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Third quarter 2026 earnings call



GXO Logistics Q3 2026 Earnings Call

GXO Presenters

Patrick Kelleher – Chief Executive Officer
Mark Suchinski – Chief Financial Officer
Kristine Kubacki – Chief Strategy Officer

Q&A Participants

Stephanie Moore – Jeffries
Chris Wetherbee – Wells Fargo
Ariel Rosa – Citigroup
Richa Harnain – Deutsche Bank
Brian Ossenbeck – J.P. Morgan
Ravi Shankar – Morgan Stanley
Jason Seidl – TD Cowen
Scott Schneeberger – Oppenheimer
Andrew Cox – Stifel

Operator

Welcome to the GXO third quarter 2026 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 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, Patrick Kelleher.
Mr. Kelleher, you may begin.

Patrick Kelleher – GXO Chief Executive Officer

Good morning and thank you for joining our third-quarter 2026 results call. Joining me today are Mark Suchinski, our Chief Financial Officer, and Kristine Kubacki, our Chief Strategy Officer.

I'm pleased that we're beginning to see the results of the strategy we set in motion over the past year: stronger commercial performance, improving North America business, and a growing technology lead that we're enabling across our network.

The headline for the quarter is simple: organic growth accelerated to its fastest pace in over three years, adjusted EPS grew 13% year-over-year, and our commercial engine delivered another quarter of strong wins, with a record pipeline supporting our continued growth.

Starting on Slide 4. Our performance through the first nine months keeps 2026 firmly on plan; we are delivering financial results while investing in the capabilities that will accelerate our growth. And our leading indicators for 2027 – our wins, our pipeline and the revenue we've already secured – continue to build.

In the third quarter, revenue was $3.6 billion, up 5.7%, with organic growth of 6.4%. Adjusted EBITDA was $251 million, in line with the prior year, and adjusted diluted EPS was up 13%. Mark will walk through the details shortly. And year to date, approximately 40% of our new business wins have come from our strategic growth verticals, which include data centers, A&D, life sciences, and industrials.

Moving to Slide 5. Commercial momentum continued in the third quarter. We signed $375 million of new business wins, up 34% versus the prior year, our second consecutive quarter of this level of growth, led by our largest global accounts and our strategic growth verticals. Looking to the fourth quarter, we expect new business wins to again show strong growth year over year.

Our wins are also turning into revenue faster, and we're carrying that momentum into next year. We expect to enter 2027 with more than $850 million of incremental revenue from new business wins**.** That's ahead of the $774 million we had entering 2026, and the highest level we've ever carried into a new year.

Through the end of the third quarter, signed wins have exceeded $1 billion, nearly matching what we won in all of 2025, with a quarter still to go. And even after a quarter of rapid conversions, our sales pipeline grew to a record $3.1 billion at quarter-end, up more than 30% year over year. North America led that growth, and our pipeline across the UK and Europe also grew. Wins are also weighted more heavily toward the strategic growth verticals and multi-region customers we are targeting.

Mark and Kristine will discuss our financial results and commercial wins in more detail shortly.

Moving to Slide 6. We are making excellent progress on our three priorities: a new commercial playbook, strengthening operational excellence through the GXO Way, and advancing our technology leadership through automation and GXO IQ, our warehouse AI platform.

First, on Commercial. We believe the results I just walked through are the clearest evidence that our new commercial playbook is working. We're winning more, and we're winning across both core and strategic verticals. In the third quarter, we won new business and expanded relationships with blue-chip customer brands including Applied Materials, Boeing, NetApp, Unilever and L'Oreal.

Our core business continues to grow alongside our strategic verticals. One of our largest wins in the quarter was with a leading UK online fashion retailer, and, as in the second quarter, we had sizable e-commerce wins in Europe.

North America remains our biggest opportunity, and it is where the execution of our new playbook is most visible. Our pipeline there is up more than 80% year over year, and we are converting more of it. Across our Americas and Asia Pacific region, new business wins so far this year have already exceeded the total for all of 2025, and we're winning larger, more complex mandates than we were a year ago.

In the quarter, we again saw strong momentum with our technology and data center customers, where we see no signs of slowing and there are more RFPs in the market than ever. We're also building out our Aerospace & Defense capabilities, including the recent appointment of former military and defense industry veteran Dan Davis to lead

the vertical. A West Point graduate and former U.S. Army Field Artillery Officer, Dan brings a rare combination of military experience, industry expertise and commercial leadership.

Second, Operations. We've launched the GXO Way playbook across more sites, and we've begun rolling out a unified Labor Management System, with rollouts now live in the U.S., UK, Netherlands, Poland and Spain. We expect these to start delivering productivity benefits in 2027. We've also advanced our global procurement strategy to unlock cost savings across our sites.

Third, in Technology. GXO IQ is now live across all three of our regions, and we remain on track to meet or exceed our target of roughly 50 sites deployed in 2026. We've also expanded our technology organization around two mandates: Balaji Rangaswamy, our new Chief Information Officer, is strengthening the enterprise systems that serve as the foundation that lets us scale, while Nizar Trigui, our Chief Technology Officer, is accelerating AI, automation and robotics across our network.

So, to bring it together: we delivered a strong third quarter. We are accelerating organic growth and see continued commercial momentum through the end of the year and into 2027. Our three strategic initiatives across commercial, operations and technology are moving from plan to execution, and we're pleased with the results we've seen to date. And we'll have more to share on what's driving that momentum at our Investor Day on November 16th, at the New York Stock Exchange. This quarter is early evidence of the plan we'll discuss in full that day. The leadership team and I will take you through our long-term strategy, where we see GXO growing, our technology and automation roadmap, and our financial framework and capital allocation priorities. We look forward to seeing many of you in New York, and for those who can't join in person, the event will be webcast live. With that, I hand the call to Mark.

Mark Suchinski – GXO Chief Financial Officer

Thank you, Patrick, and good morning, everyone. Strong commercial momentum is beginning to drive an acceleration in our organic growth. We delivered a solid third quarter: our fastest organic growth in over three years, adjusted EBITDA in line with our expectations, and double-digit growth in adjusted EPS.

Turning to Slide 7. GXO delivered third-quarter revenue of $3.6 billion, up 5.7% year over year and up 6.4% organically, with contributions from all of our regions, including strong growth in the UK, our largest market, and our fastest growth in North America and Asia Pacific in more than two years. By vertical, technology and consumer electronics led the way, with revenue up 19%, driven by the rapid growth in data centers.

We delivered adjusted EBITDA of $251 million, in line with the prior year, and an adjusted EBITDA margin of 7.0%. Sequentially, adjusted EBITDA increased by more than $30 million and margin expanded by about 60 basis points versus the second quarter. The third quarter year-over-year margin decline reflects start-up costs on the new business we're onboarding, with more of this year's wins going live within the year, along with investments in our commercial organization, our Labor Management System and GXO IQ that we expect to deliver productivity benefits in 2027. Net income was $65 million, and adjusted EPS was $0.89, up 13% year-over-year. Adjusted EPS grew faster than adjusted EBITDA primarily on a lower tax rate and a modestly lower share count.

Moving to Slide 8. In the quarter, we generated operating cash flow of $156 million and free cash flow of $85 million. Year over year, free cash flow primarily reflects the timing of our ERP implementation, as well as higher net capex than the third quarter last year. Consistent with prior year, we expect the fourth quarter to be our strongest cash generation quarter of the year, and we remain on track to deliver our full-year free cash flow conversion target.

Turning to the balance sheet. We ended the quarter with $340 million of cash, total debt of $2.8 billion and net leverage of 2.7 times. During the quarter, we repurchased $84 million of shares, bringing year-to-date purchases to $100 million for 2.1 million shares at an average price of $47.46. That leaves $200 million remaining under our existing authorization. With an investment-grade balance sheet, we have the flexibility to keep investing in high-return organic growth, continue to de-lever and return capital to shareholders, and we will stay disciplined in how we balance the three.

We completed the divestment of Wincanton's dedicated grocery business in the UK and the Wincanton integration is now substantially complete. As we close the year, we are delivering run-rate cost synergies of $60 million.

Turning to our full-year outlook on Slide 9. We're reiterating our 2026 guidance.

- Organic revenue growth of 4% to 5%;
- Adjusted EBITDA of $945 million to $965 million;
- Adjusted diluted EPS of $2.95 to $3.15; and
- Free cash flow conversion of 30% to 40%.

We enter the fourth quarter with new business ramping, our productivity programs gaining traction and a cost base we are managing tightly, which sets us up for a solid finish to the year. Behind that, the shared systems we have been putting in place, from a single operating dashboard and labor-management tools to global procurement data, gives us one way of running the network which we believe will turn faster growth into higher margins over time.

With that, over to you, Kristine.

Kristine Kubacki – GXO Chief Strategy Officer

Thanks, Mark. Good morning, everyone. I'd like to spend a few minutes on the drivers behind our commercial momentum, and on the future growth we have already secured.

Turning to Slide 10. Even with wins up more than 30% for the past two quarters, our pipeline has continued to build. North America has been the biggest driver, with its pipeline up more than 80% over the past year to around $1.3 billion, while our pipeline across the UK and Europe also grew, to around $1.7 billion. As a reminder, the pipeline naturally fluctuates as we convert opportunities into wins, yet the year-over-year trend is clearly moving in the right direction.

Growth was broad-based. Third quarter wins in our strategic growth verticals were nearly three times the prior-year level, led by technology and data centers, and year to date they account for approximately 40% of our wins. At the same time, our core continues to grow: we had sizable wins in e-commerce and retail in both the UK and Continental Europe. Our new commercial playbook and aligned strategic priorities position us to grow across our strategic verticals while maintaining focus on our core.

Moving to Slide 11. I want to highlight our revenue visibility. From the business we've signed, we've secured more than $1 billion of incremental revenue for 2026, a record, and we've already built $630 million of expected incremental revenue for 2027. We added $267 million in the third quarter alone, versus $206 million in the same quarter last year. With the continued growth in fourth-quarter wins that Patrick described, we are confident we will exceed the prior-year figure and enter 2027 with more than $850 million of incremental revenue already secured, a record level. That growth comes from three sources. Year to date, about 33% of our wins came from competitors, 41% from new activity with existing and new customers, and 26% from customers outsourcing for the first time. This level of visibility gives us confidence in the durability of our growth and in the predictability of the cash flow and future earnings it can generate.

To wrap up, our commercial engine is firing on all fronts: we are expanding our relationships with the world's largest brands in our core, and we are building real scale in faster-growing strategic verticals. With a record pipeline, wins on pace to exceed last year's total, and a growing base of secured revenue for 2027, we carry strong momentum into the fourth quarter.

Thank you, and with that, I'll hand it back to the operator for Q&A.

Operator

Thank you. We'll now be conducting a question-and-answer session. Our first question today is coming from Stephanie Moore from Jefferies. Your line is now live.

Stephanie Moore – Jeffries

Great. Good morning. Congrats on a nice quarter here.

Patrick Kelleher – GXO Chief Executive Officer

Thank you.

Stephanie Moore – Jeffries

I guess starting with the organic growth performance. So as you noted, organic growth accelerated to over 6% in the quarter. And like the pipeline has grown pretty meaningfully since even the beginning of the year. So I think what's interesting as I look at this is I guess the momentum appears to be generating before you've really seen the full benefit of a lot of your actions. Obviously, you called out the new chief commercial officer, the commercial playbook in place.

So I guess, what extent do you view the momentum we're seeing today is just the beginning of this commercial reset? And then how much confidence do you have that this growth can continue to accelerate as these initiatives mature? And what should we be really looking for there as these initiatives mature? Thanks.

Patrick Kelleher – GXO Chief Executive Officer

Yeah, sure, Stephanie. I'll kick off and then Mark will provide some additional commentary. I think you're absolutely right. In our business contract logistics, we're about a six-month sales cycle. And so the results that we're seeing are really the results of initiatives that we kicked off when I joined about 14 months ago. Our focus, especially on North America, our emphasis is on the strategic B2B verticals, most notably Aerospace & Defense and Technology, where we're seeing great progress on data center new business wins. Those are bearing fruit now. I'm really proud that we did that without taking our focus off the core business of retail, consumer, omnichannel and CPG, where we've also continued to see great growth. And so the focus on North America, the focus on the strategic verticals, has been additive to the organic growth agenda with the six-month sales cycle. We are really in the beginning of the acceleration of that agenda.

We had over 30% year-on-year increase in contract wins in Q2. We signaled we would achieve that in Q3, and we did. And I can signal today that we will achieve that acceleration in Q4 through the end of the year. So really confident that as we step into 2027, we're going to continue to drive improvements in organic growth in the business, both on the new business wins as well as customer retention. Mark, maybe you want to comment on a few of the organic growth metrics that we're seeing.

Mark Suchinski – GXO Chief Financial Officer

Sure, Patrick. And good morning, Stephanie. Just to provide maybe a little bit of color on the organic growth and the momentum that Patrick just talked about. And as we just

discussed, 6.4% organic growth in the third quarter. I'm trying to give you a little bit of a look ahead into the fourth quarter and how we see it. We expect for Q4 organic growth to be slightly above 5% with the assumption of flat volumes. Now, in comparison, Q3 organic growth reflects a 1% volume benefit.

So, we've guided all year with the assumption that volumes are flat. We think that's prudent to do that. But we do know that fourth quarter peak season, holiday season, is a good one for our industry. And so if volume trends hold during the fourth quarter, we could see organic growth similar to the type of growth that we posted here in the third quarter. So just wanted to decompose the organic growth assumptions for our listeners on the call.

Patrick Kelleher – GXO Chief Executive Officer

And the final thing I'd add to that is when you look at the revenue that we have booked for 2027, we see ourselves exiting the year at $850 million plus, so more than $850 million of revenue going into 2027. That would be a record for us. Exiting the year, we'll sign close to $1.3 billion of new business. That's up from just over $1 billion in 2025. And our pipeline is $3 billion today and growing. And I think what is most exciting about the $3 billion pipeline is that it is diversified across all of the industry sectors that we participate in, with 40% of that pipeline in our B2B industry verticals, where we're putting a lot of emphasis on growth. So all of the components are in place. We've got the projects to work on to deliver the organic growth that we're talking about. And that is why we have such great confidence going into Q4 and into 2027.

Stephanie Moore – Jeffries

Thank you. Very clear. And just one quick follow-up. As we think about those strategic growth verticals in the B2B space. Obviously, I think we can understand that the TAM of those verticals and the growth opportunity, but is there anything you would like to call out about those customers in general, from just maybe a margin standpoint, return standpoint of those particular contracts? Thank you.

Patrick Kelleher – GXO Chief Executive Officer

Yeah, I think that that's a great callout. The new contracts that we're winning are margin accretive to us. And so our teams are doing a very good job around pricing discipline. We want to make sure that in terms of achieving our margin aspirations, and I've said very, very clearly in the past, we should be at or better than our peers in terms of our

margin performance. Winning new business that is margin accretive is really important to that. Our pricing discipline has been very strong throughout the year to deliver that.

In terms of margin performance, I would comment as it relates to growth, we're ahead of where I thought we would be in terms of the acceleration of the commercial agenda. We are spending some external money to support the startup of new operations because we're ahead of plan. We are working to position internal operational resources to fuel our organic growth agenda, but the positioning of those resources has lagged what has been overperformance in the new contract signings and so we've had some short-term expenses associated with startup costs. We don't see that repeating in our growth agenda as we rightsized the operational organization to deliver against growth, but that did have an impact on EBITDA margins in Q3. But really to reinforce that margins of the new business that we're signing is accretive. Kristine, any other comments on that?

Kristine Kubacki – GXO Chief Strategy Officer

Yeah, Stephanie, I just wanted to highlight a little bit on the data centers and Aerospace & Defense in particular. Those are very complex mandates, very complicated supply chains. And the services that we're doing for our customers are a bit different than probably what you'd see in the core business that we're doing. So it tends to be stickier, it tends to be higher value-added services. So we're excited about that.

And I would also say that we're very excited on our Investor Day to give you a deep dive look in particular into Aerospace & Defense and what we actually do inside the data center. So stay tuned.

Stephanie Moore – Jeffries

Thank you all. Appreciate it. Thank you.

Patrick Kelleher – GXO Chief Executive Officer

Thanks, Stephanie.

Operator

Thank you. Our next question is coming from Chris Wetherbee from Wells Fargo. Your line is now live.

Chris Wetherbee – Wells Fargo

Hey, thanks. Good morning, guys. Maybe picking up on the margin point, I guess maybe if there's any incremental detail you want to give about the startup costs. And then I guess if we think about some of the growth opportunities coming from these complex mandates like data centers and Aerospace & Defense, how do we think about the progression of those startup costs? What drops away, I guess, as we go into the fourth quarter? Obviously, the guide does call for some margin expansion, I think on a year-over-year basis. Can you maybe talk a little bit about the margin progression and then maybe bigger picture, how we see that expanding as we move forward from here?

Mark Suchinski – GXO Chief Financial Officer

Yeah, Chris, it's Mark. Maybe just to pivot to expectations of margins – we're starting to see some green shoots in the fourth quarter. But really we're looking for another sequential improvement in margins in the fourth quarter, specifically from the GXO Way, global procurement, establishing that organization in the middle of the year, we'll start to drive some procurement savings. We continue to be focused on continuous improvement initiatives via the GXO Way. And we're also seeing a more favorable balance between net wins and exits in the fourth quarter. So a little less churn in the fourth quarter than what we saw in the third quarter and the second quarter, as we told you historically.

In addition to that, the Wincanton synergies are behind us, and we'll really see the full benefit from those Wincanton savings. So really, that's how I would walk the third quarter to the fourth quarter. And as Patrick said, we did have some additional costs associated with some new large-scale customer startups. But overall, I think, that's how I would position the margin improvement from Q3 to Q4.

And then just generally speaking, as we move into 2027, broadly speaking, we're really focused on productivity and efficiencies, and a lot of that is going to come from not only the commercial side by growing the B2B, higher margin, but as we go into 2027, the rollout of our labor management systems, the further deployment of GXO IQ. And so all of that will start to quicken as we move into 2027. But we're right where we thought. We hit our guide here in the third quarter, and I think I've provided you some color here on how we see fourth quarter shaping up versus the third quarter.

Chris Wetherbee – Wells Fargo

Okay, that's very helpful. I appreciate that. And then maybe Patrick, can you comment a little bit on the competitive landscape? So I know there's been some discussion over the course of the last several months about new entrants and other concerns like that. Obviously, the pipeline looks like it's growing. The success in the key verticals that you're focusing on looks pretty good. So maybe provide us with a little bit of perspective and if you can weave in a little bit of maybe what your expectations are for the opportunity on organic growth in '27, that'd be helpful.

Patrick Kelleher – GXO Chief Executive Officer

Yeah, sure. I think maybe back to the May timeframe, a lot was made of statements that Amazon made about coming into this space. And I think that is maybe what you're referring to as new entrants. We have continued to not see any impact of Amazon's statement in contract logistics. I think they're absolutely having an impact in last mile and ocean and air freight. And in fact, we think they're a great provider in those two areas and probably would look to leverage their services. In contract logistics, as I said back in May, and on the last call, there's simply not a competitor in our space.

Our value proposition is very different in terms of what we bring to our customers versus what they're offering to the marketplace. And I continue to reiterate, we haven't lost any business to Amazon in contract logistics. We don't see them in bids, competitive bids that we're in. And so that really has not been a factor.

The marketplace is competitive. There are a number of players in the industry, but we have a $3 billion pipeline. In many cases, we are competing against six, seven, eight providers for opportunities, but we're winning better than 30% of those. And so we're winning more than our fair share when we are competing, which I think speaks very strongly to the value proposition that we have, and especially underpinned by our agenda of robotics, automation, technology, AI, soon to be humanoids. And so we really feel good about our competitive positioning in the market.

When we look to our TAM and opportunities to grow that pipeline, certainly putting emphasis on North America, which has been a big driver of our organic growth this year, as well as the B2B verticals, really will provide us the opportunity to continue to grow the pipeline that we have today. As Kristine referenced, especially on Aerospace & Defense. We are just getting started there. We already have a great book of business there, but in terms of the pipeline build, there's significant opportunities to play for that aren't represented in our pipeline yet.

And then I would point to Asia, where we have a relatively small business, but we're really starting to put strategic emphasis there, which we will accelerate in 2027. We are winning new business in Asia, including data centers, by the way, and so great progress there to grow the pipeline in 2027. So all those factors give us a lot of confidence that number one, we're positioned really well competitively in contract logistics as one of the market leaders that we have great industry verticals to target for continued growth and geographic expansion opportunities, both with the emphasis in North America and Asia to continue to build out our TAM, which should fuel organic growth going forward.

Chris Wetherbee – Wells Fargo

Helpful color. Thanks for the time. Appreciate it.

Operator

Thank you. Our next question is coming from Ariel Rosa from Citigroup. Your line is now live.

Ariel Rosa – Citigroup

Hey, good morning. Congratulations on some strong results here and the positive momentum. I'm curious to hear, just to get your thoughts on kind of where macro conditions currently stand. And then as we think about both the pipeline and the sustainability of some of these results, how vulnerable are they to macro conditions? And if we see a change in macro conditions, what's your level of confidence on being able to continue with some of the momentum that we're seeing here clearly gaining traction? Thanks.

Patrick Kelleher – GXO Chief Executive Officer

Yeah, sure. I think it's a great question. I've talked in the past about contract logistics as an industry and the sensitivity of the industry to macro conditions being geopolitical, economic. We are less connected to GDP performance. We're less connected to geopolitical challenges with the exception of maybe an environment of those challenges creates tailwinds for the industry when customers need to make changes to their supply chain. So as trade flows change, warehouse locations need to change, inventory holding strategies change and those changes result in opportunities for companies to look at outsourcing, supply chain activity as an alternative to operating themselves and that fuels opportunities for the contract logistics industry and us. Especially as

technology, robotics, automation, AI, now humanoids become more prevalent in the execution of supply chains, supply chain execution is becoming more complex, and the expertise that we bring and the solutions that we have to address supply chain complexity are driving customers to make a decision to outsource versus in-sourcing. We've talked about, from an industry perspective, only about 30% of supply chain spend is outsourced. So there's a lot of whitespace, 70% of spend is whitespace for us to go after to grow the business. We don't need to take market share from competitors to thrive. And we are seeing the trend of outsourcing accelerate, I think, because supply chains are more complex and supply chain execution is becoming more challenging. And there's a huge value proposition associated with hiring experts like GXO to deliver against those solutions. So, from a macro perspective, we are not really sensitive to some of the big macroeconomic drivers that are happening, and in fact, those are serving as tailwinds for us today.

Ariel Rosa – Citigroup

That's really helpful. Appreciate the color. And then just as a follow-up, I was hoping you could give us a bit more context on GXO IQ. Just, how should we think about what the upside potential is from that? And is there a good way to think about the costs associated with developing and deploying GXO IQ and what the return profile looks like from that investment? Thanks.

Patrick Kelleher – GXO Chief Executive Officer

Yeah, sure. So, for those who don't know, GXO IQ is our middleware solution. That is our data lake and the platform for deployment of AI and productivity improvement tools to our operations. And we're working to integrate GXO IQ with all of our operations, over 50 will be integrated this year. We, in terms of AI, have a team who are developing our own proprietary AI, but we also leverage external partners and the things that they have developed, which keeps our development cost very low.

The benefit of AI in our operations is just one component of many elements of the GXO Way that we're pursuing. When we look at the deployment of our unified labor management system approach around the world, we think that's 5% to 15% improvement in labor costs in individual operations. And we'll be on that journey over a multi-year period to get that deployed and realize the benefits.

When we look at AI, we think it's a mid-single-digit percentage improvement to productivity on top of that. And so we have a lot of emphasis to get those tools out to the business. And there's a really strong return on investment associated with that for

ourselves and for our customers as we share in the cost savings generated by that. I see AI is going to continue to feature in a very big way in our business. We're seeing great results from the tools that we've deployed already, in the mid-single-digits benefit that I talked about. And so, we'll continue to accelerate that, that will contribute to EBITDA margin improvement. It will also continue to strengthen our value proposition to customers as we share cost savings with them.

Ariel Rosa – Citigroup

Very helpful. Thank you, Patrick.

Operator

Thank you. Our next question is coming from Richa Harnain from Deutsche Bank. Your line is now live.

Richa Harnain – Deutsche Bank

Hey, good morning, everyone. Thank you. I just wanted to follow up a little bit more about the startup costs. Is this just something that will be reoccurring to some extent as you bring on new customers in new strategic verticals? If so, like when do they typically start to taper off? Is it a one quarter adjustment or something and then you start to get compensated for those costs, or is this something unique to this past quarter about the startup?

And then, I think there was something said about Wincanton-related costs in the quarter too that led to some outsized weakness – that seems to be in the rearview now. But just wanted to understand, I guess, big picture, like what's artificially depressing the Q3 margin in relation to its potential? We're hearing lots of good things on this call with respect to how organic growth accelerated, you have the GXO IQ starting to build up, the unified labor management savings starting to trickle in. So I just want to understand, again, like what the deep potential is for margin uplift, if we didn't have maybe some of these unique costs weighing on results?

Patrick Kelleher – GXO Chief Executive Officer

It's a fantastic question and call-out. And so, I would say, first, the startup costs in Q3 were really unique to the period and the projects that we were working on and the timing of those coming on. I was reflecting back to, I don't know it was last call or the call before I was asked what keeps me up at night or what would be the biggest headwind

to our organic growth agenda, and I talked about the importance of matching our operational capability, particularly on implementation with our organic growth agenda, and particularly an accelerating growth agenda.

With organic growth accelerating at the pace it has, we really found ourselves in Q3 stretched in terms of implementation resource. So, we were quick to go outside for outside consultative help on implementation activities. That's a one-time thing to support those activities, while concurrently we've been putting operational resource in place to support the growth agenda going forward, that's really about rightsizing our implementation teams, our operations teams, to meet the expectations that are created on the new business signings side. And so, I feel – first of all, we are a customer service first, so we have zero hesitancy in engaging outside resources to make sure we successfully implement for customers, even if it comes at a short-term cost. We are long-term focused and we're going to deliver a long-term strong, organic growth agenda. We want to make sure we perform strong out of the gate when we win business and we'll do that even when it comes at a cost.

As we look forward, what's really important is that we have consistency in the delivery of our organic growth agenda, so we have to have the sales materialized when we are positioning resources for implementation and keeping that in balance. And I feel very good about coming out of Q3 into Q4 where we are on that agenda and I feel especially good about how we're moving into 2027, rightsizing the organization to be focused on delivering organic growth. And remember, this is an inflection point for GXO, really coming out of a five-year agenda of strong M&A. I've talked about the priority being organic growth. Q3, in terms of some of those external startup costs associated with implementations, that are those growing pains and making that inflection, but the team is on top of it and we're going to deliver really well against that.

Richa Harnain – Deutsche Bank

Thanks, Patrick, I appreciate it. And if I could just squeeze in one more clarification around conversations for – or expectations, rather, for peak, what are your conversations with customers right now? I think it was alluded to – that we have a good season here. But curious, what kind of puts and takes that you're considering for peak and how you're preparing for that?

Patrick Kelleher – GXO Chief Executive Officer

So, I think, as Mark said, we saw across the board about a 1% lift in volume. I'd characterize our posture right now as cautiously optimistic. We are positioning labor for

the peak that our customers are wanting and expecting to see. So, we're stepping into Q4, sharing our customers' confidence in that. But in terms of how we are guiding Q4, we are on the basis of flat volume to last year, so being prudent in that and we'll continue to see week by week over the next seven weeks here how that plays out.

Mark Suchinski – GXO Chief Financial Officer

You captured it, Patrick.

Richa Harnain – Deutsche Bank

Thank you.

Operator

Thank you. Our next question is coming from Brian Ossenbeck from J.P. Morgan. Your line is now live.

Brian Ossenbeck – J.P. Morgan

Hey, good morning. Thanks for taking the question. Maybe start with a quick follow-up on the peak season. We're seeing some fairly significant congestion in the West Coast ports. I don't think you have any direct operations in those areas, but clearly a leading indicator and tied into that supply chain. So I don't know if that's coming up in your customer conversations or in some of your planning, because we're starting to see some fairly significant delays coming out of the ports. So, is that feeding into your view on peak season or is that separate?

Patrick Kelleher – GXO Chief Executive Officer

Yeah, we are not being impacted by that today. At least, I'm not hearing that from customers. I think the positioning of peak inventory really happened in the August/September timeframe in order to meet the needs of the next eight weeks, at least for the customers that we're servicing. So, as you say, we don't have any port operations. Certainly, we're taking a lot of freight in from the port to our warehouses. But inventory has already been positioned to deliver against peak with our customers.

Brian Ossenbeck – J.P. Morgan

Understood. Thanks, Patrick. As a quick follow-up, the exposure to data centers and that whole supply chain, can you give us a little bit more context on that maybe in terms of how much of the incremental new wins are coming from these customers? And can you give also a little bit of flavor in terms of how much of the current book of business is related to those sorts of contracts, because it does seem like it's still moving forward at a pretty good clip for you guys, especially in new geographies, it sounds like as well.

Kristine Kubacki – GXO Chief Strategy Officer

Yeah. Brian, this is Kristine. I think we saw really good growth both in new business wins and then even in existing business around, not only data centers, but as Patrick mentioned, the strategic growth verticals. I think you can see in our revenue breakout, around technology, it was our fastest growing vertical. I think we're encouraged that the growth is only picking up. I think you can see our strategic growth vertical wins, whether you're looking year-to-date or in the quarter, are up 3 times over where they were last year. And then, certainly, within the pipeline, they are about a third of our pipeline, but the RFPs are coming quick. We're winning business very quick in this space. So the TAM not only growing in North America, but as Patrick mentioned, we're winning in this space in Continental Europe and we're now winning in Asia. So the TAM just continues to expand for us and a lot more to come as we move into 2027.

Brian Ossenbeck – J.P. Morgan

Okay. Thank you for the time.

Patrick Kelleher – GXO Chief Executive Officer

Thanks.

Operator

Thank you. Next question is coming from Ravi Shanker from Morgan Stanley. Your line is now live.

Ravi Shankar – Morgan Stanley

Great. Thanks to everyone. Patrick, one big picture question on your current churn levels. Is it where you want it to be? Kind of how much room for improvement do you

see? How much of it is within your control and anything in particular that you guys can do to maybe kind of reduce that? Nothing is elevated. I'm just saying this, any signs of improvement there, or any kind of leverage you can do to get that better over time?

Patrick Kelleher – GXO Chief Executive Officer

Yeah. So, I'm really happy with the trajectory on churn. Mark referenced that in his comments as it relates to our EBITDA margin trajectory going forward. So we're seeing lots of improvement on customer retention. We continue to signal and plan around 95% retention, but we do see a 1 or 2-point opportunity there in terms of improving retention going into 2027. I would say that the launch of our global customer success model is already yielding benefits. So, we're putting resource and attention to our top customers and especially those who are doing business with us across multiple geographies. We are being more deliberate around collecting customer feedback through our NPS approach and putting mechanisms in place to action that feedback, so that we make sure that customers are getting the very best experience that they can have today, not even waiting for the renewals.

And we've had some really great renewals this year where we're extending customer relationships even beyond 10 years in many cases. So, not only retaining, but creating increased contract length through that renewal process. And a lot of that is underpinned by investment in robotics, automation and technology in our customers' business and our customers are really looking for longevity in the benefit of those investments. So, our retention is going to continue to contribute to organic growth as we step into 2027. We'll share more details about that on our Investor Day, November 16.

Ravi Shankar – Morgan Stanley

Great. Looking forward to that. And maybe just a quick follow-up on the macro. What are you hearing from your shipper customers? Do they feel like they are in a good spot here with their demand levels and the inventory levels? Or do they feel like they are a coiled spring kind of waiting to pounce as soon as the macro gets better, which could drive kind of meaningful upside to like the base activity level for 2027?

Patrick Kelleher – GXO Chief Executive Officer

It’s hard for me to comment on that in the aggregate. I would say, feedback I get from customers varies a little bit when you talk about North America, UK, Europe and so forth. But, generally, I would say, cautiously optimistic. I think you characterized the coiled spring. I think people have been waiting for the coiled spring for a while.

Hopefully, that coiled spring comes soon and especially as we move into 2027. But generally from the things that we see in the macro, economies continue to perform fairly steady. And we're not seeing the 5% to 10% in the aggregate volume increase in the near term, but we're seeing lots of good support for year-on-year volume stability and maybe 1% or 2% improvement on volume year-on-year.

Ravi Shankar – Morgan Stanley

Very good. Thanks, Patrick. See you in a week.

Operator

Thank you. Our next question today is coming from Jason Seidl from TD Cowen. Your line is now live.

Jason Seidl – TD Cowen

Hey. Thank you, operator. Morning, Patrick. Morning, team. Wanted to talk a little bit about your new contract wins and some of your strategic vertical focus. When I look to the percentage of your new wins coming from just strictly outsourcing, it really jumped as a percentage of overall business, right, it's 26%, I think last quarter it was 17%. Is this just a function of the new verticals tend to be more new outsourcers?

Patrick Kelleher – GXO Chief Executive Officer

Yes, absolutely. I think that is the case, especially in aerospace & defense and technology, where we're seeing a lot of new outsourcer activity. I think, as I said, I think that comes with supply chain complexity. When you look at the aerospace industry and the complexity of that supply chain to begin with and suppliers' efforts to keep pace with backlog that exists there, the application of solutions we have in those industries, I think, is resonating really well, delivering real results. I think we'll continue to see that level of new outsourcing increase.

Jason Seidl – TD Cowen

Yeah, we're definitely encouraged to see that growth, especially when you look at the margin profile. My follow-up is going to be more on the volume outlook. I just want to make sure I'm getting this right. You guys are basically just choosing to continue to guide to flat volumes as you've been doing all year long. But you do have, I think, easier

comps coming up in the fourth quarter. And plus, what you've seen thus far, let's call it, a third of the way in here, is favorable. Is that a good way to characterize the outlook?

Patrick Kelleher – GXO Chief Executive Officer

Yeah, I think that's really fair. So, I think we have been consistent and prudent in assuming flat volumes and when we've been wrong, we've been wrong by 1% or 2%. And so, we like the prudency of assuming flat and realizing that 1% or 2% improvement. Obviously, it differs by the industry verticals that we participate in. But in the aggregate, that feels like a prudent path forward, but, as you say, I think with opportunity for some upside.

Jason Seidl – TD Cowen

Appreciate the time. Nice job in the quarter.

Patrick Kelleher – GXO Chief Executive Officer

Thank you.

Operator

Thank you. Next question is coming from Scott Schneeberger from Oppenheimer. Your line is now live.

Scott Schneeberger – Oppenheimer

Thanks very much and good morning. For my first one, in the press release, it was indicated that you're converting opportunities more quickly. I'm curious, is that a result of the end markets you're pursuing where the sales cycle is just faster? Or is it something you're doing internally with the sales force that's maybe boosting that? Thanks.

Patrick Kelleher – GXO Chief Executive Officer

Yeah, I think, it's a combination of the industry verticals that we're focused on. And I think it is good commercial discipline in terms of moving from customer conversation to close to implementation. Kristine, maybe you want to comment on the pace of implementation of the business that we're winning in comparison to the past.

Kristine Kubacki – GXO Chief Strategy Officer

Yeah. Hi, Scott, it's Kristine. So, we are seeing the conversion. I think you saw this manifest in the second quarter. We had $410 million in wins in the second quarter. And with that, in a matter of three weeks, we rebuilt the pipeline very, very quickly with the amount of RFPs. Not only are we winning faster, but we are implementing faster. So, we're kind of winning more in the year, for the year. I think we're up about 10 percentage points on a year-over-year basis of business that we're winning in the year for the year versus last year. And I think it's primarily driven by data centers in that we're able to move very, very quickly in an industry that is obviously scaling very quickly. And that is a differentiator for us in the marketplace.

Scott Schneeberger – Oppenheimer

Great. Thank you, both.

Patrick Kelleher – GXO Chief Executive Officer

I think that that threads perfectly to what I talked about in terms of implementation costs in the third quarter, needing to leverage some external resources for that because we are winning and implementing faster and much faster than we had in the past. And so, we're rightsized there now to meet the needs of those faster implementations. But that was definitely the reality associated with increased sales.

Scott Schneeberger – Oppenheimer

Sounds good. Thanks. On the follow-up, I guess, probably, Mark, for you. It's essentially a CapEx/free cash flow question. With the pursuit of the new verticals and expanding into, more so in North America, and it sounds like a bit into Asia a bit more now, are you seeing more open book or closed book contracts? What does that mean? And it sounds like a push towards B2B more with those verticals? What is it going to do for the CapEx profile going forward? Is it going to increase, decrease? It sounds like it's going to be good for margins. But just curious on the CapEx and, obviously, free cash flow from there. Thanks.

Mark Suchinski – GXO Chief Financial Officer

Yeah. Thanks, Scott. As you said, I mean, we're focused on the B2B and growing quicker in North America. Just generally speaking, though North America tends to be fixed/variable closed book type contracts, and as you indicated, those are typically

higher margin. So that's good as we think about the future from a margin profile standpoint.

When we think about CapEx just holistically, as we're growing more in North America, and I've looked at the data, I would say CapEx is just slightly, as a percent of revenue, just slightly higher on closed book contracts than open book contracts. I've done some analysis on that. So I don't think the higher growth in North America specifically relates to fixed price contracts is going to generate additional CapEx.

I think as we think holistically about our entire book of business, we do know that the B2B verticals in some instances could create some CapEx needs. But I think we continue to believe, over the course of the next couple of years, that our CapEx as a percent of revenue based on our growth projections will continue to be somewhere between 2% and 3%. We don't think that there is any substantial need to increase CapEx. There're some instances, from an automation and robotic standpoint, that those services can be bought as a service as opposed to CapEx. So, we don't expect that to be significantly higher, probably a tick higher as it relates to B2B in North America, but I don't think anything materially different than what we've seen in the past.

Scott Schneeberger – Oppenheimer

Great. Thank you.

Operator

Thank you. Next question today is coming from Bruce Chan from Stifel. Your line is now live.

Andrew Cox – Stifel

Hey, good morning, everyone. This is Andrew Cox on for Bruce. I just wanted to talk a little bit about the incremental wins for 2027 that have been secured. I think the presentation called out $630 million, which is down about 10% – nearly 10% from the comparable year-ahead revenue at this point last year, and that's, of course, even as you guys have had strong quarterly wins and pipeline exceeding $3 billion. You called out in expectations for strong 4Q signing expectations. I was just kind of wondering where that's coming from. That hasn't really been the case in recent years. Would love to know if there's anything incremental to call out about the 4Q signings, and then also, just kind of reconciling the lower year-ahead revenue at this point with your confidence of accelerating growth into next year. Thank you.

Patrick Kelleher – GXO Chief Executive Officer

Yeah. So, I think it's a great question for us to wrap up on. So, our year-to-date signings that carry into 2027 comp against a number that included NHS, which was a very large contract signed in the prior year. As I said, we will exit the year at $850 million or higher and that will be a record for us as we look at revenue carrying into the following year, so $850 million or higher into 2027. And we can say that for the confidence that we have in delivering the pipeline – closed, won deals for the fourth quarter of this year. And so, we will end the year this year at near $1.3 billion of new business signings, with that $850 million carrying into the following year. And Kristine, anything to wrap up on that?

Kristine Kubacki – GXO Chief Strategy Officer

Yeah, I think, I'll just add a little bit color. I think with the confidence that we have with where the pipeline was at $3.1 billion. We added $267 million in the quarter for 2027. I think if you kind of back into it, I think we're looking for over $300 million in wins in the fourth quarter and obviously a large chunk of that will set up into 2027, driving that over $850 million. And then just to remind you, we will still win business in the first quarter, the second quarter, the first half of the year, in the year, for the year. As we mentioned, we're winning business faster with the strategic growth verticals, the pipeline growing, the commercial momentum. So, I think we feel very good about the layering and the building of momentum as we move into 2027 to drive accelerated organic growth.

Operator

Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Patrick for any further or closing comments.

Patrick Kelleher – GXO Chief Executive Officer

Yes, thank you very much. We're really pleased with the momentum we're seeing across GXO. Over the past year, we've sharpened our operating model, strengthened leadership and our capabilities and created greater alignment across the business. Today, we're beginning to see those efforts reflected in our growth, commercial momentum and operational performance. From our record pipeline levels and strong new business wins to the pilot of a unified labor management system and accelerated deployment of GXO IQ, we're seeing increasing evidence that our strategy is gaining traction. Most importantly, we're building a more connected, more effective organization that is better positioned to deliver for customers and shareholders over the long term.

We're confident in the direction of the business and we're excited about the opportunities ahead. We're looking forward to discussing our strategy and sharing more detail on how we're positioning GXO for sustainable growth at Investor Day on November 16th. And with that, thank you for joining.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.