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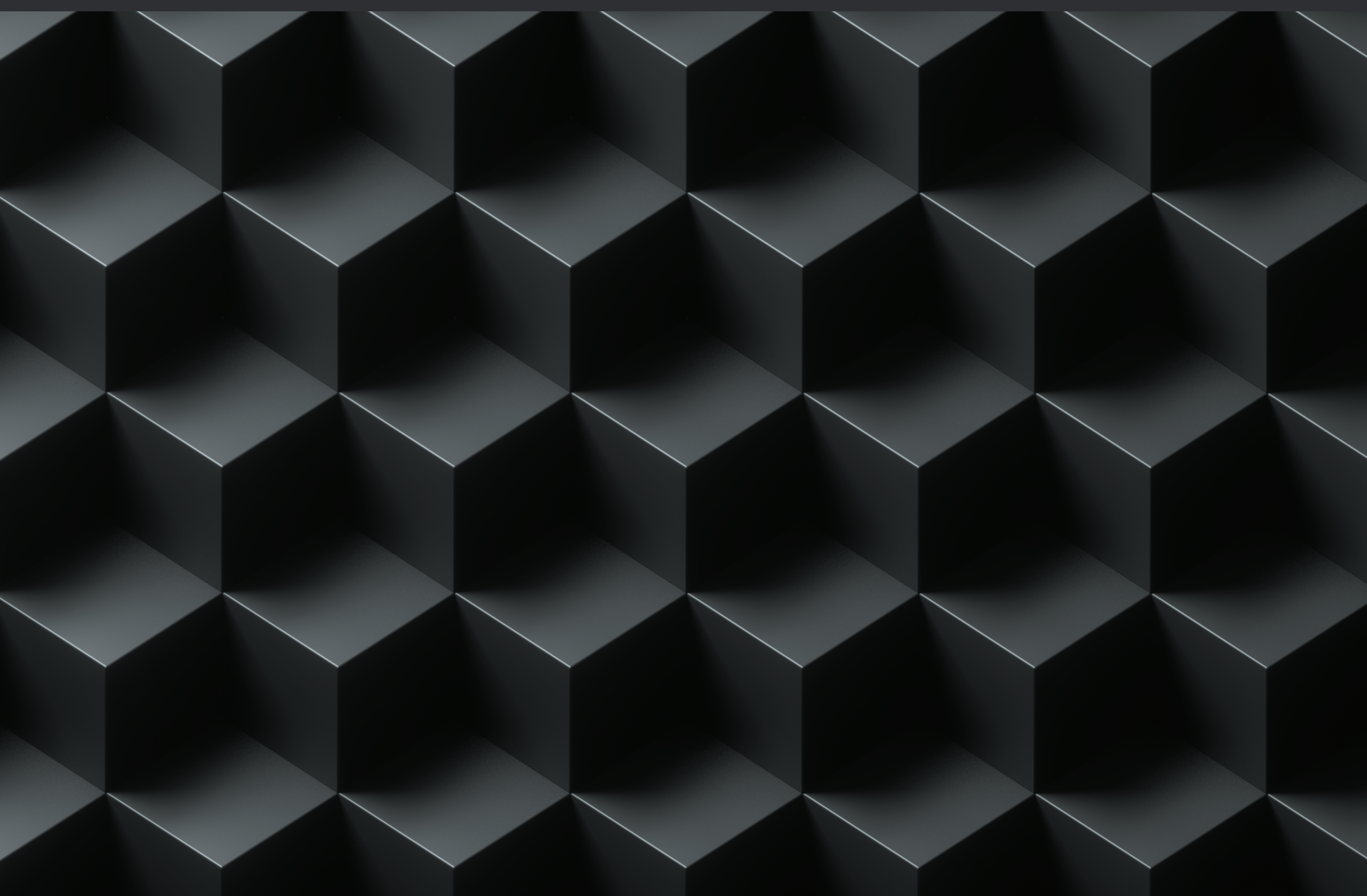
Third quarter 2024 results



GXO Logistics Q3 2024 Earnings Call

Presenters

Malcolm Wilson – Chief Executive Officer
Baris Oran – Chief Financial Officer
Kristine Kubacki– Chief Strategy Officer

Q&A Participants

Joe Hafling – Jefferies
Scott Schneeberger – Oppenheimer
Chris Wetherbee – Wells Fargo
Ravi Shanker – Morgan Stanley
Brian Ossenbeck – JPMorgan
Brandon Oglenski – Barclays
Bascome Majors – Susquehanna
Jason Seidl – TD Cowen
Ariel Rosa – Citigroup
Tom Wadewitz – UBS

Operator

Welcome to the GXO third quarter 2024 Earnings Conference Call and Webcast. My name is Rob and I'll be your operator for today's call.

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

Please note that this conference is being recorded.

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

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

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

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

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

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

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

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

Mr. Wilson, you may begin.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Rob, and good morning, everyone. I appreciate you joining us today for our third quarter 2024 earnings call. With me in Greenwich are Baris Oran, our Chief Financial Officer; and Kristine Kubacki, our Chief Strategy Officer.

GXO has delivered a stellar third quarter. We've posted record revenues and adjusted EBIT-D-A. We have increasing momentum in our business, including continued acceleration in our sequential organic growth.

During the quarter, we signed $226 million dollars of new business wins. We continue to grow with top brands like Guess, Gymshark, LG and L'Oreal. We've recently expanded our partnership with Zalando and, together, opened the largest outsourced e-commerce warehouse in France, which is highly automated.

Our sales pipeline has grown 30% year over year, and now stands at over $2.4 billion dollars of high-quality opportunities, its highest level in more than two years.

As of the end of the third quarter, we've won about $750 million dollars of new business year to date. We've got several major projects that we expect to sign in the fourth quarter. 2024 has the making of being a record-setting year for new business wins for GXO.

Looking ahead to the fourth quarter, we're ready for the peak season. We've mentioned that we saw the bottom of the inventory cycle in the fourth quarter of last year. As we head into this year's peak, we're seeing inventory levels returning to normal, and demand for e-commerce capacity is accelerating. Our customer service satisfaction scores are at an all-time high, and our dependability has recently been recognized by Newsweek, which ranked us the top logistics provider among America's Most Reliable Companies.

As commercial activity picks up momentum, our technology differentiation through the deployment of automation and AI is creating a multiplier effect in the efficiencies we deliver for our customers. On the back of our real-world results, we are proud to have been recognized with a Supply Chain Excellence award for our leadership in warehouse AI by Logistics Manager a few weeks ago.

Our technology differentiation is also helping us win new business. Our ongoing strong sales performance, coupled with our targeted M&A in key geographies and hard-to-penetrate verticals, is driving our long-term growth.

In Germany, we've jump-started the growth of our business on the back of our acquisition of Clipper in 2022.

Our state-of-the-art site in Dormagen is at full capacity. We've had a successful startup of the 20-year, billion-dollar contract with Levi's that we announced in May. And we have a strong pipeline of other opportunities in Germany.

More recently, on the back of our acquisition of PFS in 2023, we've grown our beauty and wellness business with several leading brands, including Beauty Pie, Glossier and L'Oreal.

Similarly, we believe our acquisition of Wincanton will enable us to accelerate our growth in attractive verticals, like aerospace, industrials and the public sector. We're pleased to note that we've recently signed a cornerstone deal in Europe with a leading US aerospace provider.

In light of this continued strong performance, we're reaffirming our full-year guidance for 2024. We have clear evidence we're through the trough, and we intend to build from here.

Looking further ahead, in 2025, we expect an acceleration of growth across all three regions. Continental Europe is leading the pack, with our growth in Germany and the ramping up of several large, automated warehouses.

Our strong sales performance and our long-term contractual business model give us confidence in our multi-year growth outlook and 2027 targets.

Baris will now walk you through the quarter and our reaffirmed guidance.

Baris, over to you.

Baris Oran – Chief Financial Officer

Thanks, Malcolm. Good morning, everyone.

In the third quarter, we generated record revenues of $3.2 billion dollars. Our year-over-year revenue growth of 28% means we are on track to meet our 2027 top-line growth target of $15.5 billion dollars to $16 billion dollars.

In the quarter, we saw organic revenue growth of 3%, which has accelerated sequentially throughout the year. The improving trajectory reflects the growing contribution of new facility startups each quarter, and we expect it to continue as we move into 2025.

Our adjusted EBIT-D-A this quarter was also a record, at $223 million dollars, up 12% year over year. We have also seen sequential margin expansion throughout the year, and we expect this trend to continue, as we see a margin uplift due to better space utilization in our multitenant network. Our adjusted diluted earnings per share was 79 cents, up 14% year over year.

Year to date, we have delivered $363 million dollars of cash flow from operations, which is an increase of 6% year over year. Our free cash flow year to date is $124 million dollars, and we're on track to deliver over 30% adjusted EBIT-D-A to free cash flow conversion for the full year.

Our operating return on invested capital remains well above our target, at 38%, as we continue to invest in high-return projects to fuel our organic revenue growth, in line with our capital allocation strategy.

Our balance sheet is growing stronger. Our net leverage was 2.9x as of the end of the third quarter, down from 3.1x last quarter. We expect leverage levels of around 2.5x to 2.6x by the end of this year, as we prioritize paying down debt after the Wincanton acquisition, and about 2x by the end of 2025. Wincanton is performing above our pre-deal expectations, delivering double-digit revenue growth and reinforcing our excitement about this acquisition.

Our focus in 2025 will be accelerating our organic growth and the integration of Wincanton. M&A is not on our short-term agenda.

We are also reaffirming our 2024 guidance. This year, we expect to deliver:

- Organic revenue growth of 2-5%
- Adjusted EBIT-D-A of $805 million dollars to $835 million dollars
- Adjusted EBIT-D-A to free cash flow conversion of 30 to 40%
- And adjusted diluted earnings per share of $2.73 to $2.93

- We also expect to continue to deliver an operating return on invested capital of above 30%

We are executing well on our value creation framework. As a secular growth enterprise, we deliver predictable operating return on invested capital and resilient growth in revenue, adjusted EBIT-D-A, adjusted diluted earnings per share, and cash flow throughout the cycle.

We remain laser focused on creating long-term shareholder value.

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 this quarter. Today, I'd like to update you on the macro trends we're seeing and how GXO's automation differentiation reinforces our confidence in our long-term growth algorithm.

We operate in an attractive market with an outsized growth trajectory that's driven by secular supply chain trends, including complexity, e-commerce, outsourcing and automation. These tailwinds have driven our resilient growth across different parts of the cycle, and they're accelerating as customer needs for scaled, automated solutions continue to increase.

First, we're seeing an uptick in e-commerce commercial activity. This is a long-term structural tailwind that has been a key growth driver for us over the past five years. At an industry level, about a quarter of all retail sales today come from e-commerce, and this proportion is expected to grow by more than 10 percentage points over the next decade, as online shopping returns to its structural growth trajectory. We're seeing this effect translate into our own results: 60% of our new sales wins in the third quarter originated from e-commerce fulfillment.

Second, as supply chains become increasingly complex, customers are relying more and more on scaled, tech-forward logistics experts like GXO. This has been driving an acceleration of outsourcing for fulfillment activities. About a third of our new business wins year to date have come from newly outsourced business, and around 40% of our $2.4-billion-dollar pipeline is made up of customers looking to outsource for the first time. The acceleration of outsourcing is, in part, a result of the recovery of e-commerce – and it drives customers to look for a partner with scale, automation and the ability to manage complexity.

GXO is well positioned to capture growth from these trends because of our global scale and expertise in automation. We're the market leader in tech-enabled fulfillment, and customers come to us to drive efficiency and unlock value in their supply chains.

Over the past several months, GXO has been piloting our first proprietary AI application in select warehouses in the US. Our tool streamlines our customers' fulfillment processes by using machine learning to predict SKU demand in the near term. The sheer volume of data analyzed by our tool produces highly accurate forecasts of inventory flows, down to the SKU level. These insights enable our operations teams to optimize the layout of the warehouse and match resources with demand.

Our initial pilots have far exceeded our expectations, delivering:

- Predictive accuracy levels above 90%
- And productivity improvements of 3-4x in stock replenishments, which drives increased capacity of 6-8% at no additional cost

We're thrilled with the early success of AI, and we're scaling it across our footprint.

AI is going to change the way warehouses are run over the next few years, and our leadership in this space is a key driver of our long-term profitable growth.

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

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Kristine.

We've built on our momentum from the first half and delivered record revenue and adjusted EBIT-D-A in the third quarter. Our pipeline stands at a two-year high, and we’re on track to deliver a record year of new business wins, bolstering our confidence in our long-term growth targets.

During the quarter, you may have seen media speculation about inbound interest in acquiring GXO. We don’t comment on market speculation. We’re focused on the great quarter we’ve just had and on delivering a strong finish to the year.

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

Question & Answer Session

Operator

If you'd like to ask a question. At this time, you may press star one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star two if you like to withdraw your question from the queue. For participants are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment, please will be poll for questions. Let's go. That's star one. Thank you.

Our first question today comes from the line of Stephanie Moore with Jefferies. Please proceed with your questions.

Joe Hafling- Jefferies

Hi. Good morning, everyone. This is Joe Hafling on for Stephanie Moore. Malcolm, I guess you know, you've talked a lot about some of the trends you're seeing. But I was hoping maybe we can unpack, kind of by geography, what you're seeing across, Continental Europe, the UK and the US in terms of organic growth, and maybe if we could also kind of splice that into retail versus industrial, that kind of a high-level thought of what you're seeing on the trends across geography things.

Malcolm Wilson – GXO Chief Executive Officer

Yeah, sure, Joe, good morning. So well, first thing, I mean, it's a good quarter for us. So, record top and bottom line results, organic revenue growth and adjusted EBITDA margins, all-consuming to improve quarter by quarter.

When we look at the three regions, what we're seeing is positive growth across all of the regions. So, our Continental European business, that's kind of leading the pack. It's benefiting from a surge of growth in Germany, but all of the countries are actually performing very well.

Our UK business that's really coming stronger and stronger. I think it's benefited from the recent elections, and the certainty that you know that has provided. And here in North America again, the absolute, really vertical by vertical, but generally, we're in a better trend.

Overall, the team, myself, Richard Cawston, and Baris, the rest of the team, we definitely are feeling that we're out of the trough that we've been in for the last 12 months, and we're getting back to a more normal kind of growth type of metric. So, we're definitely building for a much stronger 2025.

When I think about sales, there's no doubt the investments that we made at the start of the year, changing our organization, in fact, investing in our sales organization, is definitely starting to pay dividends. And you'll have noticed we're talking strongly about closed one and the rest of the year. So, in the quarter $226 million, it's a good number. Year to date $750 million, $463 million already flowing into 2025, and there's some great projects in our hopper that we're still anticipating to sign between now and the end of the year. That's what's giving us a confidence about the strong result of business, new business wins, that are shaping up for this year. I think it's going to be a great year for us.

When I look across the different verticals that we're working in, pretty much across all the geographies, what we've seen is, actually in the last quarter, aerospace and defense have been very strong in terms of business. Tech and retail have done really well. Food and beverage, they've probably been the laggard of the group, as we've seen in the last quarter. Most pleasingly for us because I think we're an e-fulfillment leader in the marketplace, we've seen a return, a returning amount of investment from customers in e-fulfillment project. So big, increasing number of projects in the sales pipeline. And actually, in the quarter, e-fulfillment drove more than half of our new business signings. So, I think all in all, very, very good quarter.

Finally, what I would like to comment on as well, because it's impacting across all of our regions. Last year, you'll recall that we commenced a new organization, with Adrian Stoch, heading up our automation teams, that's now starting to show benefits. We really are seeing benefits coming from the deployment of an increased amount of tactical automation and AI, and I've got no doubt that's one of the things that's helping the productivity improvements that those are driving. It's one of the things that's starting to assist in our margin expansion, and I think we'll see that progress into 2025.

So overall, good outlook all of our regions doing well for the first time. And you know, varies a little bit by region, but generally a positive message across all of our business.

Joe Hafling- Jefferies

That's a great answer, Malcolm. And maybe just one follow up, surprised by the strength in aero, I guess maybe from my seat. So could you talk about, I'm guessing it's new wins are offsetting any potential disruptions? Would love to get your thoughts kind of drilling on the strength and aerospace. Yeah.

Malcolm Wilson – GXO Chief Executive Officer

Well, listen, it's a good call out, Joe. And one of the things, as I mentioned, we invested heavily at the start of the year. So, two things to talk about aerospace. One is the fact that we invested in sales, our sales organization, not just here in North America, where we are a very strong player in aerospace and defense, but also taking those skill sets and putting them into Europe, and it's a long process to gain accreditation in a different geographical market, particularly for things like aerospace and defense. So, I think we're now starting to see the rewards of those investments.

Plus, although Wincanton is still quite new for us, it has a very good reputation in the UK for aerospace. So those two things combined have allowed us to secure our very first big blue-chip organization, new contract set in Europe with a big US aerospace manufacturer. We're incredibly pleased about that, because it's a sure sign that the strategies that we're putting in place, they don't have an overnight impact, some of these things you do have to see over a 12 month or even a two-year period. Very similar to the German expansion that we're seeing now, which really comes on the back of that Clipper integration that took place two years ago. But you know, we owe a lot of the expansion now in Germany to that. I'm sure aerospace we're going to do incredibly well in Europe. It's a huge market. Very few competitors will be the new kid on the block, and I think we'll do really well.

Joe Hafling- Jefferies

Thanks so much, Malcolm.

Operator

Our next question is from the line of Scott Schneeberger with Oppenheimer. Please proceed with your questions.

Scott Schneeberger – Oppenheimer & Co. Inc.

Thank you very much. Good morning, everyone. I'd like to jump in here, organic growth. It's been progressively better throughout the year, as you all had guided. What's your confidence level heading into the fourth quarter, and given comparisons from ‘24 and trajectory that you're seeing? Any commentary in the ‘25 would be appreciated. Thanks.

Malcolm Wilson – GXO Chief Executive Officer

Scott, hi, it's Malcolm here again, let me take that at the really high level, and then I'll hand it over to Baris because I think it's really important. So first and foremost, in our earlier comments, we've reaffirmed our guidance for the year. Guidance is twofold, so when we think about our top line, clearly, it's still a relatively wide range, and that's coming as a consequence of the different possible outcomes that can come out of the busy holiday trading season. Last year was incredibly subdued, this year, inventory levels in our warehouses are better. We're seeing evidence of some of our customers doing sales promotion work. But in the end, the proof will only see really as we getting into December. So, we have a we have a sort of wide range on top line.

Importantly on the bottom line, I think we're running with a high level of confidence that we'll deliver our adjusted EBITDA pretty much in alignment with expectations. I think we'll be very close to the midpoint of our full year 2024 guidance. And that confidence is really coming from a combination of fundamentals about our business. We are a high degree of visibility of bottom line due to the nature of our contracting models, we have a reasonable proportion of our businesses open book or cost plus type contracts.

And also, we have been driving, as I mentioned, a lot of value creation, including the deployment of all of the increasing amount of tactical automation, and AI playing a more and more bigger part.

So Q4 is a big step for us in EBITDA, and I do think it's really worthwhile, really value Baris, just to go in another level of detail, just to give you it, because I think it's really important. Baris, would you come in on that?

Baris Oran – GXO Chief Financial Officer

Sure, hi, Scott. Typically, in our business, you'd expect to see a sequential improvement in our nominal EBITDA from Q3 into Q4. Last year was an exception, because of the sluggish retail sales environment which drove low inventory and turnover. Looking at this year's expectations, we are lapping that effect from Q4 of last year. Although we have done some customers, we have some customers, who are seeing lower trading results than they might ideally like, we still expect, seasonally, look more normal as we have gone through the trough.

In addition, we are managing out open capacity from our underutilized multi-tenant warehouses, which is being a laser focus for our organization. This is the area we are seeing a margin improvement year over year in Q4 as well. So multiple things, the lapping up of the Q4 last year and the margin improvement coming from the better utilization of multi-tenant network.

Scott Schneeberger – Oppenheimer & Co. Inc.

Great. Thank you, both on that, and then and then Baris, just free cash flow conversion was quite strong in the third quarter. Could you just address that and maybe discuss the maintained your 30 to 40% conversion for the full year? What are puts and takes for the fourth quarter with regard to free cash flow conversion? Thanks so much.

Baris Oran – GXO Chief Financial Officer

Thank you. We remain very confident in our ability to generate free cash flow for this year. As you said, $110 million in Q3 the spectacular results, we are on track to deliver 30 to 40%. Strong working capital management, and we are very diligent on our capital expenditures. Roughly two thirds of our capex went to growth capex, we are investing for the future, but we are very selective where we put our capex dollars that drives our free cash flow.

Scott Schneeberger – Oppenheimer & Co. Inc.

Thank you both.

Operator

Our next question from the line of Chris Wetherbee with Wells Fargo, please proceed with your question.

Chris Wetherbee – Wells Fargo

Yay, thanks, good morning, guys. Baris, I wanted to touch on the fourth quarter margin comment that you made. So, it sounds like you get some improvement coming sequentially. I guess a couple things. Can you outline some of the dynamics that are going to help with that? I guess, maybe we could talk a little bit about Wincanton and the potential for phase one, or phase two. I guess probably synergies could be part of that. Not sure exactly how you guys think about that. I know there's maybe some news coming up later this week. And then when you think about the margins of the fourth quarter up sequentially, can we also get up year over year?

Malcolm Wilson – GXO Chief Executive Officer

Hi, Chris, it's Malcolm here. Let me cover the Wincanton point, and I'll hand you over to Baris in terms of the more detailed aspect on the margins. So, Wincanton, clearly, you know, we're reviewing the decisions, the phase one decisions that came across last Friday. So, we're reviewing that in detail at the moment. And clearly, as we have on other projects, we're going to be engaging very constructively and collaboratively with the CMA. We're kind of remaining pretty confident that we're going to see a positive outcome to it. It's possible that we'll go into a phase two. And, you know, frankly, I mean, we were prepared for all the potential outcomes that might bring. And it's not an uncommon environment, by the way, for a deal of this size to go into a phase two.

I think a good thing to say is, Wincanton, as Baris mentioned, it's trading well, it's up trading performance wise on its pre-deal expectations. So, we're very, very pleased overall with it. As it stands, at the moment, we had planned to commence the integration of Wincanton, so any kind of margin impact coming out of Wincanton, positive impact would only effectively occur from January onwards. So definitely, at this stage, there's not really any positive news on margins coming from Wincanton. It's more a negative aspect. But, you know, it's a drag whilst we start, before we actually start the integration. Maybe Baris if you could share a little bit more detail?

Baris Oran – GXO Chief Financial Officer

Sure, excluding Wincanton, we have improved our margin every quarter this year. And when you look into the components of these, this margin expansion, every quarter there's a sizable improvement coming from our open space utilization of our multi-tenant network, every quarter, and we expect that trend to continue from Q3 to Q4 as well.

Additionally, as Malcolm mentioned, we have been working on a lot of adaptive tech, a lot of efficiency programs, that's also supporting our margin expansion from Q3 to Q4. And normally, we do expect a higher margin. Last year's Q4 was an anomaly, and we expect to have normal trends.

From a Wincanton perspective, when you look at Wincanton’s margins, they are lower than ours at the moment, but that is the upside in 2025 and onwards. Then we start integrating the business and we capture the synergies.

Chris Wetherbee – Wells Fargo

Okay, that's very helpful. I appreciate that color on both on both fronts. Just quick follow up on the pipeline. So obviously, the pipeline has moved up nicely. We're at a pretty high level that we haven't been in a couple of years. I guess we haven't seen volume necessarily in flex, but it does seem like interest is sort of picking up. So, I guess, you know, Malcolm, how do you view this? And I guess is there any way to kind of think about conversion as we move through the next couple of quarters? I know you're adding a lot of contracts here in 2024, but as we start to think about ‘25 and beyond, does this sort of speak to an acceleration in that conversion rate? Just want to get a sense of how you guys are thinking about that pipeline and what it means for the business.

Malcolm Wilson – GXO Chief Executive Officer

Yeah Chris, it's Malcolm here. So, I think it's twofold. You're right. Pipeline is up. I think pipeline for us is a bit more diverse as well. So, you'll have heard us talk a lot during ‘24 during the previous quarters, about stepping into existing customer activities, where customers have effectively come to us and sought to outsource their existing in-house business, and we've effectively stepped in to an existing operation, that's still very prevalent.

I think, in the pipeline, as I mentioned, we've also seen a big uptick in more strategic projects for e-fulfillment. You know, e-fulfillments been a little bit quiet since the pandemic, I guess. But now what we're seeing is customers, I think, having a greater level of confidence to start investing again in big projects. And we've got a number of projects that are going live right now. I mentioned the Zalando, to be frank, that's one of four projects that we've got going live at the moment, large, automated warehouses that we’ll be fulfilling e-fulfillment that we're not in our stable of our sites prior to here and now. So they're going live, they'll take reasonable amount of time, you know, six months, to fully ramp up into main volumes, but we will start to see the benefit of those as we progress into 2025.

I think the other thing, again, just building on what I mentioned earlier to I think it was Scott, or it may have been Joe, was that the investments that we made in the sales team, we're seeing now more and more population in our sales pipeline of projects for verticals that historically, you probably wouldn't associate with GXO.

We're very, very pleased with all of our omni channel business and E-fulfillment. You know, it's been the bedrock of our business growth over many years, and we can see that's coming back. It's returning. I think it's a sign of more confidence in the economies in all the geographic regions that we're working in, but it's bolstered by new projects that we're starting to see for the first time. I think it will take us momentum to start winning those projects. That's why we were just so pleased about the aerospace deal in Europe. You know, it's A first, and I think it'd be the first of many. So, it's giving us a shape of the pipeline. I think we're in a healthy environment as we're as we're heading into 2025.

Chris Wetherbee – Wells Fargo

Got it, that's very helpful. Appreciate the time this morning.

Malcolm Wilson – GXO Chief Executive Officer

Thanks again.

Operator

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

Ravi Shanker – Morgan Stanley

Great, thanks, morning everyone. Would love a little more color on your views on peak season. I know you address a little bit, but I think one of the parcel companies mentioned that their customers are telling them that they are seeing more customers potentially going into store to buy the peak season, given how compress it might be. Are you hearing something similar from your customers? And also, are you agnostic, given your position in supply chain between shoppers shopping in store or collecting in store versus buying online?

Malcolm Wilson – GXO Chief Executive Officer

Yeah, Ravi, hi, it's Malcolm here. Look, I think we are relatively agnostic on that. When we talk in our business for omnichannel, really, what we mean is where we work with customers that really a warehouse sells them these days, you have a big, fully, dedicated e-fulfillment warehouse. We do have a lot of those type of sites, but increasingly, in order to help our customers maximize, make the most efficient use from a balance sheet, we organize our IT and our systems are all designed to pick from common stock, whether it's being picked onto a pallet and loaded onto a trailer to be delivered into brick and mortar mall, or whether it's actually being picked and individually packaged and put into a bag and put into a kind of UPS or FedEx or US Post type of delivery network. So, we're a bit, we're a bit agnostic in terms of which, which comes good.

And I think, great, if shoppers are returning into the malls, that's great news. But I would say that we are seeing across our business a resurgence of where we were probably as we were going in and coming out of the pandemic, we have a lot of customers making very strategic decisions about putting capacity down for the future of e-fulfillment. So, I think e-fulfillment is reestablishing itself as one of the big winners for the channels to the consumer. That's what we're seeing.

Ravi Shanker – Morgan Stanley

Understood. That's really helpful. And maybe for a follow-up, just to go back to the topic of humanoids, which you guys addressed in the last call. You've been talking about it for like three to four months now and you've kind of piloted for a while. What are you hearing from customers? Are they interested in this technology? Kind of do they view this as next-level automation and a real step up? Or are you having to make those outbounds and people are still, hey, call me in five years or something?

Kristine Kubacki – GXO Chief Investor Officer

Hi, Ravi. It's Kristine here. No, I think we're seeing a lot of interest across the space both from customers. Certainly, this is really where an area, it's an emerging space and I think we really have the potential to create even more value for our customers. As you know, humanoids are a great fit. Our existing robotic solutions have matured in recent years and they're really capable of some dynamic tasks in a human way and they're able to make human-like decisions.

We see the humanoid category will significantly grow really over the next two to three years, and therefore, we're really leaning in, in a very capital-efficient way with our operational incubator program. We're partnering with cutting-edge developers across the space to shape into real-world use cases. In fact, I visited one of our facilities in Atlanta and saw our Agility robots performing in the warehouse. So, in fact, we announced just this last quarter another humanoid provider we're working with. We're excited to partner with Reflex Robotics in addition to Agility and Apptronik.

So, like AI, this space is moving at a very fast pace and GXO is at the forefront of piloting in real-world operations in our fulfillment center. So, this really continues to fuel our tech differentiation over time and certainly we'll have more to say about this space, but a lot of interest in the space.

Ravi Shanker – Morgan Stanley

Very good. Thanks, Kristine and Malcolm.

Operator

Our next question is from the line of Brian Ossenbeck with JP Morgan. Pleased proceed with your questions.

Brian Ossenbeck – JPMorgan

Hey, thanks. Good morning. Malcolm, maybe you can just provide a little more context, now it's been a few days since you've got the notification from the CMA. Can you provide any detail in terms of what they're actually looking at? I know you said you feel confident you'll get to a favorable resolution, but I just wanted to see if you had any further comments on that, in particular what they're looking at and asking for, now you've had a few days to actually see what the document is?

Malcolm Wilson – GXO Chief Executive Officer

Yeah, Brian, for sure. So, as I say, it's not actually that uncommon for a deal of this size to go into what the CMA class as a Phase 2 type of process. It's a much more detailed process, which is good. And basically, we'll work with the CMA to make some clarification in terms of the different market verticals that exist in the UK.

UK is a highly competitive environment. There's no question about that. And as a British guy, I'm probably well equipped to comment on that. It's a highly competitive environment. So, our intention is to do some detailed work with the CMA teams over the coming months. I think what that will do is it will help us clarify greatly the situation. And as I mentioned, we're confident that we'll secure a good satisfactory positive outcome through the process.

One of the things probably that it will involve is where we had planned to commence the integration of the business in early January, I think it's fair to say that we might see a delay on that process probably stretching out into the beginning of the second quarter. I don't think beyond that, but that's our expectation at the moment because we have to respect the CMA.

They do a really good job and it's quite correct and proper that we work with them to seek clarification on the points that they've raised.

Brian Ossenbeck – JPMorgan

Okay. Thanks. That's helpful. Then, a follow-up for Baris. I guess, you mentioned the multi-tenant warehouse utilization efficiency several times. It seems like it's been a pretty big factor for margin improvement. So, can you give a more detail in terms of what's actually happening there? Are these leases that you're letting go back to the market? Are you putting more throughput through there with a bigger anchor tenant? And is this, I guess, like a strategic rethink here that's going to be done this year? Or do you have a little bit more to push on this potentially as you go into next year with potentially a bit better backdrop for volume? Thanks.

Baris Oran – GXO Chief Financial Officer

Yes, we have invested quite heavily on and refocused our organization, sales organization, and business development organization, filling the available capacity in our multi-tenant network and it is giving us good results so far. So, we have a number of available space with anchor tenants that's been hired throughout the last couple of quarters and that's giving us our results. We also have looked into opportunities when the leases were coming to an end to not to renew those leases or consolidate those operations into our existing facilities and that reduced our cost base. So, both of these factors, but primarily coming from our sales focus and filling that space has driven the results.

Brian Ossenbeck – JPMorgan

Okay, understood. Thank you.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

The next question comes from the line of Brandon Oglenski with Barclays, please proceed with your questions.

Brandon Oglenski – Barlcays

Hi, good morning, and thanks for taking the question. I was wondering if you guys could speak to the competitive backdrop just around pricing of new deals.

Is it getting less competitive or more, especially as you get into the more automated contract discussions?

Malcolm Wilson – GXO Chief Executive Officer

Hi. It's Malcolm here. Let me comment on that. So, I think, we've not seen really any changes to what we have been seeing really for the past year or two. So, what we see is typically for automated solutions, generally, there's a lower level, a smaller group of organizations that are able to provide solutions and have the credibility, have the experience, the reliability aspects. That's why we were very pleased, by the way, to be mentioned in the Newsweek article about our reliability. We're seen as a highly reliable company when it comes to standing up big, large-scale automated facilities.

So, I think lesser number of competitors in those projects and typically customers wanting to commit for longer periods of time, recognizing that there's generally a high level of investment both intellectually and capital wise that go into the starting of those projects. The facility that we've just gone live with in France, I mean, it's the largest automated facility in France. It's like a big deal for the market. It's a big deal for us, big deal for the customer. So, a lot of time goes into those kind of projects.

I think competitive landscape is, there's not huge numbers of people. It's one of the reasons why we're able to enjoy slightly better margins than our more traditional manual activities. And again, when we think about more manual traditional warehousing activity, typically, it's not really the kind of business that we, as a company, are focused on. If I look at our sales pipeline, pretty much everything is coming through with automation as a bedrock of the proposals that we made to customers. When we're dealing with a more manual low tech, low added-value type of solution, clearly, there's a greater amount of competition for that kind of business, but it's really not the kind of business that we see as our go get, when we think about our business for the future, our sales growth.

Brandon Oglenski – Barlcays

I appreciate that, Malcolm. And then, maybe closer in, you guys definitely had a volume fall off with some of your core customers last year. Has core volume growth improved throughout the year? I think that has been the case. And is that looking better into the fourth quarter?

Malcolm Wilson – GXO Chief Executive Officer

Yeah. Let me ask Baris to comment on that.

Baris Oran – GXO Chief Financial Officer

Yes, our volume environment has been gradually improving throughout the year every quarter. And as we look into Q4, we do expect a further improvement in the volume of our existing facilities and the impact on volume coming from network consolidation as well. It will still be a negative number, but it will be much better than Q3 and Q2.

Brandon Oglenski – Barlcays

Thank you.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

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

Bascome Majors – Susquehanna

Taking it all together, it feels like your cyclical commentary is as positive as it's been in, call it, 15 months. Can you walk us through how that plays out with some of the big buckets of organic growth into next year? And really just thinking of 2025, I mean, is this a bridge year to get back to the 10% organic growth implied in the long-term guidance that you reiterated? Or are there other scenarios if volumes continue to recover where you could actually be at that level in 2025? Thank you.

Baris Oran – GXO Chief Financial Officer

Hi, Bascome. It's Baris here. Every quarter we have seen an organic growth improvement and that has been supported by our existing facility volumes, but also our investment in our sales and business development capabilities. We expect that trend to continue into 2025 and onwards. So, we do expect an acceleration of our growth in 2025 compared to 2024. And last year Q4 was clearly the bottom, and we have been going upwards since then. As far as our organic growth, we do see an acceleration. We are going to be providing further commentary on our Q4 earnings when we developed the guidance, but the direction is clearly up.

Bascome Majors – Susquehanna

Thank you.

Operator

The next question is from the line of Jason Seidl with TD Cowen.
Please proceed with your questions.

Jason Seidl – TD Cowen

Thank you, operator, Rob. Malcolm, Baris, Kristine, good morning. You reiterated some more confidence in your 2027 guide this morning. Has the walk to that changed any given that the organic growth is coming back and you're seeing some positive e-commerce trends? And then, I guess on a follow-up, you talked about in the near term your appetite for M&A is going to be at least shelved. Is this something when you say near term is maybe the next two quarters or are we talking maybe back half of ‘25 to resume that?

Baris Oran – GXO Chief Financial Officer

Hi, it's Baris here. Our primary focus in the shorter term, near term is paying down our debt and investing in our organic growth, which gives us phenomenal returns on invested capital. We expect that to continue in the earlier part of 2025 and onwards into the rest of 2025. It's early to talk about the remainder of 2025.

Going back to our 2027 plan, clearly, we do see an acceleration in our growth. We are very excited about 2025 and the acceleration. And the components of our EBITDA bridge remain basically the same, coming from our core growth. Our automation, adaptive technology and productivity projects is in the second bucket. And the contribution we're expecting from Wincanton, new business development and synergies is the third bucket. That should take us to our 2027 plan, and we are on track.

Jason Seidl – TD Cowen

That's very helpful. If I could throw in one more here? Can you give us, you said really positive commentary about the e-commerce side of things. Can you give us some more meat on the bone and talk a little bit about the returns business?

Malcolm Wilson – GXO Chief Executive Officer

Yeah. Sure, Jason. It's Malcolm here. So, I think returns obviously is an integral part of e-fulfillment. We tend to map out our returns business. It's very much aligned to e-fulfillment. So, where several of our customers, as we've across a big wide range of our customers, I feel like we do have been working in a bit of a trough of volumes over the last 12 months really since the last quarter of 2023, which was really a very negative quarter for us, if you recall, in the context of volumes. It was a lack of a holiday season, lack of inventory levels. So, as we've seen gradually business correcting in terms of volumes, customer volumes coming back, I'm confident that we'll see that same lift in terms of our returns business.

We have established over the space of the year a number of specific return centers for individual customers. We don't see any change in the trend of the volume of returns. I know you will have read some retailers making efforts to lower down the amount of returns, maybe imposing costs for return of goods, et cetera, et cetera. We're not really seeing an evidence of that in our business. What we are seeing is our customers really being much more minded in terms of the speed of processing of those returns and actually maximizing the worth of the returns, the detail of the actual return process. And that's right in our wheelhouse. Obviously, with the amount of technology that we utilize, that's really good for us.

So, I think generally, as we see e-fulfillment projects starting to reemerge, starting to be signed, as we mentioned with the Zalando project, what goes out from that warehouse, a proportion of it will come back and we'll be ready to work with our customers to make the best processing of that.

Jason Seidl – TD Cowen

Appreciate the color, and the time.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Jason.

Operator

Our next question is from the line of Ariel Rosa with Citigroup.
Please proceed with your questions.

Ariel Rosa – Citigroup

Hi, good morning. So, Malcolm, it's very encouraging to hear you talk about the return of demand from e-fulfillment customers. I'm curious if you could dig into that a little bit more and just talk about what you think is driving that demand. Is some of that related to GXO's investment in its own sales force? Or do you think it's more organic and related to the market? And if it's the latter, maybe you could talk about why that is? And I'll give you some context on this. I'm surprised to hear that a little bit, given obviously the US election happening today. I would think maybe a lot of customers would be waiting to kind of see the outcome of that election. So, maybe you could talk about kind of election risk and then also what's driving that investment there? Thanks.

Malcolm Wilson – GXO Chief Executive Officer

Sure, Ari. Yeah, good morning to you. So, I think what we see is driving it is a combination of factors. I think, one, you're absolutely right, I don't think we can say that the investments that we made earlier in the year in our sales organization, that's clearly having an impact. We're picking up projects that maybe in the past we might not have picked up. And I'm kind of hesitating saying that because I think we are seeing in the market as a leader when it comes to e-fulfillment, I'd like to feel that we see every project that's out there. I'm sure every CEO in our kind of position would want to say that, but the reality of it is, I'm sure we don't see every single one. So, having a broader and a more wider sort of sales net is a good thing for us.

And don't forget, it's not just always about retail space, omnichannel, clothing, food that we think about e-fulfillment. It spreads into like tech and even, to a certain extent, some other commodities. So, I think widening our sales organization is helping us, but I think the fundamental thing that we're seeing right now is people are starting to feel more confident about the economies in the different regions that we're working in.

And you mentioned about what's happening today here in the US, it's a great day, but we can look at our business in Continental Europe and most recently in the UK. I don't think it's so much a matter of which party is winning an election. What it brings is certainty. And I think customers crave certainty. They crave to know what is the situation for the future.

So, I think definitely when we look at Continental Europe, UK, we're seeing customers having a high degree of certainty. Interest rates, inflation levels, all trending in the right direction and allowing people to make more strategic decisions invariably that involve investments that are going to be multiple-year investments, and that's why typically people are happy to sign longer-term contracts.

I think when, just to touch on the point that you mentioned about here in the US, clearly, I think again people are waiting to make business decisions whether it's connected to tariffs and how that might shape up, whether it's just connected to individual states and how they might invest in the individual states of the US, whether that's here in the US, Mexico and so on and so forth, but I think decisions will come as a consequence of the greater certainty that people will have in the future. And I think we'll see also that starting to benefit us here in the US as we've seen in the rest of our markets.

Ariel Rosa – Citigroup

Thank you for that color. That's very helpful and very encouraging. Just a quick one, if I could, for a follow-up. So, you mentioned about $750 million of new business has been on year-to-date. And if I think about that against about a $2 billion, $2.5 billion sales pipeline, it looks like a win rate kind of north of 30%. And I think historically we've talked about GXO kind of having a win rate closer to kind of 25%. I'm curious if you're seeing that step up, and if so, kind of what the factors there might be, whether it's competitive dynamics or whether it's GXO capabilities? Thanks.

Malcolm Wilson – GXO Chief Executive Officer

Yeah. Ari, I'll let Baris come in on it, but what I would say at the high level is obviously when we examine our sales pipeline, we have to recognize that on the verticals or the services where we're really seen as a leader, if I think about e-fulfillment, it's quite probable we'll win a project because we're really one of the foremost organizations in that field. There are people that we compete with, but really, we're one of the foremost. So, I think we have to, when we look at the pipeline, you can see clearly that we have a greater success where we're seen as being a leader, where we're seen as being tons of different reference sites that we can show our customers as opposed to new verticals where we're still seeing as a new entrant.

And I go back to my comment about aerospace in Europe. One of the things that we're very pleased about coming along with the Wincanton deal is actually a long-standing reputation in aerospace. That will help us considerably in building an aerospace business, not just in the UK, but across Europe. Without that, we could easily imagine that our win rate will be much, much lower.

So, the win rates that you're seeing, I think, recognize our core strength areas. I think we're doing better. I think we're unequivocally taking market share. But equally, they equally recognize new verticals where our win rates will be much, much lower just simply because we're a brand-new entrant. Baris, maybe you can give a little bit more detail around that.

Baris Oran – GXO Chief Financial Officer

Yeah. Hi, Ari. As you recall, we have been investing in our sales teams. And when we say, talk about investing in our sales teams, that also includes investing in our sales processes to get better results from our existing pipeline, to improve the pipeline and improve the wins from this pipeline. So, you're seeing the results of that investment, the focus, and the process improvements we have established in our entire commercial organization.

Ariel Rosa – Citigroup

Great. That's wonderful to hear. Thank you for the time.

Malcolm Wilson – GXO Chief Executive Officer

Thank you.

Operator

Thank you. Our final question today comes from the line of Tom Wadewitz with UBS. Please proceed with your questions.

Tom Wadewitz – UBS

Yeah, good morning. So, let's see, first, just wanted to ask and see if you could give any thoughts on the impact of Shein and Temu in the market. They've been obviously growing a lot, and I think evolving logistics strategy that maybe there'll be more activity with them or with their logistics providers in the US market. So, I don't know if that's kind of, if you're indifferent to that or if that has any impact in your kind of activity in US market. So that would be the first question.

And just the second one is on wallet share. I think in the past, you've had the nice idea or the traction where you do well with the customer with couple of warehouses and then you can grow more with that existing customer.

So, is that still a significant driver or is it shifted more to some of the new customer wins that are maybe a bigger factor in the pipeline? Thank you.

Malcolm Wilson – GXO Chief Executive Officer

Yeah, Tom, it's Malcolm. Let me give you some background on those two points. So, first point, in terms of Shein and Temu, I don't think we've seen any particular impact across our business. But it would be wrong to say, both of those companies have been highly successful. And I've got no doubt that some of our customers will have reacted, will have modified maybe slightly their own strategies, but really across our business, we're not seeing any real impact as a consequence of those relatively new entrants to the market. And so that's what I can say on that. I can only share with you what we're actually seeing in terms of that situation.

I think in terms of the second point, maybe I can ask Baris to comment.

Baris Oran – GXO Chief Financial Officer

Sure, Malcolm. We have been growing in the wallet share of our existing customers that's giving us at least 50% of our wins and you're looking at a multi-year period. And when you look into our large customers overall over multiple years, we've been gaining more and more wallet share from them with the help of our predictable services, good service we provide, good value for money and global reach. So that is a sign of our success, and we grow with them, we go through them and we're getting more wallet share. That's not to say that we're not signing new business from new brands, new logos, but at the core of our business is to help our existing customers and help grow our wallet share with them to help them improve their productivity and the consumer reach.

Malcolm Wilson – GXO Chief Executive Officer

And Tom, just to add to Baris' comment, we mentioned earlier about the business with Zalando. It's worth noting that we signed our first agreement, went live with our first operation with Zalando back in, I think, 2021 in Central Europe in, I think, actually Czech Republic. So, our business, our big flagship operation that has just gone live now in France is very much -- it's really in action what Baris is just commenting on. We've done a great job for our customer and they're confident to entrust further activity to us. And so many of the kind of customers that we work with, the big flagship operation with Levi's, we sincerely hope that the great job that we're doing for the customer will spur on to new projects, and that's been typically how we've grown our business.

It's one of the reasons we tend to work with these large big blue-chip international organizations. And I've got no doubt that trend will see it as we go forward.

Tom Wadewitz – UBS

Great. Thank you.

Operator

Thank you. Ladies and gentlemen, that's all the time we have for questions today. I'll turn the floor back to Mr. Wilson for closing remarks.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Rob, and thank you for hosting our call today. We really appreciate that. Thanks also to everybody who's participated. I think we got some great questions, some very insightful questions, and I think Kristine, Baris and myself, we really appreciated that.

We've been very pleased overall with the progress that's come through our third quarter. As a business, I think we delivered strong business wins, new business wins, and we're looking forward to even more business growth as we're going into the future. Our sales pipeline is in good shape, and I think a number of very exciting projects that are expected to conclude before the end of the year. Whenever we're dealing with big projects, look, there's always that slight possibility they drift a few weeks, but I think we're in a good shape to have a very strong year of closed-won business, and that will set us up well for 2025.

Baris just mentioned return of a lot of e-fulfillment projects. I think that's very pleasing for us to see. It was always one of the big engines of this company's high-single-digit, double-digit organic growth, and it's great to see that starting to return now. And plus, it's also good for us to see real impact, tangible impact in our results in our business coming from all of the different innovative work that our teams have been doing with new technologies, as Kristine was just mentioning, and also AI, which is playing a greater part of our everyday running of the business.

So, I think we're really feeling very excited about the next quarter, quarter four, and as we move into the next year.

So, with that, I'd like to wish everybody a great rest of the day, and thanks again for joining us on the call, and thank you.

Operator

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