GXO Investor Day, July 13, 2021 — Q&A Session

GXO moderator:
- Neil Shelton, Chief Strategy Officer

GXO Q&A presenters:
- Brad Jacobs, Chairman of the Board
- Malcolm Wilson, Chief Executive Officer
- Mark Manduca, Chief Investment Officer
- Richard Cawston, President – Europe
- Eduardo Pelleissone, President – Americas and Asia Pacific
- Bill Fraine, Chief Commercial Officer
- Gavin Williams, President – UK and Ireland
- Baris Oran, Chief Financial Officer
- Angus Tweedie, Senior Vice President – Strategy

Neil Shelton, GXO: I would like to thank everyone for listening in to our Investor Day. We hope that you share our excitement for GXO's quite phenomenal outlook. I will be helping to moderate today's question-and-answer session. With me today are all of the leaders you heard from this morning: Brad Jacobs, chairman of GXO; Malcolm Wilson, GXO's incoming CEO; Mark Manduca, our incoming chief investment officer; Richard Cawston, president of European operations; Eduardo Pelleissone, president of the Americas and Asia Pacific; Bill Fraine, chief commercial officer; Gavin Williams, president of operations in the UK and Ireland; and Baris Oran, our incoming CFO; as well as Angus Tweedie, senior vice president of strategy. I will now turn it back to Kevin, the operator, to open the line for your questions.

Operator: Thank you. Our first question today is coming from Brandon Oglenski from Barclays. Your line is now live.

Brandon Oglenski, Barclays: Good morning, everyone, and thanks for taking my question. I appreciate the top-line outlook, but how do you reconcile a 4% CAGR the last four years?

Neil Shelton, GXO: Brandon, thanks for your question. Baris, would you like to talk about the historic performance of GXO, and then afterwards I'll turn it over to Malcolm to reiterate our future outlook?

Baris Oran, GXO: Sure, thank you. During the last couple of years, we have eliminated some underperforming contracts that were restrictive on our top-line growth. Looking to the future, $2 billion worth of pipeline gives us a lot of confidence for our future growth.

Neil Shelton, GXO: And Malcolm? Why are you so excited about the future growth?

Malcolm Wilson, GXO: Those strong, secular tailwinds are mega-trends — e-commerce, focus on automation, the scale we have, the rise of outsourcing, the increasing complexity of global supply chains — it's increasing the demand for our services. It's helping accelerate the growth in the total addressable market. So, all in all, low risk, infrastructure-like contracts provide us with great visibility into the future. We can already now see what's happening for 2022, into '23, into '24 and beyond.

Neil Shelton, GXO: Thank you, Malcolm. Kevin, next question, please.

Operator: The next question is coming from Amit Mehrotra from Deutsche Bank. Your line is now live.

Amit Mehrotra, Deutsche Bank: Thanks, everyone. Good morning/afternoon, and thank you for the presentation. I have a three-parter. My first question, if I could, is on free cash flow and how to think about what free cash flow in 2022 corresponds to $700-735 million of EBITDA. I'm getting to about $280 million, but I think my working capital assumptions may be a bit low, so if you can help us out on that. Also, incremental margins in 2022 kind of imply 14% incrementals on an apples-to-apples basis. Is that the right way to think about the contribution margins on incremental revenue growth? I just would have thought it would be a little bit higher, given XPO Smart and some of the automation initiatives. And then, my last question, if I could, is more broad. The number one question I get is about risk management in this long-term contract structure business. It wasn't that long ago that Toys "R" Us went into administration and caused DHL Supply Chain a lot of issues. There was obviously that chicken shortage that shut down all KFC stores in the UK, which I think was a supply chain issue. And then, even you had issues related to the House of Fraser bankruptcy and taking a $16 million write-off on the balance sheet, which is a big number relative to the earnings contribution of that business. So, my last question on that front is: Can you talk about what can go wrong in this business? I think you guys can protect yourselves better than anyone in the industry about that, and I wanted you to expand on how you write your contracts to protect yourself from all the different things that can go wrong. Thank you.

Neil Shelton, GXO: Amit, thank you for your few questions. I'll turn the free cash flow question over to Angus, the operational question over to Baris, and Malcolm will finish up with our risk management question. Angus?

Angus Tweedie, GXO: Hi, Amit. It's a good question, certainly, on free cash flow. As you highlight, there is a bit of a drag on working capital, given the growth we're experiencing in the business. It's

hard to be precise on that, looking at 2022. We haven't provided guidance on that yet, as it will come down to the cadence of phasing the pipeline. But, certainly, I think you're in the ballpark and you're thinking about it in the right way. Before I hand over to Baris, I'll just say, on the incremental margins, the point here is that the growth is very much tied to new contract wins, although we are doing some exciting stuff on the efficiencies, as well.

Neil Shelton, GXO: And Baris, your thoughts on operational leverage from the growth we see in front of us?

Baris Oran, GXO: Sure, thank you. Very good question. On the cash flow side, we're expecting 80% of our net income and roughly 30% of EBITDA to convert into cash flow. And, on the working capital side, generally think of it as around 2% of our revenue, as the working capital drag on our free cash flow generation. And, as we mentioned, roughly 1% of revenue is maintenance capex and 2% of revenue is growth capex, as we continue to expand our business. On the EBITDA margin, as you rightly indicated, 2022 guidance is showing a higher EBITDA margin, and that's on the back of expanding the implementation of GXO Smart. But, also, additional services we provide — high-margin services we provide, such as reverse logistics — give us that comfort.

Neil Shelton, GXO: Then, finally, Malcolm, Amit suggested that GXO's risk management was better than peer average. Would you share your thoughts?

Malcolm Wilson, GXO: Well, Amit, thanks for the compliment. It's coming as a consequence of the very strong governance that we have when we're contracting. No industry can be devoid of challenges altogether. It's impossible. But we pay attention to the details. We pay great attention to

the risks that could exist. We do that through the contracting phase, in the selection of the customers that we're working with, which are invariably blue-chip organizations. We utilize all of our resources — our technology people, our finances — we really pay strong attention to how we're using those.

Neil Shelton, GXO: Thank you, Malcolm. Kevin, next question, please.

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

Allison Poliniak-Cusic, Wells Fargo: Good morning and good afternoon. You talked about the high-margin, value-added services. Is there a way to help us understand the relative benefit of that, in terms of mix, to your EBITDA margin? And I think you also mentioned 30% penetration on things like returns logistics. What are you thinking in terms of how that progresses over the next few years, in terms of penetration? Thanks.

Neil Shelton, GXO: I'll ask Baris to talk about the opportunity in terms of EBITDA growth from value-added services, and then Bill to comment on the growth outlook from such activities. Baris?

Baris Oran, GXO: Yes, thank you. The value-added services we provide are solving many problems of our customers today. And e-commerce, overall, is growing faster than the industry, and value-added services, such as reverse logistics, is growing faster than e-commerce itself. The margins are much higher compared to our overall margin for GXO.

Neil Shelton, GXO: Thank you. And Bill, on the ground, what are your customers saying about value-added services that GXO is now offering?

Bill Fraine, GXO: Thank you, Neil. Eduardo and I had a meeting with one of our top customers this week, and they were talking about their future, 2025, and how they had to build out a transportation network for the e-commerce needs of today — being close, being fast, being efficient — and how they want us to partner with them and give them a huge amount of leverage in terms of sites around the country, to help them with that. That's a normal conversation we're having today with existing customers, and there's a lot of value-added services in that. At the same time, in e-commerce, as Baris mentioned, it always turns to reverse logistics, because if you have e-commerce, you have reverse. And what we've been able to do is speed the process of reverse for our customers. So, when products that come back into the facility, they're able to throughput quickly and go back out as new e-comm. In some cases, we've built our e-commerce capabilities in the back of our reverse centers. So, a product coming in is right back to the market again, saving money and process time for our customer. Last one I'll mention is — and we're talking to customers together, almost on a weekly or daily basis — this phenomenon isn't just e-comm. If I'm talking to somebody in aerospace or automotive or food and beverage, their customers expect to have a phone in their hand, to be able to walk through an airport, hit a button and get a part delivered in two days. So, they're faced with the same things, and they're coming to us as that port in the storm to answer those questions. We have a great team, we have great respect with our existing customers, and, finally, large new customers are coming to us to figure out what's going on and how they can best capitalize on this.

Neil Shelton, GXO: Thanks, Bill. Allison, thank you very much, indeed, for your questions.

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

Scott Schneeberger, Oppenheimer: Thanks very much. Good morning. Could you please discuss the contract mix of open-book versus closed-book versus hybrid? Perhaps discuss the margin profiles and the general geographies of each. And where you would expect, I suppose, that mix or the business to be going over the coming years?

Neil Shelton, GXO: I'll hand over to you, Baris, to talk about the different contract terms, open- versus closed-book, and then we'll pass over to Richard, who runs the European operations, and Eduardo for comments on the US, too.

Baris Oran, GXO: Thank you. In our open-book contracts, revenue is based on our actual costs plus an agreed management fee. We also share our productivity gains with our customers. The majority of the upfront investment is taken over by the customer. Therefore, the investment capital returns are quite high. On the closed-book contracts, revenues are based on a combination of price per unit processed and a fixed payment. Typically, these are lease payments, equipment and site/team management expenses. We have productivity gains on the closed-book contracts, but those gains are kept in-house and margins expand over time, higher and higher. Today, the majority of our contracts are a blend of open- and closed-book, and we expect that trend to continue in the future.

Neil Shelton, GXO: Thank you, Baris. And Richard, in terms of open-book versus closed book in Europe, what are you seeing in terms of the current momentum?

Richard Cawston, GXO: Very stable, because the hybrid model actually covers the best of both worlds. You can tailor it to each of the customers' needs, and each of the dynamics of the situation — the complexity, the evolution of the contract and the lifespan of the customer's business needs. So, the hybrid model works the best in our business.

Neil Shelton, GXO: And Eduardo, are you seeing much change in the open-book vs. closed-book nature of contracts in the US?

Eduardo Pelleissone, GXO: Thanks, Neil. As Baris and Richard said, we operate pretty much in the same way and to the same standards as Europe, as we are a global company. The majority of our contracts are hybrid contracts where we have leading KPIs, securing labor at the right wages for example, so we don't feel the shortage or a hit to our productivity.

Neil Shelton, GXO: And Mark, have you got any closing thoughts on the open-book versus closed-book?

Mark Manduca, GXO: Just linking Eduardo, Richard and Baris's excellent points on contracts, I think the most important point to make is where these contracts have migrated to. We've migrated away from a price discussion in these contracts. And, more often than not, what we see is customers asking for a scaled plan; a global plan; someone with a good balance sheet; someone who's technologically advanced. And that's where we win.

Neil Shelton, GXO: Thanks, Mark. And Scott, thanks for your question.

Operator: Our next question is coming from Hamzah Mazari from Jefferies. Your line is now live.

Mario Cortellacci, Jefferies: This is Mario Cortellacci filling in for Hamzah. Could you just walk us through the sales cycle for new customers? You gave good detail on the pipeline on page 47, but maybe you can talk about how much of that is near-term opportunity versus long-term opportunity. And then, also, maybe, could you give us a sense of what that conversion rate has looked like historically, and then where it can go in the future?

Neil Shelton, GXO: We'll start off with Malcolm to walk through the typical sales cycle; then I'll ask Bill to give you a bit more commentary around the sales pipeline. Malcolm?

Malcolm Wilson, GXO: Thank you, Neil. It's a very similar process, whether it's an existing, very long-tenured, blue-chip customer that we've been working with over many years, or a brand-new customer. Invariably, we're talking about the specific business needs that they have. We'll do the analyzing; we'll develop the solution design — working, really, very closely as teams with our customers. Ultimately, we'll agree on the various different terms of that process. As you point out, we have short-term arrangements where, from start to finish, that could be six months. More and more, the very nature of the complexity of the supply chain solutions that we're bringing — the problems that we're solving for our customers — means that that timeframe could easily become 12 months or even a bit longer, remembering that those deals are typically five, 10, even 15 years in duration. So, a lot of work goes in upfront, but then we're seeing a long horizon of benefits after the implementation.

Neil Shelton, GXO: And Bill, if you could follow up with some commentary on the sales pipeline that you see in front of you.

Bill Fraine, GXO: Yes, so, first of all, we talked about it being a $2 billion pipeline. One thing that we didn't talk about is the very stringent way those customers get into our pipeline as we work with them. We go out and seek out customers we know will have value for us, not just short-term but long-term. We go through a "go/no go" process, which sorts them out as something we're going to spend time and effort on. As Malcolm just said, some of these are longer-term, more complex contracts. Others fit the reason why we created GXO Direct. They're shorter-term, and they want to come onboard quickly, and GXO Direct gives them that ability. Customers come onboard and they can ship direct with us. I'll give you an example of a customer who came on last year, a technology customer, in one site and — then they expanded into seven sites in the next year. That's the benefit of Direct: we're a network. Once they're in and installed once, we can replicate that same technology around the other sites. Other customers come onboard that work through Shopify. We feed Shopify. We do the work of processing. So, newer customers in the market want to come on quickly. They come to GXO, and they come into our Direct network, and we have the ability to manage both. There's been almost 50 new customers, large logos brought on this year, including some the size of Apple. So, really exciting times, so far — and that's just so far this year. Thank you.

Neil Shelton, GXO: Thanks, Bill. And Mario, thank you for your question.

Operator: The next question is coming from Ari Rosa from Bank of America. Your line is now live.

Ari Rosa, Bank of America: Hi. Good morning, guys, and congrats on the spin here. Malcolm, I wanted to direct a question at you. Maybe you could give a little color on the benefits you see from being a standalone entity, and what that is going to allow you to do that you weren't able to do before. And then, separately, I wanted to get a better understanding of where you are seeing evidence of scale benefits in this industry. You spoke a bit about how this industry is incredibly fragmented, but it sounds like in the process of looking to expand, you may be looking to do acquisitions. But obviously the fragmented nature of the industry might suggest that there aren't such large benefits to scale, especially if you're providing these really customized, tailored solutions. Maybe you could give some thoughts on that.

Neil Shelton, GXO: I'll start off with Malcolm in terms of answering your question on the benefits of being a standalone business and the benefits of scale. And then I'll turn it over to Mark to talk about M&A and the impact of GXO's ability to consolidate this industry going forward. Malcolm?

Malcolm Wilson, GXO: Thanks, Neil. The spin-off that's taking place now is creating two powerhouse companies: XPO on transportation and GXO on logistics. For GXO, it's really about the business structure. It's going to enable management to pursue opportunities for long-term growth and profitability that are unique to GXO's business and unique to GXO's customers. It allows us to implement our own optimal capital structure, investment identity, the allocation of resources and strategies with a strong focus on logistics, warehouses, technology and talent. All these things really come as a consequence of what is happening.

Neil Shelton, GXO: Thank you. And Mark? Ari asked about M&A.

Mark Manduca, GXO: It's a great point, Ari. Thank you for the question. And before I answer that, I just wanted to link back to Malcolm's points and Brad's earlier comments, as well, that this is a rare breed of business. Let's just think about what we were hearing earlier about free cash flow. We are producing excellent free cash flow for a high-growth company. How often do you see a business that has our visibility of contracts, our infrastructure-like contracts, our revenue growth — where we have double that of the pure-play peers, where we have GXO's EBITDA growth, again, double that of our pure-play peers — our margin expansion opportunity, and that 28% return on invested capital that we talked about in the presentation? I think there is a very good argument here, Ari, that this business — GXO — should trade at a premium to that of the high-teens multiples that you see at some of our excellent pure-play peers. That's the first point. Secondly, on M&A, we still hold a 5% market share of this fast-growing, $130 billion outsourced logistics market in both Europe and North America, as you know. Now, with our strong balance sheet and track record of successful M&A, we are in, I think, the perfect position to be a consolidator in this market as the right opportunities present themselves. Now, organic growth, as you've heard about on this call and as the questions earlier alluded to, is clearly going to be our priority given the phenomenal secular tailwinds that you heard about in our presentation. But let's be clear — if the right multiples present themselves, we will keenly look at them as a management team. But they need to hit 28% return on invested capital or better as a threshold, and obviously there is going to be a keen focus as well on EPS accretion within our business.

Neil Shelton, GXO: And on that note, it's probably worth asking Gavin to talk about our recent bolt-on with Kuehne+Nagel assets in the UK. Gavin?

Gavin Williams, GXO: Thanks, Neil. Yes, the acquisition of the majority of the K&N contract logistics business in the UK and Ireland was a cracking example of a tactical acquisition. We're way down the path of integrating that business now. What it gave us is three new verticals for us to secure and grow. We are seeing, also, a great pipeline of new logos come to GXO through the acquisition. So, that's a great example of where we will be responsive and positively react to an opportunity for tactical M&A.

Neil Shelton, GXO: Thank you. And Ari, thanks so much for your question.

Operator: The next question today is coming from Brian Ossenbeck from JP Morgan. Your line is now live.

Brian Ossenbeck, JP Morgan: Hey, good afternoon. Thanks for taking the questions. I was wondering if you could just talk about the labor market tightness for starting up a new contract warehouse and also managing through the day-to-day operations, including peak. Are you finding that customers are still willing to take on that passthrough risk — taking on that additional cost as part of the service when you do these outsourcing contracts? That's the first one. And then Mark just mentioned a high-teens multiple versus the peers. I wanted to clarify if that was on an EBITDA basis or adjusted for lease accounting for IFRS. As you know, that's something we've all been working through to different degrees here, so if you could clarify that that would be helpful. And then lastly, on the ROIC, you've brought up 28% a couple of times, which I think is adjusted, but I haven't seen the appendix yet. But it's a clear focal point in how you're looking at the business and classifying some of the growth opportunities, so maybe you can just walk us through that quickly as well. Thank you.

Neil Shelton, GXO: Brian, thank you for your questions. I'll start off with Richard about the tightness of the European labor market, Eduardo to talk about the US labor market, Mark to talk about the multiples that our peers are trading on and then Baris to talk about our return on invested capital. Richard?

Richard Cawston, GXO: Very good question. The labor market is very tight at the moment. That's part of the rapid bounce-back of economies across the globe from the pandemic, as labor starts to reorganize itself in the right places. That will pass, but it will happen again in the future. That's where our deep customer relationships come into play — our strong contract protection. Our customers understand the critical nature of this and will pay for it. It's critical to our service, and these deep relationships really help us get through these tight spots in such labor markets.

Neil Shelton, GXO: And Eduardo, what are you seeing in the US in terms of the labor market?

Eduardo Pelleissone, GXO: So, similar to Richard, we are in a tight labor market. We are taking pretty much the same actions as Richard is taking in Europe. I just want to add that the tight labor market is actually giving us a great opportunity for growth with the high level of automation that we can add to our warehouses, solutions and operations, to reduce our dependency on the tight labor market.

Neil Shelton, GXO: Thank you. And Mark? Brian's second question was about the multiples of pure-play peers.

Mark Manduca, GXO: Yes, and just picking up on Eduardo's comments there first, and then I'll get to the multiples — for us, inflation volatility drives outsourcing by customers towards third-party logistics providers like ourselves. And, of course, if you think about labor inflation, it causes customers to want to automate more. It means more robotics. And, of course, as we know from the presentation earlier, we are a global tech leader when it comes to automating warehouses. On your point about EV-to-EBITDA, the comparable pure-play companies include ID Logistics, Wincanton and Clipper Logistics. I think our choice is Clipper, given its similar e-commerce exposure, its high revenue and EBITDA growth and strong return on invested capital profile. I think that's the most likely name as a comparable to GXO's business model. Very simply, we are best-in-class at standing up complex, technologically advanced supply chain solutions. And we are worthy, in our view, of a high-teens EV-to-EBITDA 2022 multiple. Be of no doubt. Baris?

Baris Oran, GXO: Thank you. Let me give you a framework around the differences between Europe and the US. A company in the supply chain business will have different EBITDA under IFRS and US GAAP. The largest difference is coming from the treatment of operating leases, which are substantial in our industry. IFRS would not book them in EBITDA as an expense and, therefore, EBITDA would look higher, and multiples would look lower under IFRS. So, if some of our peers were reporting under US GAAP, their multiples would have been higher. It is important to be mindful of that fact when you compare us to the European peers, especially the pure-plays. That's why we have provided guidance on EBITDAR for those of you who are looking for a quick and easy way to do that calculation. Now, pertaining to your question on return on invested capital, the calculation is that we basically start from our EBITDA guidance of $600 to $630 million, we back out depreciation and amortization and also provide a 26% to 28% average tax, to come up with our notepad number of $266 to $274 million. On the denominator side, we start with equity, take out our debt, financial

leases, cash, goodwill and intangibles and come up with a number around $967 million. That reflects roughly how much cash-on-cash return we have when we invest into this business. In other words, if I give $100 to Eduardo, Richard, Gavin or Bill, they generate roughly $28 per annum, even after $5 is allocated to shared expenses. So, $100 is returning $28 per annum.

Neil Shelton, GXO: Thank you, Baris. And Brian, thank you for your question.

Operator: The next question today is coming from Jason Seidl at Cowen. Your line is now live.

Jason Seidl, Cowen: Great, thanks for the question. GXO had signed some of its largest contracts while being under the XPO legacy. Will not being part of the larger business affect GXO's ability to sign future contracts? How have customers perceived the spin and are there any implications for how new, large contracts will be signed in the future?

Neil Shelton, GXO: Bill, are customers excited by the GXO spin and anticipating that with bigger contracts?

Bill Fraine, GXO: Thank you, Neil. While being part of XPO has been great, I can tell you that nothing has slowed down. We are in the middle of signing some very large contracts right now, not just in the US, but globally. And that's a big plus for us, because we have very large global customers today that we work with across all regions of the globe — successful, critical, very detailed customers. Our quality isn't related to a region — it's the way we work, the processes we follow, the commitment that we have. As you've heard on this call, I'm surrounded in sales processes with the people on the call with me, meaning we're all involved. You've heard Eduardo and Baris and Mark and Richard and

Gavin and Malcolm — everybody here — talking in detail about our customer process, talking in detail about how we service customers and what it means for them to be part of GXO. That's really the key strength to this. Having the technology is key, having the scale is key, having the geographical reach is key, but on top of that, having a leadership team that is as well-entrenched with their customers as we are is really going to be the thing that puts us over the top.

Neil Shelton, GXO: Thank you, Bill. And Jason, thank you for your question.

Operator: The next question today is coming from Stephanie Benjamin from Truist. Your line is now live.

Stephanie Benjamin, Truist: Hi, good morning. I appreciate all the color you gave comparing GXO's size and how the scale matches up to your pure-play competitors. But I did want to touch a little on your other competitor, who is another global competitor and often number one in some of your key markets, particularly North America. Maybe you could just talk about the landscape with them, how GXO stacks up and your competitive advantage when you go head-to-head on new contract wins specifically against that competitor. Thanks.

Neil Shelton, GXO: Malcolm, would you like to talk about our competitive advantages and disadvantages as you see them?

Malcolm Wilson, GXO: Definitely. In North America, one of our great competitors is DHL. That's a great business with great scale, and scale is important. We respect them as a competitor. The most important things are scale and focus. So, for GXO, we overwhelmingly focus on warehousing, high

levels of tech enablement and we are really levered towards high-growth verticals: e-commerce, omnichannel technology, food and beverage, consumer packaged goods. All of these are really strong, secular growers. GXO is a growth company. So that's why we are driving forward with strong, double-digit EBITDA growth and strong revenue growth. That's really the differentiator for us.

Neil Shelton, GXO: Thank you. Stephanie, thank you for your question.

Operator: The next question is coming from Todd Fowler from Keybanc Capital Markets. Your line is now live.

Todd Fowler, Keybanc: Great. Thanks, and good morning. I wanted to ask on the leverage targets — the 1x to 1.5x that you have for a longer-term target. On a pro forma basis, it seems like you are going to be towards the low end of that with the EBITDA guidance and free cash flow, maybe below it. So, how do you think about near-term capital deployment and being within that range on a near-term basis? That's the first question. Second, can you talk about the scalability of the organization? How much more revenue and growth do you think that the current organization and infrastructure can handle before it needs a significant investment requirement on the corporate side. Thank you.

Neil Shelton, GXO: Baris, do you want to talk about the GXO balance sheet, investment strategies and the fact that we can grow while generating cash flow?

Baris Oran, GXO: Sure, thank you. Yes, we are starting day one with an investment-grade credit rating and balance sheet. Our leverage is around 1.1x or so. And we are firmly committed to keeping

our investment-grade balance sheet and credit rating. It's important for us, also, from a competitive perspective. We have the unique ability of creating a lot of free cash flow while we continue to grow and create 28% return on invested capital. Therefore, we are comfortable that we will be able to fund our growth through cash generation, and the asset-light nature of our business is giving us a lot of strength to support our growth in the future.

Neil Shelton, GXO: Todd, thanks so much for your question.

Operator: Thank you. Our next question is coming from David Vernon from Bernstein Research. Your line is now live.

David Vernon, Bernstein: Hey, good morning, guys. Thanks for taking the time. Could you help us think about capex from a micro level and then take it down to the macro? So, if you think about a project, like the Nestlé one you showed the video of, how do we think about what level of investment you're making in the proprietary hardware and IT that's going to operate the facility, versus the investment that Nestlé is making? And how do we think about that expanding up to assist more growth in terms of capex in relation to future revenue growth?

Neil Shelton, GXO: Baris, would you like to talk about our growth capex and how this would drive revenue within this from here?

Baris Oran, GXO: Sure. Roughly 2% of our revenue is going to growth capex, and 1% of our revenue is going to maintenance capex. And if you look into the details of the growth capex, around 50% of that is going to robotics and automation that, today, has been related to our activities improving

labor productivity and the productivity overall in our facilities for our new customers. And when you look into our maintenance capex, which we have invested quite a lot in during the last couple of years on the IT side, around 50% of our maintenance capex is primarily information technology. And we are reaping the benefits of that as those investments mature.

Neil Shelton, GXO: Thank you, Baris. And Malcolm, is there anything you can add with regards to the solutions we provide for our customers and how technology helps them?

Malcolm Wilson, GXO: Just to add to Baris' comment, at a high level, sometimes our customers put capital in. Sometimes we put it in. There's no cookie-cutter approach on this. We look at every solution, every requirement in an individual way, and then we'll determine what the right solution is going forward. In every instance, though, what we're bringing into that solution is all of the expertise that we have in the standing up of that new facility for the customer — all the intelligence that we have in terms of the systems, the integration of different automations, different robotics. It's really one of the key differentiators for GXO.

Neil Shelton, GXO: Thank you, Malcolm. David, thank you very much for your question.

Operator: Our next question today is coming from Bascome Major from Susquehanna Financial Group. Your line is now live.

Bascome Majors, Susquehanna: Thanks for taking my questions here. I appreciate the reluctance to guide free cash flow for next year given the uncertainty of implementations and timing, and things like that. But can you talk about it over long-term? If you're planning to grow the EBITDA double-

digits moving forward, do you think free cash flow grows above, beyond, in line with that over the cycle? And any thoughts on what the gap between those two metrics might be? And, as a follow up, you've talked a lot about the favorable cyclical and secular conditions that are really propelling a lot of your businesses across the globe right now. Can you talk about the kind of environment that would be more challenging cyclically for you, and what changes you might have to take to protect your margins, earnings and cash flows in that scenario? Thank you.

Neil Shelton, GXO: I'll hand over to Baris to talk about how our free cash flow growth will outpace EBITDA. And then I'll ask Malcolm to talk about the positive secular conditions that we continue to see in front of us. And then afterwards, I'll ask Bill to talk about feedback from what his customers on the ground are seeing with regards to the broader economy.

Baris Oran, GXO: Thank you. We're really not shy about our free cash flow number at all. 30% conversion from EBITDA to free cash flow. 80% conversion from net income to free cash flow. And if you look into those numbers, they are much better than compared to the last couple of years. And what's giving us that comfort is the 93% retention rate on our customers, and $2 billion of pipeline. And we are a secular growth company. We are a secular growth business. Therefore, we are not impacted by the cyclicality. And therefore, we expect our free cash flow to continue to grow over time. And even in 2020, we were able to generate substantial free cash flow that supports that.

Neil Shelton, GXO: And Malcolm? The secular outlook — is that outweighed by anything you're seeing potentially on the cyclical front?

Malcolm Wilson, GXO: No, we're seeing really a very, very positive environment as we go forward, not just for the remainder of '21, but also through '22 where we provided guidance. '23, '24 — we can already see projects that will be landing in those windows. And to add to Baris' comment, we've just come from a pandemic and the business performed incredibly strongly. Our contractual structure, which we worked on with our customers, protects us, gives us benefits in upcycles, but also gives us strong protection if things are in a downward environment. So, I think we're in great shape going forward.

Neil Shelton, GXO: And Bill, the feedback you're picking up from customers? Are they looking looking to the future to invest, or how are they minded right now?

Bill Fraine, GXO: Yes, Neil, the bulk of the customers we're talking to are talking to us about 2025. They're talking years out. They're talking about the changes they'd have to make in their business to be viable in the future, to add value to what they do for their customers. And so, what we're doing is we're working with them to partner, and to show the ways we can get them there. On the RFPs, it's the exact same way. People aren't looking for us for oversight and managers. They're looking for us to change the structure and the strategy of where they are in the world and where they are in their markets, and how they can improve to meet today's demand versus what they were doing in the past. So, all of these things involve — as we were talking about before — scale, technology and, in many cases, global. They're looking at how we do that around the world, not just in one market.

Neil Shelton, GXO: Thank you, Bill. Bascome, thank you very much for your questions.

Operator: Our next question today is coming from Thomas Wadewitz from UBS. Your line is now live.

Tom Wadewitz, UBS: Good morning and thanks for the chance to ask some quick questions here. I'm going to give you a cue to work with. I wanted to get your thoughts on retention rate. I think one of the concerns historically on logistics was that you could do a great job with a customer and then when the contract expires, you've got to come up with something new — new cost savings. My guess is that's changed a bit over time, but can you talk about how that has changed over time in terms of retention and pressure to further reduce cost when the contract expires? Has your retention rate changed over time? Is it rising? And then the second one would just be management focus. Should we judge on revenue growth? I mean, it seems like there's more focus on revenue growth, or is margin expansion a greater focus? Investors like simple stories. So, should we think more about margin or more about revenue growth? Thank you.

Neil Shelton, GXO: I'll hand it over to Malcolm to talk about customer retention, the strong level that we've seen, and the contract duration that we currently enjoy. And then over to Baris to talk about the mix of revenue growth and EBITDA growth that the business is focusing on. Malcolm?

Malcolm Wilson, GXO: Thanks, Thomas, for the question. 93% is where we are in the context of retaining our customers. That's a high percentage. And it's actually growing. And what's driving that is the solutions that we are putting into our work with customers. We're solving more and more complexity in their supply chains. So, we're contracting for longer periods of time. In the past, we would have looked at three- to five-year type of contracts. Nowadays, it's quite normal to have contracts be five, 10-year or even longer than that. So, it's a big decision that is made at the point

when we're starting to work with a customer. A lot of due diligence goes into that. A lot of governance on both sides. And that drives the businesses to be together for the long-term.
And I think the last point I would say on that is we shouldn't look at these contracts in a kind of one-dimensional way. Almost in every case, we see that the contracts expand in scope. We become more and more connected with our customers. It drives that high level of retention. So, we might start with one type of service, but invariably — by the great relationships that we have — that service is expanding to new services. And we're always looking for ways to save our customers money. And that's what's driving that high level of retention.

Neil Shelton, GXO: Baris, the second part of the question was would you rather be judged for your revenue growth or your EBITDA growth?

Baris Oran, GXO: Well, I think our disclosure on how our executives are compensated would give you a good view on that. EBITDA growth is number one. Revenue growth is number two. And cash flow would be number three. And, all that within the context of a return on invested capital of 28%.

Neil Shelton, GXO: Baris, thank you very much. Thomas, thanks very much indeed for your questions.

Operator: Our next question today is coming from Amit Mehrotra from Deutsche Bank. Your line is now live.

Amit Mehrotra, Deutsche Bank: Thanks for taking the follow-up. Just a couple quick more. One is, I want to understand how you measure the labor intensity of the business. Obviously, it's over many,

many, many hundreds of sites, and one of the key secular trends is automation, as you guys have said many times. But it's really hard to audit that from the outside in. So, I don't know if you guys have a statistic or measurement date — how do you measure the labor intensity of the evolution of that over time, so we can at least hold you accountable, or the industry accountable, for this secular trend in automation? And then the other question is, if I look at GXO today, it's really a product of three big acquisitions. You have Norbert in Europe, you've got New Breed in North America and maybe even Menlo. And so, the end-market exposure for all those three businesses is quite different. So, my understanding is you have more industrial exposure in North America and maybe less industrial and more retail exposure in Europe. Please correct me if I'm wrong, but what does that mean for the growth prospects of the regions and the resiliency of the margins over cycle — because, obviously, the industrial economy is much more cyclical than consumer packaged goods or e-commerce. Thank you.

Neil Shelton, GXO: Amit, your first question on labor intensity — I'll ask Angus and Gavin. And then, with regards to whether we are different in terms of our exposure by industry vertical, I'll ask Malcolm to tackle that one. Angus?

Angus Tweedie, GXO: Hi, Amit. Look, good question on this and as you're kind of highlighting, I think looking from the outside in, it's hard to get an angle when you're looking across the peers. What we'd say is, it's very important to consider the verticals that the companies are operating in. And it's very much, as you're hearing from Malcolm, Richard, Bill, it's very much down to the solution that we're providing the customer that drives the services that we offer them. And, therefore, that can result in sort of distortions when you're looking at the data on the company level. But I'll hand it over to Gavin, I think, to talk you through the kind of operational way we manage this.

Gavin Williams, GXO: Thanks, Angus. Thanks, Amit, as well. In the end, the consumer demand is what's driving the labor intensity. We, as consumers, are becoming more and more demanding on how we receive our goods, which is driving complexity into our customers' supply chains. So, our scale is giving us the ability to significantly invest in tech and solve these customer-related, complex supply chain problems. And that's on the increase. Our focus is in three areas, primarily: We're focusing on our proprietary technology, so that's like GXO Smart or WMx or GXO Direct, and we're focusing on delivering big automation projects. You heard the Nestlé project being mentioned on this call. And then, we're looking at applying all of our learnings and benefits that derived from delivering and executing and operating those technology-specific fulfilment centers across the globe. So, those are our three focus areas, which are driving the efficiency around the labor intensity question.

Neil Shelton, GXO: And, Malcolm, the second part of Amit's question was, is there much different vertical exposure by geography?

Malcolm Wilson, GXO: Our business in Europe and North America — and indeed Asia, in fact — the actual verticals are quite similar. Nearly 40% of our total business is really e-commerce and omnichannel. There are some slight differences. So, in North America, for example, we have a high level of technology business. And we're hoping to transition that same best practice and expertise across to Europe. In Europe, there's a higher level of food and beverage. So, there are small differences, but overall, North America is not really exposed to the industrial markets. It's very much the same pattern of verticals as we see in Europe. And, as I mentioned, there are great

opportunities to transition best practice learnings, customers from one geography to the next. That's also one of the things that will help us in our growth as we go forward.

Neil Shelton, GXO: And I see Mark is keen to add a few comments. Mark?

Mark Manduca, GXO: Just addressing your point on acquisitions, and also relating back to the 4% point that was made earlier in one of the questions, I would say the following. Look, in Europe, we bought one company, as you know, Norbert, and it's grown extremely fast. In North America, we rolled up three companies — New Breed, Menlo and Jacobson, as you know. And they had some great customer contracts, but they also had some so-so contracts as well, which we shed in turn, which justifies that point that we were making earlier about historic growth. Now, if you think about that going forward — that churn, I would argue, is behind us, and we're confident in our future growth as a business. You'll remember in our Q1 results, we announced some really whale-type wins. Huge tech contracts. Huge F&B contracts. In my view, Amit, we're really just getting started here. We're hitting the J-curve.

Neil Shelton, GXO: Amit, thank you very much indeed for your questions. I noticed that we're slightly over time. I'd like to hand it back to the operator, please.

Operator: Thank you. We have now reached the end of our question-and-answer session. I'll now turn it over to GXO's CEO, Malcolm Wilson, for closing remarks.

Malcolm Wilson, GXO: Thank you, operator. I'd like to thank everybody who attended the call today. I'm hoping that you've learned a lot about GXO — the blue-chip customers that we work

with, the different verticals that are growing our business, the seasoned leadership team that we have, the range of differentiated services we provide. Put it all together, this is what makes GXO such an attractive investment opportunity. We greatly appreciate your interest, and we're looking forward to our ongoing engagement. Thank you.

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

Additional Information

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

Non-GAAP Financial Measures

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

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

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

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

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

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

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

Forward-looking Statements

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

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

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

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