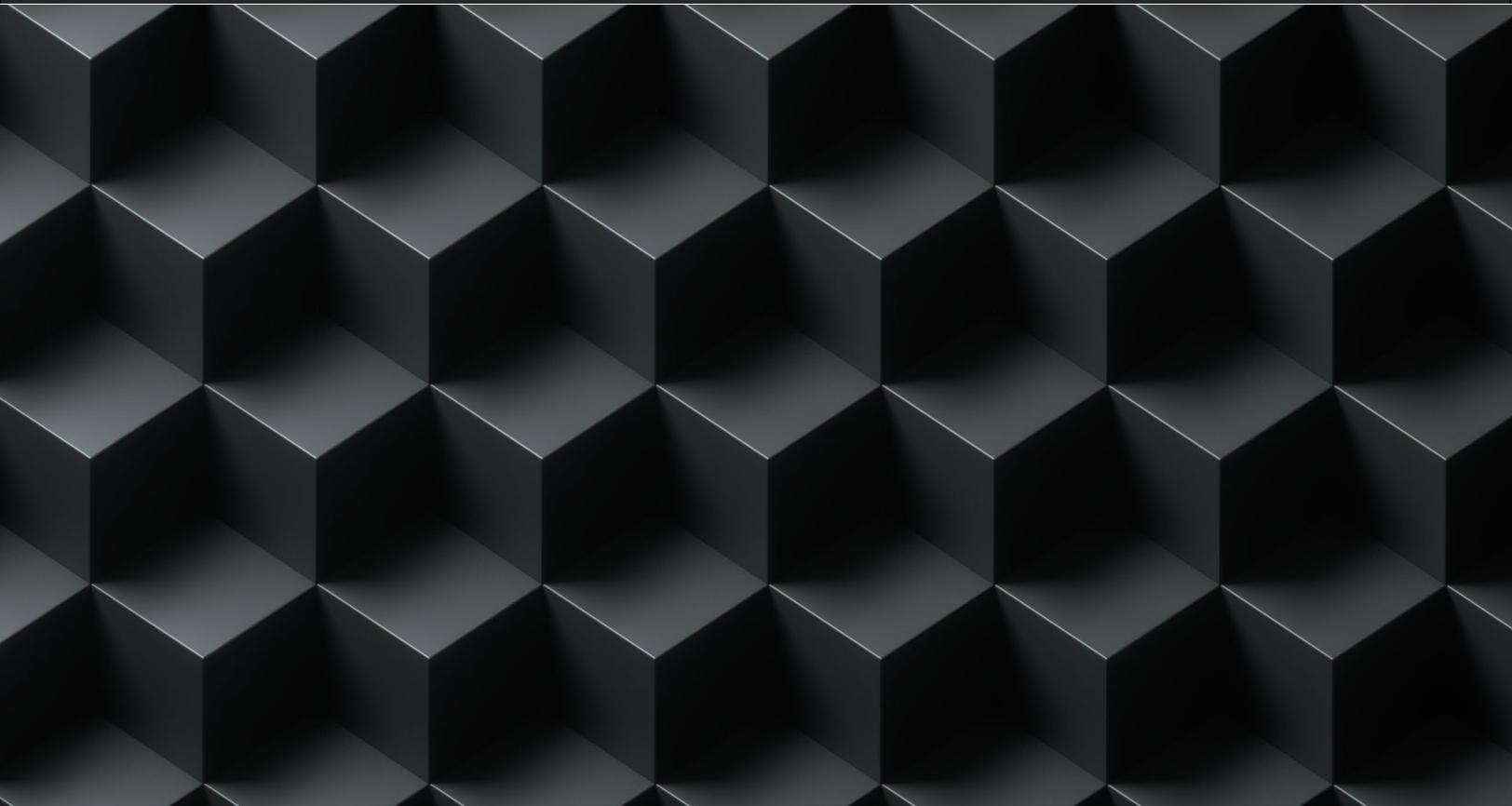




February 11, 2026

Fourth quarter and full year 2025 earnings call



GXO Logistics Q4 and Full Year 2025 Earnings Call

Presenters

Patrick Kelleher – Chief Executive Officer

Baris Oran – Chief Financial Officer

Kristine Kubacki – Chief Strategy Officer

Q&A Participants

Stephanie Moore – Jefferies

Ryan Deveikis – Wells Fargo

Madison Pasterchick – Morgan Stanley

Scott Schneeberger – Oppenheimer

Richa Harnain – Deutsche Bank

Patrick Creuset – Goldman Sachs

Uday Khanapurkar – TD Cowen

Jeff Kauffman – Vertical Research Partners

David Zazula – Barclays

Kevin Gainey – Thompson Davis

Operator

Welcome to the GXO fourth quarter and full-year 2025 Earnings Conference Call and Webcast. My name is Daryl and I'll be your operator for today's call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad.

Please note that this conference is being recorded.

Before the call begins, let me read a brief statement on behalf of the Company regarding forward-looking statements, the use of non-GAAP financial measures, and the Company's guidance:

- During this call, the Company will be making certain forward-looking statements within the meaning of applicable securities law, which, by their nature, involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those projected in the forward-looking statements.
- A discussion of factors that could cause actual results to differ materially is contained in the Company's SEC filings. The forward-looking statements in the Company's earnings release or made on this call are made only as of today, and the Company has no obligation to update any of these forward-looking statements, except to extent required by law.
- The Company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules during this call. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the Company's earnings release, and the related financial tables are on its website.
- Unless otherwise stated, all results reported on this call are reported in United States dollars.
- The Company will also remind you that its guidance incorporates business trends to date and what it believes today to be appropriate assumptions. The Company's results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and consumer demand and spending, labor market and global supply chain constraints, inflationary pressures, and the various factors detailed in its filings with the SEC.
- It is not possible for the Company to actually predict demand for its services, and, therefore, actual results could differ materially from guidance. You can find a copy of the Company's earnings release, which contains additional important information regarding forward-looking statements and non-GAAP financial measures, in the Investors section on the Company's website.

I will now turn the call over to GXO's Chief Executive Officer, Patrick Kelleher. Mr. Kelleher, you may begin.

Patrick Kelleher – GXO Chief Executive Officer

Good morning and thank you for joining our fourth quarter and full-year 2025 results call. Joining me today are Baris Oran, Chief Financial Officer, and Kristine Kubacki, Chief Strategy Officer.

GXO delivered a strong finish to 2025, setting a solid foundation to accelerate organic growth and profitability in 2026 and beyond.

When we spoke last quarter, I shared some of my early observations about GXO – where I see opportunities to improve the business to accelerate organic growth and sharpen operational execution. I'd like to spend most of my time today discussing the recent leadership actions that position us well to grow and expand margins.

But first let me share the highlights from our record quarterly and full-year performance.

For the fourth quarter, we delivered record revenue of \$3.5 billion and record adjusted EBITDA of \$255 million. We did the same for the full year – total revenue was a record of \$13.2 billion, with every region delivering organic growth, and full-year adjusted EBITDA was a record at \$881 million. Even against a dynamic macro backdrop, the strong results we delivered clearly demonstrate the value we create for our customers and the resilience and predictability of our business model.

New business wins were \$1.1 billion in 2025, providing good visibility to accelerating growth in 2026. During the fourth quarter, we won significant business in both strategic and established verticals, including notable contract wins in the life sciences sector, several aerospace and defense sector wins, as well as a notable win with a global apparel brand. We have \$774 million of expected incremental new business revenue already secured for 2026. This is an increase of over 20% compared to this time last year.

I'll let Baris and Kristine discuss our financial outlook and new business wins in more detail in a few minutes. But I'm pleased to announce that we've released our 2026 financial guidance today which at the mid-point shows accelerating organic growth, adjusted EBITDA margin expansion an increase of 20% adjusted diluted EPS growth at the midpoint.

I want to recognize and thank my GXO teammates for these results. Together, we are building a culture anchored in speed, accountability, and customer intensity, and that culture is directly fueling our performance.

As I shared last quarter, GXO has very strong fundamentals. We are the industry leader in tech-enabled fulfillment. We have strong regional businesses, deep operational expertise and a compelling commercial engine. Our scale, global footprint and expertise sets us apart in both execution and capability breadth. We are well positioned to lead what's next in the deployment of automation, robotics and AI versus peers.

My focus right now is to bring our strengths together to operate as one global organization. To deliver faster growth, higher margins, and sharper execution.

Over the past five months, we've announced new leadership in three key areas—Commercial, Operations, and our Americas & Asia Pacific region. These changes are primary accelerators designed to:

1. Scale consistent operating standards across the organization to sharpen execution and drive margin expansion;
2. To sharpen growth priorities and go to market discipline to accelerate organic growth; and
3. Grow our market share in the U.S.

I see opportunity to strengthen our operating model by moving from regional strength to global leverage. Our regions are strong, and there is clear upside from better connecting what already works across the network. Operating in a higher gear will come from deploying consistent operating standards, sharing best practice and standardizing what is "best in class." To be clear, it is not about one standard for customers. We will continue to deliver the customized solutions that set us apart. It is about establishing one way of working, as a global team.

The new Chief Operating Officer role is a critical step in enhancing our operating model. Bart Beeks joined us in January after more than two decades at CEVA Logistics, most recently as COO. He brings decades of industry experience and proven expertise in driving increased productivity, efficiency and greater value for our customers.

Bart's mandate is to scale a single operating methodology across our global network, creating a flywheel effect spanning solutions and seamless implementations to service delivery, continuous improvement and renewals. Productivity gains will come from better labor planning, network-wide best practice replication and operational visibility. All key levers behind margin expansion.

Bart will also lead the operationalization of our automation and technology strategy, as we accelerate our leadership in this area. We are already at the leading edge of AI in our industry, and we plan to move even faster in AI and robotics this year, particularly with humanoid robots.

A key focus will be the continued roll-out of GXO IQ, our AI powered warehouse operating system. GXO IQ's AI capabilities are already improving labor planning, inventory distribution and movement, forecasting, and workflow management across several of our largest sites. We see the technology amplifying our competitive differentiation as supply chains become more complex and data intensive. This has the potential to be a real game changer for us. As we move through the year and into 2027, we expect to drive clear productivity benefits as we increase proprietary AI applications across our footprint.

I'm also very excited about our progress with physical AI and humanoids. I believe humanoid technology will be a game-changer for our industry, and we have the pole position. GXO was the first to deploy this tech in a live operating facility, and as we've collaborated with top robotics developers, we are driving significant improvements in the sophistication of warehousing tasks that can be undertaken.

Commercially, I also see significant opportunity to operate in a higher gear. Not all growth is equal, and we will be very deliberate about where we lean in. It is about building a clear, unified global approach to customer relationships and pricing with an initial focus on accelerating sales in select B2B verticals and longer-term, identifying geographies for expansion.

Karen Bomber joined us two weeks ago, as Chief Commercial Officer, from ABB Industries. She brings expertise in commercial strategy and driving growth across the energy, industrial automation and retail technology sectors. Her mandate is to tighten execution through more consistent global customer engagement, sharpen go-to-market execution and strategy, ensure pricing reflects the value that we deliver, and improve the speed and consistency of our commercial processes.

As we discussed last quarter, the growth opportunity in the contract logistics industry is huge, with a total addressable market exceeding \$500 billion. We see meaningful opportunity to increase market share by expanding the pipeline and improving our conversion rates.

The good news is that we're already accelerating our momentum in priority B2B growth verticals – aerospace & defense, life sciences, industrial, and technology, specifically data centers. We achieved another sizeable win in life sciences in the fourth quarter and won several aerospace and defense contracts with Boeing and BAE Systems, among others, while continuing to see strong demand in omni-channel retail, a core strength.

Bridging both elements of growth and operational execution is our North America division. We have a great platform in North America with leading positions across the consumer, technology, aerospace and industrial verticals. The U.S. is our largest and most immediate growth lever to accelerate organic growth given market demand, vertical mix, and the scale advantages that we can unlock. I also expect this market to be the epicenter of technological innovation as we look to capitalize on opportunities with AI and humanoids to drive greater warehouse productivity.

Michael Jacobs, who I've known for more than 20 years, took the helm of our North American business three months ago. He is intensifying focus on operational performance, increasing labor productivity, and winning new business by reallocating investment to solutioning, sales and digital marketing to realize the opportunity that we see.

These three leadership changes are strategic accelerators. It's about running the playbook with greater alignment, scale and pace.

In closing, in 2026 and beyond, we have a solid foundation to build on, and I'm very excited for the future. Profitable growth is the priority and over the past five months, we've moved with speed – strengthening the leadership team that will execute on the opportunity ahead; simplifying our structure; accelerating expansion in priority B2B verticals; and coming together as one team to define the ambition of the company for the future.

With that, I will hand the call over to Baris.

Baris Oran – GXO Chief Financial Officer

Thanks, Patrick.

GXO has built momentum through 2025, with the fourth-quarter performance reflecting the power of our resilient business model. With record revenue, adjusted EBITDA ahead of our original full-year guidance, and robust free cash flow, we are delivering on our commitment to drive profitable growth.

For the full year of 2025, we generated record revenue of \$13.2 billion, growing 12.5%, of which 3.9% was organic. We delivered adjusted EBITDA of \$881 million, growing 8%. Our adjusted diluted earnings per share was \$2.51, and we delivered adjusted net income of \$292 million.

In the fourth quarter of 2025, GXO delivered record revenue of \$3.5 billion, up 7.9% year over year, of which 3.5% was organic. Every region delivered organic revenue growth, highlighting the value of our contractual business model throughout a dynamic trade and macro environment.

We delivered record adjusted EBITDA in the fourth quarter of \$255 million ahead of the implied mid-point of our guidance of \$249 million.

We delivered net income in the fourth quarter of \$43 million, and adjusted net income of \$101 million. Our diluted earnings per share was 37 cents, and our adjusted diluted earnings per share was 87 cents.

Our free cash flow in the fourth quarter was \$163 million, and we delivered our target adjusted EBITDA to free cash flow conversion for the full year. We remain disciplined in our capital expenditures and working capital management, which allows us to continue to invest in our business with high returns.

Our record operating return on invested capital remained consistently strong, driven by solid operating performance.

Our leverage levels improved to 2.5x net debt to adjusted EBITDA, even after executing \$200 million in share buybacks in the first half of 2025, at an average price of \$37.34. We also successfully completed our first European bond offering, securing 500 million euros on competitive terms and using the proceeds to refinance upcoming maturities. Our balance sheet is strong and positions GXO for long-term growth.

The integration of Wincanton is moving at pace, and we are on track to deliver the run-rate cost synergies of \$60 million by the end of 2026. We also expect to gain significant revenue synergies over the coming years.

Given our excellent operating performance in 2025, I am pleased to share our 2026 guidance, where we expect to deliver:

- Organic revenue growth of 4% to 5%;
- Adjusted EBITDA of \$930 million to \$970 million, an increase of 8% at the midpoint;
- Adjusted diluted earnings per share of \$2.85 to \$3.15, an increase of 20% at the midpoint; and
- Adjusted EBITDA to free cash flow conversion of 30% to 40%.

With strong operating performance, a solid financial foundation, and a robust sales pipeline, GXO's resilient and predictable business model continues to deliver exceptional value to both our customers and shareholders.

With that over to you Kristine.

Kristine Kubacki – GXO Chief Strategy Officer

Thanks, Baris. Good morning, everyone.

With the fourth quarter and full-year results demonstrating the strength and resilience of our business model, I want to provide more context on the drivers of growth, the durability we see across our business, and how we're positioning GXO for the next phase of value creation.

Patrick has been clear about our priorities of that strategic roadmap: accelerate organic growth and expand margins. And from where we sit, two aspects of the GXO story continue to gain traction – the resiliency of our contractual, highly diversified business model, and the durability of our organic growth across cycles. These pillars enabled us to deliver another record year of performance in a dynamic macro environment and, more importantly, they give us confidence about the future.

On growth, we are making significant progress building our global relationships with blue-chip customers and expanding across geographies and into high-growth verticals. During the fourth quarter, we won \$248 million in new contracts bringing full-year 2025 wins of \$1.1 billion.

Critical to growth are the significant opportunities in fast-growing, high-value verticals such as life sciences, aerospace and defense, and industrial, specifically data center infrastructure. These areas remain a strategic focus for us, and I'm excited to share the meaningful progress we've made this quarter.

First, in life sciences, we're gaining good momentum in the \$34 billion life sciences vertical with another notable win in Q4. Even with the largest win in the quarter, our life sciences pipeline continued to grow quarter over quarter with several new strategic opportunities.

Second, we're seeing increased activity in aerospace and defense, and industrial across all our regions. During the quarter, we further expanded our partnership with Boeing, won new business including BAE Systems and Thales, the direct result of the Wincanton acquisition. We also established a Defense Advisory Board in the U.S. comprised of defense industry experts. This Board will provide market insight and strategic guidance on business development.

Third, we continue to build momentum in the fast-growing data center market, a critical part of the rapidly expanding AI and cloud infrastructure ecosystem. As a key logistics partner in the complex supply chain, we are well-positioned to capture share in the \$28 billion technology vertical. During the quarter, we secured five new contracts, including, for the first time, wins across multiple regions with a leading hyper-scaler, demonstrating our ability to scale globally with high-growth customers.

Looking to the growth outlook for 2026, our \$2.3 billion sales pipeline is robust and well-diversified across regions and verticals, with accelerated activity in strategic sectors. We continue to see strong opportunities in life sciences, technology and aerospace and defense. These trends reflect on our ability to scale with high-growth customers across critical industries.

Altogether, our recent wins translate to \$774 million in incremental revenue already for 2026, up over 20% where we were at this point last year. This gives us confidence in our 2026 full-year guidance and provides visibility into our long-term growth trajectory.

The second priority Patrick outlined was strengthening our operating model to drive even better profitability. Core to driving operational excellence is our leadership in automation, technology, and AI.

GXO IQ accelerates this differentiation: bringing best-in-class consistency and security while driving clear productivity benefits for our customers.

We began successful pilots of GXO IQ in the second half of last year and are excited by the early results, especially in the areas of proactive replenishment and slotting. GXO IQ is expected to go from pilot to scaling across more than 50 existing sites this year. And in automation, by the end of 2026, we expect to have nearly 20,000 robots in operation, plus several humanoid pilots launched across all three of our regions.

We have a strong foundation and are poised to scale these market leading capabilities further. This will serve as a powerful lever for long-term profitable growth, and we look forward to sharing more about our road map at our investor day later this year.

And with that, I'll pass the mic back to the operator for Q&A.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment please, while we poll for questions. Our first question comes from the line of Stephanie Moore with Jefferies. Please proceed with your question.

Stephanie Moore – Jefferies

Great. Good morning. Thank you. For Patrick, and maybe this would be one that Karen would be able to answer as well when she's had a little more time in the role. But as you think about your market-leading position and industry vertical strategy, can you speak to your just overall philosophy on making sure GXO's value is appropriately recognized by your customers? And ultimately, what that can mean for pricing, churn and organic growth in the future?

Patrick Kelleher – GXO Chief Executive Officer

Yes, Stephanie, good morning and thank you for the question. Our vertical focus is absolutely critical, I think, to the organic growth agenda, in that we want to make sure that we have, in the market verticals, client-aligned solutions that are really addressing the specific challenges that our customers face in the verticals that they're competing in.

Client-aligned solutions will deliver the most value for the customer, and we think that will come with pricing power in terms of being able to commercialize the value that we're creating for customers in the right way. And that is why I think the specialized agenda around those industry verticals, particularly as we're stepping into the strategic industry verticals of aerospace, defense, industrial technology and life sciences, we can bring significant value for customers, and we want to commercialize that in the best way.

Stephanie Moore – Jefferies

Understood, thank you. And then actually, just a follow up to the guidance commentary. Baris, can you walk through how we should think about the cadence through 2026? You've announced some pretty big wins to start the year and the like, so maybe just how we should think about how growth in EBITDA flows through as the year progresses

Baris Oran – GXO Chief Financial Officer

Sure. On the EBITDA phasing, the phasing we expect this year reflects the timing of specific project start-ups and exits. These quarterly swings tend to be immaterial on a full-year basis. These have been reflected in the percentages we provided in our presentation. We have high visibility due to new businesses we have already won, and we expect to have new wins, more business, throughout the year.

Stephanie Moore – Jefferies

All right. Thanks, everybody.

Operator

Thank you. Our next questions come from the line of Chris Wetherbee with Wells Fargo. Please proceed with your questions.

Ryan Deveikis – Wells Fargo

Good morning. This is Ryan on for Chris. Just a follow up on that last one. The second half run rate looks to be a little bit more elevated, I guess – how should we think about that as we exit 2026 into 2027 from a fairly strong base?

Patrick Kelleher – GXO Chief Executive Officer

Yes, this is Patrick. Maybe I can take that to start, and then Baris can close out with a few comments. When you look at the contract logistics industry and our business, the typical sales cycle is six to nine months with then a ramp-up period to start up new operations, which can take up to six months. We exited 2025 with a great book of new business wins, \$775 million already identified to implement this year, and we are selling opportunities and closing opportunities right now that we expect to start in the second half of the year.

Our pipeline exited 2025 at \$2.3 billion. The pipeline, as we stand today, is \$2.5 billion and growing, especially in the strategic industry verticals that we're participating in. And so, we think we are going to see the benefit of new business wins from that pipeline accelerating in the fourth quarter and then especially into 2027.

Baris, anything to add there?

Baris Oran – GXO Chief Financial Officer

Yes. On the EBITDA side, remember, we have an integration that we kicked off in late 2025, and you will see the benefits of that even more visible in our numbers in the second half of the year.

Kristine Kubacki – GXO Chief Strategy Officer

Hi, this is Kristine. I just thought I'd add a little bit to double-click about why we are so excited about the momentum that we're seeing in the business. As you know, we have a huge addressable market – it's over \$500 billion. Our core markets around consumer-facing, we're seeing good momentum there in terms of pipeline wins. But in the new verticals that Patrick just spoke of, we're really unlocking and seeing some very good trends.

As you know, in aerospace and defense, I mean, and industrial, it represents hundreds of billions of dollars of TAM. And in fact, we have over \$200 million in the pipeline, and that's even after notable wins with BAE, with Boeing, with Thales, and even BMW. So, we're very excited about the strategic initiatives that we have in aerospace and defense.

And then in life sciences, \$34 billion TAM for us. That pipeline has more than tripled in the last 12 months, and that's even having our largest win in the fourth quarter come from the life sciences.

And of course, I talked about the tech side. We're seeing, of course, very strong momentum there. And even as we enter January, more opportunities are popping up for us, and we're very excited about how that plays out and more wins coming as we move through 2026.

Ryan Deveikis – Wells Fargo

Thank you, appreciate the color. Then I guess just on the fourth quarter, organic growth came in a little bit light versus our expectations. Can you maybe walk us through what happened in the quarter? Maybe you could touch on peak season dynamics and how volumes shook out by vertical and geography?

And then on the cost side, it seems like there was solid productivity that beat our expectations. Can you help us frame why that doesn't carry fully through to like 1Q and 2Q EBITDA?

Baris Oran – GXO Chief Financial Officer

Let me take that. Our growth was on balance, very strong in Q4 with the net new business wins and milder volume trends, especially in Continental Europe and U.K. The delta between Q3 and Q4 is primarily driven by the volumes. And if you look into 2026 onwards, our guidance implies in 2026 an EBITDA margin expansion around 20 basis points.

At the same time, we are making targeted investments to drive our productivity faster and accelerate our organic growth. Absent these factors, margin would have expanded faster this year, but we are taking a multi-year strategy, which we will outline at an Investor Day at a later phase, and you will see a clear margin opportunity when we benchmark ourselves in the market against GXO's own history.

Ryan Deveikis – Wells Fargo

Thank you, appreciate the comment.

Operator

Thank you. Our next questions come from the line of Ravi Shanker with Morgan Stanley. Please proceed with your questions.

Madison Pasterchick – Morgan Stanley

This is Madison on for Ravi. Thanks for taking the question. I was just wondering what you guys are thinking about in terms of timing for Investor Day, if we should be expecting that sometime this year?

Patrick Kelleher – GXO Chief Executive Officer

Yes, definitely 2026, and we'll be out with a date for that shortly.

Madison Pasterchick – Morgan Stanley

Got it. Okay. And then I was wondering if you could talk about your macro assumptions that you have baked into the low end and high end of the guidance range, and kind of what you're also assuming at the midpoint, if it's just a continuation of what we're currently seeing right now?

Baris Oran – GXO Chief Financial Officer

Let me go over some of the numbers. We do expect an acceleration in organic growth in 2026. We already have \$774 million of incremental revenue secured, or roughly 6% gross growth. This will continue to grow, and we expect our new business wins to provide the growth uplift. The inflation pass-through and retention rates assumed to be roughly the same 2025 to 2026. We are assuming flat volumes in our operations, which we believe is prudent.

Patrick Kelleher – GXO Chief Executive Officer

Yes. And I think that's very important to highlight. So the guidance for this year is assumed on flat volume as we consider the overall macroeconomic situation and really anticipating how that is going to materialize. We've taken a very conservative view there with respect to current customer volumes. So the lever for this year is really about organic growth driving top line.

Madison Pasterchick – Morgan Stanley

Got it. Thanks for the color.

Operator

Thank you. Our next questions come from the line of Scott Schneeberger with Oppenheimer. Please proceed with your questions.

Scott Schneeberger – Oppenheimer

Thanks very much, good morning. I guess I'd like to follow up on that guidance question and ask, at the low end of the range and at the high end of the range, what are some items that you all are considering most of what could put you at the high end and the low end? What are you worried about? And what are you most excited about heading into the year? Thanks.

Patrick Kelleher – GXO Chief Executive Officer

Sure. I can take that. In terms of our guidance on revenue, we feel very good about the revenue that was won in 2025 carrying into 2026 – \$775 million, as mentioned. Feel very good about the current pipeline growing from \$2.3 billion to \$2.5 billion from the beginning of the year to now, and that continues to accelerate. The sensitivity around the top line will come with the speed in which that those new business wins can be implemented and how quickly we're realizing profitability from that. And that really underpins the low end of the range. In terms of the high end of the range, it really is about bringing to life new business wins from the current pipeline and the timing of the implementation of those new business wins this year.

To move on to EBITDA and the guidance there, that is about not only driving organic growth, which contributes to EBITDA, but also progressing our agenda of productivity and cost improvement in the business, of which we have a number of areas of focus. I talked about Bart Beeks coming on as COO. He is driving already productivity improvement initiatives centered around especially labor planning, where we think we have a big opportunity. Michael Jacobs is really amplifying that in our business in North America. That, coupled with our agenda on robotics automation and AI and driving those technologies into our business for productivity improvement, cost improvement.

And finally, a focus on our overall SG&A and operating costs – making sure that we're responsibly spending those dollars, getting the best leverage out of SG&A as we move through 2026 – will all be the levers that we're focused on to deliver within EBITDA range that we put forward.

Scott Schneeberger – Oppenheimer

Great. And following up, it sounds like, Patrick, you alluded to earlier that we probably have to wait to Investor Day to get a taste of how you're thinking about margin long term, and we look forward to hearing about that. Any color on that now would be great.

But a more specific question in the near term. Just with regard to investments, you're clearly making them here. As Baris mentioned, we would see a higher margin, if not for these investments. What is the strategy with balancing investments at this juncture in the business? And what type of investments are you making right now in 2026? Thanks.

Patrick Kelleher – GXO Chief Executive Officer

Sure. Maybe with respect to the margin improvement opportunity, yes, we will be providing details associated with that in the Investor Day 2026. But I can confidently say right now we are aiming to deliver at margin levels at or better than our peer group.

I am very confident from my experience that GXO is well positioned and has the foundation to achieve that. In the Investor Day 2026, we will put definition to the plans associated with getting there and the timeline in which we think we can achieve that. But I feel that is well within reach.

Baris, I can hand it over to you for the second question.

Baris Oran – GXO Chief Financial Officer

Sure. When you look into the type of investments we are making in 2026, which are included in our guidance, by the way, there are primarily two buckets. One is improving our growth and capabilities in the new strategic verticals such as digital marketing, Defense Advisory Board, and aligning our systems to capture more aerospace and defense business. Number two is structurally increasing our cost efficiency by investing further in labor management systems, GXO IQ, AI, and simplifying our ERPs. That is all included in our EBITDA bridge.

Scott Schneeberger – Oppenheimer

Excellent, thank you.

Operator

Thank you. Our next questions come from the line of Richa Harnain with Deutsche Bank. Please proceed with your questions.

Richa Harnain – Deutsche Bank

So just a quick follow up on that last question. I know it's a heavy investment year for all good things. But in light of the question around – or Patrick, your answer just around like all these productivity enhancements that are being put in place today. Is there upside risk to the margin outlook for 2026 if things go right? The 20 bps of margin expansion, can it be better? Or is this really just going to be more longer-tail projects and it's going to be maybe more of a 2027+ type development?

And then, I wanted to hear more – data centers, you guys spoke about them a couple of times and that plan – we had someone in the U.S. data center play report very strong orders this morning, so timely. Like you mentioned, the vertical as a key pillar in your growth strategy. Kristine, you talked about how you service this market, but maybe it will be helpful to get like an update there and how your automation plans sort of play into serving the vertical in a more differentiated way, if at all.

Patrick Kelleher – GXO Chief Executive Officer

Yes, sure. So, on the margin point, I'm very excited to share the detailed plans of the margin opportunity that we have in the 2026 Investor Day. We feel very good about the range that we're providing in terms of EBITDA and revenue performance this year, the resulting margins associated with that. We're very focused on growing in the high-margin verticals, in which we talked about those in the B2B verticals, and very focused on pricing and making sure that we're getting paid for the value that we're delivering, and that is really important this year to make sure that is set in motion.

We're driving for site level productivity. We've got a number of initiatives underway being led by Bart, and that really is about driving towards even more global operating standards, driving to a higher level of maturity on our labor planning, and especially leveraging AI. I think our guidance contemplates the results that we can deliver from the initiatives that we have in place today.

And finally, leveraging SG&A more effectively as we accelerate growth. We have a \$2.5 billion pipeline today, if we're able to improve that pipeline higher, certainly, that can only lead to a good performance. So, we're very focused on organic growth as well as the performance levers that we talked about.

Kristine Kubacki – GXO Chief Strategy Officer

Yes, Richa, this is Kristine. Just to give you a little bit more on the tech side. As I mentioned, we're very excited about this. It represents a \$28 billion TAM. And as you mentioned, it's only just expanding from here and expected to grow over the next several years at a very high pace.

For us, it fits right into our wheelhouse because it is a very complicated and complex supply chain that we're supporting everything, not only from the start-up of the data center, but also the life and logistical support. It's really just one of the core competencies that we have from a very complex operation that we're supporting there. It is a high-value vertical for us, so we're very excited in terms of the opportunities.

Just alone in the last six months, as I mentioned, we've seen the pipeline more than double, and that's even with the five contracts that we signed alone in the fourth quarter. And again, that was the first time also we've seen that in multiple regions, so our business is expanding from a geography standpoint. So, we're very excited about the opportunity set ahead, and we have a huge vertical to go unlock for us.

Richa Harnain – Deutsche Bank

Thank you.

Operator

Thank you. Our next questions come from the line of Patrick Creuset with Goldman Sachs. Please proceed with your questions.

Patrick Creuset – Goldman Sachs

Hi Patrick, Baris, and Kristine. First of all, what timeline would you set yourself to start to see some meaningful commercial traction, and therefore organic growth liftoff, in your U.S. business? And it sounded perhaps from your previous guidance comments that we could see something maybe towards the latter part of this year already, but rough timeline there to see that accelerate?

Second question on margins – same one, really. I mean, from when would you think we start to see some progress there in terms of converging towards the margin levels we see at your larger European peers? And the rollout of best practice and AI tools you mentioned, I mean, is that something that already drives the much stronger guided second half EBITDA performance? Thank you.

Patrick Kelleher – GXO Chief Executive Officer

Yes, sure. Let me take those, and then Baris, maybe you want to comment. From a North American market perspective, I think we are already seeing traction in terms of an accelerated growth agenda there. We've got a fantastic opportunity, great foundation, particularly in the strategic verticals, that we see as very contributing to our growth going forward. There's a total market opportunity in North America of \$250 billion.

Michael Jacobs, who I said I've known for 20 years, he's been in the seat now for three months and already intensifying focus on operational performance, increased labor productivity, which only makes us more competitive in the market. And he's really driving towards winning new business and allocating resources to solutioning, sales and digital marketing. And I think that's critical to converting the pipeline that we have there.

I think it's important to remind that the sales cycle for this business is six to nine months, with a period of about six months to start up new business to realize full profitability of opportunities that are won. And so, I think our guidance for 2026 accurately reflects stepping into that growth based on the sales and start-up cycle, and that has us very excited for 2027 as well.

It's a key focus of mine to reenergize our customer relationships in the region, and that's going to be a key focus of mine in this new era of growth and stronger execution that we've talked about.

With respect to your question on margin expansion and margin opportunities, I believe firmly now, almost six months in, that there is a structural margin opportunity for GXO. In the near term, and Baris can comment, our margins have been diluted by the delays to the Wincanton integration process. That begins to correct itself in 2026 as we deliver the \$60 million run-rate synergies, which will be in place, full run rate, by the end of the year.

But again, given my experience, I see no reason why GXO can't be performing at or better than our industry peers. We're definitely going to outline how that happens in the Investor Day 2026.

Baris Oran – GXO Chief Financial Officer

If I may add a couple of things on the Wincanton contribution. Wincanton has traded solidly and is a contributor to our incremental year-over-year EBITDA results. We began the integration in the third quarter. We realigned the organizational structure, and we are beginning to combine support functions, procurement benefits will become more obvious in 2026 and beyond.

Total to-date integration benefits were around \$15 million by the end of 2025, including some in 2024. By the end of 2026, as Patrick highlighted, we expect both businesses to be fully integrated and cost-savings program to be implemented, meaning we will enter 2027 with a full run rate of \$60 million, which should provide us another \$20 million year-over-year benefit, which is included in our guidance for 2026. In addition to cost synergies, the combined GXO and Wincanton teams are already contributing on new opportunities for new customer tenders, which will accelerate GXO's growth further into our target verticals.

Patrick Kelleher – GXO Chief Executive Officer

So, to the last question on productivity improvement, I would highlight, especially our initiatives around rolling out GXO IQ. We are really excited about the opportunities that AI presents for our business. GXO IQ is the path to implement AI across our 1,200 operations and how we're bringing AI to life.

Kristine, maybe you can comment on our progress there.

Kristine Kubacki – GXO Chief Strategy Officer

Sure. Hi, Patrick. Just to give you a little bit of background, I mean, we've been deploying proprietary AI modules across our sites for about 18 months now, and it's in a number of sites. We got actually our first non-pilot savings just last year in 2025, so we're seeing very good things.

We have gone from the pilot stage of GXO IQ in the second half of last year, and we're going to begin scaling that to more than 50 sites as we go through 2026. And then most of our new start-ups from here, so that will be existing sites, some existing sites, and then most new start-ups will be launched on the GXO IQ platform.

So we're very excited about the things that we're already seeing and the opportunities in the pilots that we did in the second half of 2025. We will provide more details of how this rolls into the margin opportunity over the long term at our Investor Day later this year.

Patrick Creuset – Goldman Sachs

Thanks. Can I ask a follow up just on that AI point? Just in terms of, conceptually, what are the exact cost buckets that GXO IQ tackles? Is it sort of site-level SG&A, more group functions, or something else?

Patrick Kelleher – GXO Chief Executive Officer

We have two dimensions that we're chasing in terms of our AI strategy. The one is, as you referenced on SG&A, improving overhead efficiency where we focus on our own operations. So that's our functional activities, and we look to leverage our corporate functions like HR, IT, finance, more effectively, and AI plays a big role in that. And we see ourselves leveraging market available AI to drive those improvements.

The second dimension is driving innovation within customer warehouse and transport operations. So, some examples of that – we have AI modules deployed for dynamic route planning, proactive replenishment, slotting, forecasting. Those will all drive to impact the cost basis for how we execute in our operations, sharing that value with our customers as we drive to lower cost, better service in the solutions that we provide.

So, we expect great results from those two areas of focus. We've got a number of deployments already underway and seeing good results of the work that we're doing.

Patrick Creuset – Goldman Sachs

Thank you.

Operator

Thank you. Our next questions come from the line of Jason Seidl with TD Cowen. Please proceed with your questions.

Uday Khanapurkar – TD Cowen

This is Uday Khanapurkar on for Jason Seidl. Thanks for the questions. Maybe a couple for Baris. On the organic growth guide, I think based on '26 locked-in wins, appears to imply like a mid-single-digit churn rate. So maybe if you could confirm the algo there. Just curious if that implied churn is an estimate based on typical churn at this point in the cycle? Or have those conversations with customers concluded?

And then maybe if you see some support from the broader market, could you see an outperformance on that this year?

Baris Oran – GXO Chief Financial Officer

Yes. On the retention rates, we assume steady retention for 2026, similar to 2025. And the inflation pass-through is also specifically valid for this business model. That's what makes us resilient. And as Patrick highlighted, we are assuming flat volumes in our existing operations, which we believe is prudent for 2026. We won already 6% of our gross growth, and there will be more wins coming up this year, which is going to uplift our growth numbers.

Uday Khanapurkar – TD Cowen

Right. That makes sense. And maybe just a follow up, so you said the flat volume expectations for '26 embedded in the guide. On the U.S. side, there's a few signals pointing to inventories being drawn down quite low and an impending restock, so maybe potentially better volume throughput in warehouses in the U.S. Is that something that you're seeing? And is the offset in the guide maybe implying a softer U.K. and Europe? Or are your U.S. trends maybe more discrete from the market?

Baris Oran – GXO Chief Financial Officer

In Q4, our trends in North America and the U.S. were stronger than Continental Europe and U.K. For 2026, it's too early to call for the entire year. We just take a flat number for prudence. Just take it as prudence, nothing more than that.

Uday Khanapurkar – TD Cowen

All right, very helpful. Thank you very much.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Thank you. Our next questions come from the line of Jeff Kauffman with Vertical Research Partners. Please proceed with your questions.

Jeff Kauffman – Vertical Research Partners

Thank you very much, and congratulations with all the levers moving around and the changes going on. I just wanted to follow up on the question on the operating environment. I hear everything you're saying in terms of the new verticals and where we're focused on growing, but I want to see what the aggregate market is doing. I mean, it did look like U.S. growth slowed a little bit. France and Italy slowed a little bit on the continent based on your numbers. Can you just tell us, on the macro side, where you're seeing changes incrementally positive and negative, either on a geographic or an industry vertical basis?

Patrick Kelleher – GXO Chief Executive Officer

Sure. I think the most important thing to call out there is that contract logistics outsourcing as an industry is increasing. Customers are increasingly looking at outsourcing as a very viable alternative to in-source execution of supply chain. I think the challenging macroeconomic environment only intensifies the value proposition that we have for our customers. We are able to invest in robotics, automation, AI, humanoids in a way that our customers cannot do for themselves.

We have the people and the expertise to solve complex supply chain challenges. So as customers and potential customers are under challenging situations, on a global basis, across multiple geographies, the value proposition of contract logistics – our business – only strengthens.

So, we are not pinning our forward growth trajectory based on just the performance of the overall broad economy. We want to be a part of solving customer problems and opportunities in the challenges that they face in good times and bad. And I think for the 32 years that I've been in the supply chain industry, contract logistics specifically, the industry has continued to grow regardless of those macros.

We'll be very responsible in terms of how we are guiding on our performance within the year, as it relates to how volumes are going to materialize for customers in the year. But as we look to the long term, we're really confident that we're playing in the right industry. It's a growing industry. We are a market leader in the industry, and we've got a great opportunity to capitalize on that industry growth.

Jeff Kauffman – Vertical Research Partners

And just to follow up on that. And I think in Kristine's presentation, she was talking about humanoids and how tech is changing. And I know you'll hit this on the Investor Day, but can you talk a little bit about AI and how that's changing warehouse automation versus, say, the warehouse automation concept that you were selling 12 or even 24 months ago?

Patrick Kelleher – GXO Chief Executive Officer

Yes, sure. A simple example, I think, is there's an opportunity to use AI to solve for the completion of repetitive tasks – tasks that our team members don't want to do. There's efficiency in getting those repetitive tasks done either more quickly or more cost effectively. But the bigger benefit that we're seeing as AI is becoming more sophisticated is the upstream and downstream impacts that AI focused on a process can have on other connected processes.

So, when we look at AI that we have deployed in one of our large e-commerce warehouses today for forecasting, we're able to use AI to forecast demand in an e-commerce environment, which is inherently unpredictable. We are able to do Monte Carlo analysis around how a forecast may come in based on weather, promotional, and so forth, and create models for labor planning to be able to respond quickly to what actually happens in reality.

So, AI, in that case, didn't necessarily make the picking and processing activity more cost effective, but it made the labor planning more cost effective, allowing us to put labor in the operation when it's needed, when it could be most productive, eliminating team member downtime and people who are there without work to process. And we are really focused on not only leveraging AI for discrete activity, which is where I think we were a couple of years ago as an industry, but how do we look at the connected benefits of various AI tools, improving processes, and how do we improve overall execution as a result of that.

And I think that, for me, paints a very exciting landscape for where AI, and then humanoids and robotics and automation, can play, driving cost reduction and service improvement for our customers.

Jeff Kauffman – Vertical Research Partners

Thank you very much.

Operator

Thank you. Our next questions come from the line of David Zazula with Barclays. Please proceed with your questions.

David Zazula – Barclays

Good morning, thanks for taking my question. Just wondering if I could ask about how the rollout with NHS is going. I think you previously talked about some opportunities to expand that relationship. Have those talks progressed at all? And any outlook on the NHS side? Thank you.

Patrick Kelleher – GXO Chief Executive Officer

Sure. So, the NHS business implemented late third quarter and all the way through the fourth quarter of last year, that is continuing on plan, and our team members in the U.K. are doing a fantastic job of providing amazing service to the NHS. And we're very pleased with how that is progressing.

We have built up a pipeline with the NHS. We're progressing on that. We're confident that there's a great opportunity to grow our relationship there, as well as that being a great foundation for continued growth in life sciences and the relationships that we're building through that execution for NHS and the capabilities that we're able to bring to market as a result of the work that we're doing, especially from the Wincanton acquisition. And our team members who came from Wincanton and are just amazingly talented in this area. We're already seeing the benefits of that in the pipeline, and as mentioned, some of the new business wins that we had in the fourth quarter.

David Zazula – Barclays

So, if I'm hearing you right, it sounds like having NHS as an anchor customer gets you into ecosystems that you didn't have access before, and that's creating some incremental commercial opportunities?

Patrick Kelleher – GXO Chief Executive Officer

I think that is absolutely correct. And we see ourselves growing not only the NHS, but that is a foundation for growth in the space. And that is very similar to the approach that we're taking in aerospace and defense. By the way, we have a great foundation of business in aerospace and defense, only enhanced by the acquisition of Wincanton and the capabilities they brought there, and we're seeing similar momentum in terms of building on that foundation.

And Kristine, maybe you can add on.

Kristine Kubacki – GXO Chief Strategy Officer

Yes, David, just to add color a little bit there. I think as we announced the NHS deal back in the fourth quarter of last year, '24, that is really the landmark deal that got us in the marketplace and really got noticed. We added great names like Siemens Healthineers and Fresenius. And as I mentioned, in the last 12 months, the pipeline in life sciences alone has more than tripled. So really, that's a result of the importance of the NHS win. And now with the start-up going very successfully, we think that momentum only continues.

David Zazula – Barclays

Great, thanks for the color.

Operator

Thank you. Our next questions come from the line of Kevin Gainey with Thompson Davis. Please proceed with your questions.

Kevin Gainey – Thompson Davis

Morning, Patrick, Baris, Kristine. Maybe if you could touch on the North American expansion and how you're thinking about it as an opportunity for organic growth, or maybe you would want to visit that via acquisition? And then does the North American market represent maybe the most outsized organic growth opportunity for GXO?

Patrick Kelleher – GXO Chief Executive Officer

Sure. I can answer that very quickly. North America is a priority for organic growth, and organic growth will be the primary driver of growth in North America. We see a great opportunity there. We've got a great foundation of the business. We are underrepresented in North America, in contrast to our participation in the U.K. and Europe, and so we are very confident that we have upside there. We're executing that to that end.

Pulling in the question on M&A. Our M&A strategy is to invest in areas where we can accelerate our growth. We want to be very selective around M&A. Our M&A priorities really center on North America and the strategic verticals that we're focused on – aerospace, defense, industrial technology, life sciences, as I've mentioned. We don't have M&A in our short-term agenda, that being the next couple of months.

From a capital allocation perspective, we're very focused on investing in organic growth. We want to continue to deleverage the balance sheet, which will get us greater flexibility as we move through 2026.

Baris, how many? 2.5x right now?

Baris Oran – GXO Chief Financial Officer

Yes.

Patrick Kelleher – GXO Chief Executive Officer

And moving towards 2x at the end of 2026.

And then beyond that, from a capital allocation perspective, we'll take a very balanced approach as it relates to M&A opportunities and share buyback. But to round out your question, North America is a big focus for organic growth.

Kevin Gainey – Thompson Davis

Appreciate all the color there, Patrick. And maybe for Baris, just one last one on cash flow conversion. Maybe if you could talk about the confidence in raising the guide there and what drove that?

Baris Oran – GXO Chief Financial Officer

Yes. We have lower M&A transaction costs in 2026, and we do have opportunity to improve our working capital management throughout the year. Our CapEx has been, as a percentage of revenue, will be roughly the same. The delta will come from less transaction costs and better working capital management.

Kevin Gainey – Thompson Davis

Perfect, I appreciate it.

Operator

Thank you. Ladies and gentlemen, that is all the time we have for questions today. I'd like to hand the call back over to management for any closing remarks.

Patrick Kelleher – GXO Chief Executive Officer

Thanks Operator.

Before we close, the message I want to leave you with is straightforward: GXO is accelerating – deliberately and from a position of strength.

The fundamentals are strong. The team is aligned. And GXO is poised to perform in a higher gear. We see clear opportunity to unlock organic growth and margin expansion through sharper commercial focus, greater operational consistency at scale, and disciplined execution of our U.S. growth opportunity. While several new leaders have joined only recently, the increased alignment across our leadership team is already proving to be an accelerant.

That strength was further reflected in GXO's recent recognition as one of Fortune's Most Admired Companies. This recognition would not have been possible without the dedication and performance of the entire GXO team—and the vision of our founder, Brad Jacobs, who stepped down as Chairman at the end of last year. Our future path will always be rooted in the foundations of culture and performance that Brad espoused.

On behalf of our employees, I want to thank Brad for his leadership in building a truly category-defining company. We wish him continued success.

With that, thank you for your questions and for your continued interest in GXO. I look forward to speaking with you again soon.

Thank you so much.

Operator

Ladies and gentlemen, this concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time. Have a wonderful day.