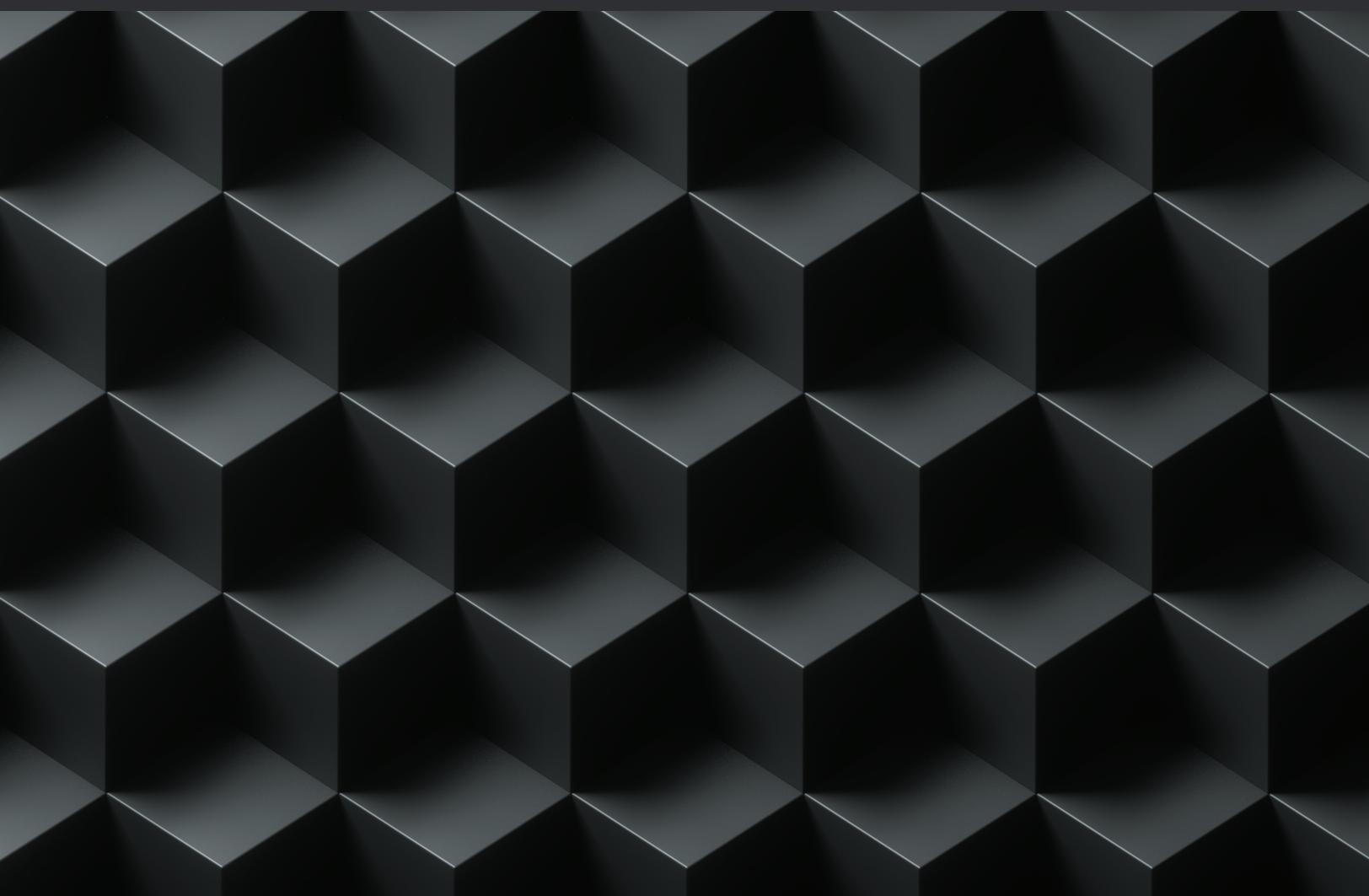


February 13, 2025

Fourth quarter and full year 2024 results



GXO Logistics Q4 2024 Earnings Call

Presenters

Malcolm Wilson – Chief Executive Officer

Baris Oran – Chief Financial Officer

Kristine Kubacki– Chief Strategy Officer

Q&A Participants

Joe Hafling – Jefferies

Scott Schneeberger – Oppenheimer

Chris Wetherbee – Wells Fargo

Bascome Majors – Susquehanna

Christyne McGarvey– Morgan Stanley

Ariel Rosa – Citigroup

Kevin Gainey – Thompson Davis

Uday Khanopurmur – TD Cowen

Operator

Welcome to the GXO fourth quarter and full year 2024 Earnings Conference Call and Webcast. My name is Rob 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, Malcolm Wilson. Mr. Wilson, you may begin.

Malcolm Wilson – GXO Chief Executive Officer

Thank you, Rob, and good morning, everyone. I appreciate you joining us today for our fourth quarter and full-year 2024 earnings call. With me in Greenwich are Baris Oran, our Chief Financial Officer; and Kristine Kubacki, our Chief Strategy Officer. In 2024, we had some great operational highlights. We delivered record revenue and adjusted EBITDA – notably, our adjusted EBITDA grew 30% year over year in the fourth quarter.

We drove organic growth acceleration every quarter throughout the year. We had a stellar sales year, closed over a billion dollars of new business wins for the second year in a row, grew our relationships with our customers and won a landmark \$2.5-billion-dollar deal in the health sector. For the fourth quarter of 2024, we generated revenue of \$3.3 billion dollars, and we delivered adjusted EBITDA of \$251 million dollars, in line with our expectations.

For the full year 2024, we generated \$11.7 billion dollars of revenue, growing 20%, of which 3% was organic. I'd like to highlight that closing the year at \$11.7 billion dollars means we've nearly doubled our revenue since 2020, which was the last year before we spun off from XPO.

We entered 2024 expecting to deliver \$760 million dollars to \$790 million dollars of adjusted EBITDA. During the year, we updated our guidance to take into account our acquisition of Wincanton, and we're very pleased that we've delivered \$815 million dollars of adjusted EBITDA for the full year, in line with our expectations.

2024 was the second year in a row that GXO closed over a billion dollars of new business wins. We won exciting contracts with new brands, like Levi's, LG, Puma and the German coffee chain Tchibo. We also grew enormously with our existing customers in the year. Our land-and-expand strategy has been a cornerstone of our long-term partnerships, and we expanded into new geographies with more than 40 of our legacy customers, including Boeing, Guess, Michelin and Nespresso.

Also, in the fourth quarter, we won a major new contract: a long-term, \$2.5-billion-dollar total lifetime value fulfillment operation in the healthcare sector. This opportunity came through a legacy relationship we gained from our acquisition of Clipper Logistics in 2022. The Clipper deal also gave us a foothold in Germany, and I'm pleased to report that we've grown our revenue there by 60% year over year as of the end of 2024. Germany is now our fastest-growing market. These accomplishments are proof positive of our successful M&A and commercial strategies.

On that note about M&A, in 2024, we completed our acquisition of Wincanton. This is a growing business that will bring us expertise in key verticals like aerospace and industrials, where we plan to accelerate our growth.

Turning to our outlook for this year, we expect to deliver 3% to 6% organic growth, with \$840 million dollars to \$860 million dollars of adjusted EBITDA, for the full year 2025. Our guidance range reflects our strong core business growth, which is netted against capacity realignments by a small number of long-term customers where we have worked together to adjust their footprints to fit their future needs. Our guidance also reflects the impact of the current FX environment, and our prudent expectations on the timing of in-year integration benefits from Wincanton. We expect to have an interim update on the CMA's regulatory review in the next week.

Before I pass the mic to Baris to cover the detail behind our financial targets, I'd like to touch upon the key drivers of our growth in 2025 and beyond. First, the fundamentals of our business – the structural tailwinds of outsourcing, automation and e-commerce – will continue to drive our long-term growth. Brands around the world are facing unprecedented supply chain complexity. And we're bringing the benefit of our scale, expertise and tech-enabled solutions to help them solve their most complex problems.

Second, leadership in technology continues to be a key differentiator for GXO. We've long been the leader in tech-enabled fulfillment, and in 2024, we made rapid progress toward our vision of the AI-enabled warehouse. I'll ask Kristine to give you more details on that in just a moment.

Third, we strengthened our sales organization in 2024, not only in our traditional verticals, but in new verticals and geographies. These investments have already begun to bear fruit. We closed more than a billion dollars of new business wins in 2024, including in strategic growth areas like the health sector and a range of verticals in Germany, like aerospace & defense, food & beverage and omnichannel retail. In North America, we won significant business in the technology sector, including a major contract managing data centers. Our pipeline is up 15% year over year as of the end of the fourth quarter, and our pipeline in the Americas is up 20%. This momentum will continue to drive our long-term growth.

With that, I'll hand you over to Baris, who will walk you through the financials and our guidance. Baris, over to you.

Baris Oran – Chief Financial Officer

Good morning, everyone. Before reviewing the numbers, I would like to particularly highlight the strong sales year we've had. First, as Malcolm mentioned, we won more than a billion dollars of new business in 2024, with an average contract length above our long-term average of five years – including a massive win in the health sector, which is a target growth vertical for us.

Second, we noted last quarter that demand for new e-commerce facilities was growing, and we're pleased to note that we finished the year with about 60% more new business won in e-commerce year over year. And third, we finished the year with a robust pipeline, giving us confidence in our long-term growth.

For the full year of 2024, we generated revenue of \$11.7 billion dollars, growing 20%, of which 3% was organic. Our organic revenue growth accelerated sequentially throughout the year, led by our omnichannel retail and consumer goods businesses. We delivered adjusted EBITDA of \$815 million dollars, growing 10%. Our adjusted EBITDA margin was 7% for the full year. Our adjusted diluted earnings per share was \$2.80, up from \$2.59 for the full year of 2023. Our operating income for the full year 2024 was \$218 million dollars, and we delivered net income of \$138 million dollars. In the fourth quarter, we generated revenue of \$3.3 billion dollars, growing 25% year over year. We delivered adjusted EBITDA of \$251 million dollars, growing 30% year over year. Our adjusted diluted earnings per share was \$1.00 in the fourth quarter, up from \$0.70 in the fourth quarter of 2023. Our fourth quarter operating income was \$101 million dollars, growing 16% year over year, and net income was \$100 million dollars, growing 37% year over year. Our operating return on invested capital, at 46%, remains well above our long-term target.

In 2024, we again converted more than 30% of our adjusted EBITDA to free cash flow. We delivered an outstanding \$127 million dollars of free cash flow in the fourth quarter. We remain laser focused on capital effectiveness, and continue to prioritize investment in technologies and services that drive the greatest returns for our customers.

Our balance sheet continues to strengthen. Our net leverage was 2.7x as of the end of the fourth quarter, down from the peak of 3.1x following the acquisition of Wincanton in the second quarter. As we focus on deleveraging and integration throughout 2025, M&A is not on our short-term agenda.

Now, turning to our guidance. For the full year 2025, we expect to deliver organic revenue growth of 3% to 6%. We anticipate a sequential acceleration of organic growth throughout the year, similar to what we have seen in 2024, given the phasing of our new business wins and the customer capacity realignment impacting the first quarter. Our organic growth trajectory is underpinned by our strong sales performance, where we closed more than a billion dollars of new business wins for the second year in a row. We have \$627 million dollars of incremental revenue booked for 2025, which is 10% higher than where we were at this point last year.

And, at the same time, our pipeline has grown 15% year over year as of the end of 2024. Our investments in our sales organization are creating the momentum for our long-term growth.

We also expect to deliver \$840 million dollars to \$860 million dollars of adjusted EBITDA. As Malcolm highlighted, our guidance range reflects a sequentially increasing adjusted EBITDA throughout the year. This improvement will be driven primarily by the maturity ramp of new startups, progressively offsetting the impact of a few customer capacity realignments in the first quarter.

Double-clicking on the realignments, post-peak-season, we have worked with a few of our large long-term customers to realign their footprints to fit their future needs. You will note from our revenue guidance that we've been able to almost completely offset this rationalization impact through new wins, but due to the maturity curve of startups, we'll see improved profitability throughout the year. This means that these realignments will predominantly affect our adjusted EBITDA in the first quarter.

We expect our full-year adjusted diluted earnings per share to be in the range of \$2.40 to \$2.60, reflecting our guidance on adjusted EBITDA and an increase in our effective tax rate in 2025. And at the midpoint of our range, we expect to convert about 30% of our adjusted EBITDA into free cash flow, in line with our historical performance.

We expect our growth to continue to accelerate sequentially throughout 2025. We're working on a number of measures to improve our operating profitability, including continuous improvement measures at the site level – and when we begin the integration of Wincanton, our results will accelerate faster.

I'll pass the mic to Kristine. Kristine, over to you.

Kristine Kubacki – GXO Chief Strategy Officer

Thanks, Baris. Good morning, everyone. We're pleased with our results for the full year 2024. As Malcolm and Baris mentioned, the investments we've made in our business are driving great results. Today, I'd like to update you on the progress we're making toward our vision of an AI-enabled warehouse, and how our strategy for 2025 will support our future growth.

As we discussed last quarter, we began piloting our first proprietary AI applications in select warehouses across the US last year. We've now launched 22 instances of our proprietary AI apps across three key warehouse functions: proactive replenishment, SKU dimensioning and order routing.

Our tools have delivered exciting results over the past few months, including: Productivity improvements of 3-4x in stock replenishments for a major sporting goods retailer; A 50% improvement in order allocation, plus a 22% improvement in carton fill rate, which drove efficiency and decreased transportation costs for an omnichannel retailer; And a record-setting inbound process for 35,000 SKUs as we prepared to launch a new e-commerce operation.

We have a number of other modules in development, including volume prediction, slotting and pick optimization.

GXO's strategy for AI within the four walls of the warehouse focuses on improving productivity and de-bottlenecking the flow of product. Our 2025 roadmap prioritizes layering additional modules on sites where we're already live with AI, to compound the impacts of these powerful tools. We run mega-sites for household name brands all over the world, and we're focused on scaling the impact of our AI across multiple warehouse processes in parallel.

We're excited about this technology and the tangible results it's driving.

We're receiving positive customer feedback on how our AI is transforming their fulfillment operations, and we look forward to formally launching this product as a key part of our commercial strategy to supercharge our growth.

And with that, I'll pass it back to Malcolm.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Kristine.

We've delivered a record-setting year, advanced our commercial and tech strategies, and built momentum to accelerate our growth in 2025 and beyond.

I'd also like to share our pride that GXO received numerous awards in 2024. From being recognized as the #1 logistics provider on Newsweek's list of America's Most Reliable Companies, to receiving accolades for our innovative use of AI and awards for our partnership with customers like Nestle and Whirlpool, we greatly appreciate the industry's recognition of our outstanding performance and innovation.

And before we close, I'd like to thank our employees for their excellent performance during peak and throughout the whole of 2024. Our customer satisfaction scores reached an all-time high as of the end of 2024, and it's the hard work and dedication of our team members that enables us to delight our customers, day in and day out.

We are very excited about our growth trajectory, as we focus on delivering the best possible service to our customers and generating strong returns for our shareholders.

With that, we'll hand the mic back to Rob for Q&A.

Question & Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session.

Thank you and our first question is from the line of Stephanie Moore with Jefferies. Please proceed with your question.

Joe Halfling – Jefferies

Hi, good morning. This is Joe Halfling on for Stephanie Moore. Thank you so much for taking our questions and thanks for the informative slide deck and all the details you provided in the prepared remarks. Can we unpack a little bit about, more about what's happening in the first quarter with that \$15 million EBITDA hit? It just seems like a pretty heavy hit.

Baris, you mentioned it was only a couple of customers. So, could we kind of maybe talk about exactly what's going on? Were these customers just really a lot more profitable than kind of the new business that you're bringing in? Or is there a cost lag between when these customers are realigning their capacity and you're backfilling the sites? And maybe my follow-up to that would be to the extent that you have some customers leaving some sites or reducing their footprint, have you already found customers or tenants to kind of take over those new sites? Thank you.

Baris Oran – GXO Chief Financial Officer

Hi, it's Baris here. Good morning. We expect low single digit organic revenue growth in Q1, and we expect to deliver around \$155 million of adjusted EBITDA at

the midpoint of our range. The difference compared to full year bridge is that we have a larger impact from customer capacity alignments and new site implementations. We have positive net wins from a revenue standpoint in Q1, and capacity realignments are primarily in mature sites and our startups take time to reach the glide path.

You would recall that we had a similar short-term impact from new startups in 2022 and how this was resolved quickly throughout the year. Now coming back to the second part of your question, there is a handful of contracts that have driven this impact. These are one off in nature. Let me give you some detail.

First, there is a customer that we have seen a relative large mature site exit. We have continued to win new business from this customer, and we'll have four sites going live throughout 2025. Number two, one of our automated site customers have realigned capacity in their network and given the prime location of operations, we have held the lease and already secured another customer, which will contribute profits in the second half of 2025. Number three, another long-standing mature site customer has realigned their network because of lower consumer volumes. They remain a good customer for GXO. And on top, as we've highlighted, we face some FX and pension headwind about \$20 million or so in 2025 versus 2024.

And when you add those back, the underlying performance is quite healthy.

Joe Halfling – Jefferies

Got it. Thanks so much. And if I could just maybe ask one more question. Is there any confidence that this is not a structural issue and that this really is just kind of a one off? I guess, what would be stopping this as being just a continued trend throughout 2024? Thanks.

Baris Oran – GXO Chief Financial Officer

Network realignment is a short-term impact. They are not lost customers. In fact, as I highlighted, we are opening new sites for one of these customers. And for the other sites, we are reallocating it to another customer. The productivity of course will ramp up.

As we have highlighted in 2022, we had a similar short-term impact from the new startups, and you have seen how this was resolved quickly throughout the year. Our history speaks for itself.

Joe Halfling – Jefferies

Thank you, Baris, so much.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Our next question is from the line of Scott Schneeberger with Oppenheimer.

Scott Schneeberger – Oppenheimer

Thanks very much, good morning. I'm curious to hear about how transactional volume with existing customers has been trending. Curious how it looked in fourth quarter. I believe it was a progressive improvement year over year versus each of the preceding quarters of 2024. How should we expect that to look in 2025? And I'm not sure if this development with these two or three customers affects that, maybe an answer with or without that involved for 2025. Thanks.

Malcolm Wilson – GXO Chief Executive Officer

Hey, Scott, hi, it's Malcolm. Let me give you a bit of an overview on volumes generally across the different regions. And then probably there's a little bit more detail I'll ask Baris to comment on. When we think about the fourth quarter, definitely our Continental Europe business that was showing the fastest growth and that growth has really carried on into 2025. We mentioned earlier, we are seeing very, very good output of sales pipeline wins in new markets like Germany. So really, Continental Europe going from strength to strength.

In The UK, since our last call and probably really second half of the last quarter and where we are now, what we have seen is retail environment is softened a little bit, and that's really a consequence of the recent government budget. Many of our customers are still working out the implications of the higher employment tax rates. They're a little bit cautious about the go forward and those tax rates will start to impact in April. So, I would say our UK business softened a little bit, but actually still very vibrant. And obviously, you heard earlier, our sales pipeline very strong and that notable very, very big win in a new vertical healthcare.

Here in The U. S, definitely we've seen a pickup in mood from the consumer-focused business and we can see that reflected in our stronger sales pipelines. We did very well in the last quarter when it comes to volumes, and we expect that to progress forward. Notwithstanding the point that Baris has just made where momentarily in quarter one, you do see this impact of us realigning some customer volumes on some of our big customers, very small number, but it's a point for our quarter one.

It's too early to gauge what impact tariffs will have on our U. S. Business, but really generally our business is a domestic business. We don't think there's a likelihood of any material impacts feeding through in that regard.

And also, as we highlighted in quarter three, we've definitely seen a pickup in our ecommerce and omni-channel commercial activities. So again, just to highlight, great news for big new wins, great news for growth in Germany, the strategy that we've got is really definitely working in terms of pushing into new verticals. And that's good because a lot of these new verticals, they're less sensitive to consumer behavior. And that really builds to the strength of the resilience of the business.

I'm sure all of these factors are contributing to this 15% year over year growth that we're seeing in our sales pipeline. Baris, maybe you can add a little bit more detail on percentages?

Baris Oran – GXO Chief Financial Officer

Sure, Malcolm. We have seen sequential improvement in our organic revenue growth in 2024, and we do expect sequential improvement in 2025. Within that, in Q4, our underlying customer volumes were slightly positive in the fourth quarter, that's less than 1% positive. And when we look into the entire year of 2025, we expect underlying customer volumes to be flattish for the entire 2025.

Scott Schneeberger – Oppenheimer

Great. Thanks for that guys. Appreciate the geographic and end market discussion. I guess I'll do my follow-up with regard to that healthcare win. It sounds like it came from a relationship, and I know that's a vertical you've been looking to penetrate.

Could you elaborate on how quickly now with that win that might help you garner more business in healthcare? Is this something that you think you can penetrate rapidly? Or, I believe you said in the past it would be helpful via acquisition, which I know is on hold while Wincanton is occurring, just curious, your ability to ramp healthcare with this new win organically and any incremental detail you can share about this new contract? Thanks.

Malcolm Wilson – GXO Chief Executive Officer

Yes, Scott, it's Malcolm here again. Look, it's a milestone win. It's a huge piece of business that we anticipate starting in the second half of this year. We are under very strict confidentiality agreement, so I can't mention the name, but I think it's fair to say we're very proud to be partnering with this new customer. Already, I can see that in our UK sales pipeline and a lot of inquiries already coming in in Continental Europe, we have a very large catchment of interested customers who will come in

really on the back of this very prestigious win that really opens up a huge range of services that we're providing for the customers.

So, in that regard, very, very positive outlook for the way forward in healthcare and that's a really brand new vertical for us that we're achieving without actually having to undertake any M&A. It's a homegrown organic huge, big opportunity for us. On Wincanton, I mean, Wincanton business is trading very, very well, but it's clear for us that we can achieve with that what we've achieved in healthcare. Healthcare really came from embryonic business relationships that came out of the Clipper M&A. It was one of the things we saw in Clipper when we were doing that deal.

This vertical plus the business that existed in Germany and that also has proven to be a huge success. In Wincanton, the highlights that we see in new verticals, it's the industrial sector, defense, aerospace, I think we'll achieve the same successes, might take us a year, two years following integration. That's normal for top line synergy benefits. You're seeing that right now. It's a couple of years since Clipper, but we're confident we'll see the same levels of successes coming out of the Wincanton deal.

Operator

Great. Thank you. Our next question comes from the line of Chris Wetherbee with Wells Fargo. Please proceed with your question.

Chris Wetherbee – Wells Fargo

Hey, thanks. Good morning, guys. I guess just sort of conceptually on some of these customer losses or adjustments, I guess, there's maybe some expectation that you guys would have been a bit more insulated to this. And so maybe the question is, are there aspects in the contract that would have allowed some sort of either penalty for closing or leaving a contract earlier or some other sort of mitigating factors included in it? And I guess also as you think about sort of the go forward period, was this one a unique dynamic where at the end of the fourth quarter you had a higher number than normal contracts coming up for renewal?

So, I guess we've always thought about a relatively high retention rate probably because the portfolio was relatively balanced in terms of renewal risk, but kind of curious about how we think should think about that going forward.

Malcolm Wilson – GXO Chief Executive Officer

Chris, hi, it's Malcolm here. Nice to hear from you. Chris, it's very much a kind of one-off event. As Baris mentioned, we did experience something similar way back in 2022. It just happens that we've got two or three large customers, very strategic customers for us. We have business with these customers on multiple geographies, relationships very, very strong.

On one hand, we see a need we identify, we always see a need to optimize the business that we have with customers in the long run. And when we can see clearly an opportunity to do things differently that will bring greater efficiency, but we wouldn't be doing our job if we didn't identify that and work with the customer to actually make that happen. And that's pretty much what's happened here. We have good visibility on those kinds of things. We were able to influence it. We are not in any way financially damaged as a consequence, because clearly our contracts are back-to-back. That's a feature of our company. That's one of the things that make our earnings relatively highly predictable as you've seen over the years.

And in this instance, as Baris mentioned, it's really a consequence of the move of relatively mature business coming to an end, happens to be a number of incidents in one quarter and then new business starting up very quickly. But as you've heard us mention in the past, there is generally a small lag when we start new business, when we don't achieve mature contract profitability. Generally, it takes about six months for us to reach those levels. And that's really what you're seeing, and you're seeing that primarily focused in Q1. When you look at the phasing of the rest of our business, the rest of this year is quite a normal phasing.

But clearly, it's having an impact in our Q1 numbers and it's one of the reasons why our guide for the year looks a little lower than probably people might have expected.

Chris Wetherbee – Wells Fargo

Okay, all right. That's helpful. I appreciate it. And then on the free cash flow, so I noticed that the guidance, I think the conversion rate is 25 to 35.

I think in the past, it's been 30 to 40. So, can you walk us through sort of what's happening from a cash perspective? Are there some different dynamics of the book of business that you have today? Or are there some other factors we should be considering?

Baris Oran – GXO Chief Financial Officer

Hi, Chris, it's Baris here. Our free cash flow for Q4 was \$127 million and \$251 million for 2024. We delivered around slightly over 30% free cash flow conversion. In 2025, we targeted similar 25% to 35% conversion, 30 points at the middle of the range, a similar outcome to what we have delivered in 2024.

Prior to our 2024 free cash flow guidance, we did not contemplate the Wincanton acquisition and we delivered on the lower end of this range. This was due to the funding and integration and final payments of the transaction costs that in aggregate came around \$70 million for the year. And we are generating strong underlying cash flow, and this is in line with our history.

Chris Wetherbee – Wells Fargo

Okay. So, it's Wincanton has a slightly different cash profile as we think about 2025 or there's still some of these integration or sort of financing costs that impacts free cash for 2025?

Baris Oran – GXO Chief Financial Officer

There will be some integration costs. The transaction has not been fully gone through the CMA approval, so there are some transaction costs that are happening in 2025. So hence, our guide for midpoint 30% free cash flow range in 2025.

Chris Wetherbee – Wells Fargo

Okay. Thank you very much. Appreciate the time.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Our next questions are from the line of Bascome Majors with Susquehanna International. Please proceed with your question.

Bascome Majors – Susquehanna International

If we look back on your organic growth history, it's been since mid- '22 since you've been in that long term range of double digits. And I understand this has corresponded with a pretty meaningful change in the fulfillment and retail framework from the kind of pandemic peak that ended mid- '22.

But can we talk long term? Is there an opportunity to maybe lower that expectation and set yourself up for the opportunity to really exceed in a world where mid-single digits has really been more common than the double digits that you've really sort of initially built the business around coming out of the pandemic when you spun off? Just any long-term thoughts on that and how you're feeling about that going out two or three years? Thank you.

Malcolm Wilson – GXO Chief Executive Officer

Yes, Bascome, hi, it's Malcolm here. Look, I think you're right. Since 2022, I think we've certainly lived through some turbulent environments across all the different geographies that our company works in. We can recall kind of the fact that we've had in major territories in Europe, we've had a war, which hopefully we can see signs that that's going to come to an end.

And we've had various different issues in terms of global supply chains and economic environments that we've been facing. We have a long-term guide out there. I think right now, fair to say, probably best not to so much comment about that long term target setting that we've done because we have to recognize this year, we are going to be in a management transition.

There's definitely, right now, we have an uncertainty about the timing of when we will start the Wincanton integration. And just as a reminder, on that one specific topic, we know that we will achieve around \$55 million of integration, cost saving, synergies once we start the integration. That's pretty much safe.

One of the things we're having to reflect in this year's guide is right now we have an uncertainty of the timing of that. Initially, we believe that we would have been starting that right from the get-go, right from now, January 2025. We've had to recognize that the CMA process has prolonged on longer than we would have originally expected. We still firmly believe that will be a favorable outcome.

We expect to hear from them during the course of next week. But clearly, I think it's the right thing for us to do to be prudent and to reflect in it a much more prudent approach to the timing of that. Where we might have expected that the lion's share of that \$55 million to land in 2025, probably right now prudently we're feeling no, it's probably more like a '25, '26. So, I think all of these things are in play. And as I say, I think there'll be time for us to do some remodeling of all of the impacts of these different scenarios.

And for sure, we'll target to be updating everyone when we've got a little bit more clarity around all of these topics.

Bascome Majors – Susquehanna International

Thank you, Malcolm.

Operator

Thank you. Our next question is from the line of Ravi Shankar with Morgan Stanley. Please proceed with your questions.

Christyne McGarvey – Morgan Stanley

Hey, great. This is Christine on for Ravi. Just wanted to maybe first ask about the sequential improvement through the year. It does sound like there's some startup costs. So, does that imply more of like a hockey stick improvement in Q2 and then seasonality? Or is it more of a gentle slope as some of that business kind of layers in? Would just love to understand a little bit how the year might look.

Baris Oran – GXO Chief Financial Officer

Hi, Christine, it's Baris here. There is seasonality in our numbers. Our Q1 has always been the lowest and our Q4 has been the highest level of activity. That's basically fulfillment activity, consumer demand, that's reflecting the seasonality. But beyond that, as we have highlighted this year, specifically more prevalent in Q1, we see a low single digit organic revenue growth and the difference is primarily coming from first, capacity realignments and the ramp up of new site implementation.

And we do expect every quarter to be better compared to the prior quarter. Q1 being, from a revenue perspective, still a growth quarter, but from an EBITDA perspective, we will have an impact of this capacity alignment, realignments, and the ramp up of these new facilities. And as we have highlighted, as we've seen in 2024, '22, we will see an improvement every quarter in 2025.

Christyne McGarvey – Morgan Stanley

Great. Thanks. And if I can ask for my follow-up, you referenced the management transition. Certainly, congratulations on the impending retirement, but would just love to know a little bit more about the process of making that decision and maybe what you're looking for in a successor at Malcolm?

Malcolm Wilson – GXO Chief Executive Officer

Hi, Christine. Yes, for sure. Well, look, the Board, we're in the middle of conducting a very thorough search of candidates, both within and of course outside of the GXO. And we're very confident that we'll find the right person to continue to deliver on the huge growth potential that this company has. I hope that we'll have identified the right person in the coming months, and then it will be just down to the specifics of the individual in terms of the actual starting point.

But hopefully, this side of the summer should be possible. On my side, look, my retirement, it's a personal decision. I've worked in the industry for an awful long time, but I have to say I'm absolutely committed, I'm passionate to ensure that we'll have a very seamless handover, and we'll give the new CEO everything that we can do to help continue to propel this company in a very successful fashion.

And not least to say, new CEO is going to inherit just a stellar management team that has been working in the company now since its spin all the way back in 2021. And lastly, look, just to remind, we did say earlier, since 2021, the last year prior to the spin, this is a company that has doubled the size of its business. We've grown EBITDA every single year. So, it's a business that's in good shape after completing some fantastic, strategic M&A and really investing in a huge amount of new technology that's really going to help propel the benefits for customers, for shareholders, for the long term into the future. So, I think we're in a good environment. It will be a very smooth transition into a new CEO.

Christyne McGarvey – Morgan Stanley

Appreciate that very much. Thank you.

Operator

Our next question comes from the line of Ari Rosa with Citi. Please proceed with your question.

Ari Rosa – Citi

Hey, good morning. So, it feels like now it's been a while since we've seen FX represent a headwind to operations and to the financials. I'm curious about the desire to maybe shift more of your geographic mix towards the United States and away from Europe and UK. Obviously, you talked about the growth in Germany and have done some acquisitions in the UK. But I'm wondering, as we look forward five or ten years out, do you see the business as being more focused on the U.S? Do you see that geographic mix shifting from what it is currently? Just some thoughts on that would be helpful. Thanks.

Malcolm Wilson – GXO Chief Executive Officer

Ari, hi, it's Malcolm here again. Look, as I think Baris mentioned earlier, right now, our focus of attention definitely is to get our debt down, everything focused internally on the business. So, M&A in the short term is really off the agenda. But there's no doubt, having completed a couple of M&A in our Europe arena, we definitely feel that we want to grow more now in the North American business.

I think our North American business is doing incredibly well, got a good management team in place, great customer satisfaction, but there are so many different opportunities, new verticals that we've proven with companies like Clipper, with Wincanton, that when we achieve a new vertical, just as we did with the small M&A here in North America of PFS, we're able to grow quickly into those new verticals.

So definitely geographically our focus of attention, when we are finally ready to look at further M&A, it will definitely be here in North America.

Ari Rosa – Citigroup

Got it. Okay, very helpful. And then just for my follow-up, Malcolm, it seems like for those of us who have followed GXO for some time and its different iteration within the XPO prior to that, it seems like there are periodically these events where there's a customer loss or kind of restructuring of a contract that causes a little bit of a downward surprise in terms of relative to perhaps what the Street was expecting. I'm just wondering if there's a way to better insulate yourself from these types of events, so these surprises don't happen as often or is it just the nature of the business do you think? Just your thoughts around that would be helpful. Thank you.

Malcolm Wilson – GXO Chief Executive Officer

Yes, it's a big company. It's a big business And I think it's less so much a surprise from a management perspective because the way our contracts work, we have long visibility. We tend to be working well in advance with customers in terms of renewals. But I think we have to recognize that the last two or three years there has been, it's been a very changing environment in economies in all of the different regions that we work in. And that's certainly for a very small number of our customers.

I think as we move towards the end of last year and getting ready for this year, the normal process that we go through with customers, we identified that we had just a small number of customers where we were not really delivering the operational efficiency that we could from the footprint that we had working together. And we would not be doing the right job for our customers not working with them, identifying it, working with them, to do that realignment. It's a very rare occurrence, you should look upon very much as a onetime environment.

But for sure, occasionally, every number of years, we will find an environment where when we're taking account of the business and looking at different economic environments with customers, remembering some of our customers are multiple hundreds of millions of dollars and sometimes they're on the up and sometimes they're less have a less positive trajectory. And of course, that's when we need to work together with them to get ready for the longer-term future.

Ari Rosa – Citigroup

Got it. Okay. Thank you. And Malcolm, congratulations on the pending retirement.

Malcolm Wilson – GXO Chief Executive Officer

Thanks very much. Thank you for that.

Operator

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

Kevin Gainey – Thompson Davis

Good morning, Malcolm, Baris, Kristine. I actually want to see if you could maybe give us a little bit of color on the customer pipeline and whether the dynamics there have changed, whether there's maybe like a higher sense of urgency to get things done or that there's more hesitation because of some of the rate tariff discussions, et cetera, just to kind of get what your customers are seeing in the pipeline?

Malcolm Wilson – GXO Chief Executive Officer

Yes. Kevin, hi, it's Malcolm here again. Look, very high level, I think our pipeline is up 15% year over year. We're running with a very strong pipeline at the moment, about \$2.3 billion.

And I do want to say, I should have called it out earlier, we're very pleased with how Wincanton business is trading. It really contributed very well to our fourth quarter results. But something we don't broadcast is we don't actually incorporate the Wincanton sales pipeline in our numbers. We're actually technically not allowed to because of the way the CMA process works. But you should have a knowledge of that. That actually, when we talk about our sales pipeline, it really will be very, very strong once we start that integration.

In all the different territories, we're really seeing a lot of activities. Existing customers are very busy, got lots of new projects. I mentioned earlier, definitely we've seen a resurgence of e-fulfillment projects, e-commerce activities coming back in every region that we're working in. The investments that we made at the start of 2024 are definitely showing big success.

And what I mean by that is in 2024, we went through an exercise where we really upgraded some of our sales resources. You can see that in the improvement in sales pipeline, but also we added sales resources in new verticals. And what's very pleasing to see right now is we're winning business in new verticals. And generally, the verticals that we've been targeting are the ones that give us less sensitivity to the consumer. And that's good for this company because I think we have to recognize at the point of this spin, we were our business was probably about 50% really directly

focused to the consumer environment. And that can be good when consumers are running well, but also it can flow through when consumer sentiment is a bit less.

What we're doing right now I think will make the company a lot more resilient. And I guess the last comment I would say because it's very topical, we are seeing definitely, particularly in our North American business, we are seeing recent activity from U. S. customers looking to reorient supply chains taking account of maybe future environments for tariffs, wanting to bring business back. We've had new inquiries coming as a consequence of the recent discussions about the de minimis exception, this process ending, it doesn't affect us right now. We don't really work with customers that utilize that. But that will probably drive more customers to put warehousing local into the market. And in the end, that will be good news for GXO.

Kevin Gainey – Thompson Davis

I appreciate all the color on that. And then maybe we could kind of venture into competitive dynamics. Has there been, we've heard of some resurgence from other competitors and growth. And I was wondering, are you guys seeing that as well? And then whether there is even a higher sense of green shoots coming from warehousing?

Malcolm Wilson – GXO Chief Executive Officer

Kevin, I would say we're not seeing any different environment today than we were maybe twelve months ago when we think about the competitive landscape. There's a tiny number of companies that are capable of providing services on a global basis at scale as GXO can do. Those companies were there a year ago, two years ago, they're there today and they're very healthy competitors to us. We like those companies. They're very responsible in the way in which they approach customers and their pricing strategies.

So, we're very that's a good catchment of people that we tend to see when we are working with customers. And then likewise, there's a range of like, what we would term, local heroes. They're small companies that frankly focus towards the kind of customers that are really less our kind of customers, the sort of local regional type of players.

But overall, I think GXO, we're just really in a very good position. The work in particular that our teams have done through '24 in driving more and more technology, AI in particular now, into our business is really helping tremendously to differentiate us. And I've got no doubt it's one of the reasons we're winning business.

Maybe just on that topic, I can just ask Kristine to comment, because I mean, we have just got such a ton of new technology and AI coming through. I mean, we're very proud of it. Kristine?

Kristine Kubacki – GXO Chief Investment Officer

Thank you, Malcolm. I certainly hit on quite a few of opportunities and real-world accomplishments that we've made over this year. We're certainly very early on in our proprietary AI development. We certainly, we're seeing real world results already today. And I highlighted some of those modules in my prepared comments.

But certainly, we're seeing fantastic results in terms of productivity increases of three to four times in specific parts of the processes. And this is really versus a 20% improvement on your normal everyday continuous improvement type projects to really a leap forward in terms of the types of opportunities and outcomes that we're able to deliver for our customers. And certainly, really, this continues to drive our GXO differentiation. As we look forward to our strategy in 2025, it's to continue to roll out these AI modules across our warehouses. And we're going to be layering in as many proprietary AI modules, in as many possible sites. And we're really already live with AI today.

So, we're really looking forward to harnessing this powerful effect. Again, this will really continue to drive GXO's differentiation with our customers.

Kevin Gainey – Thompson Davis

Perfect. Appreciate all the color.

Operator

Our next questions are from the line of Uday Khanapurkar with TD Cowen. Please proceed with your question.

Uday Khanapurkar – TD Cowen

Thanks. Hey, good morning. This is Uday on for Jason Seidl. I guess, just a clarification on the customer realignments, maybe following up on prior questions. I understand the one-off nature in 1Q and the contracts kind of reaching maturity, but how prominent was the volume outlook itself as a consideration for customers in doing this revaluation?

I guess I'm trying to understand like if the contract renewal outcome is linked to the near-term macro outlook in any way. Like any framing from that perspective would be helpful. Thanks.

Baris Oran – GXO Chief Financial Officer

Hi, Uday. This is Baris here. As I mentioned, if I look into those customers, they were driven primarily by the consumer volumes that they had. In one customer, we have opened other sites in other locations. And in one site it was primarily looking into their peak volumes. And after the peak volume, they looked into their 2025 forecast. And it was a prime vocation for us, and we held on to the lease, and we already secured another customer. So, this is going to be net beneficiary for us. And the third one is a customer that we have a very, very long relationships, the mature side, but because of the lower volumes, they decided to realign their network and they remain a good customer for GXO. So overall, I am not as concerned.

The underlying volumes of our customers in existing sites is very low single digits positive in Q4 and we expect that to be flattish in 2025.

Uday Khanopurmur – TD Cowen

All right. Thanks, Baris, that's helpful. And I guess as my follow-up, Malcolm, you mentioned kind of the de minimis changes might be a positive if I guess volume flows into more warehousing as shippers kind of consolidate their freight? I mean, is that something that you're already seeing take place preemptively? Or is this something that you anticipate just given the dynamics? Any color there?

Malcolm Wilson – GXO Chief Executive Officer

I think we're seeing inquiries coming in now to our sales team. Obviously, it's a North American issue. And we don't today work with customers who undertake that. So, from our perspective, we see that as a net positive impact. We're pretty confident that a lot of those customers will ultimately need to convert existing supply chains to have a presence here instead of what they are doing today.

But I think it's definitely something that we expect to see some benefits for during the course of 2025.

Uday Khanopurmur – TD Cowen

Okay. Thanks everyone and congrats on the retirement, Malcolm.

Malcolm Wilson – GXO Chief Executive Officer

Thank you.

Operator

Sorry, ladies and gentlemen, this is all the time we have for questions today. I'd like to hand the call back to Malcolm Wilson for closing remarks.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Rob. And again, thanks for hosting our call today. We truly appreciate it. In the fourth quarter, we delivered a further sequential improvement in organic revenue growth and a year over year improvement in our adjusted EBITDA margins, leading to a 30% year over year adjusted EBITDA growth. We're absolutely delighted to be showing some fantastic growth in the healthcare sector with our largest ever win, and also in Germany, which is now our fastest growing individual geography market.

The acquisition of Clipper has really helped us to turbocharge our opportunities in new verticals and the new region in Germany, no doubt whatsoever. We look forward to doing exactly the same, likewise, with Wincanton in the industrial verticals, defense and aerospace, particularly in Europe, where we can see already a huge opportunity. Customers are looking to GXO to help them successfully navigate these times, the times that we're in.

Leadership in using automation technology and efficiency, the benefits that we're now starting to see coming through deployment of AI, it's becoming of a growing importance. And we're really told from our customers just how much they value that and how much they see that being a differentiator for GXO. So, with that, I'd like to wish everybody a great rest of the day and I'd like to thank everybody for joining us on our call. With that, let's close the call. Thank you.

Operator

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