GXO Investor Day, July 13, 2021

Management discussion presented by incoming GXO leaders:

- Brad Jacobs, Chairman of the Board
- Malcolm Wilson, Chief Executive Officer
- Mark Manduca, Chief Investment Officer
- Richard Cawston, President – Europe
- Eduardo Pelleissone, President – Americas and Asia Pacific
- Bill Fraine, Chief Commercial Officer
- Gavin Williams, President – UK and Ireland
- Baris Oran, Chief Financial Officer

Introduction

Brad Jacobs: Hello, and welcome to our GXO Investor Day. I'm Brad Jacobs, chairman and CEO of XPO Logistics, and I'll also be chairman of GXO after the spin. We appreciate your interest in the company.

I'll begin with a quick rundown of the presentation you'll see today. First, Malcolm Wilson, GXO's incoming CEO, will elaborate on the big three secular tailwinds of e-commerce, automation and outsourcing.

Our logistics business has built a leading position in e-commerce, with about 40% of revenue coming from pure-play e-tailers and omnichannel retailers. The automation tailwind is coming from customer demand for robotics and other kinds of advanced automation in logistics operations. And the accelerating trend toward outsourcing logistics to 3PLs is another long runway for us, as supply chains become more complex and consumers become more demanding.

Following Malcolm will be Mark Manduca, our incoming chief investment officer. Mark will discuss the favorable contract profile of our customers and explain our resilient outperformance throughout parts of the cycle.

Then you'll hear from Richard Cawston, president of European operations, and Eduardo Pelleissone, president of the Americas and Asia Pacific. Richard will discuss the $130 billion of logistics spend that's currently outsourced in North America and Europe. There's also an opportunity for $300 billion more that's currently insourced. That's a total potential addressable market of about $430 billion across regions where we already hold leadership positions. And it's fragmented — this is an industry where the top five players hold less than 25% of outsourced logistics.

Eduardo will give you some specific examples of our best-in-class solutions. Our expertise in solving complex supply chain problems for customers is validated by our long-term partnerships with preeminent global brands, including over 30% of the Fortune 100. It's notable that, on average, we've served our top 20 customers for 15 years.

Our chief commercial officer, Bill Fraine, will discuss GXO's strong ESG backbone, and he'll show you how we've solved some unique supply chain problems for customers through cutting-edge innovation. Then Gavin Williams, president of operations in the UK and Ireland, will detail how our technology is both a competitive advantage in a growing market, and, importantly, a margin-enhancing lever for the business.

Our final presenter will be Baris Oran, our incoming CFO. Baris will explain GXO's strict focus on generating outsized return on invested capital. And — spoiler alert — a little-known fact is that GXO's return on invested capital is 28%. Let me repeat that: an ROIC of 28%.

Global leader in supply chain management and warehouse automation

There are the two main themes to our presentation today — the enormous growth potential of the industry, and GXO's outperformance.

GXO is best-in-class at standing up complex, technology-enabled supply chain solutions. We do it at scale, with speed and precision. And we're generating market-leading, double-digit revenue growth, while at the same time expanding our margins. Also, GXO's new investment-grade credit rating will further elevate our standing with our blue-chip customers.

In 2022, we expect GXO's adjusted earnings before interest, taxes, depreciation and amortization to grow by 17% year-over-year, based on the mid-point of our adjusted EBITDA guidance. Looking at EBITDAR, which excludes rental expense, we're expecting to generate $1.5 billion of EBITDAR in 2022. This provides a reference point to our European peers, who report under IFRS.

I'd like to conclude my remarks with a brief video that will introduce you to GXO's operations, before I pass the baton over to Malcolm Wilson. Some of you know Malcolm — he's spent over 30 years driving outstanding growth across multinational logistics operations. In recent years, he successfully led XPO's European business as chief executive. Earlier, he grew one of Europe's largest logistics platforms to global scale as part of Norbert Dentressangle, which we acquired in 2015.

Malcolm will walk you through the key investment highlights that make GXO uniquely compelling as a public company. But first, here's the video. *[Video]*

Key investment highlights

Malcolm Wilson: Thank you, Brad, and hello everyone. I'll start by summarizing why GXO is such an attractive investment opportunity.

We benefit from three massive, secular tailwinds: the growth of e-commerce, the demand for logistics automation and outsourcing. We have long-tenured contractual relationships with blue-chip customers, primarily in consumer-focused verticals. We have critical scale in a growing market — and today we'll show you that outsized benefits accrue to best-in-class scale operators.

We offer cutting-edge technology solutions that propel our growth and profitability. At the same time, these solutions help solve increasingly complex supply chain problems for our customers by helping them to grow more efficiently. Our business model generates robust free cash flow and is extremely resilient. And, we have a cohesive team of seasoned leaders with a track record of outperformance.

Three major structural tailwinds

GXO's key attribute is its significant growth opportunity. The three major structural tailwinds I mentioned put us on a multi-year growth trajectory, as consumer demand for e-commerce continues to increase, customer demand for robust technological solutions continues to grow, and as a result, the trend toward outsourcing supply chain logistics is accelerating.

All three of these opportunities are underpenetrated and offer immense growth runways for us. We're especially excited about the growth from outsourcing, which presents us with hundreds of billions of dollars of additional opportunity. And, this is on top of the already vast $130 billion logistics spend that's currently outsourced.

Balanced mix of high-growth and durable verticals

Over three-quarters of our revenue is tied to consumer end-markets. We work with some of the most demanding companies in these industries, and we love the challenge, because it showcases our expertise.

Many of these companies embraced e-commerce and omnichannel strategies early on. They value the fact that we have Europe's largest outsourced e-commerce fulfilment platform and a high-growth presence in North America, including our GXO Direct distribution network.

These capabilities, and our expertise in omnichannel, keep us high on the radar for new business in the fast-growing e-commerce sector.

Diversified, blue-chip customer base with long tenure

We're incredibly proud to work with many of the bluest of blue-chip companies in the world. Apple, Disney, L'Oréal and many others. These customers rely on us for best-in-class results.

These are deep relationships that extend for years and, over time, they grow in scope. The average tenure of our top 20 accounts is 15 years, and as large as these companies are, we have low concentration risk with no single customer accounting for more than 4% of our total revenue in 2020.

The critical nature of the solutions we provide puts us in a strong position to grow our business with our existing customers. And, we also leverage our track record to win new customers.

GXO's footprint and scale are major competitive advantages

GXO has a broad geographic presence that allows us to meet the needs of our global customer base. Importantly, our scale makes us one of only a handful of global players that can satisfy the logistics requirements of the world's largest multinational companies, like Coca-Cola and Nike.

We have over 200 million sq. ft. of warehouse space across nearly 900 locations worldwide, and close to 100,000 team members. Our ability to support these customers at the highest level is a key growth opportunity specific to GXO.

Largest global pure-play contract logistics provider

The contract logistics market is highly fragmented. The spin-off will establish GXO as the largest pure-play logistics company, with around 5% of the $130 billion of logistics that's currently outsourced in our key geographies. We will be the second largest contract logistics company in the world.

In fact, we're up to eight times larger in revenue than our listed pure-play peers. And while our peers are excellent businesses run by great management teams, we believe our scale provides us with tangible competitive advantages.

The solutions we provide are as diverse as the customer base we serve, with some important similarities. In each case, we tailor our solutions to specific customer requirements, typically enabled by technology. Most importantly, they are all critical to our customers' success. For companies with consumer markets, these solutions include order fulfilment, reverse logistics, demand forecasting and peak management.

Intelligent warehouse automation generates measurable improvements

We employ state-of-the-art warehouse technologies, and we integrate them with our proprietary software tools to exceed our customers' expectations. Our long-term focus on automation gives GXO a first-mover advantage and differentiates us as a logistics partner of choice.

We've already made nearly a decade of investments to develop world-class technology, and now we're reaping the benefits in terms of speed, accuracy and margin enhancement. Where we deploy robots and autonomous goods-to-person systems, we see material increases in productivity of up to a six times, versus the human hand.

When we design and operate warehouses, we have a rigorous ESG framework for worker safety and environmental impact at the heart of everything we do. We're excited to share our targets for GXO in this presentation, including being carbon neutral by 2040. Behind the scenes, we have a focus on continuous improvement that delivers more value for our customers. And, because we work with over a thousand customers in 27 countries, we have the ability to share best practices and deploy them across our footprint.

I'll conclude with a showcase of our best-in-class technology that's differentiating GXO, helping us win customers and propel our growth. I'll then hand it over to our chief investment officer, Mark Manduca, to talk about our favorable contract profile and resilient performance. *[Video]*

Typical contracting process

Mark Manduca: Thank you, Malcolm. Our global scale, our agility, our technology and our healthy balance sheet make us the partner of choice for customers, to run their supply chain operations.

This industry has transitioned away from a commoditized, price-based market dynamic, to a focus on deep expertise and value-added services. We utilize a collaborative approach, bringing together our sales, implementation and technology teams, to provide best-in-class solutions tailored to a customer's current and anticipated needs. This approach is a key differentiator for us and positions GXO well in any RFP process. It also means that when we're hired, we can hit the ground running that much sooner.

A typical contracting process starts with an initial RFP with three to five bidders. But there are often at most two contenders who can offer the scale and breadth of services that we can. Our broad, typically proprietary value-added suite of capabilities and institutional know-how positions us to check every box that a customer needs, and places us in the best position to win the business profitably.

Anatomy of a target GXO contract

We structure our contracts to manage risk. Our customers typically cover most upfront costs, which reduces our capital outlay. Most of our contracts have a variable component that matches volume to revenue. They also pass through the majority of labor cost inflation.

Our leases are generally liability-matched to the tenures of our contracts. We prioritize long-term contracts that foster relationships with our customers and add predictability to our outlook.

GXO has a balanced contract mix that passes through costs

GXO's contracts provide an attractive mix of stability and upside potential. Traditionally, our industry has been a defined by open- and closed-book contracts.

Open-book contracts have minimal initial upfront costs, which boosts our return on invested capital throughout the life of the contract. What's more, our margins stay broadly fixed. If a customer experiences volatility, our profitability is protected, regardless of the macro environment.

On closed-book contracts, GXO takes on higher costs upfront, but also has upside through contract outperformance. Our continuous, technology-driven improvements to operations enable us to boost margins throughout the life of the contract, and capture all of the value that we create.

Increasingly, we're seeing a hybrid approach preferred by our customers. These hybrids combine elements of open- and closed-book contracts, and they often have provisions to pass through certain cost increases. This provides the greatest flexibility for GXO to drive a win-win partnership.

Customer contract profile

Our contract profile gives us outstanding revenue visibility in the near- and medium-term, and supports our 2022 guidance. These contracts are long-term by nature. Recently, we're seeing larger contacts in the five to 10-year range.

We're a company focused on financial returns. When we evaluate whether to enter into a new contract, we hold ourselves to rigorous investment criteria, including return on invested capital and a cash payback target within three years.

GXO has shown resilience through all cycles

Our strategic positioning and attractive business prospects have resulted in consistent growth over the last two decades. This looks set to continue. The business has shown excellent resilience and remained profitable through downturns in the economy.

Best-in-class growth profile on track to deliver strong earnings in 2022E

Building on our past performance, I want to highlight a few key points that demonstrate GXO's best-in-class growth profile going forward. Our 8% to 12% organic revenue growth in 2022 is supported by net new business wins and growth in existing facilities. This growth will help us achieve $700 million to $735 million of adjusted EBITDA next year, which equates to a 25% CAGR from 2020 to 2022.

In conclusion, this is a business that performs well across economic cycles and is positioned to benefit from massive secular tailwinds. All-in-all, this sets us up for double-digit EBITDA growth moving forward.

Now, Richard Cawston, the head of our European business, will discuss our operating landscape, including our geographically diverse revenue growth opportunity.

Highly fragmented growth market

Richard Cawston: Thanks Mark, and hello everyone. As we noted, the logistics market is vast. Moreover, it's highly fragmented. Less than 25% of that $130 billion outsourcing spend is split among the top five players. GXO only holds around 5% of this spend, and we over-index in our core consumer verticals.

We expect the strongest players, like GXO, will continue to outperform, as technological expertise, scale and dependability of service continue to be major differentiators in the eyes of customers.

Regionally diverse revenue base

We hold leading positions in all of our major geographies. This places us at the forefront of growth opportunities from the tailwinds of e-commerce, automation and outsourcing — all of which are substantially underpenetrated.

We're one of the few operators capable of managing large, complex contracts within these geographies. And, it also serves to highlight our global value proposition when dealing with multinational corporations; for example, H&M and PepsiCo.

Decades of expertise in high-growth verticals

Our regional positioning is complemented by our strong foothold in key verticals where we have demonstrated best-in-class solutions. For such customers, vertical expertise is the critical differentiator of our offering. Our core competency is in consumer sectors, particularly e-commerce and omnichannel retail. These are bedrock sectors for sophisticated supply chain management.

Our capabilities for data-driven inventory management, reverse logistics, and our ability to provide capacity and staffing — for example, from the Black Friday peak through the Christmas rush — truly stand out in the marketplace.

Mix, automation and scale expected to drive GXO's revenue outperformance

The market for outsourced logistics is highly attractive, growing at 4% per year. GXO has significantly outpaced this growth, and we expect to continue to do so. We divide our revenue opportunity into three distinct buckets.

First, is our strong strategic positioning in countries with increasing expectations around consumer service, and in verticals such as e-commerce, where we expect growth to be especially rapid, and where we enjoy considerable competitive advantages. Second, we believe our expertise in technology, such as our ability to integrate warehouse automation, will result in significant additional market share gains. And third, these two attributes will also encourage first-time outsourcing to GXO, which will capture revenue from the vast majority of the market that is still held in-house.

All three drivers of demand are directly benefitting our business, and we expect them to support even greater levels of growth.

E-commerce exposure and growth rates by region

With e-commerce adoption standing at 20% to 30% in North America and Europe, there is a large runway for growth in both regions. Industry forecasts anticipate 11% annual growth in e-commerce across our key geographies, and we expect GXO's growth in this vertical to outpace the industry.

Our conviction in our ability to outperform is due in part to the pressing need for capacity from both pure-play e-tailers, and omnichannel retailers. It is exceedingly difficult for brands to quickly establish or grow direct to consumer channels at scale without the help of a leading 3PL like GXO.

Reverse logistics enhances e-commerce demand for logistics

One of the fastest-growing revenue drivers of our e-commerce business is reverse logistics, which is the management of product returns. Our revenue CAGR for reverse logistics has been almost 16% over the last three years, and we see it accelerating.

Importantly, when one of our brick-and-mortar customers converts to online sales, it creates an opportunity for three to 10 times the revenue, due to the demand for more complex activity. This is driven by increased picking, packing and sortation needs, as well as value-added services to maintain inventory turnover. We're often the final touchpoint as products move to end-consumers, so our high service quality and reliability are key parts of our offering.

With reverse logistics, the revenue uplift can be two to five times that of an outbound order. Our customers have an acute need to get these returns back into inventory where they can be monetized, avoiding a future write-off for them.

Increasing complexity drives outsourcing trend

The volume growth in e-commerce fulfilment and associated value-added services is resulting in supply chain challenges for retailers. Consumers are demanding and have grown to expect next-day or even same-day delivery options. This requires highly efficient logistics processes that rely on both technology and know-how to meet later delivery cut-offs.

At the same time, customers are having to manage high return rates, which can tie up billions of dollars of inventory in warehouses unless it's rapidly cycled back to consumers. It's creating a huge structural demand for warehousing and inventory efficiency within the industry, and as I've said, for increasingly complex solutions to overcome these challenges.

GXO is a leader in delivering the solutions e-commerce customers need. This allows us to target the vast majority of contract logistics that is still operated in-house. When you look across the major services in the supply chain, logistics is the least concentrated by far, and with the most expansive outsourcing potential.

Now, I'll turn over the presentation to Eduardo Pelleissone, my counterpart across the Atlantic, to talk to you about GXO's winning culture.

We solve complex supply chain problems

Eduardo Pelleissone: Thanks, Richard. As the logistics market continues to increase in complexity, GXO's proposition to customers becomes more compelling. We break out our value proposition into three simple buckets that remain the same, regardless of the customer's requirements.

One is scale. Scale to serve customers across geographies. Scale to operate across different channels. Scale to negotiate better terms with landlords. And, scale to implement innovative technologies.

Two is expertise. We stand up complex, technologically advanced supply chain solutions at scale, and with speed.

Three is trust. We are a trusted partner to world-class brands. Our consistent outperformance results in high levels of customer retention, which is why our top 20 customers have been with us an average of 15 years.

In addition, our ongoing investments in technology, our commitment to continuous improvement and our ESG credentials set us apart from our peers.

GXO possesses significant scale advantage over pure-play peers

You've heard a lot about scale in this presentation, and, in fact, we're much larger than other pure-plays. I'd like to talk about how this scale helps us improve our operations and manage costs.

There are three core inputs into our business: people, real estate and technology. Scale gives us the ability to secure labor more effectively. As one of the largest tenants, if not the largest tenant, for many industrial landlords, scale enables us to secure better terms on real estate. And, scale gives us the capital and expertise to apply technology more expertly.

GXO has the expertise to run industry's most complex supply chains

Shifting to the second part of our value proposition, our expertise — at the most basic level, our business is about solving customer challenges in a timely and effective manner. It's about helping customers achieve their cost and revenue goals in three ways: by ensuring a superior customer experience, by delivering high levels of productivity and by managing inventory with great efficiency.

GXO excels at leveraging its strengths to provide solutions that are in high demand, including complex, full-service e-commerce logistics, consistent service across borders, predictable outcomes and cost-effective real estate in the right strategic locations.

Customer case study — Walt Disney Parks and Resorts

Here's a real-life example with our customer Disney. In 2013, Disney sought a partner that could execute the supply chain for its new MagicBand product, which required a personalized engraving process. This is the digital wristband guests use when they visit the parks.

We were selected by Disney to develop custom software and hardware for the MagicBand fulfilment process by leveraging RFID technology. The solution we created satisfies Disney's production and shipping objectives, and it also provides their guests with a unified payment solution. This aligns with Disney's goal of having its parks become increasingly cash-free.

We implemented rigorous controls, including engraving the correct name on each band during fulfilment. We've also created a memorable unboxing experience for each guest ahead of visiting the parks. The success of our MagicBand solution has led to an enduring, eight-year partnership between GXO and Disney. Our services help Disney's guests enjoy the parks and resorts with a magical experience.

Now, I'm going to turn it over to my colleague, chief commercial officer Bill Fraine, who will walk you through how we meet our customers' needs through innovation.

GXO's capabilities cover the full spectrum of warehousing needs

Bill Fraine: Thanks, Eduardo. Logistics is undergoing a technological revolution, and GXO is at the forefront of this exciting transition. Our scale and expertise ensure that we have both the know-how and the experience to implement these game-changing solutions.

We're able to grow with our customers, to ensure continuous improvement over the lifetime of a contract and bring more value to the table as technology is enhanced. And we're able to save costs and generate productivity gains by leveraging our central software investments.

Some examples of this are: overcoming product-specific challenges in dealing with reverse logistics, ensuring high levels of accuracy in order fulfilment, and leveraging our data capabilities to drive more workforce productivity.

<u>Customer case study — Nike</u>

I'm extremely proud of our work with Nike, which I've had the pleasure of overseeing for the last seven years. Our work together encompasses three high-value sites in the U.S. and one in Europe, with two additional sites being implemented for the U.S. and one in Spain. We also manage Nike's North American reverse logistics. This relationship is a great demonstration of the value we bring through our technological expertise.

In 2017, Nike needed help addressing the challenges they faced with product returns. Our solution was to leverage our expertise in reverse logistics and set up a 1 million sq. ft. facility that accelerated the processing of inbound returns. We deployed advanced planning to predict inbound volumes and prioritize high-value products in the reverse logistics process. This reduces unnecessary inspections and remerchandising of low-value products.

For Nike, the result is increased margin through improved velocity, sophisticated planning and analytics at a state-of-the-art facility and with a highly engaged workforce. In the last 12 months, we've also provided an outbound e-commerce solution operating from their returns center. That's enabled them to have some of their strongest results. Take a look at what Rebound brings to Nike customers. *[Video]*

<u>GXO builds long-term partnerships with customers</u>

Taken in combination, our scale, expertise and technology comprise a winning culture that makes GXO a stalwart of our customers' supply chains. Specifically, our customers trust us to manage their data carefully and impartially, execute complex projects and help them meet their ESG objectives.

All of this results in customers trusting GXO with their most important asset: their reputation.

Capabilities for continuous improvement position GXO as a trusted partner

You just saw an example of continuous improvement at Nike Rebound, where the video ended with two young men going to a Nike store to pick up their corrected shipment. That is not the case today — the product would meet them at their front door. As I mentioned earlier, we strategized with Nike and built an e-fulfilment capability as part of Rebound that now allows Nike to be much more responsive.

This solution is saving costs for Nike, and driving up customer satisfaction, because it's seamless; it eliminates steps in the process. We leverage the same culture of continuous improvement across all of our operations to drive margin expansion and top-line growth, while delivering better performance for our customers.

We have numerous levers we can pull, including labor optimization through our GXO Smart productivity tools, operational efficiencies through our vertical expertise, and dedicated, customer-specific initiatives to build long-term trust. These levers drive annual gains of 1% to 2% and reinforce our partnerships with our most valued customers.

GXO Direct: an innovative, shared-space distribution solution for customers

Now, let me tell you about GXO Direct. It's a testament to our commitment to continuous improvement and our culture of innovation.

GXO Direct is a shared-space distribution network we offer in North America. It provides our customers with a fluid way to position inventory close to target populations. And, importantly, it lets customers leverage our scale, capacity and innovation so they can reduce fixed costs and transit times. In doing this, GXO Direct solves one of the biggest challenges for e-commerce customers, which is how to position goods close to consumers as demand patterns change.

Finally, Direct gives smaller customers more agility than traditional distribution options, with a variable-cost model. And, it allows retailers, e-tailers and manufacturers to have access to our industry-leading resources as needed, with technology that allows them to integrate our solution into their online or omnichannel strategy, or third-party e-commerce platforms like Shopify.

This offering differentiates us from other logistics providers in North America, and it increases the utilization rates at our existing facilities. GXO Direct is a great success, and we believe it will continue to be a growth engine moving forward. This year, it's on track for around 35% revenue growth.

Committed to achieving bold environmental targets

We're an ESG leader with a longstanding focus on reducing environmental impact at our sites.

Specifically, we're targeting the following environmental goals: a 30% reduction in greenhouse gas emissions by 2030, vs 2019, carbon neutrality by 2040, 50% of our electricity generated by renewable sources by 2030, LED lights used by 80% of our operations by 2025 and an 80% recycling rate by 2025. These goals have been well-considered, and we're confident in our ability to achieve them.

Customer case study — Kering Group, the carbon negative warehouse

A great example of our meaningful impact on environmental goals is our relationship with the Italian luxury brands group Kering, which owns Gucci and Saint Laurent, among others. Kering required a complex e-commerce solution to incorporate the logistics for multiple brands, while reducing environmental impact and developing a reverse logistics model. Our solution was to build a state-of-the-art facility with numerous sustainability features, including one of Europe's largest rooftop solar facilities. It's estimated that this will reduce CO_2 by up to 7,500 tons annually.

The energy generated from what will be a carbon-negative facility will be more than sufficient to power this distribution center, with excess energy provided back to the grid for surrounding communities. It's the first industrial site in Italy that will produce more energy than it consumes.

Dedicated to fostering a culture of safety, diversity, inclusion and development

We're equally committed to ESG within our own operations, and we take a proactive approach to enhancing our work environment. We have an industry-leading safety record in our logistics sites. In the U.S., our warehouse safety record for OSHA reportable incidents is more than four times better than the industry average.

In addition, we have a clear focus on diversity, with 78% of U.S. hires in 2020 being diverse. And, we have consistently high levels of employee engagement, with numerous community outreach programs.

Take a look at this video, where you'll hear directly from our team about GXO's focus on safety, diversity and culture. *[Video]*

$2 billion pipeline focused on e-commerce

Everything I just discussed is propelling our business wins. Our growth is fueled by our pipeline, which is at all-time highs. Additionally, we're excited that a large portion of our pipeline is focused on our biggest, most attractive vertical of e-commerce, omnichannel retail and technology. Our pipeline gives us high visibility into our forecasts, and conviction that we'll hit our projections.

To highlight our momentum, I can tell you that we've won over 50 new logos in the first six months of this year, including world-class brands, such as Apple.

Our sales pipeline has clearly been driven by our preeminent, blue-chip customers. However, we also like to incubate companies that we think will become blue-chip in the future, and this fortifies our standing as being critical to their success.

Now, our president of operations in the UK and Ireland, Gavin Williams, is going to take you through our business innovation.

GXO is already building the warehouses of the future

Gavin Williams: Thanks, Bill. In the last 10 years, there have been seismic developments in the technology that can be applied to logistics and distribution.

However, because logistics is a hugely fragmented market, and typically operates on a multi-year contract cycle, the adoption of these capabilities is still at an early stage. Now, there's a growing customer need to benefit from technological capabilities, and we believe these significant secular growth trends will accelerate.

For example, with a customer who is a leading e-commerce player in Europe, we would typically represent around 3% of their cost base, but a largely disproportionate and defining part of their consumer experience. They want a partner with their finger on the pulse of the latest in technology.

We see more and more customers asking us to apply technology to realize greater precision in inventory management, improved speed and accuracy in order fulfilment, and a reduction in labor intensity. They see the potential to realize substantial cost-savings through automation and gain a competitive edge through the customization we provide.

Technology enables better outcomes for GXO and its customers

Technology not only generates better outcomes for our customers — it also delivers superior growth and margins for our company. There are four substantial drivers at work here.

We have a higher conversion rate within our pipeline when customers choose automation, as we're seen globally as a leader in the delivery of technology. Technology also enables us to deliver better service to our customers by automating certain tasks. Automated customers tend to be bigger and stay with us for longer — some of our technology contacts are up to 10 to 15 years in duration. And, tech improves ESG metrics around safety and sustainability, which is another incentive for customers to grow with us.

All told, technology is a growth driver for GXO across the board: it increases the cadence of outsourcing and it helps us gain market share in a fragmented industry, because we're known for both operational excellence and as a technology leader.

Hardware: GXO's automation implementations deliver operational benefits

From our perspective, a technology solution involves the integration of hardware and software, with an overlay of continuous improvement. I'll outline a few benefits of our offering.

Automation reduces variable costs and optimizes our use of labor. It also helps us manage peaks in demand and handle increased volumes with fewer resources, while improving our ability to meet customer expectations.

Together with our software solutions, automation increases the visibility, predictability and control of logistics operations around the clock. It cuts fulfilment time, while maintaining the highest possible accuracy and elevating service quality. And, it improves safety and ergonomics for employees; for example, cobots reduce walk-time in our facilities, which mitigates the risk of injury.

The logistics market's adoption of automation will continue to accelerate, and GXO is ideally positioned to capitalize on that tailwind.

GXO's investments in automation lead to productivity gains, higher growth and margin expansion

On some projects, we're now able to drive productivity gains of four to 16 times, compared to manual methods. Given the amount of R&D that's being focused on supply chains, we see further upside to productivity ahead.

From an investor perspective, the important points about the investments we make in automation are that they drive higher margins and faster revenue growth. We're already significantly more automated than the industry — around six times as automated as the industry as a whole. Given the rates of return we see, we're confident investing in best-in-class solutions for our customers.

Why does technology produce higher margins and faster revenue growth? Because, for our customers, quality and reliability are more important than price. Our distribution centers can hold billions of dollars of stock and working capital. For customers, the speed, agility and precision of their supply chain is fundamental to their success.

Software: GXO's proprietary digital ecosystem enhances visibility and control

Software and agile integration are what make hardware and automation come alive. Our proprietary software gives us the ability to develop customized solutions that are specific to each site we operate. We have software modules for labor management, warehouse management, order management, and for the integration and control of robotics and other advanced automation.

By using proprietary analytics, machine learning and artificial intelligence to generate multi-dimensional forecasts and other business intelligence, we can produce real-time, predictive insights into operations. Our proprietary software is seamlessly integrated and provides a better solution for customers than other third-party providers.

Software: GXO Smart technology delivers productivity improvements of 5% to 7%

We want to highlight one of the technologies we developed for our logistics sites, called GXO Smart. GXO Smart is our proprietary suite of intelligent analytics and labor management tools. Smart delivers substantial productivity improvements by optimizing labor resources, both in the present and in the future.

We use Smart in tandem with other software solutions, including our warehouse management system, time and attendance system and data-driven demand forecasting. Together, these tools are optimizing resources within our distribution centers and generating an uplift to our EBITDA.

The potential impact is huge. Smart improves warehouse productivity by 5% to 7% on average. Once deployed at a site, Smart continues to become more adept at those operations, bringing more and more benefits to GXO beyond the penetration achieved. To put this in context, our total labor cost is around $3 billion and our current penetration of Smart is approximately 60% of sites overall, some which are just starting to realize the benefit of this productivity improvement. It's clear why we see such a large potential upside to productivity when this technology is fully utilized in all our logistic sites. Take a look at this video, that showcases the potential of GXO Smart. *[Video]*

<u>Customer case study — Nestlé</u>

Now we're going to show you a short video about a facility we created for Nestlé in the UK. It's a flagship example of how our integration of advanced automation can innovate end-to-end logistics operations.

The backstory is that three years ago, Nestlé wanted a state-of-the-art digital warehouse of the future for global product distribution, with an innovation center as part of the design. They narrowed down their potential partners to just two logistics providers worldwide and they chose us. Last year, our specialist teams oversaw the design and development of a 638,000 sq. ft., fully automated, sustainable facility that we brought online in just two years.

It's an amazing operation that has the ability to dispatch 1 million pallets per year — that's the highest throughput of any distribution center in Nestlé's global logistics network. Now, before I turn it over to our CFO, Baris Oran, for the financial overview, here's a video of our technology in action for Nestlé. *[Video]*

<u>Expected timing of the spin-off</u>

Baris Oran: Thank you, Gavin. I'll recap the key milestones that have taken us steadily toward our target closing date of August 2.

After announcing the spin in December, we filed our public Form 10 Registration Statement on June 9. We completed GXO's debt financing on July 2, and we assembled a top-tier leadership team, some of whom you've heard from today.

Financial performance highlights

GXO has an excellent growth profile. We expect continued strong growth in revenue and EBITDA in 2022, backed by this year's contracted business wins we have in hand, and our pipeline of over $2 billion. In fact, our growth profile is best-in-class among contract logistics providers.

Our team is focused on generating meaningful returns on invested capital. We decide all new investments based on maintaining or increasing our 28% return on invested capital. Our business model generates robust free cash flow, with a strong conversion rate from net Income. This is driven by low maintenance capex requirements of around 1% of revenue. And, notably, despite the challenges associated with COVID, we generated substantial, positive free cash flow in 2020.

Capital allocation priorities

We maintain a robust capital allocation process, with the primary goal of investing in organic growth. With our investment-grade balance sheet, we have the flexibility to grow the business organically, and accelerate growth through accretive M&A.

We're focused on maintaining our above-market growth rates. We'll continue to invest in technology and other productivity initiatives to enhance our operations, create value for our customers and expand our margins.

Any acquisitions we consider must have a clear strategic rationale and strong synergies. They must also exceed our rigorous investment criteria. A good example of this is our acquisition of Kuehne + Nagel's contract logistics operations in the UK and Ireland. We see additional opportunities for tactical M&A in the future.

If we have excess cash following our growth investments, we expect to return capital to shareholders. And finally, we're committed to maintaining our investment-grade credit rating.

Key investment criteria

To ensure that our capital allocation priorities are met, we have clearly defined investment criteria that informs our decision-making about both organic and inorganic growth. This ensures that we continue to make disciplined decisions with a consistent focus on maximizing shareholder value. For organic investments, we target a payback period of three years. Additionally, we review all new investments in the context of our ESG criteria.

2021E – 2022E organic revenue growth bridge

For 2022, we're targeting organic revenue growth of 8% to 12%, with new business wins contributing 5% to 8% of that growth. We have a robust, multi-billion-dollar sales pipeline across multiple verticals and geographies. We have a strong conversion rate of pipeline to wins. And, we're confident in realizing another 3% to 4% growth from our existing customer relationships, driven by a combination of price and volume increases.

More than a decade of above-market growth remains

We anticipate an ongoing impact from the three mega-trends we spoke about earlier — the ongoing consumer adoption of e-commerce, which was accelerated by COVID, the increasing customer demand for advanced warehouse automation and the continued trend towards outsourcing, driven by increasingly complex supply chains. Looking towards the future, we expect these same trends to continue to propel our growth.

We have a proven track record of above-market revenue growth. And, we're confident in our ability to continue to outperform the market to achieve double-digit EBITDA growth.

2021E – 2022E adjusted EBITDA bridge

In the near-term, we expect to deliver this double-digit EBITDA growth through a mix of new business wins and wallet share gains with existing customers, coupled with further efficiencies. We're constantly evaluating initiatives that can drive operational improvements in the business and expand our margin.

Our 2022 target for adjusted EBITDA is $700 million to $735 million. This is approximately 17% higher from the mid-point of the range for GXO's full-year pro forma outlook for adjusted EBITDA this year.

Drivers of long-term margin expansion

Beyond 2022, we're targeting reaching double-digit revenue growth. We'll continue to leverage our strengths and execute on company-specific margin initiatives. There are four major levers at our disposal. One is technology — specifically our GXO Smart labor management tools. Two is the contracts we have with multinational customers. Three is the value-added services that we tailor to a customer's needs. And four is our targeted sales strategy.

I'll explain a little more about each one of these levers. The 5% to 7% productivity improvement from GXO Smart will apply to more and more of our labor cost base as we continue to roll out these tools. Our aim is to serve more customers across more geographies, which can enhance our growth. Right now, 41% of our customers are using our services in four or more geographies, so we have a lot of room to expand.

Value-added services are at the heart of our offering. Earlier, you heard how our ability to customize logistics solutions is a major differentiator for us. Value-added services are a natural extension of customization — these are high-margin additions to the core solutions we provide.

Our strategic accounts team is heavily incentivized to deliver quality top-line growth in line with our returns criteria. The team is laser-focused on signing the most important accounts in our pipeline, and they also work with existing customers to expand the contracts we already have.

Attractive capital structure to fuel future growth

At the time of the spin, our forecast for net leverage is expected to be just over 1.1 times. We have a low average cost of debt at approximately 2.15%, which reflects the strong financials for our business and our ability to tap into a favorable interest rate environment. We have no maturities due before 2026.

We plan to maintain at least $900 million of liquidity through a combination of cash and a revolving credit facility. Our low capex requirements and leverage, together with stable cash flows, will allow us to continue to scale our investments. And, I want to emphasize again that we're firmly committed to maintaining our investment-grade credit rating. We view this as strategically important to our growth plans, as it gives us a lower cost of capital, additional liquidity and, more importantly, a favorable competitive positioning.

Significant runway for free cash flow generation

As we've demonstrated, we're a rapidly growing business with strong and expanding margins. Our business model creates high returns for our investors because of its low capital intensity. We also generate substantial free cash flow. In 2021, we expect our free cash flow to grow faster than our EBITDA growth.

As you can see, GXO is a high-growth, high-return and free cash flow machine. Now, our chairman, Brad Jacobs, has some final comments.

Reasons to invest in GXO

Brad Jacobs: Thank you, Baris. To summarize, we have strong conviction in the future of GXO for five reasons.

One: our business is being propelled by massive secular tailwinds of e-commerce, warehouse automation and outsourcing.

Two: we have critical scale in this vast and growing industry.

Three: we have longstanding relationships with blue-chip customers across diverse markets.

Four: we provide differentiated solutions powered by proprietary technology that save our customers money and help them delight their end-customers.

And five: this is a rare business model. How often do you see a business that's an industry leader, with revenue growth at multiples of GDP, currently compounding at double-digit EBITDA growth, while at the same time producing 28% return on invested capital?

We very much appreciate your interest in GXO. This concludes our prepared remarks. Next, we'll open the floor to your questions after a short break. Thank you for your attention.

Additional Information

References in this transcript to "GXO" refer to GXO Logistics, Inc., a wholly owned subsidiary of XPO Logistics, Inc. ("XPO"). For additional information with respect to GXO and the proposed spin-off, please refer to the Form 10 Registration Statement, as it may be further amended, as filed by GXO with the U.S. Securities and Exchange Commission (the "Form 10"). The spin-off is subject to various conditions, and there can be no assurance that the spin-off will occur or, if it does occur, of its terms or timing. The financial information included in this transcript may not necessarily reflect GXO's financial position, results of operations and cash flows in the future or what GXO's financial position, results of operations and cash flows would have been had GXO been an independent, publicly traded company during the periods presented.

Non-GAAP Financial Measures

Some of the information included in this transcript is derived in part from XPO's and GXO's consolidated financial information but is not presented in XPO's and GXO's financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain of these data are considered "non-GAAP financial measures" under Securities and Exchange Commission ("SEC") rules. As required by the SEC, reconciliations of the non- GAAP financial measures contained in this transcript to the most directly comparable measure under GAAP are provided and are set forth in the financial tables attached to the accompanying presentation.

This transcript contains the following non-GAAP financial measures: adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA"), pro forma adjusted EBITDA less net capex, adjusted earnings before interest, taxes and amortization ("EBITA"), adjusted earnings before interest, taxes, depreciation, amortization and rent expense ("adjusted EBITDAR"), return on invested capital ("ROIC") and organic revenue.

The above adjusted financial measures facilitate analysis of GXO's business operations because they exclude items that may not be reflective of, or are unrelated to, GXO's core operating performance, and may assist investors with comparisons to prior periods and assessing trends in GXO's underlying businesses. Other companies may calculate these non-GAAP financial measures differently, and therefore GXO's measures may not be comparable to similarly titled measures of other companies. These non-GAAP financial measures should only be used as supplemental measures of GXO's operating performance.

Adjusted EBITDA, pro forma adjusted EBITDA less net capex and adjusted EBITA include adjustments for transaction and integration, as well as restructuring costs and other adjustments as set forth in the tables included in the accompanying presentation. Transaction and integration adjustments are generally incremental costs that result from an actual or planned acquisition, divestiture or spin-off and may include transaction costs, consulting fees, retention awards, and internal salaries and wages (to the extent the individuals are assigned full-time to integration and transformation activities) and certain costs related to integrating and converging IT systems. Restructuring costs primarily relate to severance costs associated with business optimization initiatives. Management uses these non-GAAP financial measures in making financial, operating and planning decisions and evaluating GXO's ongoing performance.

Adjusted EBITDAR excludes rent expense from adjusted EBITDA and is useful to management and investors in evaluating GXO's performance because adjusted EBITDAR considers the performance of GXO's operations, excluding decisions made with respect to capital investment, financing and other non-recurring charges. Adjusted EBITDAR is also a measure commonly used by management, research analysts and investors to value companies in the logistics industry. Since adjusted EBITDAR excludes interest expense and rent expense, it allows management, research analysts and investors to compare the value of different companies without regard to differences in capital structures and leasing arrangements.

We calculate Return on Invested Capital (ROIC) as net operating profit after tax divided by average invested capital. We believe ROIC provides investors with an important perspective on how effectively GXO deploys capital and use this metric internally as a high-level target to assess overall performance throughout the business cycle. We believe that presenting organic revenue improves the comparability of our operating results from period to period by excluding the impact of foreign currency exchange rate fluctuations. We believe comparability is improved because these items are not reflective of our normalized operating activities.

With respect to GXO's full year 2021 and full year 2022 financial targets for adjusted EBITDA, pro forma adjusted EBITDA less net capex, adjusted EBITDAR, ROIC and organic revenue a reconciliation of these non-GAAP measures to the corresponding GAAP measures is not available without unreasonable effort due to the variability and complexity of the reconciling items described above that GXO excludes from these non-GAAP target measures. The variability of these items may have a significant impact on GXO's future GAAP financial results and, as a result, GXO is unable to prepare the forward-looking statement of income and statement of cash flows prepared in accordance with GAAP that would be required to produce such a reconciliation.

Forward-looking Statements

This transcript includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target," "trajectory" or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by the company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors (including risks, uncertainties and assumptions) that might cause or contribute to a material difference include, but are not limited to: the severity, magnitude, duration and aftereffects of the COVID-19 pandemic and government responses to the COVID-19 pandemic; public health crises (including COVID-19); economic conditions generally;

competition and pricing pressures; our ability to align our investments in capital assets, including equipment, service centers and warehouses, to our customers' demands; our ability to successfully integrate and realize anticipated synergies, cost savings and profit improvement opportunities with respect to acquired companies; our ability to develop and implement suitable information technology systems and prevent failures in or breaches of such systems; our ability to raise debt and equity capital; litigation; labor matters, including our ability to manage our temporary workers, and risks associated with labor disputes at our customers and efforts by labor organizations to organize our employees; risks associated with defined benefit plans for our current and former employees; fluctuations in currency exchange rates; fluctuations in fixed and floating interest rates; issues related to our intellectual property rights; governmental regulation, including trade compliance laws, as well as changes in international trade policies and tax regimes; governmental or political actions, including the United Kingdom's exit from the European Union; natural disasters, terrorist attacks or similar incidents; political, economic, and regulatory risks relating to GXO's global operations, including compliance with U.S. and foreign trade and tax laws, sanctions, embargoes and other regulations; a material disruption of GXO's operations; the inability to achieve the level of revenue growth, cash generation, cost savings, improvement in profitability and margins, fiscal discipline, or strengthening of competitiveness and operations anticipated or targeted; the impact of potential cyber-attacks and information technology or data security breaches; the inability to implement technology initiatives successfully; the expected benefits and timing of the separation, and uncertainties regarding the planned separation, including the risk that conditions to the separation will not be satisfied and that it will not be completed pursuant to the targeted timing, asset perimeters, and other anticipated terms, if at all, and that the separation will not produce the desired benefits; a determination by the IRS that the distribution or certain related transactions should be treated as taxable transactions; the possibility that any consents or approvals required in connection with the separation will not be received or obtained within the expected time frame, on the expected terms or at all; expected financing transactions undertaken in connection with the separation and risks associated with additional indebtedness; the risk that dis-synergy costs, costs of restructuring transactions and other costs incurred in connection with the separation will exceed our estimates; and the impact of the separation on our businesses, our operations, our relationships with customers, suppliers, employees and other business counterparties, and the risk that the businesses will not be separated successfully or that such separation may be more difficult, time-consuming or costly than expected, which could result in additional demands on our resources, systems, procedures and controls, disruption of our ongoing business, and diversion of management's attention from other business concerns.

There can be no assurance that the separation, distribution or any other transaction described above will in fact be consummated in the manner described or at all. The above list of factors is not exhaustive or necessarily in order of importance. All forward-looking statements set forth in this transcript are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us or our business or operations. Forward-looking statements set forth in this transcript speak only as of the date hereof, and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events, except to the extent required by law.