[XPO] XPO, Inc. Credit Memo

Company: XPO Inc. ("XPO" or the "Company")
Analyst: Cole Page
Date: 11/30/2025
Instrument: First-Lien Term Loan B-3 (2031)

1. Executive Summary

XPO is a structurally improving LTL (Less-Than-Truckload) carrier demonstrating margin durability, disciplined pricing, and consistent cash generation through one of the softest freight environments in the past decade. The company has delivered mid-20% LTL EBITDA margins, steady deleveraging, and positive free cash flow despite persistent tonnage declines. This is not a cyclical rebound story but rather a multi-year operating improvement story driven by density gains, service upgrades, and linehaul insourcing.

At current levels, the first-lien term loan (TLB-3) is the cleanest way to own the credit. It offers a ~5.3-5.6% floating yield, minimal duration, strong collateral coverage, and limited downside even in a stressed freight scenario. XPO's unsecured notes, by contrast, trade at 104-105 and are capped by call schedules, providing little total-return opportunity.

There is also credible (but unmodeled) optionality associated with a divestiture of their European Transport segment. Management has characterized the ET segment as non-core, and it contributes <10% of EBITDA at lower margins. A sale could reduce leverage by 0.3-0.5x and further simplify the capital structure.

Summary of Key Terms:

Issuer	XPO, Inc.
Ratings	Issuer: BB/Ba2 | Loan: Ba1/BBB-
Instrument	First-Lien Term Loan B-3 (2031)
Maturity	2/28/2031
Coupon	SOFR + 175
Price / Yield	~100-101 / ~5.3%-5.6%
Call Structure	Soft-call 101 through Feb 2026, par after
Change of Control (CoC)	101% with double trigger

2. Pro Forma Capital Structure

XPO has a clean, primarily first-lien secured capital structure with ~$3.2B of total debt, ~1.2x secured leverage and ~2.3x net leverage on an LTM basis. Liquidity remains strong at ~$1.0B, with a fully undrawn $600M revolver and no material maturities until 2028. The structure leaves plenty of refinancing runway and supports continued deleveraging.

~$1.5B of secured debt matures in mid-2028: the $650M TLB-2 in May and the $830M 6.25% secured notes in June. This is the next primary refinancing event, and a 2+ year runway, an improving credit profile, and consistent FCF generation make it manageable. The base case sweeps free cash flow into the term loans, taking that balance from $1,050M to $379M by the end of 2028 and to zero in 2029. I apply the sweep to TLB-2 first, since it matures earliest and voluntary prepayments are borrower-directed, which retires TLB-2 ahead of maturity and leaves the $830M of secured notes as the whole 2028 wall. The base case carries those notes at full face through 2030, so it assumes they are refinanced at size at similar spreads rather than repaid, with no new-issue concession.

$ in millions	Maturity	Coupon/Yield	Price	YTW / Yield	Outstanding	Net Debt / LTM EBITDA	Net Debt / FY 2025E EBITDA
$600M Revolving Credit Agreement	4/30/2030	SOFR + 75			$0.00		
Senior Secured Term Loan B-2	5/24/2028	SOFR + 175	100.50	5.29%	$650.00		
Senior Secured Term Loan B-3	**2/1/2031**	**SOFR + 175**	**100.38**	**5.39%**	**$400.00**		
Senior Secured Notes Due 2028	6/1/2028	6.250%	102.07	4.79%	$830.00		
Total Secured Debt					**$1,880.00**	**1.22x**	**1.16x**
Senior Debentures Due 2034	5/1/2034	6.700%	105.81	5.81%	$300.00		
Senior Notes Due 2031	6/1/2031	7.125%	104.37	5.21%	$450.00		
Senior Notes Due 2032	2/1/2032	7.125%	105.20	5.31%	$585.00		
Total Unsecured Debt					**$1,335.00**		
Total Debt					**$3,215.00**	**2.28x**	**2.16x**
Cash					335		
LTM Adjusted EBITDA					$ 1,263		
2025E Adjusted EBITDA					$ 1,336		
Revolver							
Committed Amount					600		
Amount Outstanding					$0.00		
Evergreen LOC							
Committed Amount					200		
Amount Outstanding					133		
Availability					**$667.00**		
Total Liquidity					**$1,002.00**		
Current Share Price					$ 143.38		
Shares Outstanding					117,384,300		
Market Cap					**$ 16,830.56**		
Cash & Equivalents					$335.00		
Total Debt					$3,215.00		
Total Enterprise Value					**$ 19,710.56**		

3. Credit Investment Thesis and Recommendation

XPO is an LTL operator proving out its cost structure in a down cycle: OR (Operating Ratio) has improved 350bps over two years, purchased transportation is down 48% YoY, and the claims ratio sits at a record-low 0.2%. The company is generating real FCF with sustained mid-20% LTL EBITDA margins, with credible upside to an even cleaner balance sheet over the next few years. I believe the term loans provide the best near-term risk-adjusted exposure.

Why the TLB-3:

- **Attractive carry:** SOFR + 175 with low duration risk.
- **Strong collateral:** First lien on terminals, trailers, tractors, and receivables.
- **Balanced capital structure:** LTM secured leverage ~1.2x; net leverage ~2.3x.
- **Healthy liquidity**: >$1B with no maturities until 2028.
- **Management alignment**: Clear deleveraging bias; IG-oriented communication; no appetite for incremental secured debt.

Why Not the Unsecured Notes:

- Trading 104-105; near term call capped.
- Limited total return given near-term call dates.
- Better unsecured entry point expected in the 2026-27 refinancing cycle with proper call protection and wide new-issue concessions.

<u>Recommendation:</u>

BUY TLB-3 (2031) - modest sizing
AVOID the current unsecured notes
MONITOR 2026-27 unsecured issuance.

4. Industry Overview

LTL is one of the most structurally attractive subsectors in freight:

- **Highly consolidated**: top 10 carriers control ~80% of the market, with top 5 holding ~55%
- **Rational pricing**: GRIs (general rate increases) remain positive even in downturns
- **High barriers to entry**: no major new entrant in 40+ years
- **Network density** drives service quality and margin
- **Post-Yellow consolidation** strengthened carriers with capacity/infrastructure.

LTL is a strong, growing end market that benefits from high barriers to entry and disciplined pricing. Since the Yellow bankruptcy, the industry has consolidated further, and carriers who invested through the downturn (XPO and SAIA) are now positioned to take premium mix share and yield benefits as conditions normalize.

5. Company Overview

XPO is a pure-play North American LTL operator plus a smaller European transportation segment:

- **NA LTL**: >90% of EBITDA
- **Europe**: ~40% of revenue but <10% of EBITDA
- **Network**: 303 service centers, 34k trailers, 13k drivers
- **Coverage**: 99% of US zip codes

The company is operating with a structurally lower claims ratio and a materially better OR than three years ago (post-spin), indicating that much of the recent improvement is sustainable. XPO has transitioned from a historically underperforming LTL carrier to a scaled, well-run operator with clear momentum, strong leadership, and a roadmap aimed at narrowing the gap with best-in-class Old Dominion (ODFL).

At the end of 2023, XPO materially expanded its network by acquiring 28 terminals from Yellow during that company's bankruptcy-driven asset liquidation, the largest capacity event in LTL in decades. These service centers increased XPO's density in high-value freight corridors and accelerated the company's footprint buildout by several years. These terminals are driving OR improvement and reducing purchased transportation. This indicates that the investment phase is largely behind them while the operational and financial benefits are yet to be fully realized.

XPO has substantially improved the quality and stability of its LTL platform since their 2021-2022 restructuring when they spun off the non-LTL brokered transportation segment into RXO. Purchased transportation is down, dock and linehaul productivity have improved, and service metrics (claims ratio, on-time performance, and network consistency) are better than pre-spin levels. These operational gains have led to higher and more durable segment-level EBITDA margins, with a multi-year trajectory now positioned just behind ODFL and ahead of SAIA, ARCB, etc.

Key Operational Improvements:

- Purchased transportation down 48% YoY.
- Claims ratio improved to ~0.2%, with underlying damages at record lows, more than an 80% improvement since 2021, enabling premium pricing and reducing volatility in downside cases.
- Consistent OR improvement into the low-80s.
- Network density increased via 28 terminal acquisitions from Yellow asset sell-off (2023-24).

- Average tractor age reduced to 3.6 years as of Q3’25, lowering maintenance capex needs and improving reliability. This further indicates that the heavy investment cycle is largely complete.
- Productivity and linehaul insourcing have reduced volatility and improved margins.
- On-time performance has improved for 14 consecutive quarters, now at multi-year highs, indicating that service-level consistency is structural rather than cyclical and supporting continued yield/mix gains.

Highly important is that the recent investment cycle is largely complete, while operational and financial benefits continue to accrue.

6. Management & Strategy

I believe management is a major strength for XPO, and over the past few years it’s only improved.

- **CEO Mario Harik (ex-CIO):** deep operational/technology background
- **COO Dave Bates (ex-ODFL SVP of Ops**): best-in-class LTL operator
- **Brad Jacobs (Exec Chair)**: strong track record of disciplined capital allocation

Key Strategic Pillars: (LTL 2.0 Strategy in action)

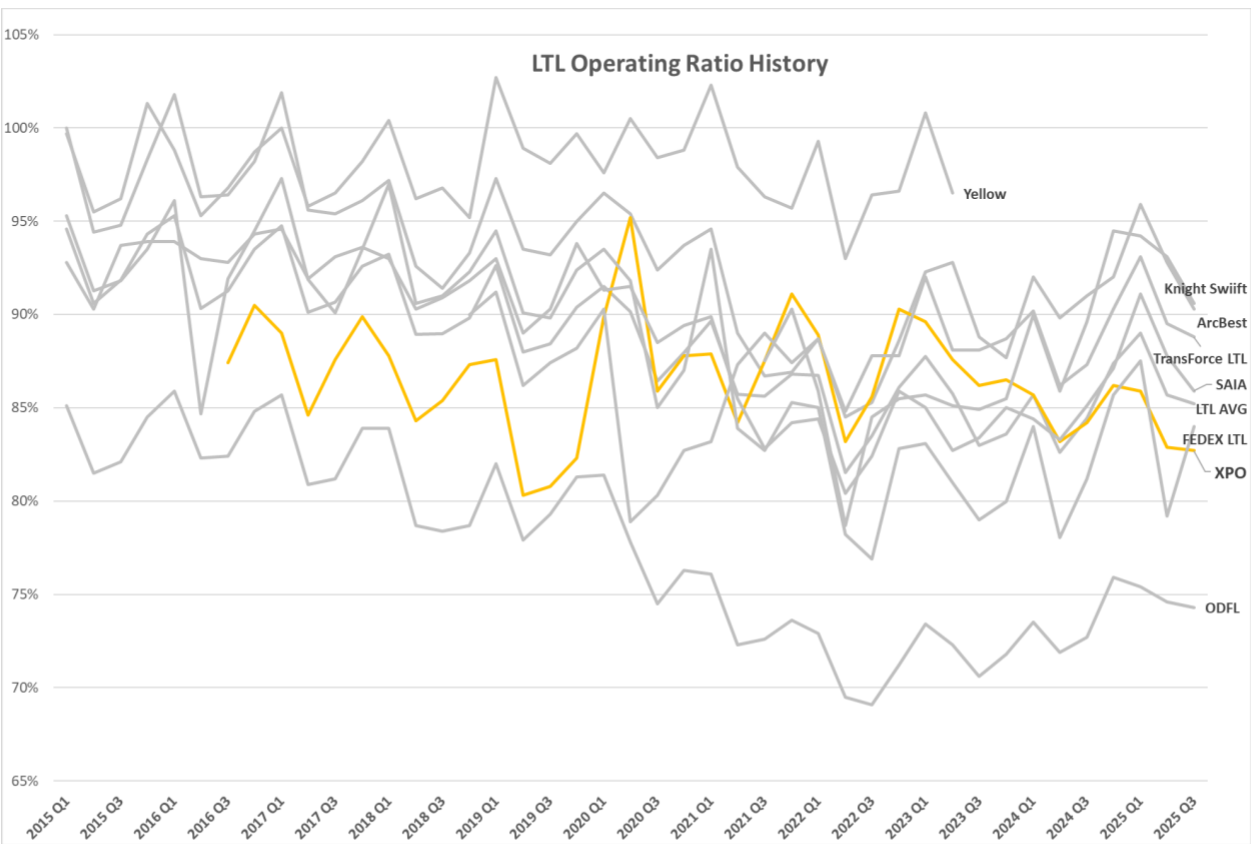
- **Operational Excellence**: Claims ratio cut from 1.2% to 0.2% and proprietary AI tooling has reduced empty miles by 12% and diversions by 80% YoY driving sustained linehaul productivity gains and permanently lowering purchased-transportation dependence.
- **Network Investment**: $2.5B capex in recent years to modernize fleet and terminals.
- **Pricing/Mix Discipline**: 11 consecutive quarters of sequential yield ex-fuel growth; demonstrating pricing power even through one of the weakest freight volume periods in the past decade.
- **Insourcing Linehaul**: Purchased transportation down 48% YoY; structural margin tailwind.

7. Operating Ratio

Operating Ratio, operating expenses divided by revenue, is the most important profitability metric in LTL and because of that I choose to discuss it a bit longer than normal here. Because the model relies on dense networks where incremental margins come from mix, service quality, and linehaul efficiency, OR is the cleanest indicator of structural operating performance. Each 100bps of OR improvement translates directly into EBITDA margin expansion and tends to persist across cycles.

XPO's OR trajectory is now a central part of this credit story. As of Q325 the company is running in the mid-82% range, with the strongest YoY improvement among public LTL carriers despite a weak backdrop (For 3Q 2025, LTL pounds per day fell by 6.1% YoY, and shipments per day dropped by 3.5% YoY). This reflects ~350bps of OR improvement over the past two years, highlighting sustained structural leverage from linehaul insourcing and network densification. Management expects another ~100bps of improvement through the end of FY25, driven by a few key levers: linehaul insourcing (reducing purchased transportation), mix/pricing optimization, and service-level improvements reflected in their much-improved claims ratio. ODFL remains the best-in-class benchmark in the low 70s, but XPO is now operating ahead of all non-union peers and well ahead of unionized carriers (high-80s to mid-90s). Recent results position XPO as arguably the second-most efficient public LTL operator.

For credit investors, OR matters because it demonstrates that XPO's margin expansion is structural rather than cyclical. Sustained OR improvement supports stable free cash flow generation through weak volumes, lowers volatility in downside cases, and reinforces the path toward sub 2x net leverage. It also increases the likelihood of rating momentum and tighter trading levels over time. OR is by far the strongest single indicator that XPO's operating improvements are durable and that the credit profile continues to strengthen.



8. Financial Statement Analysis

$ in millions	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25	3Q25
Segment Net Sales:														
North American LTL	$ 4,645	$ 1,120	$ 1,136	$ 1,228	$ 1,187	$ 4,671	$ 1,221	$ 1,272	$ 1,250	$ 1,156	$ 4,899	$ 1,172	$ 1,240	$ 1,254
European Transporation	3,073	787	781	752	753	3,073	797	808	803	765	3,173	782	841	857
Total Company Net Sales	**$ 7,718**	**$ 1,907**	**$ 1,917**	**$ 1,980**	**$ 1,940**	**$ 7,744**	**$ 2,018**	**$ 2,079**	**$ 2,053**	**$ 1,921**	**$ 8,072**	**$ 1,954**	**$ 2,080**	**$ 2,111**
yoy growth	*-40%*	*1%*	*-6%*	*2%*	*6%*	*0%*	*6%*	*8%*	*4%*	*-1%*	*4%*	*-3%*	*0%*	*3%*
Segment Adj. EBITDA														
North American LTL	$ 932	$ 182	$ 208	$ 241	$ 233	$ 864	$ 255	$ 297	$ 284	$ 279	$ 1,115	$ 250	$ 300	$ 308
ropean Transporation	169	37	46	44	36	163	38	49	44	27	158	32	44	38
Total Adj. EBITDA	**$ 997**	**$ 210**	**$ 244**	**$ 278**	**$ 264**	**$ 996**	**$ 288**	**$ 343**	**$ 333**	**$ 303**	**$ 1,266**	**$ 278**	**$ 340**	**$ 342**
margin	*13%*	*11%*	*13%*	*14%*	*14%*	*13%*	*14%*	*16%*	*16%*	*16%*	*16%*	*14%*	*16%*	*16%*
Free Cash Flow														
Adj. EBITDA	$ 997	$ 210	$ 244	$ 278	$ 264	$ 996	$ 288	$ 343	$ 333	$ 303	$ 1,266	$ 278	$ 340	$ 342
Less: Capex	(521)	(224)	(131)	(139)	(1,039)	(1,533)	(306)	(190)	(127)	(166)	(789)	(199)	(196)	(156)
Less: Interest Expense	(145)	(39)	(51)	(19)	(76)	(185)	(25)	(76)	(47)	(75)	(223)	(42)	(75)	(41)
Less: Chg. In WC/Other	(1)	79	46	8	(34)	99	68	107	(9)	28	194	78	15	(67)
Less: Taxes	(87)	(3)	(15)	(18)	2	(34)	(3)	(29)	(39)	(19)	(90)	2	(33)	42
Free Cash Flow (Levered)	**$ 243**	**$ 23**	**$ 93**	**$ 110**	**$ (883)**	**$ (657)**	**$ 22**	**$ 155**	**$ 111**	**$ 71**	**$ 358**	**$ 117**	**$ 51**	**$ 120**
Cash	460	309	290	355	412	412	229	250	378	246	246	212	225	335
Total Debt	**2,415**	**2,415**	**2,392**	**2,392**	**3,265**	**3,265**	**3,265**	**3,265**	**3,265**	**3,265**	**3,265**	**3,265**	**3,265**	**3,215**
Liquidity	**958**	**857**	**866**	**1,020**	**982**	**982**	**856**	**906**	**998**	**820**	**820**	**879**	**892**	**1,002**
Credit Metrics														
Secured Net Leverage	1.5x	1.7x	1.3x	1.2x	1.5x	1.5x	1.6x	1.4x	1.3x	1.3x	1.3x	1.4x	1.4x	1.2x
Net Leverage	2.0x	2.1x	2.1x	2.0x	2.9x	2.9x	2.8x	2.6x	2.4x	2.4x	2.4x	2.4x	2.4x	2.3x
EBITDA / Interest	6.9x	6.0x	6.0x	6.2x	5.4x	5.4x	6.3x	6.0x	5.5x	5.7x	5.7x	5.2x	5.2x	5.4x
EBITDA - Capex / Interest	3.3x	2.3x	2.1x	2.1x	-2.9x	-2.9x	-3.2x	-2.6x	-1.9x	2.1x	2.1x	2.4x	2.4x	2.3x
Key Industry Metrics														
Operating Ratio	90.3%	89.6%	87.6%	86.2%	86.5%	86.5%	85.7%	83.2%	84.2%	86.2%	86.2%	85.9%	82.9%	82.7%
yoy change	*-0.9%*	*0.8%*	*5.3%*	*0.7%*	*-4.2%*	*-4.2%*	*-4.4%*	*-5.0%*	*-2.3%*	*-0.3%*	*-0.3%*	*0.2%*	*-0.4%*	*-1.8%*
Tonnage	2,073	2,205	2,231	2,258	2,116	2,116	2,245	2,326	2,206	2,011	2,011	2,061	2,152	2,087
yoy change	*0.9%*	*-1.8%*	*-3.6%*	*0.7%*	*2.0%*	*2.0%*	*1.8%*	*4.2%*	*-2.3%*	*-4.9%*	*-4.9%*	*-8.2%*	*-7.4%*	*-5.4%*
Shipments	48,622	49,107	51,220	53,637	51,382	51,382	51,392	53,519	51,921	49,109	49,109	48,400	50,782	50,094
yoy change	*1.5%*	*1.5%*	*1.9%*	*7.8%*	*5.7%*	*5.7%*	*4.7%*	*4.5%*	*-3.2%*	*-4.4%*	*-4.4%*	*-5.8%*	*-5.1%*	*-3.5%*
Yield Ex-Fuel (per HundredWeight)	21.19	21.06	21.63	22.81	23.37	23.37	23.13	23.56	24.34	24.84	24.84	24.73	24.99	25.77
yoy change	*1.4%*	*1.4%*	*1.4%*	*6.4%*	*10.3%*	*10.3%*	*9.8%*	*8.9%*	*6.7%*	*6.3%*	*6.3%*	*6.9%*	*6.1%*	*5.9%*
Segment Drivers														
Sales Growth														
North American LTL	12.6%	1.2%	-8.4%	1.9%	8.6%	0.6%	9.0%	12.0%	1.8%	-2.6%	4.9%	-4.0%	-2.5%	0.3%
European Transporation	0.0%	0.0%	-3.2%	1.5%	2.0%	0.0%	1.3%	3.5%	6.8%	1.6%	3.3%	-1.9%	4.1%	6.7%
EBITDA Margin														
North American LTL	20.1%	16.3%	18.3%	19.6%	19.6%	18.5%	20.9%	23.3%	22.7%	24.1%	22.8%	21.3%	24.2%	24.6%
European Transporation	5.5%	4.7%	5.9%	5.9%	4.8%	5.3%	4.8%	6.1%	5.5%	3.5%	5.0%	4.1%	5.2%	4.4%
Adj. EBITDA	**$ 997**	**$ 210**	**$ 244**	**$ 278**	**$ 264**	**$ 996**	**$ 288**	**$ 343**	**$ 333**	**$ 303**	**$ 1,266**	**$ 278**	**$ 340**	**$ 342**
EBITDA	**$ 824**	**$ 164**	**$ 217**	**$ 268**	**$ 236**	**$ 885**	**$ 265**	**$ 325**	**$ 317**	**$ 279**	**$ 1,186**	**$ 275**	**$ 330**	**$ 300**
Net Leverage (Adj.)	**2.0x**					**2.9x**					**2.4x**	**2.4x**	**2.4x**	**2.3x**

Revenue & Profitability

- Tonnage/Volume down mid-single digits but yield remains consistently positive
- LTL EBITDA margin now ~25% despite the cycle
- OR improving further into low-80s

Cash Flow & Liquidity

- Consistent positive FCF, even in downturns
- Capex flexible within 8-12% revenue
- Liquidity ~$1B with no near term refinancing pressure

Capital Structure

- Net leverage ~2.3x; secured ~1.2x
- Interest coverage ~5.4x
- No maturities before 2028

9. Key Risks and Mitigants

1. **Covenant Flexibility (Primary Structural Risk)**
    a. XPO has capacity to add roughly $2.6B of incremental first-lien secured debt under the TLB credit agreement, which would take first lien net leverage from 1.2x to 3.3x.
    b. Risk is potential recovery dilution for unsecured creditors.
    c. **Mitigant**: management behavior and stated IG path reduce probability of use.
2. **Freight Downturn / Cyclical Weakness**
    a. Prolonged volume softness/deeper trough could push leverage back toward ~3.5x.
    b. FCF compresses sharply and turns negative for three years in the modeled downside, at -$320M, -$138M and -$26M, before recovering. Liquidity holds at $566M or better throughout, with a peak revolver draw of $34M against a $600M facility.
    c. **Mitigant**: LTL pricing remains rational even in downturns
3. **Execution Risk on Margin Expansion**
    a. Network adds (Yellow), mix/pricing optimization and PT (purchased transport) insourcing must continue to perform and build on recent efforts
    b. **Mitigant**: early results strong; service metrics & PT trends credible.
4. **European Transportation Segment**
    a. Lower-margin, FX-exposed business; potential drag on consolidated results until sold or restructured and adds complexity to what would otherwise be a pure-play near best-in-class LTL business.
    b. **Mitigant**: <10% EBITDA; optional divestiture positive
5. **2028 Debt Wall:**
    a. ~$1.5B of secured debt matures mid-2028.
    b. **Mitigant**: plenty of runway, improving leverage trajectory, and strong capital markets access at current ratings

10. Forecasts

Base Case Forecast

Modest volume recovery beginning 2026, stable mid-20s LTL margins, capex aligned with 8-12% revenue. Free cash flow above a $600M minimum cash balance funds $150M of annual buybacks, in line with the 2024-25 run rate, with the remainder prepaying the term loans. Net leverage falls to 1.4x by 2027 and 0.6x by 2030, and the term loans are fully retired in 2029, leaving $830M of secured notes and $1,335M of unsecured against $1,118M of cash.

$ in millions	2022	2023	2024	1Q25	2Q25	3Q25	4Q25E	2025E	2026E	2027E	2028E	2029E	2030E
Segment Net Sales:													
North American LTL	$ 4,645	$ 4,671	$ 4,899	$ 1,172	$ 1,240	$ 1,254	$ 1,292	$ 4,958	$ 5,206	$ 5,518	$ 5,849	$ 6,141	$ 6,448
European Transporation	3,073	3,073	3,173	782	841	857	$ 866	$ 3,346	$ 3,412	$ 3,481	$ 3,550	$ 3,621	$ 3,694
Total Company Net Sales	**$ 7,718**	**$ 7,744**	**$ 8,072**	**$ 1,954**	**$ 2,080**	**$ 2,111**	**$ 2,157**	**$ 8,303**	**$ 8,618**	**$ 8,999**	**$ 9,399**	**$ 9,763**	**$ 10,142**
yoy growth	*-40%*	*0%*	*4%*	*-3%*	*0%*	*3%*	*12%*	*3%*	*4%*	*4%*	*4%*	*4%*	*4%*
Segment Adj. EBITDA													
North American LTL	$ 932	$ 864	$ 1,115	$ 250	$ 300	$ 308	$ 316	$ 1,174	$ 1,275	$ 1,379	$ 1,462	$ 1,535	$ 1,612
European Transporation	169	163	158	32	44	38	52	$ 166	205	226	249	253	259
Total Adj. EBITDA	**$ 997**	**$ 996**	**$ 1,266**	**$ 278**	**$ 340**	**$ 342**	**$ 364**	**$ 1,336**	**$ 1,476**	**$ 1,602**	**$ 1,707**	**$ 1,785**	**$ 1,867**
margin	*13%*	*13%*	*16%*	*14%*	*16%*	*16%*	*17%*	*16%*	*17%*	*18%*	*18%*	*18%*	*18%*
Free Cash Flow													
Adj. EBITDA	$ 997	$ 996	$ 1,266	$ 278	$ 340	$ 342	$ 364	$ 1,336	$ 1,476	$ 1,602	$ 1,707	$ 1,785	$ 1,867
Less: Capex	(521)	(1,533)	(789)	(199)	(196)	(156)	$ (173)	$ (724)	$ (819)	$ (855)	$ (846)	$ (879)	$ (913)
Less: Interest Expense	(145)	(185)	(223)	(42)	(75)	(41)	$ (82)	$ (240)	$ (228)	$ (210)	$ (189)	$ (166)	$ (141)
Less: Chg. In WC/Other	(1)	99	194	78	15	(67)	$ -	$ 26	$ -	$ -	$ -	$ -	$ -
Less: Taxes	(87)	(34)	(90)	2	(33)	42	24	35	(95)	(120)	(153)	(169)	(187)
Free Cash Flow (Levered)	**$ 243**	**$ (657)**	**$ 358**	**$ 117**	**$ 51**	**$ 120**	**$ 134**	**$ 434**	**$ 335**	**$ 417**	**$ 519**	**$ 571**	**$ 626**
Cash	460	412	246	212	225	335	317	451	600	600	600	642	1,118
Total Debt	**2,415**	**3,265**	**3,265**	**3,265**	**3,265**	**3,215**	**3,215**	**3,215**	**3,179**	**2,913**	**2,544**	**2,165**	**2,165**
Liquidity	**958**	**982**	**820**	**879**	**892**	**1,002**	**984**	**1,118**	**1,267**	**1,267**	**1,267**	**1,309**	**1,785**
Credit Metrics													
Secured Net Leverage	1.5x	1.5x	1.3x	1.4x	1.4x	1.2x	1.2x	1.1x	0.8x	0.6x	0.4x	0.1x	0.0x
Net Leverage	2.0x	2.9x	2.4x	2.4x	2.4x	2.3x	2.3x	2.1x	1.7x	1.4x	1.1x	0.9x	0.6x
EBITDA / Interest	6.9x	5.4x	5.7x	5.2x	5.2x	5.4x	5.3x	5.6x	6.5x	7.6x	9.0x	10.7x	13.2x
EBITDA - Capex / Interest	3.3x	-2.9x	2.1x	2.4x	2.4x	2.3x	2.2x	2.6x	2.9x	3.6x	4.6x	5.5x	6.8x
Segment Drivers													
Sales Growth													
North American LTL	12.6%	0.6%	4.9%	-4.0%	-2.5%	0.3%	3.0%	1.2%	5.0%	6.0%	6.0%	5.0%	5.0%
European Transporation	0.0%	0.0%	3.3%	-1.9%	4.1%	6.7%	1.0%	5.4%	2.0%	2.0%	2.0%	2.0%	2.0%
EBITDA Margin													
North American LTL	20.1%	18.5%	22.8%	21.3%	24.2%	24.6%	24.5%	23.7%	24.5%	25.0%	25.0%	25.0%	25.0%
European Transporation	5.5%	5.3%	5.0%	4.1%	5.2%	4.4%	6.0%	5.0%	6.0%	6.5%	7.0%	7.0%	7.0%
Adj. EBITDA	**$ 997**	**$ 996**	**$ 1,266**	**$ 278**	**$ 340**	**$ 342**	**$ 364**	**$ 1,336**	**$ 1,476**	**$ 1,602**	**$ 1,707**	**$ 1,785**	**$ 1,867**
EBITDA	**$ 824**	**$ 885**	**$ 1,186**	**$ 275**	**$ 330**	**$ 300**	**$ 355**	**$ 1,279**	**$ 1,441**	**$ 1,567**	**$ 1,672**	**$ 1,750**	**$ 1,832**
Net Leverage (Adj.)	**2.0x**	**2.9x**	**2.4x**	**2.4x**	**2.4x**	**2.3x**	**2.3x**	**2.1x**	**1.7x**	**1.4x**	**1.1x**	**0.9x**	**0.6x**

Downside Case Forecast

~7% revenue decline, LTL margin compression to ~18.5-19.5%, higher interest costs, and working capital usage of 5% of revenue in 2026, easing thereafter. The case starts from $450M of cash at year-end 2025 and spends it: free cash flow is negative for three years, cash reaches zero in 2027, and the revolver funds the gap. Leverage peaks at 3.5x in 2027 and improves thereafter. Liquidity troughs at $566M in 2028, with the revolver drawn modestly against its $600M capacity, peaking at $34M.

$ in millions	2022	2023	2024	1Q25	2Q25	3Q25	4Q25E	2025E	2026E	2027E	2028E	2029E	2030E
Segment Net Sales:													
North American LTL	$ 4,645	$ 4,671	$ 4,899	$ 1,172	$ 1,240	$ 1,254	$ 1,292	$ 4,958	$ 4,611	$ 4,426	$ 4,470	$ 4,560	$ 4,697
European Transporation	3,073	3,073	3,173	782	841	857	$ 866	$ 3,346	$ 3,078	$ 2,955	$ 2,925	$ 2,955	$ 3,014
Total Company Net Sales	**$ 7,718**	**$ 7,744**	**$ 8,072**	**$ 1,954**	**$ 2,080**	**$ 2,111**	**$ 2,157**	**$ 8,303**	**$ 7,689**	**$ 7,381**	**$ 7,396**	**$ 7,514**	**$ 7,710**
yoy growth	*-40%*	*0%*	*4%*	*-3%*	*0%*	*3%*	*12%*	*3%*	*-7%*	*-4%*	*0%*	*2%*	*3%*
Segment Adj. EBITDA													
North American LTL	$ 932	$ 864	$ 1,115	$ 250	$ 300	$ 308	$ 316	$ 1,174	$ 876	$ 819	$ 872	$ 958	$ 1,033
European Transporation	169	163	158	32	44	38	52	$ 166	92	103	117	133	151
Total Adj. EBITDA	**$ 997**	**$ 996**	**$ 1,266**	**$ 278**	**$ 340**	**$ 342**	**$ 364**	**$ 1,336**	**$ 964**	**$ 918**	**$ 985**	**$ 1,087**	**$ 1,180**
margin	*13%*	*13%*	*16%*	*14%*	*16%*	*16%*	*17%*	*16%*	*13%*	*12%*	*13%*	*14%*	*15%*
Free Cash Flow													
Adj. EBITDA	$ 997	$ 996	$ 1,266	$ 278	$ 340	$ 342	$ 364	$ 1,336	$ 964	$ 918	$ 985	$ 1,087	$ 1,180
Less: Capex	(521)	(1,533)	(789)	(199)	(196)	(156)	$ (173)	$ (724)	$ (615)	$ (517)	$ (518)	$ (564)	$ (617)
Less: Interest Expense	(145)	(185)	(223)	(42)	(75)	(41)	$ (82)	$ (240)	$ (276)	$ (304)	$ (319)	$ (319)	$ (303)
Less: Chg. In WC/Other	(1)	99	194	78	15	(67)	$ -	$ 26	$ (384)	$ (221)	$ (148)	$ (113)	$ (77)
Less: Taxes	(87)	(34)	(90)	2	(33)	42	23	34	(9)	(14)	(26)	(39)	(52)
Free Cash Flow (Levered)	**$ 243**	**$ (657)**	**$ 358**	**$ 117**	**$ 51**	**$ 120**	**$ 133**	**$ 433**	**$ (320)**	**$ (138)**	**$ (26)**	**$ 53**	**$ 131**
Cash	460	412	246	212	225	335	450	450	130	-	-	19	150
Total Debt	**2,415**	**3,265**	**3,265**	**3,265**	**3,265**	**3,215**	**3,215**	**3,215**	**3,215**	**3,223**	**3,249**	**3,215**	**3,215**
Liquidity	**958**	**982**	**820**	**879**	**892**	**1,002**	**1,117**	**1,117**	**797**	**659**	**633**	**686**	**817**
Credit Metrics													
Secured Net Leverage	1.5x	1.5x	1.3x	1.4x	1.4x	1.2x	1.1x	1.1x	1.8x	2.1x	1.9x	1.7x	1.5x
Net Leverage	2.0x	2.9x	2.4x	2.4x	2.4x	2.3x	2.1x	2.1x	3.2x	3.5x	3.3x	2.9x	2.6x
EBITDA / Interest	6.9x	5.4x	5.7x	5.2x	5.2x	5.4x	5.5x	5.6x	3.5x	3.0x	3.1x	3.4x	3.9x
EBITDA - Capex / Interest	3.3x	-2.9x	2.1x	2.4x	2.4x	2.3x	2.5x	2.6x	1.3x	1.3x	1.5x	1.6x	1.9x
Segment Drivers													
Sales Growth													
North American LTL	12.6%	0.6%	4.9%	-4.0%	-2.5%	0.3%	3.0%	1.2%	-7.0%	-4.0%	1.0%	2.0%	3.0%
European Transporation	0.0%	0.0%	3.3%	-1.9%	4.1%	6.7%	1.0%	5.4%	-8.0%	-4.0%	-1.0%	1.0%	2.0%
EBITDA Margin													
North American LTL	20.1%	18.5%	22.8%	21.3%	24.2%	24.6%	24.5%	23.7%	19.0%	18.5%	19.5%	21.0%	22.0%
European Transporation	5.5%	5.3%	5.0%	4.1%	5.2%	4.4%	6.0%	5.0%	3.0%	3.5%	4.0%	4.5%	5.0%
Adj. EBITDA	**$ 997**	**$ 996**	**$ 1,266**	**$ 278**	**$ 340**	**$ 342**	**$ 364**	**$ 1,336**	**$ 964**	**$ 918**	**$ 985**	**$ 1,087**	**$ 1,180**
EBITDA	**$ 824**	**$ 885**	**$ 1,186**	**$ 275**	**$ 330**	**$ 300**	**$ 355**	**$ 1,279**	**$ 929**	**$ 883**	**$ 950**	**$ 1,052**	**$ 1,145**
Net Leverage (Adj.)	**2.0x**	**2.9x**	**2.4x**	**2.4x**	**2.4x**	**2.3x**	**2.1x**	**2.1x**	**3.2x**	**3.5x**	**3.3x**	**2.9x**	**2.6x**

11. Covenant Structure and Documentation Analysis

Term Loan Covenants (TLB-2 2028 & TLB-3 2031)

Key Risk: Incremental Secured Debt Capacity

- $400M free-and-clear basket plus ratio-based capacity up to a 3.0x first lien net leverage test
- ~$2.6B of capacity today: 3.0x on $1,263M of LTM Adj. EBITDA permits $3,789M of first lien net debt against $1,545M outstanding, leaving $2,244M of ratio capacity plus the $400M basket ($2.9B on 2025E EBITDA). Basket size and test level should be confirmed against the credit agreement.
- New debt would be pari passu (no priming risk)
- **Risk**: recovery dilution in a downside scenario.
- **Mitigant**: Management's stated IG trajectory and deleveraging track record

Pricing Grid: 25bps step-down at 1.21x secured leverage (credit positive signal despite lower spread)
Call Protection: Soft-call 101 through Feb 2026, then par
RP/Distribution Tests: Open below 2.5x. Management has used the capacity modestly, $129M of buybacks in 2024 and $104M in 2025E, and the base case assumes $150M a year.
Baskets: Investments/assets sales baskets are typical; no asset value leakage risk.

This is not a distressed credit, and recovery isn't part of the thesis, but even in a severe stress scenario (LTM Adj. EBITDA of $1,263M halved, 4.5x distressed multiple), secured debt recovers fully while unsecured recovers ~72%.

Unsecured Note Covenants

- Effectively subordinated to all secured debt to the extent of its collateral
- Standard HY protections (FCCR, secured leverage tests)
- Call schedules cap current prices (104-105)
- CoC at 101% with double trigger

Covenant Assessment

For TLB holders: Strong protection, no priming, manageable dilution risk given management behavior
For unsecured: Meaningful subordination risk from secured capacity, but IG path reduces probability
Conclusion: Covenant package favors TLB vs unsecured at current levels

12. Return Profile / Relative Value Analysis

As a floating-rate instrument, carry will compress as the Fed eases. Forward curves imply ~75-100bps of cuts through 2026-2027, with 1M SOFR hitting a trough near 3.0-3.2% (currently 3.9%). This would reduce the all-in yield on the TLB-3 to the 4.5% to 5.0% range (depending on timing of cuts and if the 25bps stepdown triggers). This supports modest sizing, with the thesis being downside protection and secured carry, not chasing max yield.

Term Loan B-3

- Best balance of carry + downside protection with low duration mitigating macro risk.
- Relative to XPO's own unsecured notes (trading 104-105, YTW ~5.1-5.2%), the TLB-3 offers comparable yield with senior security and no call risk which is simply a better risk-adjusted entry point.

Unsecured Notes

- Trading 104-105; call-capped.
- Limited total return until refinanced.
- Better entry likely in 2026–27 new issues.

13. Conclusion & Recommendation

XPO's term loans offer a clean way to own an LTL credit with consistent FCF, expanding margins, and a management team pursuing an IG-style balance sheet. The TLB-3 specifically provides attractive carry and first-lien protection, with downside limited by ample liquidity even in stressed scenarios. Upside is carry-driven, with additional optionality from continued OR improvement and a potential European divestiture.

At current levels, the term loan is the correct expression of the credit. The unsecureds are call-capped and offer limited total return. The 2026-27 refinancing cycle is the more compelling unsecured entry point and should be monitored.

Recommendation: BUY First-Lien Term Loan B-3 (2031) – modest sizing

- Conclusion & Recommendation

- **Freight volumes stabilizing into 2026**, following one of the weakest multi-year freight backdrops (ISM in contraction 34 of 36 months).
- **Continued OR expansion**, with the LTL adjusted OR already at 82.7% and improving 350bps over the past two years.
- **PT insourcing tailwinds continuing**, supported by a 48% YoY reduction in purchased transportation and 770bps drop in outsourced linehaul miles.
- **Structural pricing discipline**, shown by 11 consecutive quarters of sequential yield ex-fuel growth.
- **Service-driven share gains**, with claims ratio at a record-low ~0.2% and on-time performance improving for 14 straight quarters.
- **European Transportation divestiture optionality** (0.3-0.5x potential leverage reduction).
- **Consistent FCF-driven deleveraging** supporting a re-rating path toward 1.5-2.0x net leverage.