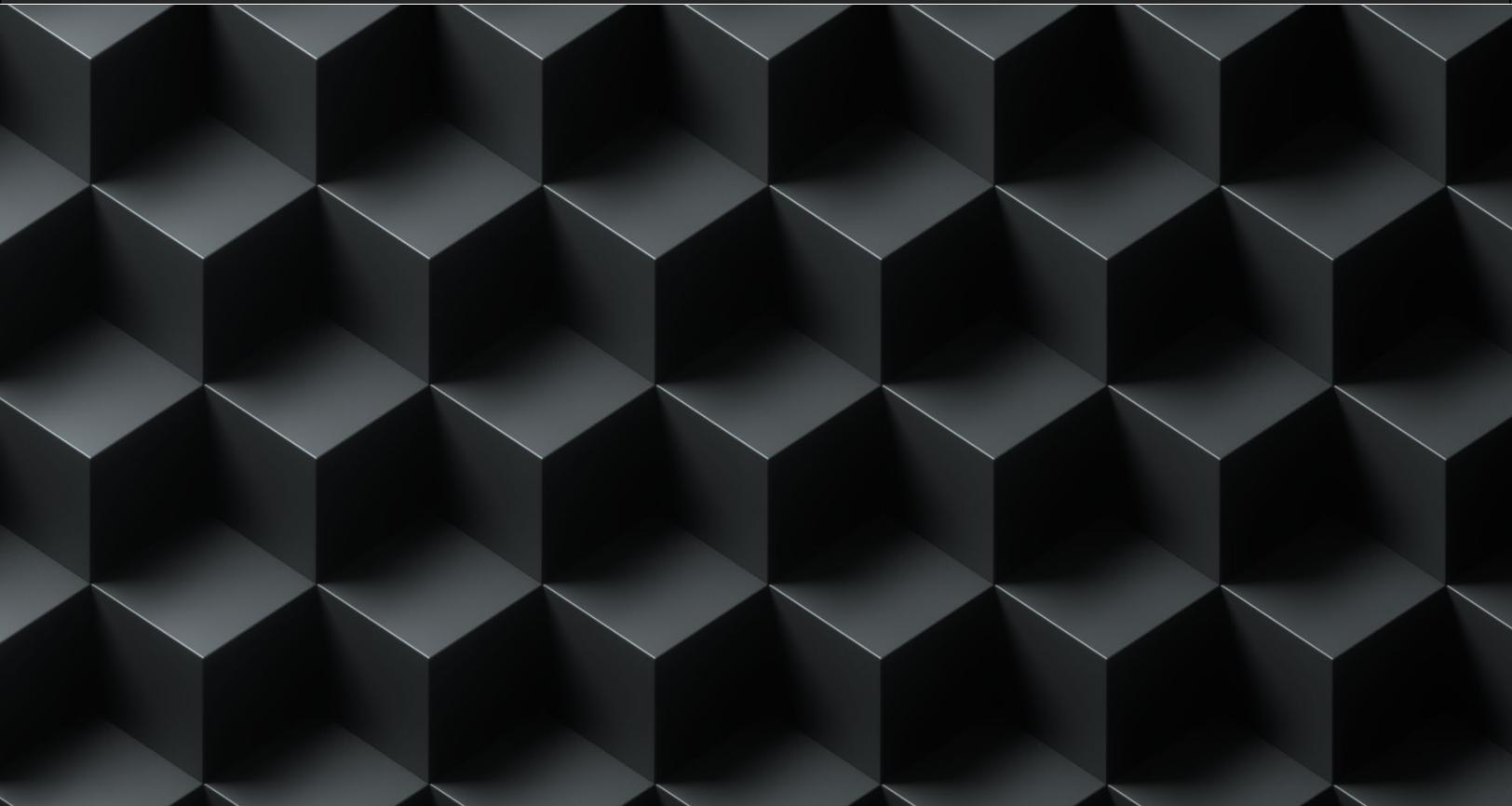




May 8, 2025

First quarter 2025 earnings call



GXO Logistics Q1 2025 Earnings Call

Presenters

Malcolm Wilson – Chief Executive Officer

Baris Oran – Chief Financial Officer

Kristine Kubacki – Chief Strategy Officer

Q&A Participants

Joe Hafling – Jefferies

Brian Ossenbeck – JP Morgan

Ravi Shanker – Morgan Stanley

Chris Wetherbee – Wells Fargo

Bruce Chan – Stifel

Bascome Majors – Susquehanna

Brandon Oglenski – Barclays Capital

Ben Moore – Citigroup

Operator

Welcome to the GXO first quarter 2025 Earnings Conference Call and Webcast. My name is Morgan and I'll be your operator for today's call.

Currently, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. If anyone requires 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 the 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 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

Thanks, Morgan, and good morning, everyone. I appreciate you joining us today for our first quarter 2025 earnings call. With me in Greenwich are Baris Oran, our Chief Financial Officer; and Kristine Kubacki, our Chief Strategy Officer.

For the first quarter of 2025, GXO delivered a strong set of results against a dynamic macro backdrop. We generated revenue of \$3 billion dollars, which was up 21% year over year, and we beat expectations on adjusted EBITDA.

Our new business wins in the quarter were \$228 million dollars, and our sales pipeline, excluding Wincanton, grew to a three-year high of \$2.5 billion dollars. I'd especially like to highlight the progress we've made in developing our business in the healthcare sector. We've finalized a landmark deal with the UK National Health Service's Supply Chain. This is our largest-ever contract and carries a total lifetime value of about \$2.5 billion dollars. We'll commence operations for the NHS early in the third quarter. We've also recently signed other exciting healthcare contracts,

most notably with Siemens Healthineers, and we have a rapidly growing pipeline of opportunities in space.

Our success in developing our healthcare business is a direct result of our acquisition of Clipper Logistics, which brought with it strong relationships within the sector, and it's proof positive that our M&A strategy to target companies in growth verticals is working.

We expect to make similar progress in target verticals like aerospace & defense and industrials, starting with our European business, because of our integration of Wincanton. The Wincanton business is trading well and performing as expected. We're very pleased to be nearing the conclusion of the CMA process, and we expect that, over the coming couple of months, we'll be able to start bringing the two businesses together and realizing our target \$58 million dollars of cost synergies.

We also continue to grow with our existing customer base. Feedback from our customer interviews reflects that our customer satisfaction has risen nearly 10% since last year, which supports our continuing growth. New business signed with existing customers has increased year over year, and we expanded our relationships with Boeing, Kimberly-Clark, Mitsubishi and Schneider Electric.

Our sales pipeline, excluding Wincanton, is up 13% from last year. Our pipeline is diversified across our regions and verticals, which sets us up for balanced growth and reinforces the resilience of our business model.

Before I pass the mic to Baris to walk you through our detailed financials for the quarter, I'd like to touch on our outlook for the remainder of 2025.

We're operating in an environment that demands unprecedented agility from global supply chains. The structural tailwinds of outsourcing, automation and e-commerce continue to drive our industry's growth, illustrating that the need for our solutions is more important than ever: for the first quarter, 41% of our new wins are in newly outsourced business; 39% involve automation; and 42% come from e-commerce.

On top of this, the complexity related to potential tariffs has created a new array of challenges for our customers, including rising costs, a need to rapidly react to changing prices, and fluctuating inventory levels. Our customers are managing through this – while, most importantly of all, continuing to serve their end customers seamlessly. The range of activities we're undertaking to support our customers in this environment is evolving in real time and includes everything from strategic reviews of how to manage volatility, to value-added services like re-tagging and re-bagging millions of SKUs that are already in circulation. And in parallel, we're still innovating: we're making rapid progress toward our vision of the tech-enabled warehouse, which Kristine will update you on in a moment.

In a world with increasing complex trade dynamics, the need for brands all over the world to rely on a partner who can help them navigate the global supply chain cost effectively has never been higher. GXO's combination of cutting-edge technology

and our long-term contractual business model, with a customer base that's diversified by both geography and vertical, gives us confidence in our long-term growth. We've secured over \$700 million dollars of incremental revenue for 2025, plus another \$300 million dollars already for 2026.

We've delivered a strong first quarter, and considering the volatility of the macroeconomic environment, the contractual nature of our business, and our diverse geographical footprint, we're reaffirming our guidance for organic growth and adjusted EBITDA for the full year 2025.

And with that, I'll pass you over to Baris. Baris, over to you.

Baris Oran – Chief Financial Officer

Thanks, Malcolm. Good morning, everyone.

As Malcolm said, in the first quarter of 2025, GXO delivered revenue of \$3 billion dollars, growing 21% year over year, of which 3% was organic. All three of our regions delivered organic growth, led by our continental European business. We already have an established foothold in many of our global customers who are looking into expanding in Europe over the coming years, and we see more momentum in this region than we did just a year ago. As Malcolm mentioned, we are also excited by our progress in newer geographies, like Germany, and newer verticals, like healthcare. We're pleased that our M&A strategy is working.

Our first quarter adjusted EBITDA was \$163 million dollars. Our strong operating results were primarily driven by a faster-than-anticipated ramp-up of new facilities, and of site-level productivity initiatives. We recorded a net loss of \$95 million dollars, which was primarily driven by a one-time charge related to a regulatory matter, as well as transaction and restructuring costs. Excluding these charges, our adjusted net income was \$34 million dollars.

As we highlighted earlier, our operational teams are implementing a number of sizeable, automated startups. These new sites are maturing ahead of expectations. We're also working on several initiatives to improve operating productivity across our sites. These efforts have been one of the main causes of our strong operating results in the first quarter. We expect to see their impact accelerate sequentially every quarter of this year as, in parallel, the drag from the customer footprint realignments that we have called out last quarter are moderating into the second quarter, which improves our visibility. And our integration of Wincanton will provide another catalyst for group adjusted EBITDA growth.

Our first quarter's free cash flow reflected normal seasonality as well as the Wincanton acquisition. We're on track to deliver our target of 25% to 35% adjusted EBITDA to free cash flow conversion for the full year.

Our operating return on invested capital remains well above our target – at 45%,

including Wincanton – and has risen twelve percentage points from the first quarter of 2024. This improvement demonstrates our ability to invest back into our business with high returns.

In February, our board authorized a \$500 million dollar share buyback, and, during the quarter, we acted on this authorization and made strategic purchases of 2.8 million shares, or 2.4% of shares outstanding.

We remain laser focused on our capital allocation and continue to prioritize investment in technologies and services that drive the greatest returns. As our focus in 2025 will be on accelerating our organic growth and the integration of Wincanton, we would like to reiterate that M&A is not in our near-term agenda.

As a reminder, for 2025 we continue to expect to deliver:

- Organic revenue growth of 3% to 6%
- Adjusted EBITDA of \$840 million dollars to \$860 million dollars
- Adjusted diluted earnings per share of \$2.40 to \$2.60, and
- Adjusted EBITDA to free cash flow conversion of 25% to 35%, in line with our historical performance.

We can deliver these results, despite the macro volatility, because of our geographic diversification and our long-term contractual business model, which is designed to provide maximum flexibility for our customers while protecting GXO from economic fluctuations that are outside our control. GXO is a resilient business, as we have proven over the last four years as a public company, and we are well positioned to deliver value for our customers and our shareholders.

With that, 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 first quarter of 2025, and we're even more energized by the transformative opportunities that lie ahead.

As Malcolm mentioned, even as we expand our offerings to support our customers through the dynamic global trade environment, we remain focused on our mission to build the supply chain of the future. Today, I'd like to update you on the exciting progress we're making with AI and other cutting-edge technologies.

Over the past year, we've been piloting and launching our AI modules for proactive replenishment, SKU dimensioning and order routing, and we now have over 20 implementations live in our operations. These tools have been driving record-setting productivity improvements in stock replenishment, order allocation, and item inspection.

In the first quarter of 2025, as our implementations have matured, we've now seen our first cost savings resulting from these tools. These cost savings will ramp up over

the course of 2025, in tandem with the other site-level productivities Baris mentioned a few moments ago.

We're also identifying opportunities to leverage the capabilities of these tools to bring value to our customers in new ways. Reverse logistics is one of the most congested and complex processes in fulfillment, and our focus on de-bottlenecking product flow is key to our AI strategy. In a European operation for a leading apparel brand, we're working on adapting our proactive replenishment capability into a tool that minimizes the number of touches required to process a returned product.

We'll keep you posted on our progress on our AI rollout over the coming months.

Beyond AI, we continue to lead the market in cutting-edge technology. A few other areas of focus for us in 2025 include automation for:

- Inbound unloading
- Humanoid development, for multiple use cases
- Inventory cycle counting, which is a critical, but traditionally manual and extremely time-consuming, process. Through our operational incubator program, we've leveraged an emerging technology solution that has enabled us to increase the frequency of a warehouse inventory count from a quarterly process that's done manually, to a fully automated process that occurs every day.

GXO is the market leader in tech-enabled fulfillment, and our long-time focus on technology gives us a particular advantage in the current environment. Beyond driving operational efficiencies, our tech leadership equips us with the ability to rapidly adjust to volume fluctuations and support our customers through shifting trade patterns. As tariff considerations prompt many of our customers to examine their fulfillment costs and capabilities, GXO's automation advantage positions us as partner of choice to navigate this complexity.

We'll keep you posted as we continue to build on the supply chain of the future.

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

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Kristine.

We've delivered a strong quarter, supported our customers' changing needs against a dynamic macro backdrop, and continued to sharpen our advantage as the leader in tech-enabled fulfillment.

I'd like to note that we're able to deliver these results, not merely despite the macro volatility, but because the level of support we're able to offer to our customers becomes even more critical during uncertain economic periods. Our long-term contractual business model and geographic diversification provide both stability and

growth opportunities despite macro volatility. We are not just a resilient business, but a partner who helps leading brands all over the world to navigate complexity.

I'd also like to highlight our pride that, in the first quarter of 2025, GXO was named to the Forbes Diamond list in Poland, and listed as a Top 500 Employer in the UK by the Financial Times. We were also named Supplier of the Year by Dupont, with whom we have had a 20-year business partnership.

Our results, customer satisfaction and operational performance continue to set GXO apart. And our contractual business model, industry-leading automation and global footprint reinforce our confidence in our long-term future.

And with that, we'll hand the mic back to Morgan for Q&A.

Question & Answer Session

Operator

If you would like to ask a question at this time, please press star then the number one on your keypad. Please be prepared to ask your questions when prompted. Once again, to ask a question currently, please press star then the number on your telephone keypad now.

Your first question comes from Stephanie Moore from Jefferies. Your line is open.

Joe Hafling – Jefferies

Hi, good morning, everyone, and congrats on the great results. This is Joe Hafling on for Stephanie Moore. Baris, I think this question goes to you. I wanted to talk a little bit about the guide. I guess, could you maybe unpack for us maybe the scenario planning that you've done under the surface that gives you the confidence to reaffirm the guidance here in the context of this uncertain macro and with the strong Q1 results. So, maybe the puts and takes of how you're thinking about the guide?

Baris Oran – GXO Chief Financial Officer

Sure. Right now, our business is trading well in a dynamic environment and the base-case for our guidance is flat volumes year-over-year in 2025. Should we see a softer volume – softer environment in US economy, we estimate that we would still land within our narrow guidance range for 2025. To be specific, even if we were to see our second-half volume in our consumer-facing business in the US decline by, let's say, low-to mid-single digits, we would still be forecasting to be within this tight EBITDA guidance range. So, we're comfortable with the guidance we provided.

Joe Hafling – Jefferies

Got it. And then maybe a little bit nitpicky, three months ago, the US Dollar was rallying and since that time we've seen the Pound and Euro appreciate versus the Dollar. I guess, how should we think about the impact of FX on your results in 2025? How much is hedged and maybe what does this mean for 2026 if FX rates hold where they are?

Baris Oran – GXO Chief Financial Officer

FX will be a tailwind for us in 2026 we will see an improvement if the current rates would stay. But for Q2, we were pretty much fully hedged for Q2 of 2025. For Q3, we are about three quarters hedged. The protection that we acquired was around \$1.07, \$1.08 for Euro and \$1.26, \$1.29 for Pound. And we don't have a crystal ball where the currencies will go, the impact will for '25 Q2 and onwards will be limited and we will see more upside in 2026.

Joe Hafling – Jefferies

Great. That's all very helpful. Thanks so much and congrats again on the good first quarter.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Your next question comes from Brian Ossenbeck with JP Morgan. Your line is open.

Brian Ossenbeck – JP Morgan

Hey, good morning. Thanks for asking the question. First, I wanted to ask about the NHS deal. Maybe you can go into a little bit of background how you wanted, what the opportunities are, maybe, in other areas of healthcare? And then how do you expect it to ramp up? Obviously, quite large. Should we be expecting some start-up costs in the back-half of the year as that comes from books?

Malcolm Wilson – GXO Chief Executive Officer

Yeah. Hi, Brian. Good morning. It's Malcolm. Brian, it's a real landmark deal for us. So that's first and foremost to say. In terms of the background, look, we've been kind of

working in this healthcare vertical since we acquired the Clipper business. They had existing relationships with a range of healthcare customers, and we saw the opportunity coming along. It's been a very long and intense tender process where we've competed with a whole array of large, globally, established, healthcare logistics competitors, and I think it's a testament to a lot of confidence securing this contract with the UK National Health logistics activity. It's a big vote of confidence in the work that we've done in setting up this new business stream for us.

In terms of scale, I mean it's a huge piece of business. We will take-over in-place around eight locations, a couple of thousand people, several 100 delivery trucks and vans. So, and it's a takeover in-place environment. So, we're not anticipating any significant type of start-up costs going into this.

The team have been planning this start-up for a considerable amount of time. You've seen the announcements earlier this week. Obviously, we've been aware of the award since the last quarter but obviously tied under confidentiality arrangements and hence only announce it publicly in the last week.

And I think the last thing to say is, it is for us like making a mini M&A, it's of that scale. It brings a whole host of new opportunities. We have now a very strong pipeline of health-related customers waiting to join us, not just in the UK. We're expanding that expertise out into European business and indeed here in the US, and already you can see us announcing, starting to announce some new business wins in the health industry like Siemens and several other are in the hopper and will be made known as we move through quarter two. So it is a very, very exciting time for us.

Brian Ossenbeck – JP Morgan

And just a follow-up on the broader macro-environment. Can you give some general context and maybe some of your conversations on inventory levels, what your customers are telling you and I guess more specifically you're seeing in these facilities?

And then anything on bonded warehouses because obviously tariffs are a bit of a moving target. I wondered if there's any play for you in there if that's a big part of the business where you can kind of help provide some of those opportunities to navigate that uncertainty.

Malcolm Wilson – GXO Chief Executive Officer

Sure, Brian. Look, I'll pass over in a moment to Baris on the bonded warehouse aspect. But as we've said already, all three regions, very strong performance.

Our North American business was our strongest region in quarter one, largely due to the kind of customer mix that we have, a lot of aerospace, technology infrastructure, industrial type of customers. And, I have to say, we benefited a little bit, we refreshed

some management towards the end of last year. They are really hitting now and we're seeing improved efficiency and productivity arrangements, the consolidation process that we were under, that's really gathered good momentum. So, all of those things gave us some good momentum in quarter one.

Continental Europe, that's just been rock-solid, is no different than in past quarters. It's performing exceptionally well. The surprise for us in quarter one was slightly softer volumes than we expected in our UK business. We believe that's just some of our customers reacting to the new employment taxes that the UK government brought in earlier in the year. But as we've moved into Q2, in fact, we've seen already our UK activity rebounding. And I think as Baris already said, we've moved into Q2, we're on a good way through it now, we've seen a very similar trend to what we saw in quarter one. In terms of volumes, and here it's really a North American message, we did see some positive volume development in the first quarter as some of our customers, I think brought extra inventories into the warehouse. It is important to mention that it's not affecting our quarter results. We don't transpose that into top-line. So, although we see incremental volumes, we'll likely see those starting to move out of the warehouses as we progress through quarter two and as we progress into quarter three and even start planning for peak season.

And I guess the last thing to say is, just to reinforce what Baris just indicated, you know, all the internal efficiency initiatives that we've been driving, coupled with our geographic mix, two-thirds of our business is in Europe, we don't have any exposure to China, it's really kind of giving us a very strong confidence for the remainder of the 2025 year, even against this very dynamic macro-environment. In a normal environment, as a management team we would have been raising our outlook for 2025. There's no doubt about it, but I think it's a prudent approach. We can't ignore that. There's an elevated level of uncertainty across all markets now. And that's the very reason why as Baris indicated, we're just choosing right now, we're reaffirming our full-year guide. Which as you're aware, that 3% to 6% organic and that very narrow band of \$840 million to \$860 million on the EBITDA.

Baris Oran – GXO Chief Financial Officer

And Malcolm, if I look at the inventory levels, we have elevated inventory levels in North America, especially in large ticket items, including technology. They had inventory levels high going into Q2 and they continued into May. So, there is availability of inventory in the system.

There's also an elevated inventory in fashion, but less than technology. But at the end of the day, two-thirds of our business is outside of the US, half of our business is open book, and other half has contractual minimum volume required, and has inflation pass through. And we have a very diversified customer base, as we highlighted.

Our omnichannel retail business in North America is slightly smaller than our

presence in Europe. Therefore, our presence in technology, aerospace and defense and diversification in North America is playing well in this environment.

Brian Ossenbeck – JP Morgan

And Baris, quick thoughts on the bonded warehouses. Is that a big factor for GXO's offering?

Baris Oran – GXO Chief Financial Officer

It is. In North America, our consumer vertical, we have seen significant increase in requests, especially on bonded warehouses, rebagging and retagging of inventory. At this level, it doesn't have a material impact on our financial situation, but it's another example of how GXO is supporting our customers during volatile times.

Brian Ossenbeck – JP Morgan

Great. Thank you both for all that information. I appreciate it.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Your next question comes from Ravi Shankar with Morgan Stanley. Your line is open.

Ravi Shanker – Morgan Stanley

Great. Thanks. So great to hear about the record pipeline of the new business. I just want to follow up with some of the existing contracts. Obviously, we're getting to the point where we are now getting to about the five-year mark since the pandemic and I think that's your average contract length. How do you think about visibility in some of those contracts coming up for renewal and maybe some of those customers realize that, hey, they kind of signed up for some vision of a pandemic future that hasn't quite played out? Is there a risk that there may be some kind of potential cliff coming in contract renewals more than your normal churn of business?

Malcolm Wilson – GXO Chief Executive Officer

Hey, Ravi, it's Malcolm. No, we're not seeing any sign of that or indeed, have we any concern about that. I mean, our typical contract period nowadays is around five years, that's the typical kind of contract that we sign. And a process for us is we don't generally see the contracts coming to an end before they're renewed. We work with customers. Customers' demands change from time to time. Their requirements in terms of the sizes of warehouses can change. So, it's a gradual process of renewing the contract.

We don't have any cliff of higher volume of contract renewals, it's quite normal. We're renewing a typical normal level of contracts every year. And in fact, although we've not actually announced because we're still in confidentiality, we have just renewed two very large new pieces of business, two large existing customer relationships here in North America, two big flagship sites in fact.

But no, no real cliff that we see on the horizon and really high levels of customer satisfaction. I think our teams are doing a very good, solid job and I think customer satisfaction speaking for themselves. And clearly, as we're seeing, customers are gravitating to GXO, they are recognizing the benefits that we're bringing to them from a technological aspect and how we're able to help them and improve their business.

Ravi Shanker – Morgan Stanley

Great. Thanks for the color. And maybe as a follow-up, Christine, I think you mentioned that you are starting to see some of the cost-savings from automation projects showing up. Can you help quantify what the savings are like, how they compare versus your expectations and how they are expected to ramp as those projects mature?

Kristine Kubacki – GXO Chief Strategy Officer

Hi Ravi, it's Kristine here. Thanks for the question. We've been working on and developing and piloting in this proprietary warehouse AI for over a year and we really are thrilled with the progress we made. In the first quarter, as I said, we recorded our first non-pilot cost-savings because of the proprietary AI implementations. We'll continue to deliver the savings from these implementations throughout 2025.

And while the financial impact, as I mentioned, is immaterial for '25, we are creating that flywheel that will deliver outsized savings for the years to come. So, note that deploying this AI in the ground operations is a list for every site, every warehouse that we have is different and very bespoke. But also, this is how we improve productivity and AI is one of those areas that we're lifting there.

We will take this into consideration with other productivity initiatives, but we're really excited about what we're seeing in terms of the AI applications and processes across the warehouse. It's early days, Ravi, but we're excited. It has huge potential for us.

Ravi Shanker – Morgan Stanley

Understood. Thank you.

Operator

Your next question comes from Chris Wetherbee with Wells Fargo. Your line is open.

Chris Wetherbee – Wells Fargo

Hey, thanks. Good morning, guys. I guess I'm kind of curious how conversations are going, in terms of building the pipeline. I know the value of the pipeline is obviously at very high levels as it stands right now. But I'm kind of curious how the conversations have been evolving in the context of tariffs. You guys obviously a greater exposure to Europe than the US.

So, does this accelerate conversations? Has it put things on pause for a period where maybe we see a period where the incremental new revenue book kind of drops. I'm just kind of curious what the tenor and tone of the conversations you're having with your customers are right now given the backdrop?

Malcolm Wilson – GXO Chief Executive Officer

Chris, let me comment on that. It's Malcolm here. So, we've seen no material impact in terms of sales pipeline regarding tariffs. I mean, it'd be wrong to say that we've not been in discussions with some customers who may be momentarily hesitated. I can think of one large tender where the customer was just a bit hesitant because of trade tensions. But even that one customer I can think of, it's fully back on-track, it's fully reengaged and in fact, speaking to the team, my understanding is, we'll actually be signing new contracts on that. It's quite a big piece of business here in North America, and we'll be signing contracts even next week or early the week after.

So, there is no impact right now in terms of what we're seeing in terms of customer demand. But remember, most of the business that we undertake tends to be very long-term. Customers are signing up for five years, but really, they're making decisions for the future 10 years. That's why you see such a long term of business relationships that we have.

Pipeline right now, \$2.5 billion, that's up 13% year-over-year. I think we're reaping the benefits of some of the redesign that we did during '24 of our sales organizations. If you remember, we appointed Richard Cawston as our Chief Revenue Officer. He's been redesigning, repopulating, and refreshing some of our sales organizations. So, no doubt, we're seeing some of the benefit coming through from that.

In terms of the won business, again, \$228, that puts us right on-track for our expectation for 2025, \$228 in quarter one. \$732 million already booked for 2025. That would give us just around 7% organic gross wins against our full-year expectation of 8%. So, we're right on track of everything that we expected to be at.

And impressively, I think what we're also seeing now is a lot of e-commerce projects reemerging. It's making up a sizable proportion of our overall sales pipeline. And I think our geographic exposure, the work that we've been doing in moving into new verticals, and I do want to stress that. I think our company in parts of the geographic where we work, Europe, historically, we were probably a little bit over-exposed to omnichannel retail. The move into new verticals like healthcare, that's helping really diversify the business. So, I think it just adds that bit more overall to the resiliency. And maybe also, Kristine, please jump in on that.

Kristine Kubacki – GXO Chief Strategy Officer

Thanks, Malcolm. Chris, it's Kristine here. Just for some added context, we have \$732 million of incremental revenue from wins we expect to land in 2025, as of the end of the first quarter. This is 8% compared to the position we were in 12 months ago and almost two-thirds of these wins is based in the UK and Continental Europe. And even more exciting, is that we already have \$316 million incremental revenue for wins expected to land in 2026.

This is 30% above where we were just 12 months ago and more than 70% of this relates to contracts based in the UK and Continental Europe. I would just say as complexity and uncertainty continues to increase for our customers, that's where our value proposition certainly comes into play or where the visibility, we're gaining momentum into 2026 at this point.

Chris Wetherbee – Wells Fargo

That's great. Very helpful answer. I appreciate that. And then quick follow-up, just on organic revenue growth. Presumably we're expecting an increase in the coming quarters. Any shape you can help us with in terms of how to think about that growth rate as we go through the next couple of quarters here?

Baris Oran – GXO Chief Financial Officer

Sure, Chris, it's Baris here. We do see an acceleration of our organic growth throughout 2025. For the full year, the building blocks of revenue growth will be roughly 8% coming from wins, and minus 5% churn. As we highlighted, we put zero volume growth year-over-year in our model and 1.5% coming from pricing. So, we will see that acceleration throughout the year. And so far, the direction is very positive. And our growth in Q1 reflects new business wins and growth in our existing business, balancing the churn, including customer realignment we discussed last year. So, everything is going in line with the plan.

Chris Wetherbee – Wells Fargo

Great. Thanks very much. I appreciate it.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Your next question comes from Bruce Chan with Stifel. Your line is open.

Bruce Chan – Stifel

Yeah, thanks, operator, and good morning, everybody. A lot of good commentary around business wins in the pipeline. So maybe I'll switch gears a little bit. I know that the CMA review process is kind of what it is and we're certainly hopeful that it gets the green light. But maybe I can ask about some of the alternatives that you proposed in terms of sales of the grocery business versus the reorganization. Is there one of those that you prefer and how should we think about the timeline for each if you don't get the outright approval? And what I'm trying to get here is what's the various timeline scenario for when you can start with the integration?

Malcolm Wilson – GXO Chief Executive Officer

Bruce, hi, it's Malcolm here, and obviously this subject is very near to my heart as a British national. First and foremost, I mean, through all this process, the Wincanton business it's been trading really well since the acquisition. We're very pleased with the management. We're very pleased with how the revenue is developing. And obviously, you know, I think we're overall very, very happy with the business that we have acquired.

We're nearing the conclusion of the discussions with the CMA. In fact, in the coming weeks, we're expecting to receive either a full clearance of the deal that's still quite possible or alternatively, what we might receive is a request that we dispose of a very small part of the Wincanton. And clearly behind the scenes, there's an awful lot of discussion being taken place.

And when I say a very small proportion of the Wincanton, I do want to give real context to that. It's probably around maybe a bit less than \$100 million of revenue, in actually, a lower margin part of the business. To give you context, it's about 6% of the original Wincanton business that we acquired. And I know 6%, it feels like this is a process that's gone on for a long period of time for such a relatively small actual activity.

As I mentioned, behind the scenes, we've been preparing for both of these scenarios. We're well-advanced on it. Importantly, in parallel, what we've been also doing is talking with the CMA and working together to get to a point where they will allow us to commence the integration of the rest of the business or the rest of the sort of 90 plus percent of the business, they'll allow us to integrate it. And that's very important because clearly, when we do that, we start to unlock that large amount of cost synergy, which is really, will drive straight into our margins. It's one of the reasons you'll see margin expanding as we progress through 2025.

In terms of timing, we're very close now to the final stage. We think that all of these events will be happening in the early summer. So, we're no longer multiples of months away, we're multiples of weeks away.

And I think, probably by the time we're undertaking our quarter two earnings call, we'll be underway. We'll be starting already with the integration. It will be underway, and we'll be well in advance of even both of those scenarios. Clearly, if it's a green light, everything will just move immediately. If it's a disposal, the disposal will move very, very quickly. It's a lot of work already taking place.

Overall, I think the timing that we can now see probably gives us a small upside against our existing plan. We're not building that into our full-year outlook, for all the reasons that we've already talked about. I think we'd be in a much better position as we get to our quarter two earnings to reassess that.

Bruce Chan – Stifel

Okay. Perfect. That's a great update. Thank you.

Malcolm Wilson – GXO Chief Executive Officer

Thank you.

Operator

Your next question comes from Bascome Majors with Susquehanna. Your line is open.

Bascome Majors – Susquehanna

Thanks for taking my questions. You've talked about in the footnotes a dispute with the Italian tax authorities. I think it's about maybe \$150 million booked in recent quarters. Can you talk about where that stands and what you reserve there and is the tax rate on a go-forward basis burden for a negative outcome there? Could there be some risk to the EPS line if that doesn't go the way you hope? Thank you.

Baris Oran – GXO Chief Financial Officer

Hi, this is Baris here. First of all, this does not have an impact on our tax rates for 2025, it's anticipated to be around 25%. And that's driven by OECD initiatives Pillar 2 to increases that you see in all companies, a minimum tax-rate in many jurisdictions. So, it does not have an impact on our adjusted EPS.

You will remember in Q2 2024, we disclosed a contingency related to discussions with the Italian authorities around the historic VAT payments linked to a cooperative labor practice unique to our Italian business. This is similar to many other international companies operating in Italy.

The initial challenged amount was \$91 million, as we highlighted previously. The current accrual of \$66 million, which is lower than the initial amount. The amount is associated with this contingency and we expect to reach a settlement in 2025, consistent with this amount of \$66 million. This is most likely to be paid in Q2 and the amount is an addback in our calculation and does not impact 2024 or 2025 adjusted EBITDA or adjusted EPS. As this cash was booked into a separate account, this has already been reflected in our leverage levels since Q3 of 2024.

Bascome Majors – Susquehanna

Thank you for that.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Your next question comes from Brandon Oglenski with Barclays. Your line is open.

Brandon Oglenski – Barclays

Hey, good morning, everyone, and thanks for taking the question. Baris, maybe I'll drive this at you, but to get to your midpoint of your full-year EBITDA guidance, it looks like you do need a little bit of ramp-in earnings in the back half of the year, which I think you saw last year as well. But can you talk to maybe the seasonality of the business now, especially in light of all the customer realignment activity you had in the first quarter?

Baris Oran – GXO Chief Financial Officer

Sure. In Q1, we saw an over performance related to improvements in productivity, especially in startups and our 2025 guidance reflect limited amount of synergies from Wincanton in 2025, around 10 million Pounds, and assuming we begin the integration in late Q2 and early Q3. The ramp of our EBITDA is basically reflecting maturing start-ups we have, and the productivities that we have in the start-ups, as well as our existing business.

Brandon Oglenski – Barclays

Okay. I appreciate that. And then, this might be a really nuanced question, but have you guys done any analysis of how much Chinese import products might be moving through customer facilities, especially in the US? Is there any way to quantify what that volume or revenue exposure might be within the system?

Baris Oran – GXO Chief Financial Officer

Sure. We have done the analysis. And as you know, about two-thirds of our business is overseas. And, we have a smaller omnichannel retail business in US compared to Europe.

When we look into the detail, our customers have done a phenomenal work in diversifying their supply chain base during the last couple of years. And currently, only on the consumer business, if you look at that business, slightly less than a quarter of the product is coming primarily from one location, China.

Brandon Oglenski – Barclays

Sorry, just to clarify, a quarter of the retail business in the US, you think is exposed to that?

Baris Oran – GXO Chief Financial Officer

Quarter of the business in the US, which is less than two-thirds of our business is exposed to volatility coming from imports, coming from China, but our customers have done a really good job on diversifying their supply chain base through the last couple of years.

Today, we don't see any shortage of inventory in our warehouses. In fact, the warehouses, especially in technology and fashion, there has been an elevated level of inventory and things are in good shape.

Of course, we don't have a crystal ball, but it looks like our customers have done a really, really good job in diversifying and we don't see much of a risk in our EBITDA, in the guidance we provide.

Remember, I provided a specific comment around the scenario that we have developed. If we do see a softer US economy, and if we see our customer-facing business in the US decline by low-to mid-single digits in volumes, we still forecast to be within this tight EBITDA range.

Brandon Oglenski – Barclays

Thank you, Baris. I appreciate it.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Your next question comes from Ariel Rosa with Citi. Your line is open.

Ben Moore – Citigroup

Hi, good morning. Thanks for taking our questions. Congrats on the great results. This is Ben Moore on for Ari at Citi. With your 1Q direct operating expenses stepping up to 85.9% as a percent of revenue, I think that may have been due to Wincanton with a higher direct OpEx mix than legacy GXO, maybe specific to 1Q. Could you give

more color on your outlook on the shape of that direct OpEx line as a percent of revenue through the remainder of the year?

Baris Oran – GXO Chief Financial Officer

Hi, Ben, it's here. You're exactly right. It's driven by Wincanton having a higher percentage, and they do have a lower percentage in SG&A. Once we start integrating, of course, the profitability of that operation will start lifting. And in our model, we put starting integration late Q2, early Q3 and we are waiting for the approval as Malcolm highlighted.

Ben Moore – Citigroup

Great, great. Appreciate that. And in terms of your share buybacks, the 2.4% of float is quite strong, stronger than your typical rail average 1% a quarter or 4% a year. Do you expect that 2.4% per quarter run-rate maybe through the rest of '25, if the trade war last that long for a possible 10% of your float, as much as that through the year? What's your kind of thinking for share buybacks relative to the length of the trade war for the rest of the year?

Baris Oran – GXO Chief Financial Officer

The Board has authorized around \$0.5 billion of share repurchase in February. Through the end-of-the first quarter, we purchased about 2.8 million shares for about \$110 million. We continue to see our shares as attractively valued, but always balancing share repurchase against our capital allocation priorities, including organic growth and leverage levels. We will give you an update at the end of Q2 as where we stand.

Ben Moore – Citigroup

Great, great. Thanks so much for the color. And again, congrats on the great results.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

This concludes the question-and-answer session. I would like to now turn the call back over to Malcolm Wilson for any further remarks.

Malcolm Wilson – GXO Chief Executive Officer

Thank you, Morgan, and thanks for hosting our call today. We delivered a strong opening quarter to the year with every region demonstrating strong organic growth and a healthy sales pipeline, which for our combined business now stands at \$2.5 billion.

During the quarter, we've been able to announce some impressive new customer wins, including the large 10-year deal with the National Health Service Supply Chain, which is a landmark new vertical deal for GXO. We've also seen growth in key markets like Germany and have continued to diversify our industrial verticals. We're close to final conclusion with the UK regulatory authority on the Wincanton acquisition, and we're looking-forward to integrating the business in the summer.

Customers are looking to GXO to help them successfully navigate these times of elevated uncertainty and a dynamic economy. Our leadership in creating value through automation, technology, and AI are growing in their importance. So, with that, I'd like to wish everybody a great rest of the day, and thanks very much for joining us and your attendance on our call.

Operator

This concludes today's conference call. Thank you for attending and have a wonderful rest of your day.