Analyst*

I appreciate it. Thank you.

Operator

Tyler Brown, Raymond James.

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

Good morning, guys. Brad, things are progressing very nicely here, but I am curious and I want to go back to Brandon's question about culture. How are you putting in, let's call it cultural guardrails, to make sure that you've got 50,000 employees, it sounds like that's going to be a lot more in the future. But that the XPO service culture is really assimilated across all the business lines and that one segment doesn't do it one way and another segment doesn't do it another.

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

We are big believers in standardization in most things, not all things. And getting process standardized and getting quality accounted for. Let me make something very, very clear. In the former Norbert operations in Europe, there is no issue about trying to get them more customer service oriented. That is a very customer service oriented organization. They have customer, customer, customers all over the culture. Metrics to please the customer. Metrics for -- it's all over the culture.

It's very, very deeply ingrained on --and that is the only reason why you can keep a customer for decades is if you give good customer service. The focus on customer service that we have here is no greater or no less than it is in Europe. It's completely equivalent.

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

Okay, perfect. That's very helpful. And then I know you guys touched on this and you have an extraordinarily talented team on the technology side. Can you, again, go over the long-term strategy on technology? So specifically do you plan to run a number of discrete platforms or are you going to migrate to call it one big global technology platform? I don't know if you want to call it shared services or whatnot, but what is the technology model over the longer term?

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

This is Scott. We do integrate technology. We integrate technology across the organization. Everything we're doing in North America has moved towards our dot-net platform.

There are different tools that come off of that dot-net platform that are all on the same technology and all on the same platform and are all integrated. One is Rail Optimizer. One is Freight Optimizer in truckload. We also have a desktop management system, so our Last Mile technology that handles customer experience management. Each of the different areas have their own screens, but it all integrates together onto a dot-net platform.

In Europe, we will roll out our Freight Optimizer technology across the truckload universe. We are right now underway -- planning is underway to roll that out, and see the differences in what their needs are and what we can provide. That is a process to roll out across Europe that will take a year or two, year-and-a-half or so.

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

Very interesting. Thanks.

Operator

Donald Broughton, Avondale Partners.

Donald Broughton - *Avondale Partners - Analyst*

Good morning, Brad. Good morning, and everybody. Since we're playing when we first met, I can remember when we first met back in Dallas in 2010. How things have changed in the last five years.

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

They have. They have grown.

Donald Broughton - *Avondale Partners - Analyst*

They have. You guys have been very -- what I would call strategically opportunistic and over that time I've watched you do things I thought were marketplace-opportunity driven, currency driven, lackluster company that needed a fix, extraordinary company that happened to be available at a fair price. Something you needed; there was an addition to your service offering for your customers.

When you sit there, help me think -- help me understand how you think about it. When you sit there today, given what you've amassed, given what you've built, what do you need next? Is it a service offering? Is it geographical concentration? What is the next great big thing that XPO needs in its portfolio?

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

The great thing about the next -- great next thing is, I don't know what will be next. I know what will be long term, but we're going to be opportunistic, we're going to be agile, we're going to be nimble to react to opportunities that make sense that have -- and a compelling logic to do them in that sequence.

Long-term, to answer your question, we want to go deeper in Contract Logistics. That is the field that is the most stable; it's the most recurring revenue; that you can add the most value to the customer, long, five-year-plus contracts. That's a business we want to absolutely go much, much, much, much deeper in.

Last Mile is a business we want to continue to capitalize on the industry-leading position we have got in North America and transplant that over to Europe. I really do feel, based on my customer visits, that the customers are yearning for this year. The customers are wanting a real strong, high-quality Last Mile solution that is all across the continent and England. Not just a regional and even variable in terms of customer satisfaction solution. We will build that one.

Intermodal, we will grow that business. We'll absolutely grow that business and that will grow depending on how fast the conversion from over-the-road to rail is. And that will depend on a number of factors that are completely outside of our control. Truck brokerage is a big industry. Tens of billions of dollars of size inside a trucking industry that's hundreds of billions of dollars. That is a big market that we will continue to grow in. That is something our customers use and value and need all the time. We will absolutely keep growing on that.

Expedite, we got the number-one position on that. We just renewed a contract with an important customer and we have high, high levels of customer satisfaction, near 100% on-time pickup in Expedite. It's really a great franchise we have there. That is something we also want to be transplanting over to Europe.

And then in Europe, we look at it as two sections. Of course, freight forwarding overlaps all of this. Freight forwarding, we're not a big player yet. We're a few hundred million euros in size on that globally, but we're continuing to grow it. And in Europe on the transportation side, we have a big trucking company. We have a big trucking company here, too, but it's non asset. We have more than 6,400 owner-operators in our fleet. It's a big calling card to many customers.

In Europe, we've got 7,000-some-odd trucks that we own. We've got another few thousand trucks that are owner-operators. We're going to keep developing that fleet and keep using that to be tied in with the customer.

Business line, all of them we're going to grow. Geographically, ultimately. But that comes back to my first comment about what's next is eventually, but probably not right away -- eventually we have to be in Asia. Our customers are global; they're in Asia also; we'll have to be in Asia in due course.

Donald Broughton - *Avondale Partners - Analyst*

Fantastic. Thank you.

Operator

Todd Fowler, KeyBanc Capital Markets.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Good morning; thank you for taking the questions. On the 2019 targets, my rough math is coming up with about -- it implies about $10 billion of acquired revenue, give or take. Can you give some comments on your visibility into the acquisition pipeline? And I know that, obviously, two Norberts can get you to $10 billion pretty quickly, but your visibility, what you're thinking about and some thoughts on timing, which I know can obviously be tricky as well.

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

Your math is absolutely right. Right about $9 billion now. To get to the $23 billion we will be at in 2019, we're going to add $14 billion. $10 billion of that will come from acquired revenue. $4 billion of that will come from organic. These are all plus-or-minus numbers, but you are absolutely in the right neighborhood there.

In terms of acquisitions, we have a very active pipeline. We have a lot of discussions going on, both here and in Europe, with interesting possibilities. We're not going to do all of them, obviously, but I'm confident and optimistic that we will complete one or two of them between now and the end of the year.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. And so thinking about the $10 billion, though, just to follow up on that, is your view, Brad, that comes in a couple of big chunks? Or is that split out between several smaller acquisitions? How do think about the size of the acquisitions you are looking at? Or should we think about that, I should say?

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

The answer is I don't know. The answer is we are talking to large acquisitions. We're talking to small acquisition. We're talking to medium-size acquisitions. Any company that is a good company, that's got services that customers -- that our customers want, that our customers need, that our customers would value, that our customers, when they would read the press release, they would say, yes, that's great; that helps me.

We're interested in that, provided we can get them at an affordable price. So having a wide geographic dispersion of acquisition opportunities helps with that a lot. At any one point in time in the M&A world, there is a bell curve and there's some acquisitions that are to the right and to the left and some in the middle. We're trying to stay more towards the middle on valuation.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay; fair enough. And then it really seems like -- there are several bright spots, but North America and Last Mile, seems like it was a very good quarter here. A lot of positive commentary about that business going forward. Could you give us a sense of what you think the organic growth rate for that business should be trending at? And also talk a little bit about the availability of additional acquisitions for that business line?

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

You're getting a second bite at the apple that I didn't give to Scott when he asked that question, Scott Schneeberger. We don't want to start breaking out organic growth for every little part of our business and then every quarter have to be called to task on that, because we don't want to run that business like that. We want to run the business what makes most sense for our customers and for our business and not reacting to analyst's reaction to all that. So we want to give it in aggregate and growth.

And Last Mile, though, what I can share with you is that because retailers are outsourcing more of their Last Mile Logistics and because e-commerce is one of the fastest growing parts of the economy, that will be towards the higher end of the organic growth scale. Last Mile is a fast grower.

But to answer the other part of your question, Todd, we're the largest, so by definition, we're not going to be buying anybody big or bigger than us. And so there is not a lot of large acquisitions in Last Mile. That's not a mature industry. It's very fragmented.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Got it. That's what I thought. And I thought by being later down in the queue, maybe I could sneak one past you, but I guess that wasn't the case. Just the last one I had, John, in the CapEx guidance you gave of about 2.5% of revenue per year, does that include IT spending or how do -- what would you ballpark the spending on IT investment on an annual basis be at going forward?

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

The vast majority, the largest component of that CapEx is IT. So it runs about 2.5% of the business overall for total CapEx. And IT is going to be at least 40% of that in terms of the IT investment.

Todd Fowler - *KeyBanc Capital Markets - Analyst*

Okay. Perfect. That's what I had this morning. Thanks for the time.

Operator

Jason Seidl, Cowen and Company.

Jason Seidl - *Cowen and Company - Analyst*

Good morning. Brad, you almost answered my question about Asia, but since you did bring it up, where would you think you would look to land first with Asia? What capabilities do you think XPO needs to start getting a footprint in Asia?

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

We wanted to do Contract Logistics in Asia. We want to do Last Mile in Asia. There's not a big intermodal business in Asia. There's not a very developed truck brokerage business in Asia -- well, there is an asset-based trucking business, but it's very segmented, it's very fragmented. And there is an expedite business. And, of course, there's a big freight forwarding business.

So that's the lay of the land over there. Those are the services that our customers utilize over there, so those are what we'll end up doing.

Jason Seidl - *Cowen and Company - Analyst*

I imagine some of your existing customer base is already asking about potential capabilities in Asia?

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

Oh, yes. All the time. But, unfortunately, that conversation doesn't last very long since our capabilities are very minimal, other than freight forwarding.

Jason Seidl - *Cowen and Company - Analyst*

Well, knowing you guys, that conversation could change within six months. That's all I had and thanks for the time, guys.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

Thanks for the time, guys. Thanks for squeezing me in here. I guess to go back to freight forwarding for one moment, Brad, that really is the area of the portfolio where you guys are undersized. If I think about you guys being a global Logistics provider, which you are, I would think you would want to bulk that up.

How do you address that over time? And is this something that is really top of mind for you guys as you look for potential M&A targets?

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

It's not top of mind. It's in our mind. We haven't found the fit yet. We haven't found a freight forwarding target that the stars all lined up for in terms of desirability on both sides and valuation and everyone wanting to do a deal and terms that work for everyone. There hasn't been a concrete opportunity that made sense where it all lined up

Jack Atkins - *Stephens Inc. - Analyst*

Okay. That makes sense. And one more bigger picture and one quick housekeeping item. Brad, could you talk a little bit about the differences and similarities between the brokerage market in the US and Europe? I'm curious how those two markets look compared to one another?

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

They are very different in one respect. In the United States, it is one market with some submarkets in geography, but it's basically, when you come into the office, whether you're in Phoenix or whether you're in Charlotte or whether in Chicago, you're seeing the same screen.

You're seeing all the loads come on. You're seeing all the trucks coming on. You're seeing them getting crossed. You're seeing the same hot charts. You're seeing the demand -- the low truck ratios. It's all one network. Everyone is plugged in. It doesn't matter where you are. You can be at home and you're still in the same information flow.

In Europe, even though it's a big truck brokerage operation, it is well over EIR1 billion of truck brokerage, and they're very satisfied customers, and we're one of the best truck brokers in Europe, it's still very fragmented. When you go onto your system in Spain, you are seeing what is going -- well, actually you're seeing what's going on in Iberia. Seeing what Spain, Portugal and Morocco. But you're really not seeing in live -- in real-time, what's going on in the rest of the continent.

When you go to our office in Italy and look at what's going on in truck brokerage, you are looking, really, what's going on in Italy, period. So there's a lot of information that is siloed, that is fragmented, that is trapped in different places. We think there's a huge value to approaching truck brokerage in Europe as all of Europe. And that's the path we are on. As Scott was mentioning before, how we're rolling out the Freight Optimizer, first in the English-speaking countries because we have the code all written in English. Second in the French, because we have French code that we did for our business up in Montreal a couple of years ago when we bought Kelron. And then, in due course, but it's going to take us a year or two, to get all the code written in the other languages. We want everyone on all one system. That's the big difference.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, that makes sense. One last housekeeping item. John, could you help us think about the noncontrolling interest line and how that should flow in the third quarter, assuming there is no resolution to this issue with the remaining interest in Norbert?

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

In terms of modeling perspective, Jack? I mean, think about it as the same percentage of total net income as we had in this quarter. With the full quarter effect versus the 22 days. I would think about it that way.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, that helps. Thanks so much.

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

Operator, are there any other questions?

Operator

Thank you. We have reached the end of the question-and-answer session. I would like to turn the call back over to Mr. Jacobs for any final remarks

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

Thank you, everyone, for participating in the call. I'm sorry it went nine months into the trading morning and we'll put a period right there. Thanks again. Goodbye.

Operator

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