# GXO Q4-FY 2022 Earnings Call

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# GXO Logistics Q4-FY 2022 Earnings Call

## Presenters

**Malcolm Wilson – GXO Chief Executive Officer**

**Baris Oran – GXO Chief Financial Officer**

**Bill Fraine – GXO Chief Commercial Officer**

**Mark Manduca – GXO Chief Investment Officer**

## Q&A Participants

**Stephanie Moore – Jefferies**

**Scott Schneeberger – Oppenheimer**

**Chris Wetherbee – Citi**

**Amit Mehrotra – Deutsche Bank**

**Brian Ossenbeck – JPMorgan**

**Ari Rosa – Credit Suisse**

**Allison Poliniak – Wells Fargo**

**Bascome Majors – SIG**

**Jason Seidl – Cowen**

**Bruce Chan – Stifel**

### Operator

Welcome to the GXO Q4 and Full-Year 2022 Earnings Conference Call and Webcast. My name is Kevin, and I'll be your operator for today's call.

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

Please note that this conference is being recorded.

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

- During this call, the Company will be making certain forward-looking statements within the meaning of applicable securities law, which, by their nature, involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those projected in the forward-looking statements.

- A discussion of factors that could cause actual results to differ materially is contained in the Company's SEC filings. The forward-looking statements in the Company's earnings release or made on this call are made only as of today, and the Company has no obligation to update any of these forward-looking statements, except to extent required by law.

- The Company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules during this call. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the Company's earnings release, and the related financial tables are on its website.

- Unless otherwise stated, all results reported on this call are reported in United States dollars.

- The Company will also remind you that its guidance incorporates business trends to date and what it believes today to be appropriate assumptions. The Company's results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and consumer demand and spending, labor market and global supply chain constraints, inflationary pressures, and the various factors detailed in its filings with the SEC.

- It is not possible for the Company to actually predict demand for its services, and, therefore, actual results could differ materially from guidance. You can find a copy of the Company's earnings release, which contains additional important information regarding forward-looking statements and non-GAAP financial measures, in the Investors section on the Company's website.

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

**Malcolm Wilson – GXO Chief Executive Officer**

Thank you, Kevin, and good morning, everyone. I appreciate you joining us today, for our fourth quarter and full-year 2022 earnings call. With me in Greenwich are Baris Oran, our Chief Financial Officer; Bill Fraine, our Chief Commercial Officer; and Mark Manduca, our Chief Investment Officer.

It was a pleasure to dedicate some time a few weeks ago at our Investor Day to share a deeper dive into our business, the value we add, and our strategy for the coming years.

As a reminder, during our Investor Day presentation, we announced our financial targets for 2027, which are as follows:

- We will more than double our top line from the end of 2021, to $17 billion, and deliver compounded annual organic growth of between 8 and 12%;

- We'll nearly triple our adjusted EBITDA, over the same period, to about $1.6 billion;

- We'll generate more than $2 billion of free cash flow by 2027; and

- We'll deliver operating return on invested capital of above 30%.

And just to reiterate, these long-term targets do reflect our expectations of a softer macroeconomic environment in the near term, which we anticipate will be the case through the majority of 2023.

For the benefit of everyone, we've posted the transcripts and video on our Investor site.

But today, we're here to focus on our 2022 full-year earnings, our performance in the fourth quarter, and our 2023 outlook, so let's turn to that.

For the fourth quarter, we've delivered excellent financial and operational performance. We generated revenue of $2.5 billion, reflecting organic growth of 7.5%, and adjusted EBITDA of $205 million. These results reflected robust new business growth, strong year-over-year adjusted EBITDA growth, and sustained margin expansion through the second half of the year.

For the full year, we delivered revenue of $9 billion, organic growth of 15.4%, and adjusted EBITDA of $728 million, at the top end of the range we provided at our Investor Day.

In addition to our strong operational performance during this year's peak season, we also increased our overall warehouse tech by about 40% year-over-year, with pilots, ramp-ups and roll-outs of several different types of operational technology across all of our geographies.

Additionally, to enable customers to quickly scale capacity up and down, specifically during peak, we trialled a new approach, where we deployed several hundred pieces of tech to support volume spikes. For the customers who participated in this pilot, who were experiencing volume surges of up to 200% vs. a non-peak day, this was an incredible enabler of success during this year's holiday season.

The fourth quarter was also a busy time for us internally, as we kicked off the smooth integration of the Clipper business. We've already made huge progress on realizing our cost synergies, and now expect the bulk of the over $40 million to come within the first two years.

Importantly, we've also signed the first of what we expect will be several significant customer contracts, combining Clipper customer relationships and GXO capability. These revenue synergies will be substantial in the coming years. They will also be above and beyond the $40 million of cost synergies.

In the fourth quarter, GXO achieved a stellar level of new business wins – closing nearly $200 million of new contracts, including partnerships with Barilla, Boeing, Farfetch, Kingfisher Beer, Nike and Shark Ninja.

I also want to take a moment to say a thank you to all of our GXO colleagues, who delivered a strong peak season and full year, and who strive every day to make our organization a great place to work. I'm proud that, just last week, we were named one of the top 50 companies in the US for diversity.

Now, turning to 2023: We're pleased to reaffirm our guidance of 6-8% organic revenue growth, and $700 to $730 million of adjusted EBITDA.

Given the business we've already closed through the fourth quarter of 2022, combined with our strong sales pipeline, we're starting the year with a high degree of visibility to our growth.

So, in closing, it's been a great fourth quarter, and we're proud to have delivered another stellar year in 2022. Looking ahead – in 2023, we're laser-focused on delivering our guidance and executing on our long-term business plan. And we're looking forward to continuing to create value for our customers, our employees and our shareholders.

With that, I'll hand you over to Bill, to add more colour on our commercial landscape. Bill, over to you.

**Bill Fraine – GXO Chief Commercial Officer**

Thanks, Malcolm, and good morning, everyone.

During our Investor Day, we talked about The GXO Difference – our unique combination of technology, scale, and expertise, which drives our partnerships with amazing brands and grows our market share. Our new business wins from the fourth quarter of 2022 contributed nearly $200 million to future revenue growth. Therefore, for 2023, all of our wins to date have accumulated to around $661 million of gross in-year revenue.

Looking beyond the fourth quarter, our sales momentum is strong. We've continued to win great contracts early in the first quarter of 2023 – one of which, as Malcolm mentioned, is Farfetch, to support Reebok's brand launch and omni channel logistics throughout Europe. This was a customer previously served by Clipper, and is our first major cross-sell win, coming shortly after completing the transaction. This customer needed the breadth, flexibility, global scale and expertise of GXO in a networked multi-site operation across Europe. They also needed this solution to go live within a few weeks of the contract being signed, and a partner that could then deploy automation to drive efficiency and higher volumes in the future.

Now, turning to our pipeline. At $2.1 billion, we're up versus the third quarter, reflecting a growing number of customers coming to GXO in this environment, and underscoring our confidence in future market share gains. Importantly, the pipeline is turning over rapidly. We have lots of exciting growth opportunities in all of our verticals and geographies, including a number of sizeable outsourcing projects and expansions with existing customers.

Now, I'd like to take a moment to comment on what we're seeing on the ground and how this positively impacts our growth.

In 2022, as the world came out of the pandemic, there was a clear realization of the importance of reassessing and rebuilding supply chains, in order to emerge stronger. The conversations we're having with our customers reflect that they need an optimized supply chain solution today, while at the same time, they're looking to strategically reposition their end-to-end supply chains for the future.

As the partner of choice, GXO is leveraging our best-in-class technology to drive optimal accuracy, speed and efficiency for our global blue-chip customers.

Let me give you two examples:

- First – the world's most advanced technology companies are turning to GXO for solutions. In the fourth quarter, we expanded our partnership with one large US tech customer by leveraging our transformational work over the past 12 months. Last year, we took over one of their operations within 72 hours of signing the contract – and, within 30 days, we were meeting or exceeding all KPIs. Over the past year, we've transformed their operations and delivered a 10% improvement in accuracy, a 10% reduction in stockouts, and a 17% reduction in staff turnover.

- And second: The trend toward nearshoring is gathering pace. Over the coming years, roughly $3.5 trillion worth of global trade is forecast to come back onshore. For the warehousing industry, this represents a multi-billion-dollar opportunity, and we're already seeing this in our pipeline, with many of our conversations related in some form to inventory management – for example, just-in-case vs. just-in-time – or diversification of their global warehouse footprint. One area where we're seeing this theme emerging strongly is the semiconductor sector, and we are perfectly positioned to benefit, given that GXO is a critical partner to a number of the industry leaders in this space.

Overall, it's becoming clear to many of the world's leading brands that 'business as usual' is no longer an option. The current environment is leading more and more companies to look to outsourcing as a solution, and they're turning to experts like GXO. We stand ready to support customers all over the world, as they look to us to help redesign their supply chains, taking advantage of our technology, scale and expertise. This “GXO Difference” is why we are gaining market share.

With that, I’ll turn you over to Baris.

**Baris Oran – GXO Chief Financial Officer**

Thank you, Bill, and good morning, everyone.

As Malcolm mentioned, for the full year, we generated revenue of $9 billion, adjusted EBITDA of $728 million and net income of $197 million. Our adjusted diluted earnings per share for the full year 2022 is $2.85, up 36%, from $2.09 in the prior year, driven by our EBITDA growth and aided by the addition of Clipper, which was EPS accretive in 2022 and will be more so in 2023.

We finished the year at the top of our guidance range, with 15.4% organic revenue growth. We undertook a sizeable bolt-on acquisition, in the form of Clipper Logistics, which is well underway in terms of integration and also performing extremely well. As always, impressively, while executing this high level of growth, we maintained our resilient contract mix, drove high levels of customer retention at the mid-to-high 90’s, and increased the revenue derived from highly automated operations. Moreover, our operating return on invested capital increased to 40% from 35% in the prior year, driven by the surge of our EBITDA. Additionally, our free cash flow conversion, at 33%, was above our 30% guidance. This is a business that is producing growth, returns, and free cash flow, while integrating a sizable acquisition.

Our strong cash conversion has enabled us to pay down $50 million of debt ahead of schedule, and to rapidly reduce our leverage levels to 1.8x trailing twelve months’ adjusted EBITDA, down from 2.1x at the end of the third quarter.

In the fourth quarter of 2022, we generated revenue of $2.5 billion, adjusted EBITDA of $205 million, and net income of $46 million. Our organic revenue growth rate was 7.5% in the quarter, despite tougher comps, reflecting the contractual nature of our pricing and our business.

And in the context of this strong revenue growth, adjusted EBITDA grew by 23% year over year this quarter – three times our organic revenue growth.

Now, turning to 2023. We are reiterating our guidance of organic revenue growth of 6-8%, which reflects a softer macroeconomic environment this year. We're also reiterating our adjusted EBITDA guidance of $700 - $730 million – and that's including an assumption of approximately $70 million of headwind coming from foreign exchange and reduced pension income, exactly as we mentioned on our Investor Day four weeks ago. Excluding these non-operational factors, our 2023 EBITDA would be growing at high single digits.

To further emphasize the stability that this business enjoys, we have well above 90% top-line visibility for this year. In terms of phasing, we expect the percentage seasonality of our revenue and adjusted EBITDA by quarter to be very similar to what we have seen since the spin.

In addition, we've updated you during our Investor Day presentation on a number of initiatives that will drive our EBITDA growth over the planning period to 2027. These included gains from our core growth, automation and value-added services, adaptive tech and artificial intelligence, productivity initiatives, and Clipper synergies.
In the fourth quarter, with shareholder value in mind, we launched the efficiencies project we discussed in the Investor Day, which will contribute through 2023. We booked the first $18 million in restructuring costs. These actions will have a less than two-year cash-on-cash payback.

Turning to our balance sheet, we expect that our leverage will be around 1.5x by the end of the year, and that's driven by our strong ongoing cash conversion of roughly 30%.

After six quarters as a publicly traded company, our predictable results and our guidance reflect our secular growth and contractual infrastructure-like traits. This is a business with a high degree of resiliency and long-term visibility, which gives us great confidence entering into 2023.

And now, I'll pass you over to Mark.

**Mark Manduca – GXO Chief Investment Officer**

Thanks, Baris.

GXO has delivered another strong quarter, taking share through tech leadership and through the tremendous value that we deliver to our customers.

This business combines predictability and growth at its bedrock.

Firstly, on predictability: Unlike a transactional business model, where pricing is driven by short-term supply and demand, our pricing is driven by long-term contracts with inflation protection embedded within them. Combine that with a large and diversified pipeline that we continue to convert upon, and it should come as no surprise to hear Baris say that we have well over 90% revenue visibility for this year.

Secondly, on growth: We've won contracts worth $661 million of gross revenue for 2023. That equates to 7% gross revenue wins, vs. 2022's revenues of $9 billion. And, if our pipeline is anything to go by, there will inevitably be further wins in both Q1 and Q2 of this year that will likely contribute even further to 2023's growth.

Combine these gross wins with a low attrition rate in an inflationary environment, and you can see why we are so confident about our 6-8% organic revenue growth for this year.

We've done six quarters without missing a beat. We have successfully undertaken a significant acquisition that is already delivering accretion. And in January, we were pleased to share our five-year strategic plan. This management team delivers on its promises.

With that, we'll open the call up to Q&A.

## Question-and-Answer Session

**Operator**

Thank you. I'll now be conducting our question-and-answer session.

If you'd like to be placed into question queue, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you'd like to remove your question from the queue.

One moment, please, while we poll for questions.

Our first question today is coming from Stephanie Moore from Jefferies. Your line is now live.

**Stephanie Moore – Jefferies**

Hi, good morning. I think first off, I think it might be helpful if you could just give us a little bit of color of what you're seeing in the macro landscape, particularly between the U.S. and Europe?

And then just beyond that, what macro assumptions have you kind of baked into your guidance specifically for this year?

**Malcolm Wilson – GXO Chief Executive Officer**

Thanks Stephanie. Let me take that. It's Malcolm.

What we're seeing on the ground is growth across all of our regions in North America, Continental Europe, the U.K. We've got particular pockets of really good strength. But at the same time, we've also got softness in certain of the markets. It's a real mixed bag. The environment in North America is our strongest condition. While when we look at U.K., Continental Europe, these markets have been a little bit more affected by the softer macro, higher energy, higher mortgage costs it's impacting on the consumers' disposable incomes.

Interestingly, when we look at the different verticals that we work in across all of our regions, we can see differences. So typically, our industrials, our aerospace, our technology verticals, they've been particularly strong. Overall, all of our warehouses are in a good state of utilization. We don't have any empty space. And importantly, our customers are very happy with what we're doing for them.

In terms of inflation, I think we're through the worst of it. And I can point to our last quarter where traditionally, we have to pay wage supplements to attract the levels of team members into our business to cope with the holiday season. This last peak season, we've not been required to do that. So I think we're definitely through the worst of inflation.

I really want to call out, though, when I think about '23, the level of new business that we're seeing in our pipeline has remained very, very strong. And of course, we've just signed $200 million of new customer contracts. That's really very, very good for the end of the year.

When I put all of these things together, that's really given us a strong confidence on our 6-8% organic growth for the year ahead. And I'll ask Mark just to give a build-out of that number. But I'll just finish by saying, we're already through January. January has given us a good start. Business is absolutely in alignment with our expectations. I think as a management team, we can say, we're prudent about 2023, but also we're cautiously optimistic for the year ahead.

Mark, maybe you could just -- a bit more detail.

**Mark Manduca – GXO Chief Investment Officer**
Yes. Thanks, Malcolm. Steph, it's Mark here.

Happy Wednesday. So let's just hit a couple of points.

I'm just going to reiterate exactly what Malcolm said in terms of our confidence. Baris made a great point. We have over 90% revenue visibility for 2023. And that's what we mean when we say that this business is infrastructure-like, contractual-based as a business model. So we're not a retailer, and we're certainly not a transactional business. So I love it when you ask the macro question because we're a different breed of asset.

So in terms of the 6-8% organic revenue growth for 2023, the walk is a relatively easy one. There are two buckets to consider: net new business wins in the first bucket and existing customer growth.

So our net new business wins, we've got $661 million worth of wins already for 2023 in the bag. That is a gross number, which when you compare it with the $9 billion of revenue from last year in 2022, gives you 7.3% gross growth. Now in terms of the calculation, to this number, you should take off, obviously, attrition, let's call it, roughly low single digits from what we said about penetration rates. And then equally, you need to add on something, as Malcolm said, in terms of being able to achieve new wins in both Q1 and Q2 of this year, and that will allow you to essentially take those numbers and get within touching distance of the 6-8% already even before you've considered the base existing operations growth. So if you turn to the second side of it, we've done net new business wins.

Turning to the base business, you've got two things, price and volume. If you combine the two, I think a good gauge for 2023 is roughly low single digits, and that's in line with our recent run rates as well. So you can see, net new business wins, existing customer growth gets you comfortably, as Malcolm said, to 6-8%, and Malcolm use the word prudent. This is a prudent and sensible forecast from a prudent and sensible team.

And it's also worth noting in terms of this idea of duration in this business and visibility, we also have $177 million already signed for 2024. So you've got growth, you've got your resiliency and you've got your predictability, Steph.

**Stephanie Moore – Jefferies**

Got it. That's helpful. And just a quick follow-up here. As you look at those puts and takes, where do you -- and I think it sounds like new business wins as well as maybe outperformance on the existing customer side, where it stands today, of the two, which one do you think has the greatest opportunity for upside? Thanks.

**Bill Fraine – GXO Chief Commercial Officer**

Hi Stephanie, this is Bill.

I would tell you it's on the new business wins, and I'll talk about this I think probably more than once today, but let me break it down to three points we see happening.

Number one is existing customers that are with us today that have seen the benefits of automation doing – growing with us and doing more automation. They've already seen – it's already been a proven point to them, and they're growing. So I'm talking to a company in March that has business with us in Europe, and they want to move to the U.S. and Canada, and they're looking at sites, and they want to have automated sites. So that's one, and that's happening the same way from North America back to Europe and in the region that's happening. So that's one part of growth as people have gotten into "the automation bug" and they understand they have to change their supply chains for the future.

Number two are the people that have not outsourced yet. And that's becoming a growing part of our pipeline. Almost 1/3 of our – the pre-pipeline, new business coming to us is brand new logos. And these are companies that have not outsourced, but what they're seeing is they're behind the times. They see the change in supply chain. They realize that their existing team doesn't have the wherewithal to do that. It doesn't mean they're not good teams. They just don't have the ability and they haven't done the automation levels we've done around the world. So they're coming to us and asking us to look at their sites and do what we call takeover in place.

Two of the big closes in December were that way and the ones we already have in January are that, where we're taking over an existing site, we're going to run the site for a period of time. We're going to get a value and reduce cost. But then we're going to transform it and automate it. So -- and that's where our automation will grow. And again, they want an expert partner like us that knows how to do that.

And then finally, what I would say is those that are with us and those that are already outsourced but haven't automated yet, all want to automate. Again, they've seen the value of automation. They've read about it in the press. They've seen what other companies working with us has been able to do, as we mentioned on the Markets Day, we have proof points. We can now take them to sites where they're seeing 10 times improvement for customers who are automating, they're seeing all the benefit of what it means to labor to help them make the labor more efficient and more sticky where your turnover rates go down.

So all those things are happening. So we're very, very excited about the opportunity in new business, and that will continue with us as we go forward.

**Operator**

The next question is coming from Scott Schneeberger from Oppenheimer. Your line is now live.

**Scott Schneeberger – Oppenheimer**

Congratulations on your first year as a stand-alone entity.

The – I guess for my first question, kind of a follow-up from Investor Day. But curious, could you please bridge for us from 2022 EBITDA to 2023 EBITDA, the major puts and takes there?

And then, Baris, I think I heard you say that we should be modeling cadence for revenue consistent with -- in '23, consistent with 2022, would you say similar for EBITDA? Just curious on that. Thanks.

**Baris Oran – GXO Chief Financial Officer**

Hi, Scott.

Our EBITDA results for the year will be driven by, as I mentioned, the headwinds, which are non-operational in nature, roughly $70 million coming from FX and pension income. And those were compensated by the tailwinds from our organic growth, incremental revenues from legacy Clipper, synergies from the legacy Clipper integration, and our central efficiencies project that we highlighted and we started. On the impact of FX, this has slightly improved for our 2023 guidance, but the pension income is slightly worse. So the net effect is still $70 million. If it was not for these non-operational headwinds, our EBITDA would have increased by about high single digits year-over-year.

And looking into the phasing of this year, our phasing of EBITDA last year was about 21% in the first quarter, 24% in second quarter, 26% in third quarter and 28% in fourth quarter, and we're going to be roughly about the same. This is a fulfillment business, and this reflects our seasonality.

**Scott Schneeberger – Oppenheimer**
Great, thanks. I appreciate that color.

And then for a follow-up, just curious on capital allocation priorities in 2023. And maybe if you could provide a little perspective on the M&A pipeline. Thanks.

**Baris Oran – GXO Chief Financial Officer**
Of course.

As always, our priority is on shareholder value creation.

We are a growth enterprise and we have a strong pipeline that Bill has mentioned, and we have operating return on investment in excess of 30%, that's 3-year cash-on-cash payback for a 5-year project. So our short-term priority is to generate free cash flow, maintain a strong investment-grade balance sheet which is very important for our customers. They – because we are such an integral part of their business, they want us to be financially strong.

We expect to return leverage levels to about 1.5x by the end of 2023. At the end of the year of 2022, we stand around 1.8x, down from 2.1x at the end of third quarter.

Beyond this, in the long term, we will continue to evaluate all the opportunities to create value for our shareholders. Specifically, through accretive bolt-on M&A, which we will evaluate alongside the potential of returning capital back to shareholders through a buyback. We do have a sizable pipeline of potential M&A targets, both in North America and Europe, but we are weighing them against other opportunities, investing in our stock through a buyback. But in the short term, our priority is paying down debt to create room for further capital allocation.

**Operator**
Our next question is coming from Chris Wetherbee from Citigroup. Your line is now live.

**Chris Wetherbee – Citi**
Good morning, guys. Maybe picking up a little bit longer term and thinking about the 2027 targets that you guys outlined at Investor Day.

So understand the headwinds that you're seeing in 2023 and how that may impact or mute EBITDA relative to 2022. The 2027 targets imply a pretty meaningful sort of reacceleration of the business in '24, '25 and beyond. So can you give us a sense – and I don't know if this is a question for Bill or Baris – in terms of like the visibility you have, particularly to 2024, as you're building out your book. I know you're adding business to the 2024 pipeline now, but just sort of how do we think about that reacceleration? And what's driving it?

**Baris Oran – GXO Chief Financial Officer**
Yes. As you will recall, our EBITDA bridge in the Capital Markets Day, a very sizable component of that was coming from our core growth and then followed by our mix changes, including automation and value-added services. That was making roughly about 85% of the EBITDA bridge going from around $600 million to $1.6 billion at the end of 2027. And the remainder was basically adaptive technologies, central efficiencies, and Clipper synergies. That was making up the most of that. And growth is such an important part of that bridge.

And when you think about our pipeline, we are on our way in line with our plan to execute on that. Bill, would you like to give further comments on how our pipeline is building up and how we progress to 2027?

**Bill Fraine – GXO Chief Commercial Officer**

Yes. Thank you, Baris.

So a few things that are happening is, one, with the automation that's in place today, meaning just across the market. But the expertise that we've developed around that means that we're much more sticky with our customers to start. So the customers we have are looking to expand with us, and they're also looking to renew with us. All our large customers looking to renew because they don't have to go anywhere else to get the automation that's already here. At the same time, the complicated thing to do in our industry is break somebody away from a competitor because there's a cost of move. But the fact that we have the automation drives them this way. People are making decisions.

Two of the last big closes we talked about in December, as I mentioned, were takeover in places, but they were – one was a takeover in place in term and one was from a competitor. And the reason they came was because they didn't see the same value where they were after a 10-year experience with the other – the competitor. That's not about the competitor. It's about our automation prowess.

And then finally, our churn, our turn rate and meaning our ability to turn our pipeline, but also to grow our percentage closed-won. Both of those things are happening again because of automation because of solutioning. We're able to show tremendous value to our customers. So those things will grow the pipeline. They will also accelerate the pipeline and they're bringing more people into the pipeline.

So all those things together give me great confidence for 2027 that we can get there.

**Chris Wetherbee – Citi**

Okay. Okay. That's helpful. And then maybe on a little bit near term. You mentioned, I think Clipper synergies were expected to happen post peak season because it's difficult to do things materially before that. So – and I think you sound a little bit more optimistic about getting things done on the earlier end and maybe even upside to the numbers. Can you talk a little bit about the cadence of what we should expect from Clipper synergies in 2023? When will those be realized, how quickly?

**Baris Oran – GXO Chief Financial Officer**

Sure. Let me take on the cost side and Bill, you come in on the revenue side, what we're seeing from our wins and pipeline perspective.

We already kicked off the project and the EBITDA impact for this year is going to be about $10 million, but the run rate will be higher. We are well on our way to meet the expectations we set out, and we have an opportunity to beat that the expectation. As you would recall, the EBITDA uplift from Clipper cost synergies was about £36 million and £10 million will be realized in our EBITDA this year. Bill?

**Bill Fraine – GXO Chief Commercial Officer**

Yes. Thank you. And what we saw – my first visit to a legacy Clipper site was a Farfetch in Netherlands back when we first made the transaction. They have a great relationship with Farfetch. When we got there, we showed Farfetch the capabilities of GXO, and that's why we've just gained a new opportunity.

And I was talking to the team in Germany yesterday and they're seeing the same thing – that the opportunities in Germany are expanding and growing because of the relationship.

And then finally, what we have -- where we have the service repair technology that we're doing that Clipper was already doing, we're not bringing it to all of our customers across Europe and using it as a way to kind of catapult a platform that's out to them. And this is a product that people can use. If you're a retailer and you have any electronics coming back to you in a return process, we're the ones that can come in and repair that for you. And that's a huge benefit for the market, both in ESG and in revenue growth.

So all those things are tremendous for us from the legacy GXO company.

**Operator**

Next question is coming from Amit Mehrotra from Deutsche Bank. Your line is now live.

**Amit Mehrotra – Deutsche Bank**

Thanks, Operator. Hi, everyone. I appreciate the opportunity to ask a question.

I wanted to piggyback on Chris' question earlier on the ramp in EBITDA from '23 to '27. Basically, you're forecasting a more than doubling of EBITDA from '23 to '27 , which is like over 20% compounded annual growth number, just given that there's not a lot of operating leverage in the business, I would assume that that's kind of the revenue trajectory that you're also forecasting. So – can you – is that fairly linear in your mind? Like should we expect kind of a 20% plus step-up in revenue and EBITDA in '24 to sort of start you on that path to the '27 target? If you can just give a little bit more color because it's a huge step up, and I guess it would just be a little bit easier to understand the slope of that trajectory.

**Baris Oran – GXO Chief Financial Officer**

Sure. Let me kick it off here, Amit.

When you think about our trajectory, it's reflecting in 2023, 6-8% organic revenue growth. And it's based on a softer macro environment, and it is a prudent approach for this year. And in January, we are trading with those lines of 6-8% organic growth so far. As the global economy start accelerating, we will see an expansion in our growth in 2024 and onwards and that's going to get us to the – our 2027 target. That's all part of the plan that we have built. It's a bottom-up plan. It's not a top-down plan, and it is based on our customers' forecast.

As Bill mentioned, they are still investing in a lot of direct-to-consumer but also automation to take a lot of the cost out. There's a lot of discussions happening at the outsourcing, and that's going to accelerate our growth. Bill?

**Bill Fraine – GXO Chief Commercial Officer**

Yes. Amit, what I'd add to that is that when we talk about the structural change that customers are going through, in the past, a company might come to us and want to open one site, maybe two sites. This is an entire change of their supply chain. That's really what people are seeing is the supply chain they had in place isn't operational for the future, and they have to change it. So we're talking about companies that may have 10 sites across the U.S. may have another 5 or 6 across Europe. They need to reset those sites, whether they do it in the existing location or whether they close those and outsource and do something else but they need to change. So that's where the growth really starts to accelerate because it's not just we close one. The customers we closed in the fourth quarter and this quarter, the plan is not just to do that one site. The plan is to do the other 10 sites that these customers have, as we go and do the first one. So the first one is that we'll build it. And after that, it will accelerate and we'll go do the other one. So that's another big part of where the growth comes from.

**Amit Mehrotra – Deutsche Bank**

Got it. So just Baris, I just want a clarification. So you're basically saying the growth kind of gets back to maybe low double-digit trends and then what bridges you to the 20% plus EBITDA is the cost savings and efficiency. Is that the right interpretation of what you just said Baris.

**Bill Fraine – GXO Chief Commercial Officer**

Exactly right. Exactly. That's the trajectory that we're forecasting right now.

**Amit Mehrotra – Deutsche Bank**

Okay. And then just as a follow-up, if I could. I wanted to also piggyback on the M&A question from Scott, I think. So I think historically, you guys have been underrepresented in like Canada and Germany, and particularly like the pharma or health care vertical? And Malcolm, I wanted to ask you directly because I know you've been in this business for a few decades now. And I know you knew the Clipper asset and knew it well, and that was a real great opportunity for you. Do you see any opportunities like that? I know it's a fragmented market, but do you see any opportunities like in the in verticals or geographies where you don't have a lot of overlap today, where there's Clipper-like assets in those verticals and geographies that may not be available today, but something on your watch list. If you could just talk about that.

**Malcolm Wilson – GXO Chief Executive Officer**

Yes. Amit, thanks for the question.

Absolutely. When we look across our business, as Baris mentioned, I mean, right now, our focus is on deleveraging, our investment grade. But there will be a time when we're in a better shape, and we are able to do M&A or buyback, whichever is the better logic for our shareholders.

When we look at M&A, we're always focused on bringing something new into GXO. Clipper was a great example. We brought tech, renovation, tech innovation, we got into Germany. We brought new verticals like health care. So that's a really good example of how GXO looks at M&A. We're not interested in buying volume. We're the largest pure-play contract logistics company in the world – we don't need volume. What we're interested in is bringing something new that we don't currently do right now.

If I look across the landscape and probably right now, when we think about the economic environment, North America is super interesting for us. There are a ton of hidden gems on our radar. And between Baris and myself, the rest of the team, it's about cultivating business relationships with these companies. You don't want these in the wide arena, it's about building a relationship with the businesses far in advance. And for sure, right now, we talk about things that maybe could be of interest in '24 or a little sooner. But that's typically how we approach it. It's the right approach for us, and I think it sets us up for success for the longer term.

**Amit Mehrotra – Deutsche Bank**

Would you be surprised if GXO did not do another deal before the middle of 2024. Would that be surprising to you? Or would that be kind of in-line with your deleveraging focus?

**Baris Oran – GXO Chief Financial Officer**

Well, it all depends on what the set of opportunities we have in our hands. We'll take a look at where the opportunities to reinvest in our stock is, and what the opportunity to invest in an accretive M&A is. When you look at the M&A opportunity, can we scale them up faster? Can we give them additional capabilities? Can we make them more profitable? – is going to be weighed against the share buyback. So that's what we're going to have. But by the end of 2023, we will have room.

**Operator**

Next question is coming from Brian Ossenbeck from JPMorgan. Your line is now live.

**Brian Ossenbeck – JPMorgan**

Good morning, thanks for taking the question.

Just to go back to Clipper and the synergies. You've quantified the cost ones obviously. It sounds like those are tracking a little bit faster than expected. But when do you think you'll be able to put more of a number around the revenue side? It sounds like Farfetch was the first one out of the gate. It might be a reasonable size now or maybe in the future but maybe you can put some context around that and how we should be thinking about those synergies now that there seems to be some momentum behind that.

**Malcolm Wilson – GXO Chief Executive Officer**

Yes, Brian, it's Malcolm. Let me cover that question.

So obviously, right from the get-go, we were focused on the cost synergies because those are easy for us to get to. And we have to remember that up to October of last year, we were still under the whole separate order. So we were really kind of prohibited from getting into too much detail with the Clipper customer base. Since that point, though, we've merged all of the sales organization. And you're quite right, the Farfetch deal that Bill referred to in the Netherlands is just a classical example of, they had a great relationship with a strong blue-chip luxury brand, but really difficult for them to expand that outside of the U.K. in the Netherlands. With GXO, of course, it's a no-brainer. And we're delighted, absolutely delighted to assign that new arrangement.

Our sales teams are working together now very diligently, we're focused on a number of different verticals. Pipeline is good. Pipeline is strong. Customers are readily accepting GXO. I mean they're really welcoming the new capabilities, the scale of our combined business. So we don't have the precise details yet. It's not an exact science, but if I had to make a view on it, I think it's going to be a number of hundreds of millions of dollars of incremental synergy-type sales that we're going to see over the next couple of years coming through. It's really the icing on the cake of what has already been a super piece of M&A.

**Bill Fraine – GXO Chief Commercial Officer**

And if I can add to that. The thing I'd add to that, Brian, is that the GXO-Direct network that we have really developed well in North America – we're bringing that expertise to the European market. And we're starting in the U.K., where they're going to use the legacy Clipper multi-site locations to begin it in. So that will be another big add for us. A lot of good customers there, a lot of opportunities, and it will be the ability to showcase and grow that in the market.

**Mark Manduca – GXO Chief Investment Officer**

And Brian, to Bill's point, we've got the pedigree on GXO Direct, as he says, I mean, we did very well on that last year – did about $300 million or so of revenue, that was up 32% year-over-year, and the margins on that business are very strong, roughly at 10.8%. So there's lots of growth ahead as both Bill and Malcolm said.

**Brian Ossenbeck – JPMorgan**

Okay. Follow-up for Baris, can you give us the seasonality of EBITDA, which is helpful for modeling. But just from a bigger picture margin perspective, you’ve got maturing contracts, you got some mix within there, you've got Clipper and then productivity on top of just more automation. So is this a year where you feel like you're going to get some of those bigger benefits you've kind of baked into 2027? Is it going to be more of a run-rate as you get through the year? Like how should we be thinking about that broader theme of that uplift on the margin line, which still seems to be a big part of the guidance going into '27.

**Baris Oran – GXO Chief Financial Officer**

Yes. The maturing of the contract happened in Q4, you clearly see that as we communicated earlier, the second half of 2022, our margins were up and the implementation drag is pretty much over at the end of the fourth quarter. And when you think about the productivity gains and Clipper synergies, they are part of the guidance we provided – they will be providing around $10 million each contribution to 2023 EBITDA. Of course, as a run-rate it's going to be higher. We are implementing those and the payback is about two years. So we will accelerate these efforts in 2023, and the benefit is going to be more prevalent into 2024 and onwards. And that's how we're going to get to a higher margin by 2027 as we highlighted.

**Operator**

Next question is coming from Ari Rosa from Credit Suisse. Your line is now live.

**Ari Rosa – Credit Suisse**

Good morning. So typically, I know in your business, there's a post-holiday drawdown in terms of labor and resources. I'm just wondering, given the kind of more muted peak season perhaps that we saw this year, how that's progressing and to what extent that's kind of causing a shift in the business from fourth quarter to first quarter?

**Bill Fraine – GXO Chief Commercial Officer**

Hey Ari. We had a drawdown as we would after any peak. We had heads that we had to take out of sites after the volume came off from peak, and we did a very good job of that around the world. So very, very specific, very clean and very well planned by the teams. So that went very well. The volumes coming into this month are within the plan, and obviously, the new sales we see, we're very excited about. So all those things together have gone well.

**Ari Rosa – Credit Suisse**

Got it. Okay. That's helpful to hear.

And then in terms of the outlook for $700 million to $730 million of EBITDA for this year, I was hoping you guys could just speak to what are the biggest factors that would cause you to underperform that target or outperform that target. It sounds like there's some moving pieces kind of on the below-the-line items, whether it's pension or FX. Is that really what we should be concerned about in terms of downside risk to that target and potentially upside as well if some of those swing favorably given the high level of revenue visibility? Or are there other things that we should be looking out for that could kind of cause variance from that target?

**Baris Oran – GXO Chief Financial Officer**

We have a lot of revenue visibility, so I wouldn't expect too much variability on the revenue side.

On the EBITDA side, it's also very visible from us. But if you take a couple of millions here and there, pension is pretty much fixed for the entire year – it's coming from the actuaries. FX, I mean, if every percent move is causing about $2 million, plus or minus. So it's not that material, quite frankly. And then beyond that is productivity projects we are highlighting and pushing out. Some of those are taking place in Europe, which is a different environment for taking cost out compared to U.S. and it's not an exact science. So it may go faster or slower, and that will determine the cadence of our EBITDA growth within 2023. But we are pretty confident in the range.

**Operator**

Your next question is coming from Allison Poliniak from Wells Fargo. Your line is now live.

**James Monigan – Wells Fargo**

Hi, guys. James on for Allison.

Just kind of wanted to touch back on margin expansion and sort of the cost-driven side has been addressed, but kind of wanted to understand sort of the operating leverage on new business accounts and sort of understand what sort of the outlook for sort of operating driven margin expansion might be is like 6-8% still the realm where you get a drag from new accounts? Or is in '23, are you getting some additional headwinds for mix or ongoing investment? Just kind of wanted to understand sort of what range of organic growth should we expect some of the operating driven margin expansion to come through?

**Baris Oran – GXO Chief Financial Officer**

The drag from our start-ups is pretty much done in Q4, and we are expecting solid margin as Bill highlighted from these new outsourcing contracts. Of course, any new outsourcing contract will have a scaling up process, but we are getting even better at that. We are getting margins much faster than last couple of years. So that should be helpful. And this business has mild operating leverage. As we highlighted in the Capital Markets Day, our EBITDA uptick is going to come from mainly from growth as we have mentioned.

**Bill Fraine – GXO Chief Commercial Officer**

And the thing I'd add to that is if you recall, we've had a lot of conversations around the kind of contracts and how we manage contracts. And in 2022, you've got to see one of the things we've been telling you for quite a while and that is that our contracts are solid. And in a high inflationary area, we have the ability to go in and capture those cost backs, which we've done. And that's why you've seen '22 come out so strong. And my point for saying that is, so that ability is here as we go forward into '23, also, though, we are making sure that all of our new contracts hit all the numbers that we put in, all the ROIC we put in. So we feel very strong that we'll be having a very strong hit on target. And then technology, as you know, increases our margins and drives our cost for customers, and that's why that's such a big accelerator.

**Operator**

Next question is coming from Bascome Majors from Susquehanna. Your line is now live.

**Bascome Majors – SIG**

Good morning. You've talked over and over about how consistent your high 90% or mid-to-high 90% retention rate has been with your customers. I believe that is through the fourth quarter. Can you talk a little bit about contracts that may be coming up midyear? Have you received any notices that those customers may be exiting or go with another provider? Just understanding how much conviction you have that, that stays mid-to-high 90% as we get through the latter part of this year? And maybe tack on to that, how far would you like to go into this year or early next before you think we've kind of cyclically dodged the dip in that rate?

**Malcolm Wilson – GXO Chief Executive Officer**

Yes, Bascome, it's Malcolm here. I mean no, we have no visibility of any customer not being very happy and wanting to work with GXO.

When we look at the retention, it's a very important number for us. It reflects highly in terms of the kind of service, the initiatives that we're bringing into the business relationship with our customers. So it's something we've worked at throughout '21 and '22. And I think we're about the right level now. I don't see any reason whatsoever why we'll see any change on those percentages.

And when we think about the look forward, clearly, our business is a long-term, long length contracted business.

So typically, our sales organizations – Bill and all of the teams – they're talking to customers now about project strategy even into '24, '25 in some instances, we've got projects on the drawing board with big blue chips that will only activate in '25. This is really a very long runway of visibility on our business. I think we're feeling relatively confident even against what we -- what I think we can all agree is a slightly softer macro outlook for the rest of 2023. I think we're all feeling, as I mentioned earlier, cautiously confident about the year ahead.

**Operator**

Next question today is coming from Jason Seidl from Cowen. Your line is now live.

**Jason Seidl – Cowen**

Hey, thank you, Operator.

Gentlemen, good morning. Wanted to go back to the comments you made about nearshoring. Obviously, it's a trend we're all seeing over here, and I think you said

over time, $3.5 trillion will come back onshore. Do you see that sort of changing your geographic exposure over time?
And sort of piggybacking on the two questions on acquisitions, do you think that really tap into that acquisitions are going to be necessary over the next, let's call it, 3 to 5 years?

**Bill Fraine – GXO Chief Commercial Officer**
Yeah, thank you. This is Bill.

What I would tell you is that I think it won't change the geographical makeup much and mainly because very simple: most of where the customers and consumers are going to be in North America and Europe and U.K. So when they onshore, they're going to onshore to those areas or nearby. You'll obviously see – and we're seeing this some work in Mexico. But it's going to be coming into the markets. And the trend in that goes back to what we've been talking about. That trend is accelerating the need for disperse leverage of peoples' supply chains. And you've heard in the news, what Intel has talked about in terms of what they're going to do in the marketplace. That causes support for companies like that around the North American market to be able to get all the supplies they're going to need to manage those sites.

So that's the kind of process we believe is going to happen and we see happening. And that's why there's such a great opportunity in that for the 3PLs.

**Mark Manduca – GXO Chief Investment Officer**
And as Bill said, look, $3.5 trillion worth of goods coming back onshore. That's about a seventh of global trade. If you imagine the typical warehousing costs are around 3-6% of a typical customer, you can see that that is a multibillion-dollar opportunity within a $500 billion TAM.

Don't get lost in those numbers: $500 billion TAM in the context of a business that's just done $9 billion of revenue – if there is going to be a gravitation towards scale in this industry as we think, that is clearly a long road ahead in terms of growth for this business.

**Jason Seidl – Cowen**

That's great color. And my follow-up actually is going to go to the reverse logistics. You called it out how important of a piece is it. Can you put some meat on the bone for us in terms of the growth rate in your reverse logistics business, compared to your base business?

**Bill Fraine – GXO Chief Commercial Officer**

What I can tell you is that all of the networks and all the supply chains we're working on all have a huge focus on a more optimized return process.

The example we've used and some of the customers we're working with has been we've been able to generate 10x the benefit of what they had before by taking a analytical approach to their returns to knowing what the best returns are to manage at the best time. So all companies are looking at. All companies know that they have to improve their return process to improve their bottom line.

**Jason Seidl – Cowen**

So is it safe to say that reverse logistics is outperforming your base business, without putting numbers?

**Bill Fraine – GXO Chief Commercial Officer**

Yes.

**Operator**

Your next question is coming from Bruce Chan from Stifel. Your line is now live.

**Bruce Chan – Stifel**

Thank you, Operator. Good morning, everyone.

Bill, maybe one for you. You talked about the multi-tenant model over Clipper, and I'm just wondering if there are any meaningful margin differences between those two setups, single versus multi-tenant. And then when you think about your 2027 targets, does that incorporate any changes in what the mix looks like in those two setups relative to how your business is today?

**Bill Fraine – GXO Chief Commercial Officer**

Yes. I'll address the margin part – I'm sorry, I'll address the multiuse point. So what customers like about that is they get the ability to streamline their processes as they would in any GXO site, but they get to do it across a site where they're sharing the cost. So it's a big benefit, very flexible, a big opportunity. And as Mark mentioned, we have great margins and great growth on that. And I'll let Baris talk about the benefit of that to us.

**Baris Oran – GXO Chief Financial Officer**

Sure, Bill. When you would recall the bridge we have given in the Capital Markets Day, $600 million to $1.6 billion, you would recall that second largest component was automation and value-added services of $140 million of incremental EBITDA into 2027. Within that bucket, within the value-added services, we have this shared warehouse model, which Bill has highlighted at launch of GXO Direct in U.K. and the rest of the geographies we operate in. In the U.S., we do have higher margin from GXO Direct, and we're striving to get higher margin in U.K. and elsewhere from GXO Direct as well.

**Operator**

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

**Malcolm Wilson – GXO Chief Executive Officer**

Thanks, Kevin. And listen, thanks for hosting our call today. I appreciate that.

So today, it marks our sixth earnings call as a publicly traded company, and it's been another great quarter, and I have to say 2022 has been a good full year for us.

Before we close, I just want to thank everyone for the support that you're giving to GXO both today and during our recent Investor Day event. It was really good. We were very pleased that, as a management team, I think we were able to do a deeper dive really to showcase the differentiated value proposition and the longer-term strategic thinking and the financial targets that will take us through to 2027. We're really looking forward to executing on this plan and creating more value for our customers, our employees and, of course, our shareholders.

So with that, many thanks. I wish everybody a great rest of the day. Thanks for your attendance.

**Operator**

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