The Economic Club of New York

116th Year
739th Meeting

Brad Jacobs
Chair and Chief Executive Officer
XPO Logistics

December 11, 2023

In-Person/Hybrid Event

Moderator: Sonali Basak
Global Finance Correspondent
Bloomberg

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 739th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. The Economic Club of New York is known as the nation's leading nonpartisan forum for discussions on economic, social, and political issues. More than 1,000 prominent guest speakers have appeared before the Club over the last century and have established a strong tradition of excellence.

I would like to extend a warm welcome to students who are joining us virtually from Rutgers University, the Gabelli School of Business at Fordham University, and Mercy University. I would also like to welcome members of our largest-ever Class of 2023 Fellows – a select group of diverse, rising, next-gen business thought leaders. As a reminder, applications for our 2024 Fellows program are available on the Club's website.

It is my honor to welcome back our guest of honor, Club Member Brad Jacobs. Brad is a career CEO and serial entrepreneur. To date, he has founded and led seven billion-dollar or multibillion dollar companies, creating tens of billions of dollars of value for shareholders.

Over the course of his career, Brad has raised $30 billion of debt and equity capital, including three IPOs, and led approximately 500 M&A transactions across multiple industries. We had him on back during Covid. He grew XPO into a Top 10 global logistics provider, and then executed a $7 billion spinoff of GXO Logistics and a $5 billion spinoff of RXO, creating two new public companies in about 15 months. XPO was the seventh best-performing stock of the last decade in the *Fortune 500*, and with initial investors in XPO making more than 32 times their investment.

Prior to XPO, Brad founded United Rentals and United Waste Systems. He built United Rentals into the largest construction equipment rental company in the world in 13 months. United Rentals was the sixth best-performing *Fortune 500* stock of the last decade. From a share price at inception of $3.50, the stock now trades at more than 100 times that price. United Waste's stock outperformed the S&P 500 by 5.6 times from the time Jacobs took the company public to its sale for $2.5 billion.

He's the Managing Partner of Jacobs Private Equity, LLC, and serves as Chairman of the Board of XPO, GXO Logistics and RXO

Today, as part of the Club's Author Series, we're here to discuss his latest endeavors, including his book, *How to Make a Few Billion Dollars.* I had the pleasure of reading it last night on Amtrak, and I have to say it was well worth the read. The format today will be a conversation, in which we're honored to have Sonali Basak here, the Global Finance Correspondent for Bloomberg, as our moderator. Time permitting, they will take questions in the room. As a reminder, the conversation is on the record. We do have media on the line and in the room. Without further ado, please join me in welcoming Brad and Sonali to the stage.

Conversation with Brad Jacobs

SONALI BASAK: Thank you for the introduction, Barbara. And Brad, great to sit with you.

BRAD JACOBS: It's great to sit with you. I think more people are coming to see you than me.

SONALI BASAK: Oh, not at all, not at all. You know, we'll talk about the book as well, but in addition to the seven companies, including two spinoffs that you've built, we're actually here on a day where you announced an eighth company. And so it's worth talking about what you're trying to do in that. This has been months in the making. And how do you follow the playbook of the past to build a company of the future?

BRAD JACOBS: I'm trying to make money for shareholders. That's what I've always tried to do and so far we've done it. And I'm trying to follow the same playbook that I've done over and over again and not deviate from that very much.

And that playbook is find a big industry and building products distribution is pretty big, $800 billion. Try to find an industry that grows just by itself, organically, without me acting as a catalyst. And building products distribution has been growing about 7% per year over the last five years, so you can do a lot with 7% organic growth. Try to find an industry that's fragmented enough where there's enough things to buy because the single biggest whatever for value creation, in my playbook is accretive M&A.

And there's plenty of things to buy here. You've got 7,000 distributors here in the states. You've got 13,000 distributors in Europe. There's 20,000 potential targets out there, which keep us busy for the next ten years.

SONALI BASAK: Ten years. There's also a near-term plan that's quite ambitious. You told my colleagues over at Bloomberg that the plan is for this new company, QXO, to build $1 billion in annual revenue for the first year and a company that has $5 billion in annual revenue in three years. How do you do that?

BRAD JACOBS: M&A and organic growth. But the biggest component of that is M&A. It's buying things and then improving them. So if you look at XPO, for example, we did

18 acquisitions, and if you take all their EBITDA that we brought and just pro-forma it all, you'd have about a billion dollars of EBITDA. But fast-forward a few years later, it was doing over $2 billion EBITDA.

So it wasn't just buying stuff. Anybody can buy stuff. It was buying stuff that made sense to buy at, on accretive terms, in a disciplined way, getting synergies between the different things that you're buying, applying very strong management practices to them, and improve the profitability and the return on capital of the business. And I plan to do the same thing in building products distribution. I think it can be done.

SONALI BASAK: Well, explain what's going on here, why you chose this space. There's a lot of questions in America about the underinvestment in homes, the underinvestment in infrastructure. Was it the market that drew you to this opportunity? Or what is the idea that it's just simply fragmented?

BRAD JACOBS: It's both. It couldn't have been just one or the other. It wouldn't have checked all the boxes. I like the long-term fundamentals. And as I wrote in the book, you've got to get the long-term trend right. If you don't get the long-term trend right, you can do all kinds of stuff right and it's just not going to create alpha. And if you get the long-term trend right, even if you mess stuff up, you're still going to create alpha for the most part.

So what I like about building products distribution is there's going to be more things built five years from now and ten years from now. I think it's a safe bet. You've got a several million-unit shortage of housing here in the United States. That's not going to last forever. That's going to drive construction. You've got really old residential construction, like over 40 years old. When I was a kid, an old house was ten years old, and this is, you know, 40 years old, 42 years old is an old house. So you're going to have a lot of repairing and remodeling of those residential construction places. That's also a big end-user for building products distribution.

And then if you look at the non-residential, the commercial part, it's even older. I mean the average structure is commercial is 50, over 50 years old. And then the third component is infrastructure. So I want to play in residential. I want to play in non-resi. And I want to play in infrastructure. I like infrastructure a lot. When I say infrastructure, I'm talking about rebuilding all the bridges and the tunnels and the roads that really, as all of us living in New York know, really need a lot of work. And most people think that's going to cost about $2 trillion. So even if you get like a little chunk of that $2 trillion, that's a good nest egg to have there.

So, yes, the long-term trends to me look very favorable for this. This is not something that's going to be metaversed. I think we're still going to go home at night with our physical bodies to a physical place and sleep in a physical bed and a physical shower and brush your teeth, and we're going to use electricity. So I think, I wanted to do something that wouldn't get metaversed. It wouldn't get, you know, disrupted by AI or by virtual reality and suddenly not be a business and just go away.

SONALI BASAK: It's funny you say that because you are somebody who has thought about automation and have incorporated it into businesses. And so it doesn't seem to me like you are shying away from the idea of technology and automation. It looks like there could be a lot of big ways to use it in your next world.

BRAD JACOBS: A hundred percent. So we've always been tech-forward in all my companies forever because I believe technology makes a business more efficient. I believe technology helps you identify waste. It helps you identify stupid stuff you're doing and like un-stupidize it. It helps you find inefficiencies. It makes things more planned out. I think it just makes money. I mean technology, it has a good ROI. And therefore, you should be tech-forward. You should be very tech-forward. You should embrace, technology should be your friend. You should position yourself so that all the advances in AI and machine learning and robotics and automation, they should be helping you. And every time new iterations come out, that should actually be improving your business and getting your business even better.

So just as we use technology in the warehouse at GXO to get a leg up on the competition and get better margins, better return on capital, we're going to do the same thing here. There's a big warehouse component to this. This is a business that is kind of a supply chain business. You're buying wholesale all kinds of different products. You're storing them in DCs or warehouses. You have a delivery truck component. And technology can help with all parts of that. Inventory management, it absolutely can help on that. On the demand forecasting, on the route optimization, you save a lot of money doing that. And then on the e-commerce, interacting with the customer, digitalizing that.

I saw Drew Wilkerson here a few minutes ago, running RXO. And if you look at RXO, the brokerage business there was 100% manual ten years ago. I mean it was just someone talking to someone. And today, 97% of RXO's orders are either sourced or covered digitally, no human involvement at all, just pure machine to machine. I think most industries are going that way. I think building products distribution, if you look, fast-forward ten years from now, or even less than ten years from now, if you look just at the end of this decade, instead of having roughly 4% give or take e-commerce penetration, I think it's going to be the majority. And it could be the vast majority.

I think a lot of things that customers are just in the habit because that's the way they've always done it, come into the hub on Monday morning at 7:00 and buy the same things they bought last Monday at 7:00. I don't think that's necessary. I think these things can be bought on the phone. I think these things can be bought on your computer. I think these things can be bought in an automated way without even proactively doing it because a lot of these things are very predictable and repetitive. So, yes, I'm not down on technology at all. I'm very up on technology. I'm up on using technology. But I don't want to get into a business, I didn't want to get into a business that I thought could not exist a few years from now as a result of technology.

SONALI BASAK: More machine learning, less metaverse.

BRAD JACOBS: Yes.

SONALI BASAK: So if you think about the future a lot of people are very worried still about, yes, declining inflation, but worries about the cost of goods moving forward. We talked a lot about the top line, this ability to bring $1 billion, $5 billion of annual revenue in. Do you worry at all about what profits look like in kind of this era of the future? Does it cost you more to invest in that technology? Or does that technology strip out the costs to businesses?

BRAD JACOBS: Okay, so I'll answer that in two-time frames, when I started United Rentals and when I started XPO, when I went to my traditional investor base, and then in United Waste, so they had been in on rentals before what they invested here, I told them all, they got the joke. Don't talk to me about earnings for about two years.

Because I let it build up a huge back office infrastructure, services for accounting and for sales and for FP&A and for prediction, all the things that are the blood and...I need to be able to, able to absorb billions of dollars of revenue and get an invoice out and get paid and to pay bills and to just make everything happen and close the books promptly every month. The blood and guts of the back office, which is really important. If you're going to grow fast, you have to have a machine there. There's a machine that's very, very well-oiled.

So, part of that is investing in technology. And I want to get ahead of the curve in technology, I don't want to be behind the curve in technology. So the first couple of years I think the investment in technology and the investment in the back office and the infrastructure and the spinal cord, the central nervous system of the organization, that's going to penalize the P&L in a major way. That's fine because that's not an indefinite thing. That's a short-term thing and then you have this huge J-curve after that. Because now you've got all that set up and you can buy things of many billions of dollars in size and actually function well.

And it's not just the billion-dollar revenue run rate target and the $5 billion revenue run rate target that I'm excited about. Those are like steps along the way. What I'm really enthused about is getting this company to tens of billions of dollars in size. So if you take XPO, GXO, RXO, if we hadn't split them up, it was like $20-something billion business. I want to do something twice that big.

But I don't want to do something twice that big just for some, like empire-building ego trip kind of thing. That's just not my thing. I want to do that because I have a vision – to answer your question – that returns on capital will be higher if we're bigger. We can leverage SG&A off a much larger revenue base. We can get variants of scale and density, get the whole transportation network all really functioning on all eight cylinders. And we get margins improved. So I think over time technology will be our friend at taking out costs and getting higher margins and higher returns on capital.

SONALI BASAK: And when you say doubling the business, XPO plus the spinoff companies, this is $20 billion in revenue, really you're looking at a $40 billion revenue creation.

BRAD JACOBS: Or more, or more. We can do that. It's a $800 billion-sized industry. To build something that's more than $40 billion, we can do that.

SONALI BASAK: Brad, personal question for you...

BRAD JACOBS: Watch out, my daughter is here.

SONALI BASAK: (Laughter)...This is going to be your eighth company, as we've talked about, plus the spinoffs. Do you ever fear you can't do it again?

BRAD JACOBS: I think I'm going to fail every day, from when I started when I was 23 years old. People have this image of people who are successful in businesses having this great macho confidence and I'm going to succeed and I'm going to win. I mean a part of me is that because I am confident because I know what I'm doing, because I'm not really improvising too much from what I've already done. So I'm familiar with it. And most of the components of this plan, I've done it seven times before, so this is the eighth time I'm doing it. It's fairly traditional stuff.

I think you're a robot or you're a psychopath if you don't have some fear of failure, if you don't have some anxiety. I think anxiety and worrying and thinking about where you can go wrong, I think that's part of the human condition, and it's a beautiful part of the human condition. I don't diss that. I embrace that. I think that's okay.

SONALI BASAK: It's interesting. Even the business of M&A, you make it sound like it is a sure-fire thing in creating value. Early in my career, about ten years ago we did a __ analysis of hundreds of companies that used M&A to create synergy. Most of them did not meet their synergy goals. What do you think the biggest mistake is when people are making acquisitions?

BRAD JACOBS: Most companies that do acquisitions should not be doing acquisitions. M&A is really tough. M&A is really, really tough. You have to get a bunch of stuff right for it to work. If you get all those things right, it really works, and creates huge amounts of alpha. But you need a management team and you need a board who knows all that, who is experienced on that. M&A is not for novices. All the figuring out the strategy of what you want to buy. That's a big, big deal. Figuring out how to get relationships with the main targets that you want to buy so they want to sell to you.

SONALI BASAK: Well, even…you discuss this a lot in your book, your philosophy around that has changed quite a bit over the years.

BRAD JACOBS: Yes, I was kind of a jerk in M&A, like in the early part of my career. Like most people are in M&A. That is a big mistake that people make, that now that I'm a little older and wiser, I realize is like stupid. So I wrote in the book that when I was younger, I used to play the waiting game with sellers. I used to, like, you know, we'd have a meeting and I'd tell them I'd call them back on Friday. And we'd get, should we call them back? No, let's make them wait over the weekend, let's call them on Monday.

SONALI BASAK: Hard to get.

BRAD JACOBS: Hard to get. And what I realized over time was all I was doing was pissing people off. I wasn't accomplishing anything at all whatsoever other than annoying the people that I'm trying to get to like me and do a deal with me. So I stopped being a jerk, and I was less jerky than most people. Most people in M&A, first of all, their advisors sometimes tell them to be jerks. Like you listen to the advice of people coaching you on to be tough guys. Stop being a tough guy in M&A.

M&A is a collaborative effort between someone who wants to sell a business and someone who wants to buy a business. It's a big deal. And as most relationships, that kind of a relationship benefits from being respectful and being honest. And in M&A, there's a huge dose of, there's a lot of people out there who don't have a lot of respect or honesty or straightforwardness in M&A. And I'm glad about that because it gives me a leg up on the competition when we're buying something.

I was with an acquisition target just last week, and I had a great connection with him. And if we end up wanting to do that deal, I think it can get done real fast because we both understand, we're both old at this. We've both done this a while, and we both understood what's important and what's not important in a deal. And not doing so much due diligence just to, so that's another thing with people who don't do M&A a lot is they think they've really got to cover their butt. Do all this due diligence, and they have to hire BCG or somebody to write a big report that nobody ever reads and it gets filed away and no one ever reads it again. And they have to analyze why SG&A is an eighth of a percent more than it was in the model. All that is just a waste of time.

SONALI BASAK: You speak in the book also about your relationship with the people around you, particularly the M&A bankers and advisors. Maybe there's a no-jerk mentality but you do hold people very accountable. How are you using some of those metrics to make sure that you get the outcomes? In the book, for example, you said your M&A advisor needs to be earning 10 times their fees.

BRAD JACOBS: So I love bankers and I love management consultants, but I do hold them accountable. I want them to earn their money because we pay them millions of dollars. It's a lot of money. And I have a rule of thumb that I want third parties to make us ten times whatever their fee is. So if McKinsey is charging me $3 million for a project, I want to make $30 million from it. And I want to, upfront at the beginning of the assignment, agree on here's how we're going to calculate whether you made us $10 million, $20 million, $30 million, $40 million, $50 million as a result of this sales force excellence project or this pricing automation project or this machine learning project, or whatever you're hiring them for. We agree ahead of time. Here's what the report card is going to be so there's no like fighting over it later. It is what it is, it's very mathematical. And then we do an analysis after it's over of what happened. And fortunately, most of the time they beat the 10 times.

The same thing with bankers. With bankers, I have a lot of people on my teams usually who came out of the sell side, came out of Wall Street, so I have a lot of that in-house. But I definitely use bankers because bankers have a role to play. Bankers have relationships with people who are selling their business that I don't know, or I've just got to know. And they have a relationship with them for 20 years and they've done a lot of business with them. So they have a role to play as an honest broker between the seller and the buyer for example.

SONALI BASAK: You know, the other thing you talk about a lot is not just your relationship with people who are working for you outside of your businesses, but very much you speak about the people who are working for you inside of your businesses. Talent comes up perennially throughout this book. How do you surround yourself with the right people? And how do you motivate them to build a $1 billion, a billion-dollar business into a $40 billion business?

BRAD JACOBS: I think who you surround yourself with, whether it's personal or business, is the biggest decision you make in life and in business. I really do. I think that's the number one choice that you make as a human being that makes you enjoy or not enjoy life or make a lot of money in business or not make a lot of money in business.

In terms of the qualities I look for, for people in the business, I am very clear in my mind, and I've stuck to it very carefully. I like hiring people who are super smart. Most of the people who have reported to me over the years have had higher IQs than mine. Literally, I'm not giving false modesty. They literally have been, like Mario Harik probably has 25 basis points higher IQ than I do. That's just a fact. It's just what it is. And I like that. I like having people who stimulate me intellectually, who I can ask questions to rather than have to be this Moses figure who is coming down from the mountain with all the answers. I don't want to have all the answers. I want to have all the questions.

And I want to have people who are so smart, so intellectually advanced, and a team of those people where there's nothing more exciting than being in a room with a bunch of people who are like super smart and who get along with each other. So I don't just hire people who are brainiacs. I hire people who are brainiacs, but I also hire people who can get along with each other, who play well in the sandbox, who are collegial, who are collaborative, who we all like each other because we spend a lot of time together. And we're breathing in the air that the other one is breathing out. And I want to be with people who bring out the best in all the other teammates. I quote all the time, Sonali, the saying, teamwork makes the dream work, because I think it's right. It's a cliche that deserves to be a cliche.

If you can get a team of people who are like all superstars, like every single person on that team is a superstar, and yes, they have a big ego in the sense they want to accomplish big stuff. That's good. That's not bad at all. But, no, they don't have a big ego at all in terms of, not so much I, I, I. It's more we, we, we.

SONALI BASAK: How do you get people to think about that? Because on one hand, there is, kind of, one camp of thinking where getting people to work together is the way to create the best outcome. There is another camp of thinking where competition breeds success. Do you think that that hyper-competitive nature is too pervasive in corporate America?

BRAD JACOBS: I can't speak for corporate America, but I can know in my corporations, I definitely don't want people who are going to like go after each other like it's Game of Thrones. That's just toxic. You want to create a culture, you want to create an atmosphere where everybody genuinely admires and respects and likes each other, where you get along, where you're buddies, where you're friends, where you have each other's back, where you're not looking over your shoulder. I think one of the titles of one of the chapters, it was, I don't know if the publishers took it out, it said, how to kill the competition instead of killing each other. Something like that. And I think that's really important.

You've got to create a tribe. You've got to create a gang, your team that's all working together, has a clear vision, we all agree on here's where we want to be a year from now. Here's where we want to be five years from now. Here's where we want to be ten years from now. And we all share that same precise vision of here's where we're going. And then everybody knows, okay, here's what she's going to do. Here's what he's going to do. Here's what she's going to do. This team is going to do that. And everyone understands what am I expected to do to contribute to that vision.

And then to answer the other part of your question about how I motivate them the people for that, the main reason that people come to work is to make money. Usually not for themselves, well, sometimes for themselves. Often for their spouses and their children and the people they love and the people they give money to. You need to understand the motivations of people. And if the motivation for people to come to work is primarily to make money, let them make a lot of money, as long as they do what they were supposed to do in order to create the vision. Have the vision, everyone understands what they're supposed to do, tie their compensation to that, and if they do that, pay them a fortune.

SONALI BASAK: Now, on one hand, you've built a lot of companies. On the other hand, your first company is perhaps one of the most impressive because you were only 23. What's the biggest difference between Brad Jacobs building a business at 23 years old and Brad Jacobs building his eighth business today?

BRAD JACOBS: Well, I've made a lot of mistakes between 23 and 67. And I open the book talking about I've made mistakes on acquisitions. I've made mistakes on integration. I've made mistakes on people. I've delegated when I should have done stuff myself. I've done it myself when I should have delegated to other people. I trusted certain people and I was let down. So I've made a lot of mistakes. Fortunately, most of those mistakes were earlier in my career rather than later when I had a chance to understand those and digest them into, reflect on them, and to not repeat the same mistakes.

But if I look at what's, of all the different categories of mistakes that you can make in business, it's the same as what's the biggest opportunity and the biggest ingredient for mega success, and it's the people. You hire fantastic people who are honest, who get along with each other, are driven. Here the succeeding is much, much higher. If you make a mistake on that, you're kind of screwed. Like if you hire someone who turns out to be bent, turns out to be dishonest, that's really bad. It's just a terrible, terrible thing and it can manifest itself in so many things.

If you hire someone who is not gritty, someone who doesn't have fire in their belly, someone who is really not committed to this, someone who doesn't really enjoy accomplishing something really big and being part of a team that is going to conquer the world, it brings down the whole vibe.

There is an element of this where you have to have every single member be a rock star in order to be a super organism, like a beehive or an ant colony, you know, super organism where the group is much more powerful and effective and successful than each member, where the sum is much, much greater than what each person is contributing added up. If you make a mistake on any one person like that, it's just not the same thing. I've been lucky on that for a while now.

SONALI BASAK: What's your biggest mistake you think you've made in your professional career?

BRAD JACOBS: I write about it in the book, and I remember it very, very well. It's when I lost a half a billion dollars on one trade. It's a lot of money. I lost half a billion dollars because I naively believed the government was going to spend the, what at the time was a lot of money, although now with all the trillions and trillions of dollars in bills, I guess it's not so much money. They were going to spend half a trillion dollars on building roads and bridges and tunnels, the infrastructure which now we're still, a quarter of a century later and they still haven't spent enough money doing that.
And I thought I saw a trend, and I went out to capitalize on that by buying, __ United

Rentals, to buy all the companies that rent cones and barricades and do the striping and all the orange stuff you see on the highway. I said, whoa, I'm going to corner the market. I'm going to be like the guy who makes the most amount of money on this thing. Then I was sitting there and like they never spent the money. And really they spent like a little bit of it and it went to other enterprises that we didn't qualify for. So I ended up reselling it for $500 million less than what we bought. It was very painful to lose money. But I'm going to tell you something, it's very painful to lose half a billion dollars.

But I learned something from it, and that knife in my stomach I had from making that huge mistake, in the long run, while at the time I didn't like it, it actually helped me because I got this vigilance, this hyper-vigilance to double-check and triple-check my premises if I'm going to make a big bet, and not be so – I won't say impulsive...So I didn't really think that one through carefully enough. I didn't think through of, well, what if I'm wrong? What if all these people in Washington are just yak, yak, yakking, and they never really spend the money? And the answer would have been I'm going to lose half a billion dollars. Had I thought that through, I wouldn't have done that. I didn't have risk management. I have a lot of risk management now.

SONALI BASAK: Well, speaking of, over the weekend there was a comment from Stanley Druckenmiller being passed around on social media. This idea of diversification as conventional wisdom in portfolio management. He kind of knocks that idea down and says if you have a good idea you bet the farm on it. And if you're making big bets, half a billion, in this case almost a billion-dollar bet in your new enterprise, how do you make sure that you're getting the most out of the big thing you're betting on?

BRAD JACOBS: I think there's some truth in what Stanley is saying. I think that, as with most things, there's a balance there. You don't want to be totally undiversified and put all your chips, like in the James Bond movie, on like one, red, and then you lose all your money. At the same time, if you're going to be totally diversified, you're going to get totally boring results. You're going to get average results. So I think the trick is to find the middle ground where you're diversified enough. We have several bets going on at the same time.

Like, for instance, we're going to be betting on residential. We're going to be betting on non-residential. We're going to be betting on infrastructure. We're going to be betting on big customers, little customers, medium, corporate customers. So there is a diversification there. I think you need that. And I don't think that hurts your ability to make money as long as you can pivot between something that changes to something that's more attractive. Pivoting is very, very important in this whole concept.

SONALI BASAK: I'm going to ask one more question and then open it up to the audience as well. Think about what you want to ask. You know, the other big difference, yes, you've been doing this since the late 1970s, but in the last decade we've had interest rates near zero. What does building a business look like as the paradigm starts to shift and money is no longer free?

BRAD JACOBS: I think it's going to be harder to make money in the next ten years than it was in the last ten years. I say that because interest rates are a lot higher so that's cost to capital. I say that because the geopolitics, well, you've always had these bad guys out there, and it's the same old bad guys. The overseas bad guys, they're a little more emboldened these days, and they're more capable. And there's asymmetric warfare, and warfare itself is manifesting.

So I think all this, what's going on in Ukraine, what could go on in Taiwan, what China is doing in the whole Asia-Pacific area even without Taiwan, what could expand in the Middle East, all these things by themselves could be really bad for business. More than one of them would be super bad for business. So I think there's some risk that geopolitical events hurt us.

I think that the world is more intelligent and information travels much faster now. And I think that's good and that's bad. It's bad in the sense that it doesn't give an edge if you have, an information edge like I had in the oil business, which you couldn't do now because everyone knows the prices. Back then, nobody knew the prices. We knew the prices but other people didn't know it. It's good in the sense that you can make quick decisions and you have much bigger volume of information.

Look in the last year when I've studied over 500 potential companies to buy, and I researched over a dozen industries, I could have not done that after United Rentals, before XPO. There wasn't enough information, there wasn't enough ability to get all that information fast like that. Even though the internet was up and running; it wasn't as rich as it is right now.

So I think that overall, there will definitely be ways to make a lot of money. And I think we will beat; I think the odds are huge that we will outperform the market and outperform competitors because we've got a proven playbook. But I don't know that we're going to make 32 times our money like we did at XPO. I don't know that we're going to make, I actually, I almost know with certainty we're not going to make over 100 times money like United Rentals. But we don't have to make 32 times or 100 times to still outperform and to have very happy shareholders. But to address the implication of your question, I think there's going to be tougher times in the next ten years. I don't think this is going to be an easy-peasy time to make money.

SONALI BASAK: On that, let's open it up to questions. We have one here...

BRAD JACOBS: Brandon always asks tough questions.

SONALI BASAK: Okay, Brandon gets the first one then.

BRAD JACOBS: Brandon interviewed me at the Barclays Conference in Miami like five years ago, and he just punched me, one after another, but everyone said it was a great interview.

QUESTION: Well, Brad, thank you for having us here for lunch. You know, you talked about residential, non-res, and infrastructure, I guess of those three verticals, where do you see the most opportunity, the most segmentation, or where technology can really help on the strategy?

BRAD JACOBS: I think technology is going to help in all of them. Technology is going to help independent of who the end customer is. Technology is going to be with e-commerce. Technology is going to be with managing the supply chain much more sophisticated than it's being managed right now. Technology is going to help with managing the inventory. Business doesn't have a lot of Cap X. There's a big high cash flow conversion from EBITDA or free cash flow. In some companies, it's almost equal, in some it's more than net income. There's very little Cap X. But there's working capital because you're storing goods before you're delivering them. Buying wholesale and selling retail.

So managing that is a key to managing cash flow. And you have to do it with technology. No human being can figure out all these SKUs, figuring out what's going to be in demand, and how much to have so you don't have excess inventory or you don't have enough inventory. And that's going to help us in all three segments because we're going to have to warehouse for all of them. And we may be warehousing pipes, those big pipes on the side of the highway if we're doing something in water works, for example, in infrastructure. We may be warehousing roofing and/or flooring or doors and windows or access control if it's more on the residential, actually even for commercial. So technology is going to help in every single one of those.

You're asking me where do I think the big money is? I don't know yet. I want to have a foot, if I had three feet, I would have one of those three feet in each one of those three end market categories. And I want to pivot. I want to be able to allocate time, allocate money, allocate resources in general to what I think is going to be the hottest over the next five years, ten years. And right now I'm not sure yet.

SONALI BASAK: There's a question over here.

QUESTION: Hi, Brad. I have a question, just a follow up on culture and incentives. You know, the late Charlie Munger mentioned that culture is really in the output and not input. It's not really what companies have on their website. It was really about how customers, what customers experience and what stakeholders experience. I also noticed that you, in the beginning you were shaking everyone's hands as they walked into this room. When you're buying companies, how do you make sure that that culture is still consistent with the culture you're trying to build? And would the wrong culture prevent you from making an acquisition?

BRAD JACOBS: Absolutely. I don't buy a company if I don't like the people selling it. Because there's so many companies to buy, why would I want to spend time with people who are obnoxious? Why would I want to pick people who are in a bad mood all the time? I don't need that. I'm old. I like to be with nice people. I like to spend my time with people who are uplifting and increasing the vibe of the party.

When I look back at the 500 or so acquisitions that my teams have done, there is a correlation between the attitude, I'll say, of the sellers, and how that thing worked out. I have found that when it's a pleasant process interacting with the sellers, it's more likely to be a good deal. And when I look back at the deals, there are a few deals I did that didn't work out. Not a lot. There are a few that didn't work out. Those stinkers, when I play it back in my mind, we had difficult times negotiating with those sellers, and I should have known better. I should have said, wow, if we're starting off the honeymoon on this bad note, the marriage is not going to be so great.

So I do pay attention very much to the vibe of the company. And it doesn't have to be identical because when you buy a company, you bring them into your culture. And you create a new culture every time you buy someone new. It's like having another baby in your family. It's like now you have a bigger family and it changes the constellation. That's what's fun about it and one of the main things that's fun about building a family.

So when you're building a family of businesses, you want to bring in companies that are compatible with our culture but they don't have to be identical. Because most companies aren't run with the same level of accountability that we have and the visibility into what the precise goals are. And they usually don't have the same quirky kind of compensation that we have. And I say quirky in a good way where it's very much tied to success, that idiosyncratic pay for performance. And so those are things that can be fine-tuned, assuming they're nice people. If they're not nice people and are not receptive to change, it's not going to work.

Now, at the same time, what I have found in almost every company that I've ever bought is that when we go in there and we ask everyone just a few basic questions and then just shut up and listen to what they say, we find out a lot of stuff, a real lot of stuff. And those questions are, so, what are you guys doing right that we'd be like crazy to stop doing? And then you ask them, okay, your old management is not here anymore, your old boss is not here anymore, the old shareholders aren't here anymore. Between you and me, what were they doing that was stupid that we should stop doing like right away? Amazing stuff comes out, like all this crazy stuff and no one ever asked them this stuff. When you ask them, okay, if you were me and you just paid a zillion dollars for this business, what would your business plan be? And just sit back and just absorb it all, just hear it all and really respect it. You can find out a lot of stuff.

So the culture is going to change. It's got to be similar, but it's not going to be identical. And it's like a marriage. A husband and a wife is not going to, they're not marrying...___ that are compatible.

SONALI BASAK: A question back there.

QUESTION: Hi. First of all, thank you, Sonali, for the great questions. Brad, thanks for being here and, Mark, thank you for the invitation. I'm wondering, in this industry you're entering, what, if you could ballpark, do you think the percentage of unstructured data is? You know, we're talking about AI, machine learning. And then following, between XPO, GXO, and this, have you thought about the implications that if you can structure it all, you could have at least the largest domestic data lake of what could arguably be the most important information that we could have?

BRAD JACOBS: I had never heard that term before, unstructured, unstructured data. But I think I know what it means and I like it a lot. I like the concept. So I think that almost all businesses, certainly all large businesses that have distributed locations around the world, the biggest challenge or one of the biggest challenges is to collect all the information that's stuck in a branch or in a region, and they have a really great regional vice president or a president of a division that's doing some amazing stuff. Okay, I've got to get that out of that silo, and I got to get it transferred all across the rest of the company that everyone else is doing this fantastic stuff. I may find there's, because there's also the questions that we ask, and it's not just the first time.

At the beginning, when we buy a company we want to have the culture, so you're always asking your employees in a formal way, every 90 days you want to be sending out an employee satisfaction questionnaire that in part asks them what's your best idea to improve the company? And then you have thousands and thousands of ideas come back. And then the whole management team has to read every single one of those. And then we have to have meetings to understand how do we rate those?

I think structuring unstructured information is a big alpha creator. So, and there are two ways to get that. One is intentionality of the management team. The management team has to, they have to expand their minds so they're not just themselves but they're also everybody. So if you have 100,000 employees, you have to, like just pretend you're like this monster being that has 100,000 employees in your body. Like you have trillions of cells in your body, but you're the body, you're the whole thing. You have 100 billion brain cells in your brain, but you know that it's your brain cells, you're the whole brain totality of that.

When you're CEO or when you're one of the top few dozen people running a large company, those people have to think, they have to transcend their own individuality and have to think about the whole company. They have to be in touch with the pulse of the company. And they have to get information – to your point – out of the company so that it can be evaluated. And if it's rated favorably, then it has to be transferred everywhere. So I think it's really, really big.

And that's just one part of the answer to your question. I think there's tons of data on customers that is trapped and is not being utilized. And I think demand prediction, in this business, in many businesses but in this business in particular, is a key to getting your capital allocation right, your capital intensity right, and pleasing customers. So at the end of the day, business is about getting customers to wire money from their bank account to your bank account.

In order to do that, you have to make them happy. You have to make them save money. You have to make them have to work less to get the same amount done. You have to help them make their customers pleased, and to really understand where their head is at. And a lot of that is data. A lot of that is depending on the business, it is punctuality. Getting things done on time. That is doing exactly what you said you were going to do.

If it's something that's in transportation, for example, delivering goods on time that are not damaged. And if you look at XPO, for example, after I stepped down as CEO, under Mario's aegis, there's this huge intense – we hired a fellow from one of our competitors and we recruited a board member from that same competitor – and we put this enormous, enormous intensity of focus on improving quality of service. And the metrics are off the charts and that's had a big positive result. I should have done that. I should have done that like six years ago. But better late than never.

So, quality of service is really important. In order to do the quality of service that XPO has been doing, a lot of that is data-driven. A lot of that are QBRs, quality business reviews with customers. A lot of that is measuring and sending out to large parts of the company what our on-time rates are, what our damage rates are, what are claims ratios are. And that becomes part of the whole daily conversation. It's management's job to focus the organization on the stuff that matters. And you don't know what matters unless you take that unstructured data and collect it and sift through it and make sense out of it. So thank you for that question.

SONALI BASAK: We have a question back here as well.

QUESTION: Yes, Brad, thank you so much for being here. Constance Hunter from MacroPolicy Perspectives. I was especially struck by your remark about demanding 10X ROI on your consultants. And I mean I can see how easy it would be to do with bankers. That's pretty straightforward. But for consultants, what are the major sort of pitfalls that you run into in constructing these metrics? And what's the best hack for constructing these types of metrics?

BRAD JACOBS: So I've used measurement consultants dozens of times over the years. Most of them it has paid off in spades. But I'm very careful what I use them for because consultants can just, like create consultant work, and I'm not interested in that. I'm interested in practical stuff that can improve the business. So things like sales force effectiveness, so many times we would restructure our sales forces to have either larger spans of control or shorter spans of control. Or we would change the compensation from, just for example tying it to revenue, tying it to margin. Or we've created online training programs in the organization. And I would not have been able to do those things on my own because the consultant has the advantage of, they have 100 other companies that have gone through all that and they know what good looks like.

I've used consultants for SG&A analysis and benchmarking because I can benchmark against myself, I can't benchmark myself against other companies that I don't know, I don't see their numbers. You know, your public numbers are a small part of your numbers. You don't see the operating metrics internally. So consultants help with getting a good benchmark for, wow, you know, we're spending X on, as a percent of revenue or percent of profit, for our finance accounting organization. That's one and a half times what the average is. We need to figure out, we have to address that. Or look at this, wow, our sales per customer ratio is much lower. We need to invest in the sales force, get more people pounding the pavement out there.

I've also used consultants for technology. We used them at GXO for warehouse automation because it's changing so fast. And even though we're a very preferred customer for a lot of these vendors because they get to use our name, and they say they have the GXO stamp of approval, we still don't know everything. We don't see it from the vendor side, whereas the consultants know what they're doing. So there's roles for consultants.

At United Rentals, probably the best advantage I ever got was we did a pricing assignment. And we found out that we had clusters of branches that were renting the same backhoe or Skid Steer or generator or light tower, whatever we were renting, for wildly different prices, all within the same district. And we were setting the prices based on what the competition was setting the price for, or what the customer was telling us.

Well, duh, we're a utilization business model. We had a fleet and the whole idea was to utilize that most profitably.

We changed, as a result of this assignment, we turned it upside down. And we started pricing, this is like 25 years ago, we started pricing on utilization – so by location, by district. I saw Mike Kneeland here, who succeeded me as CEO of United Rentals and grew the margins like 15 percentage points after I did it. I've started a lot of great companies and have done a lot of great stuff. But you know what I'm most proud of? The people who succeeded me as CEOs did better than I did. That's a great thing actually. It's a real fulfilling thing.

At United Rentals, one of the reasons they grew the margins so much is, under Mike's idea, took the fleet and managed it as a district as opposed to, I was managing it per branch, and we weren't pricing it right. They put it as a district and priced it based on, well, look, it's 4:00 in the afternoon and we've got a ton of generators here. How about lowering the price? Or it's 7:00 in the morning and we're already half out of what we need and our demand is showing this. Let's raise the price.

COMMENT: You invented surge pricing ahead of....

BRAD JACOBS: Surge pricing before Uber, yes. Yes, surge pricing both ways.

SONALI BASAK: I think we'll have time for at least one more. Back here.

QUESTION: Hi. I'm Tyler Erikson, and I'd like to also thank you and Mark and everyone else who put this together. If you look at the public profile of building products distributors, they have very clearly defined lanes. And they've done an excellent job of that, whether it's HVAC and Wasco or SiteOne in landscaping. But you have this unique opportunity to step back and not just think about the swim lanes, but think about the entire swimming pool and maybe drive synergies across different building product categories that may not have the synergies they had before. How do you think about that opportunity given the position you're in to start with a bit of a blank slate?

BRAD JACOBS: Well, I mean you mentioned some good companies there. I mean SiteOne has dominated the landscaping space. I don't think I'm going to dominate the landscaping space because they already did it. So I'm not going to undo what they've done and one-up them. On pools, for example, there was a big Covid surge in that so I don't quite know what the normalized numbers will be afterwards, going forward. Pool, also you have POOLCORP, who has dominated that space. So I don't know how many pool actors are going to do because we don't want to be a little guy going against the big guy. We want to be generally the big guy who has advantages of scale, of density, of being bigger. So those two I don't see us being a big player in.

Now, if you look at Wasco, Wasco has done a fantastic job on HVAC. I saw a presentation of theirs about two months ago, and I was very impressed. I thought what they were doing with HVAC made perfect sense. And I think they positioned the company to roll with the punches with all the new regulations that came out. And it happens to be a company that is benefitting from all the new regulations in that field.

And I think each one of these verticals has its own nuances and some of them belong with each other and make perfect sense and some of them are a head-scratch, why would you put them together? We're going to try to avoid the head-scratching as much as possible.

SONALI BASAK: Okay, thank you so much, Brad, for your time.

PRESIDENT BARBARA VAN ALLEN: Well, thank you, Brad and Sonali. That was just outstanding. I want to just take a moment to recognize our members of the Centennial Society joining us today as their contributions continue to provide the financial backbone of support for the Club. Thank you to all ECNY members and guests who have joined us this afternoon as today's program concludes our action-packed year here at the Economic Club.

Next year is shaping up to be an equally exciting year. We have Ian Bremmer of

Eurasia Group, Tom Barkin of the Richmond Fed, Charlie Cook of the Cook Report. We're looking for a date now for Tom Brady. Stay tuned for additional announcements of our 2024 schedule over the next few weeks. Please have a wonderful, joyous holiday season, a happy and healthy New Year. Thank you to all attending today. And for those in the room, and for those that have seats to eat lunch, please enjoy it. And for those online, we're going to say goodbye, and we look forward to seeing you next year. Thank you everyone.