RXO INSIGHTS

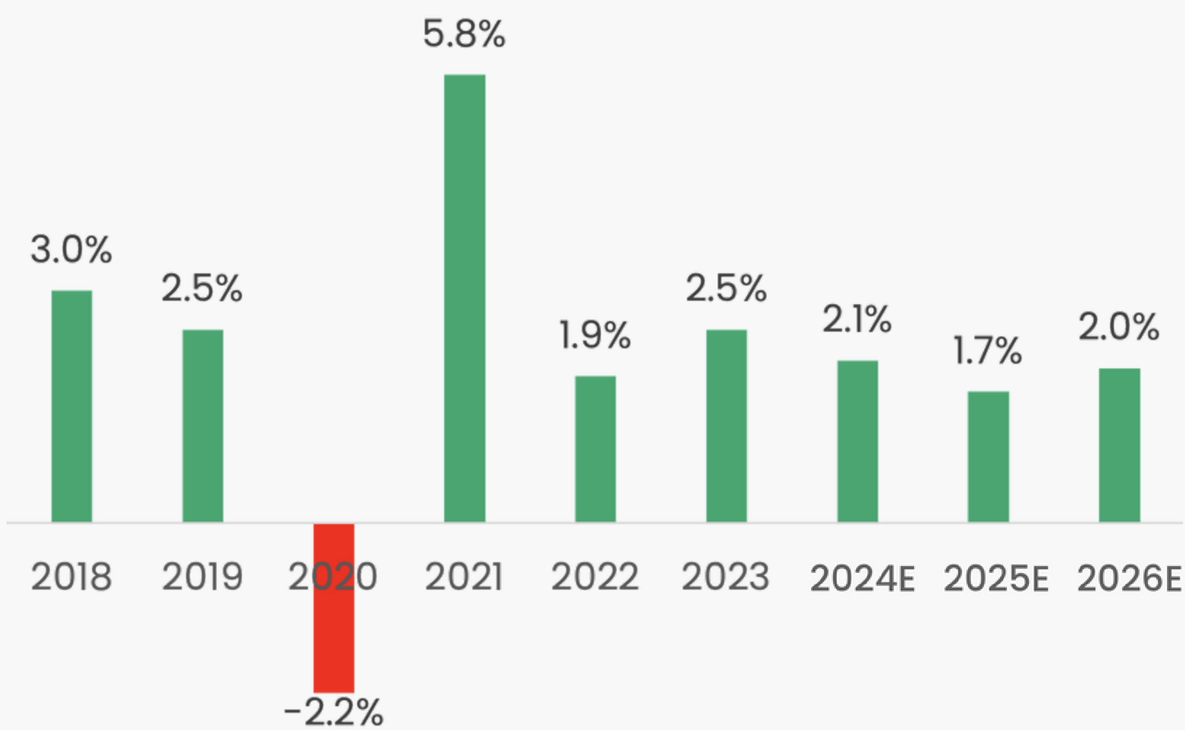
State of the Industry Report

Q1 2024

Macroeconomic View

The macroeconomic environment continues to demonstrate resilience and moderate growth, despite the headwinds of higher inflation and interest rates. The U.S. economy grew by 2.5% in 2023 and is projected to grow by 2.1% in 2024, on track to achieve a soft landing, with moderating inflation and strong employment.

Gross Domestic Product (GDP): Actual and Projected
Source: U.S. Bureau of Economic Analysis and Bloomberg



Inflation and Interest Rates

One of the main challenges facing the U.S. economy and the freight markets is the persistent inflationary pressure that has eroded the purchasing power of consumers and businesses. A key indicator of inflation is the Consumer Price Index (CPI), which measures the changes in the prices of a basket of goods and services that consumers typically purchase.

Core CPI, which excludes the volatile moves in food and energy prices, has moderated, but still remains well above the Fed's target of 2%.

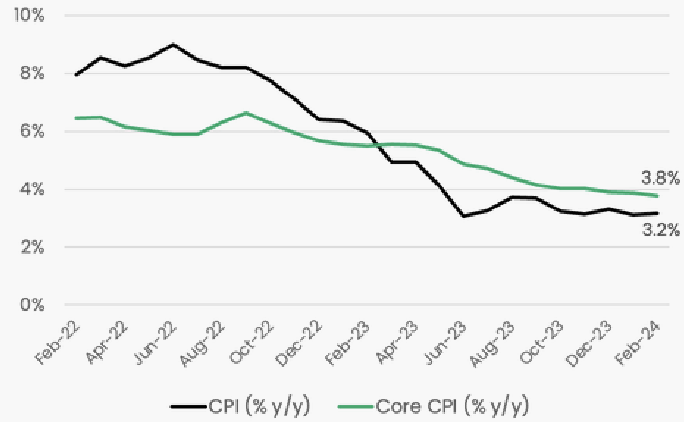
Nonetheless, the Fed is comfortable with recent progress and has signaled its intention to cut interest rates by year-end. The Fed's Summary of Economic Projections (SEP) and markets are currently pricing in approximately three rate cuts by year-end, totaling 75 basis points. This should provide some relief to the consumer and help stimulate aggregate demand.

Consumer Demand

The consumer remains the key driver of the economy, accounting for about two-thirds of U.S. GDP. Consumer sentiment, as measured by the Michigan Consumer Sentiment Index, has risen significantly since the peak of inflation in 2022, supported by a robust labor market, strong wage growth and lower energy prices.

Consumer Price Index, Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics



Michigan Consumer Sentiment Index

Source: The University of Michigan

Inventories

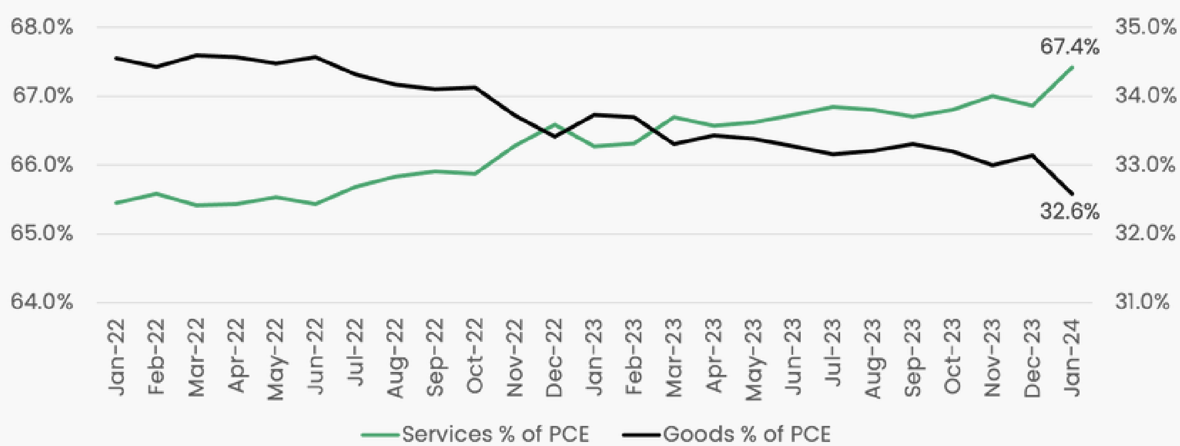
Inventories are in a significantly better position when compared to this time last year. Specifically, over the last five quarters, the largest retailers in the U.S. have grown revenue dollars on a year-over-year basis well ahead of inventory dollars. While it appears that the destocking cycle is largely complete and retailers are in a better position to restock and replenish their shelves, it is unclear when the restocking will begin. Year-to-date port volumes support this trend. January port volumes at the "Big Three" West Coast ports grew 20% year-over-year and robust growth rates continued in the month of February. However, consumer spending has also shifted from goods to services, reflecting the changing preferences and behaviors of the post-COVID era. This also helps partly explain the diverging trends of a growing economy and a prolonged soft freight market. While the macroeconomy is reasonably healthy and the consumer has been resilient, the mix shift in spend from goods to services has resulted in sustained weak freight demand.

Mega-retailers Trends	**Apr-22**	**Jul-22**	**Oct-22**	**Jan-23**	**Apr-23**	**Jul-23**	**Oct-23**	**Jan-24**
Sales Total (Y/Y % Change)	2%	6%	7%	5%	3%	2%	1%	2%
Inventory Total (Y/Y % Change)	29%	27%	16%	3%	(6%)	(9%)	(7%)	(8%)
Spread Y/Y % (Sales Trend - Inventory Trend)	**(27%)**	**(20%)**	**(9%)**	**2%**	**10%**	**10%**	**8%**	**10%**
Sales Total (Q/Q % Change)	(5%)	9%	(3%)	5%	(7%)	7%	(4%)	6%
Inventory Total (Q/Q % Change)	11%	(1%)	6%	(11%)	1%	(4%)	8%	(12%)
Spread Q/Q % (Sales Trend - Inventory Trend)	**(16%)**	**10%**	**(9%)**	**16%**	**(7%)**	**11%**	**(12%)**	**18%**

Source: Factset, Company Reports, SFG Research

Personal Consumption Expenditure

Source: U.S. Bureau of Economic Analysis

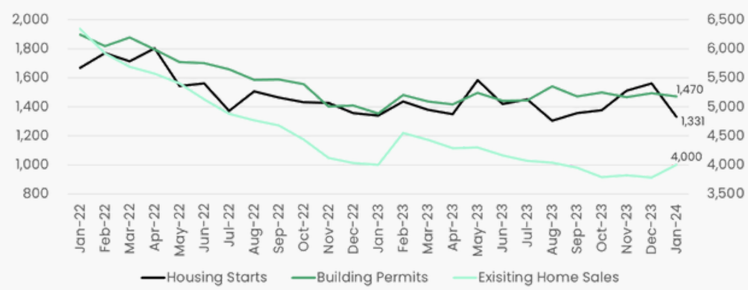


The Housing Market

The housing market has been mixed. On the positive side, building permits have remained steady over the past year, despite higher interest rates. On the negative side, housing inventory remains low, a significant percentage of homeowners locked their interest rates substantially below current levels and existing home sales have therefore been depressed. The housing market could benefit from further rate cuts, which could spur existing home sales, more construction and consumption of durable and big and bulky goods.

Housing Starts and Building Permits

Source: U.S. Bureau of the Census, seasonally-adjusted annual rate (thousands)



Industrial Demand

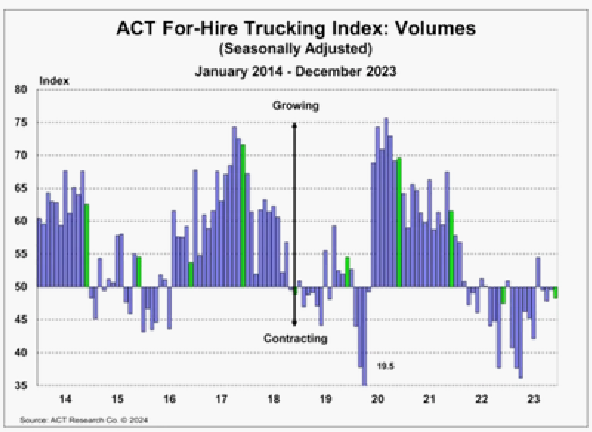
Contrary to what is happening in the consumer markets, the industrial sector has been in contractionary territory for a prolonged period. Encouragingly, both the Manufacturing PMI and the new orders component recently move higher and expanded (moved above 50) for the first time since 2022. The industrial sector can also be a major source of employment and income for many truck drivers. When freight rates are depressed, like in the current environment, drivers typically will seek alternative employment until rates recover.

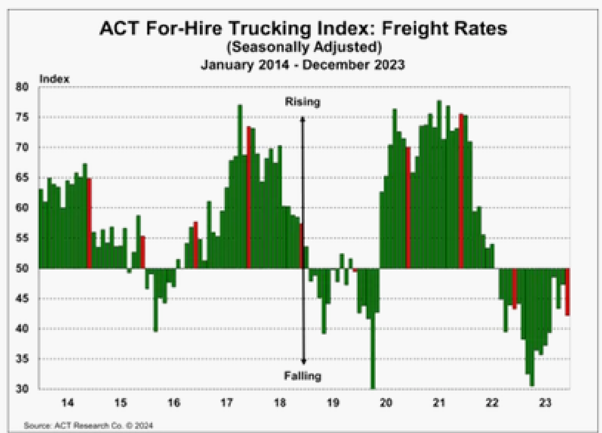
ISM Manufacturing Purchasing Managers' Index

Source: Institute for Supply Management

Freight-Market View

Freight market conditions remain soft, characterized by excess supply and weak demand. The supply of truckload capacity was inflated in 2020 and 2021 by the influx of new entrants, who enjoyed low interest rates, COVID-related government stimulus funding and an environment that supported robust spot rates.





One of the key indicators that RXO monitors to gauge the health of the freight market is the Cass Freight Index, which measures the monthly changes in tonnage and expenditures of shipments across various modes of transportation. The latest data from the Cass Freight Index shows that the freight market remained soft in February 2024, with shipments declining year-over-year for the 12th consecutive month. Encouragingly though, the rate of change has improved nearly every month since October 2023, and in February, the index declined just 4.5% year-over-year. We expect this measure to improve, in-line with RXO's base case assumption of a freight market recovery in the second half of 2024.

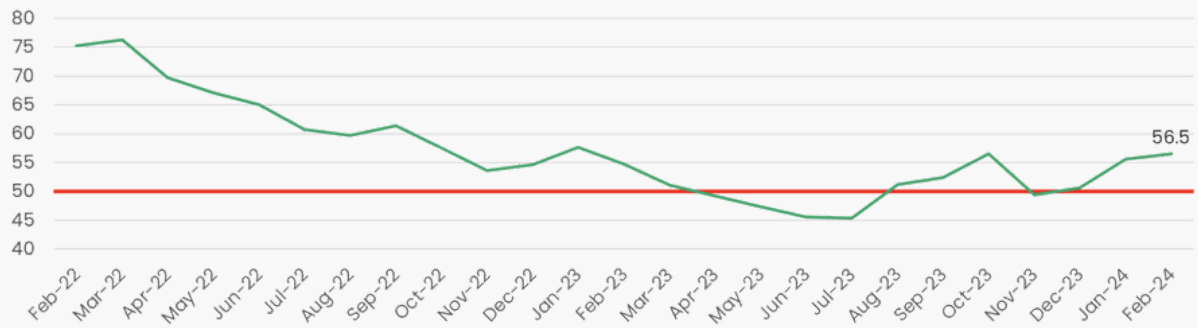
Cass Freight Index

Source: Cass Information Systems, Inc.

Similarly, the Logistics Managers' Index has been improving steadily since November 2023.

Logistics Managers' Index

Source: Logistics Managers' Index

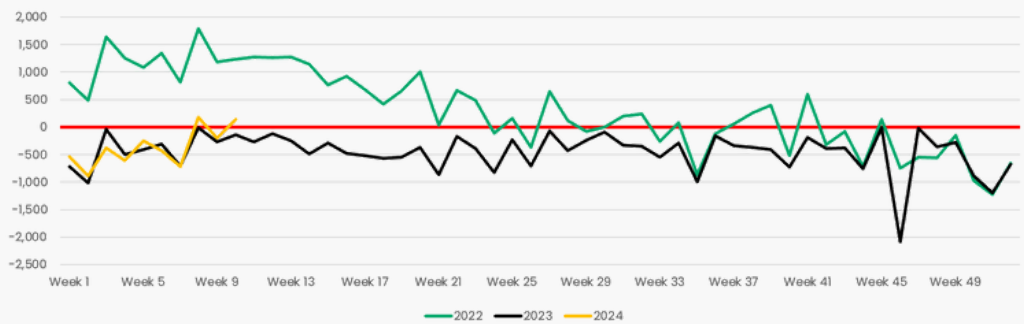


Trucking Capacity

Carrier exits will be a main determinant of the freight market's ultimate recovery. According to DAT and FMCSA data, there have been net carrier exits every month since October 2022, with an acceleration in December 2023 and January 2024. However, at the end of the first quarter, carrier exits slowed, and in some weeks, there was a net increase in carriers. Nonetheless, we continue to expect the rate of carrier exits to accelerate into the second half of 2024. Our expectation is aligned with unit economics. Cost pressures for many carriers have been acute in recent years, with costs such as insurance, maintenance and tires rising significantly. When combined with a prolonged soft freight environment, operating costs are above current freight rates for many carriers.

Weekly Carrier Exits, Net

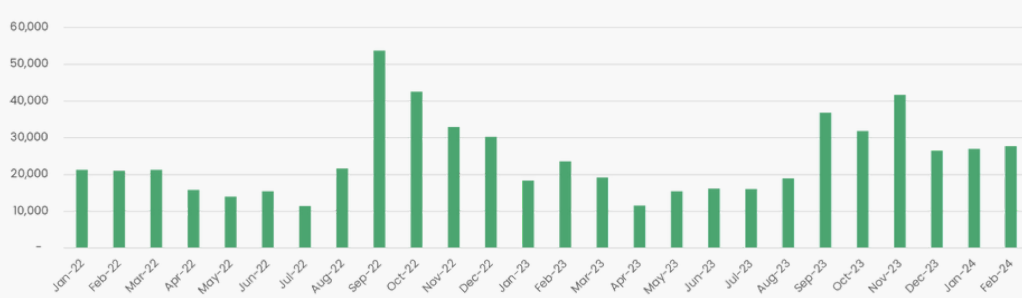
Source: FreightWaves



Class 8 orders are a proxy for the demand for new trucks and have been surprisingly resilient, despite low freight rates and high operating costs. This could be attributable to demand from private fleets, which couldn't acquire vehicles during the COVID-related transportation boom, and to a lesser extent, demand ahead of new environmental standards that are scheduled to go into effect in 2027. RXO expects that this trend will reverse due to the unfavorable carrier economics discussed earlier, which should result in more used trucks entering the secondary market and a resulting decrease in Class 8 orders.

Class 8 Orders

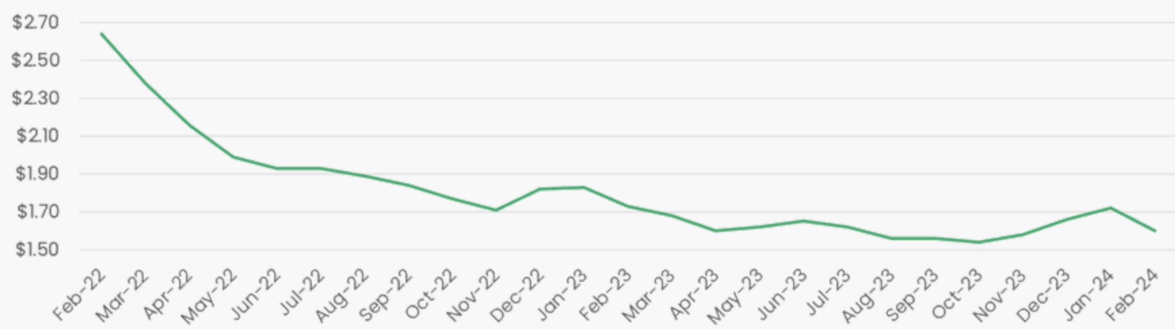
Source: ACT Research



The current rate environment is not sustainable for many carriers. Spot rates remain low and in some cases are 20% below carrier operating costs. To restore market equilibrium, carriers will need to continue to exit and/or demand will need to improve.

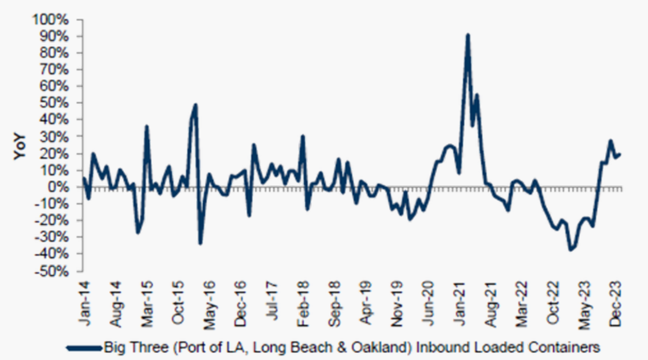
Spot Rates, Excluding Fuel

Source: DAT



Port Activity

Volume coming in to the "Big Three" West Coast ports was above-seasonal in January, up 20% from a year ago. February also looks strong, based on some of the initial data. This data is potentially indicative of some retail inventory replenishment and may point to increased freight demand in the second half of 2024.



Source: Port of Long Beach, Port of Los Angeles, Port of Oakland

Conclusion

In conclusion, while we're still operating in a prolonged soft freight market, RXO's base case is for a rebalancing of supply and demand in the second half of the year. The main factors that will drive an improved freight market are:

- **Continued carrier exits**, which will reduce the excess capacity and result in a more balanced market
- **Improved demand**, especially from the retail sector, which should benefit from better inventory positions and a lower interest rate environment, and
- **The potential recovery of the industrial sector**, which could increase the demand for freight and create an alternative source of employment for current truck drivers, accelerating carrier exits.

In the near-term, seasonal factors including warmer weather and produce season should lead to seasonally better demand and tighten capacity in certain regions.

Forward-Looking Statements

This document includes forward-looking statements, including statements relating to our outlook and financial year 2024 assumptions. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan,“ "predict," "should," "will," "expect," "project," "forecast," "goal," "outlook," "target," or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include the risks discussed in our filings with the SEC and the following: competition and pricing pressures; economic conditions generally; the severity, magnitude, duration and aftereffects of the COVID-19 pandemic and government responses to the COVID-19 pandemic; fluctuations in fuel prices; increased carrier prices; severe weather, natural disasters, terrorist attacks or similar incidents that cause material disruptions to our operations or the operations of the third-party carriers and independent contractors with which we contract; our dependence on third-party carriers and independent contractors; labor disputes or organizing efforts affecting our workforce and those of our third-party carriers; legal and regulatory challenges to the status of the third-party carriers with which we contract, and their delivery workers, as independent contractors, rather than employees; litigation that may adversely affect our business or reputation; increasingly stringent laws protecting the environment, including transitional risks relating to climate change, that impact our third-party carriers; governmental regulation and political conditions; our ability to develop and implement suitable information technology systems and prevent failures in or breaches of such systems; the impact of potential cyber-attacks and information technology or data security breaches; issues related to our intellectual property rights; our ability to access the capital markets and generate sufficient cash flow to satisfy our debt obligations; our ability to attract and retain qualified personnel; our ability to successfully implement our cost and revenue initiatives and other strategies; our ability to successfully manage our growth; our reliance on certain large customers for a significant portion of our revenue; damage to our reputation through unfavorable publicity; our failure to meet performance levels required by our contracts with our customers; the inability to achieve the level of revenue growth, cash generation, cost savings, improvement in profitability and margins, fiscal discipline, or strengthening of competitiveness and operations anticipated or targeted; a determination by the IRS that the distribution or certain related separation transactions should be treated as taxable transactions; and the impact of the separation on our businesses, operations and results. All forward-looking statements set forth in this presentation are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us or our business or operations. Forward-looking statements set forth in this presentation speak only as of the date hereof, and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events, except to the extent required by law.

RXO

Smart solutions to move your freight