GXO Q2 2023 Earnings Call

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GXO Logistics Q2 2023 Earnings Call

Presenters

Malcolm Wilson – Chief Executive Officer

Baris Oran – Chief Financial Officer

Bill Fraine – Chief Commercial Officer

Mark Manduca – Chief Investment Officer

Q&A Participants

Stephanie Moore – Jefferies

Scott Schneeberger – Oppenheimer

Bascome Majors – Susquehanna

Chris Wetherbee – Citigroup

Amit Mehrotra – Deutsche Bank

Allison Poliniak – Wells Fargo

Jason Seidl – TD Cowen

Ravi Shanker – Morgan Stanley

Brian Ossenbeck – JP Morgan

Jeff Kauffman – Vertical Research Partners

Operator

Welcome to the GXO, Second Quarter 2023 Earnings Conference Call and Webcast. My name is Daryl, and I will 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 make certain forward-looking statements within the meaning of applicable securities laws, which, by their nature, involve a number of risks and uncertainties, and other factors that could cause actual results to differ materially from those projected in the forward-looking statements.

- A discussion of factors that could cause actual results to differ materially is contained in the Company's SEC filings. The forward-looking statements in the Company's earnings release or made on this call are made only as of today, and the Company has no obligation to update any of these forward-looking statements, except to the extent required by law.
- The Company also may refer to certain non-GAAP financial measures as defined under applicable SEC rules during this call. Reconciliations of such non-GAAP financial measures to the most comparable GAAP measures are contained in the Company's earnings release, and the related financial tables are on its website.
- Unless otherwise stated, all results reported on this call are reported in United States dollars.
- The Company will also remind you that its guidance incorporates business trends to date and what it believes today to be appropriate assumptions. The Company's results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and consumer demand and spending, labor market and global supply chain constraints, inflationary pressures, and the various factors detailed in its filings with the SEC.
- It is not possible for the Company to 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 of the Company's website.

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

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Daryl, and good morning, everyone. Thanks for joining us today for our second quarter 2023 earnings call.

With me in Greenwich are Baris Oran, our Chief Financial Officer; Bill Fraine, our Chief Commercial Officer; and Mark Manduca, our Chief Investment Officer.

Before we review the quarter, I want to start by acknowledging that yesterday marked our second anniversary since becoming a publicly traded company.

We've had a stellar first two years: delivering eight straight quarters of revenue and adjusted EBITDA growth; posting consistently excellent operating results; and signing hundreds of new partnerships with blue-chip customers all over the world, while enabling their businesses through our best-in-class tech-enabled solutions. We have solidified ourselves as a globally recognized brand for logistics excellence, and a part of the Fortune 500.

We are committed to ambitious environmental, social and governance goals and are tracking especially strongly on our sustainability targets. I'm also particularly proud to note that this quarter's employee sentiment survey revealed the highest level of team member engagement and job satisfaction ever recorded.

This past January, we held our first Investor Day as a standalone company. We unveiled our strategic plan and financial targets for 2027 and had the opportunity to showcase our unique value proposition to the broader investment community.

So it's been a fantastic two years, and I wanted to take a moment, on behalf of the team here with me in Greenwich and our entire global leadership team, to thank our employees, our customers and our shareholders.

Now, turning to the quarter. I'm pleased to say we've delivered both top-line and bottom-line growth. Our revenue in the second quarter was $2.4 billion, growing 11% year over year, with 3% organic growth. Our adjusted EBITDA was $190 million, also up year over year, and above our expectations.

As a result, we are reiterating our full-year organic revenue growth guidance of 6-8%, and we're raising our full-year adjusted EBITDA guidance by $10 million, bringing the midpoint of our range to $740 million.

This quarter, we won our highest ever value of new sales wins, beating our prior record, which was set in the second quarter of 2022. Among our contracts signed this quarter are new partnerships and expansions with a terrific group of customers, including Boeing, Eddie Bauer, PepsiCo, Sainsbury's, Schneider Electric and TJ Maxx.

We recently announced an expansion with Abercrombie & Fitch to the UK, after launching our first operation for them – a highly automated distribution centre utilizing goods-to-person robotics – here in the US last year. And Ikea recently ranked our site in the U.S. number one in its global network for productivity, service quality and inventory accuracy.

A few weeks ago, we also announced the signing of a multi-year agreement with Heineken. Over the past two years, we've significantly transformed their distribution network, enhancing efficiency, service and sustainability.

In the quarter, we also launched our business in Germany, which is an exciting new market for us, and we're looking forward to meaningfully growing there over the coming quarters and years.

I want to provide an update on one more point. We mentioned last quarter that we were in the process of strengthening our tech organization to ensure we have the right structure to meet the huge demand for our services. This means both looking at the organizational needs today, where we're increasing our total operational tech by over 60% year over year on a quarterly basis, and anticipating our growth over the coming years.

I'm pleased to say that we've completed that review, and you may have seen last week's announcement regarding the appointment of Adrian Stoch to the role of Chief Automation Officer. Some of you have met Adrian already: he's served as president of our Consumer division in the US since 2021, where he's driven record wins and has been looking after some of our highest-profile customers in this capacity. He has delivered substantial improvement in productivity through the deployment of automation and technology in complex consumer solutions. In his new role, he'll be looking after our operational tech – including automation, machine learning, and artificial intelligence, as they relate to our on-the-ground operations – on a global basis. I'm delighted to have Adrian's unique expertise in this capacity going forward.

So, in summary, we're proud that we're one of the few companies in our industry that is expecting to grow top and bottom line this year. Since our spin, we've demonstrated our strength and resilience in a changing macroeconomic backdrop, quarter by quarter. On top of that, we continue to deliver record levels of new sales wins, which will propel our future growth and underpin our confidence in our 2027 targets.

And with that, I'll ask Bill to update you on what we're seeing on the ground. Bill, over to you.

Bill Fraine – GXO Chief Commercial Officer

Thanks, Malcolm. Good morning, everyone.

As Malcolm said, we're very excited to have delivered a record amount of new sales wins this quarter: nearly $500 million, beating our previous record. And with our record pre-pipeline, we're continuing to see many more opportunities for growth. We see more and more brands partnering with GXO to modernize their supply chains and optimize their operations. What has really changed of late is that this is now happening at a greater pace and scale than we have ever seen before. This is a dynamic, growing market, and we are winning a larger share of these bigger business opportunities – and this is all due to The GXO Difference.

As we first mentioned last year, customers are increasingly realizing the possibilities of what logistics done right can achieve and that "business as usual" will no longer work. You see this in our second quarter wins, with some notable newly outsourced business, including Eddie Bauer, Ingersoll Rand, and Sainsbury's. With Sainsbury's, we have already successfully gone live on two of the six sites that we were awarded in April – and these sites are doing millions of case picks per week. This highlights just how fast we can move on the ground. Sainsbury's is a very exciting partnership for GXO, and it also showcases our leading capabilities for large outsourcing deals. As customers continue to seek large, transformative deals, we are in a prime position to convert more and more of the $300-billion insourced market.

We're also seeing many of our customers deepen their existing partnerships with GXO. We are very excited to be going live on a huge new European site for JD Sports, which highlights how we are expanding our partnership, which started in the UK and is now expanding across Europe. We are also working with this customer to support driving their growth globally, where they are looking to leverage our best-in-class capabilities.

We also grew our partnerships with a number of other existing customers, including Havaianas, Nike, and PepsiCo.

This is proof positive of The GXO Difference, reflecting the transformative value that a scaled, tech-enabled partner with decades of expertise can bring to customers.

Stepping back – the makeup of our wins and our pipeline continues to reflect the diversity and vibrancy of our business. As an example, our rapidly growing industrials activity in the US has already won almost as much business from global leaders like Boeing and Schneider Electric in the first half of this year as it did in the whole of last year.

Our pipeline stands at $2.1 billion, up year over year, and this is even after our record new business wins in the quarter. Over half of our pipeline is made up of new logos, that is, companies that are looking to outsource and reevaluate their supply chains. This plays to

GXO's core competency. And it is worth mentioning that our pre-pipeline is also up by about 30% year over year.

One of our customers recently told me that GXO is, and I quote, "their port in the storm." We understand the market, we understand the need for agility, and we bring to life the quantum leap that they can gain through our scale, expertise and technologies. That's why they turn to us.

And we are deploying this game-changing technology at a breathtaking pace, including a site soon to go live with approximately 5,000 automated shuttles and pouches in what will be one of Europe's largest and most automated e-Comm sites.

As Malcolm mentioned, we recently added Adrian Stoch to our global leadership team in the new role of Chief Automation Officer. I've known Adrian and worked with him since he joined GXO, and he is the real deal. He joined to lead our consumer business and demonstrated right away his expertise running complex customer operations. For example, one of Adrian's recent automation transformations drove an 18% reduction in cost per unit for the customer.

As we highlighted at our Investor Day, as more customers in more markets embrace the increasingly critical need for automation, GXO wins more market share – and this grows our top and bottom lines further. With Adrian at the helm, it's safe to say that our pace of tech deployment is just getting started.

We are really excited by our growth. We're winning larger opportunities, many of which are first-time outsourcing, and our existing customers are turning to us to help support their ambitious growth plans. And, as our wins and pipeline show, we are set up for a very strong 2024.

And with that, I'll hand you over to Baris to walk you through our numbers and guidance.

Baris – over to you.

Baris Oran – GXO Chief Financial Officer

Thanks, Bill, and good morning, everyone.

We are very proud of our results this quarter, and we're confident in our outlook for the remainder of 2023 and beyond.

As Malcolm mentioned, for the second quarter of 2023, we generated revenue of $2.4 billion, an increase of 11% year over year, including 3% organic revenue growth. Our Technology, Aerospace and Continental European parts of the business continued to lead the pack on organic revenue growth, and we saw this trend continue through July.

Our adjusted EBITDA in the quarter was $190 million, up 8% year over year. We are delivering consistent adjusted EBITDA margins as a result of our resilient business model. Despite the non-operational impact from FX hedges and pensions, which was 70 basis points, our margins are strong and resilient. This was driven by our productivity initiatives, both central and at the site level. Our margins are up quarter over quarter by over 100 basis points, and all of this gives us great confidence in our margin expectations for the second half of the year.

Our adjusted diluted Earnings Per Share was $0.70, up from $0.68 in the prior year. Our operating cash flow was $61 million, and our free cash flow totalled $3 million. Taking into account the strength of cash flows we anticipate for the remainder of the year, we pre-paid $115 million of debt ahead of schedule.

Demand for our services continues to expand, as seen in the record number of wins. And we continue to write high-quality contracts with blue chip customers that deliver attractive returns. Our revenue from automated operations continues to grow faster than our overall growth level, and our operating Return on Invested Capital remains well above our 30% target.

Looking ahead to our expectations for the full year 2023, we are reiterating our organic revenue growth guidance range of 6-8%.

We are also maintaining our approximately 30% free cash flow conversion rate for the full year 2023. With respect to our balance sheet, we will continue to deploy our capital in the best interests of our shareholders, including deleveraging, buybacks, and accretive M&A.

We are also pleased, for the second quarter in a row, to raise our full-year profit guidance, for both adjusted EBITDA and adjusted diluted Earnings Per Share:

1. We're raising our adjusted EBITDA guidance by $10 million, bringing our full-year range to between $725 million to $755 million. This reflects better-than-expected performance in our operations.
2. We're also raising our adjusted diluted Earnings Per Share guidance by $0.05, bringing our full-year range to $2.45 to $2.65 per share.

Looking beyond 2023, we believe we're in a great position for next year, with nearly a half-billion dollars of incremental business already secured for 2024. In addition, we have over $100 million locked in for 2025. One of my core focus areas as CFO is to continue to maximize shareholder value by allocating capital into contracts with high returns, attractive growth and strong cash flow generation – and there are a lot of opportunities to do this.

And with that, I'll hand you over to Mark.

Mark Manduca – GXO Chief Investment Officer

Thanks, Baris.

In a dynamic environment, we've delivered a strong first half of 2023.

As Bill spoke about, we set a record for new business wins in Q2, which, alongside our vibrant pipeline, sets us up for strong top-line growth into 2024. Moreover, thanks to these recent new wins, we now have visibility for growth into 2025, and also 2026, on our journey to achieving our 2027 targets.

You heard Baris's comments about the counter cyclicality of our margin profile. There are very few companies in this market that are combining growth with margin resiliency.

We've been saying it for two years, and now we're proving it: this is a resilient business and a rare breed of an asset. And this is a management team that's delivering on its promises.

And with that, we'll turn back to Daryl for Q&A.

Question-and-Answer Session

Operator

Thank you. We'll now be conducting a question-and-answer session. If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for your questions.

Our first questions come from the line of Stephanie Moore with Jeffries. Please proceed with your questions.

Stephanie Moore – Jefferies

Hi, good morning. Thank you.

Malcolm Wilson – GXO Chief Executive Officer

Good morning, Stephanie.

Stephanie Moore – Jefferies

Good morning. So, congratulations on another nice quarter.

Just looking at your organic growth performance year-to-date, I think with 7% growth in the first quarter and 3% in 2Q, what gives you confidence in your ability to see a step-up in growth in the second half to kind of meet your full-year 6-8% target?

And maybe within that, if you could just talk about your thoughts for peak season, and maybe what you're seeing in your different geographies too? Thank you.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Stephanie. It's Malcolm here. Let me give some color around that question.

So, our business is doing really well. When we think about the kind of verticals that we're operating in, so the customer industries: our industrial, aerospace, food service, tech, autos – they're really doing well across all of our regions. But of course, our consumer facing business, our e-commerce, our brick-and-mortar, omnichannel retail business, that is slower right now, and it's clearly a function of the softer macro that we're seeing across all of our business – every region, every geography.

When we think about the holiday season, we're already, and have been now for around a month and a half, in deep discussion with our customers. That's the normal phasing for when we're doing this process. And we're collecting customer intel, customer information, customers are actually committing to fund incremental resources.

So this year, just like previous years, we'll be hiring in from the market around 15,000 to 20,000 new team colleagues to cope with committed customer demand, particularly around the holiday season. The holiday season for us is our biggest quarter. So, when we bring all these factors into play, we're in pretty good shape.

But in addition to that, I do want to call out new business. We've had two really stellar quarters. I mean, quarter two, for us as a business it was an absolute record. We signed nearly $500 million of new business. And a lot of the business that we've signed in the last few quarters is impacting now, as we're progressing into the second half of the year. We talked, and I think you will have seen in our press releases early in the year, about Sainsbury's – a huge business win. That's already going live. We're already implementing on different sites. So, all of those benefits are kicking in to the second half of the year.

So all-in-all, when we put all of those factors together, we're feeling very good about where we are on the second half. Of course, we're watching carefully the macro, but we're now a number of months away from the end of the year. But clearly, we're watching carefully the macro. We'll know in earnest, I think, as we get into the first part of September – that's when we really see peak season, holiday season volumes really maturing along for our business. So, that's the time we'll really know – that would be the acid test. But right now, everything we're seeing is giving us a very good feeling about our overall view for the full-year. And that's why we've reiterated our full-year guidance. It may be useful, I'll ask Baris, to just come in and just share in terms of how our year has progressed so far compared to last year, because it is an interesting dynamic.

Baris Oran – GXO Chief Financial Officer

Thank you, Malcolm.

In Q2, our organic revenue growth was 3%, and we saw low-to-single digit impact from lower volumes with omnichannel retail vertical softer, but stronger in aerospace, technology and food services. And, as Malcolm mentioned, we had strong wins. And as you can see, our margins are not really particularly sensitive to volumes. It's not a business that has much operating leverage.

In the second half of the year, we'll have easier comps compared to, especially the fourth quarter of last year, 13% to be exact, versus the second quarter of this year. And we're working on peak planning for our customers. We'll have greater clarity in September, and our working assumption was in the peak we will have a similar peak to 2022, which was rather soft.

One other thing to remind ourselves, we have won a lot of new outsourcing contracts, and these are takeover-in-place. And, the revenue contributions of those you will see in Q3 and Q4, and that's how we are comfortable with the rest of the year for our revenue growth.

Stephanie Moore – Jefferies

Great. No, really helpful.

And then just as a follow-up, maybe if you could provide a bridge to your free cash flow in the second quarter, and then how we should think about the cadence of free cash flow in the back half of the year to meet your conversion target? Thanks.

Baris Oran – GXO Chief Financial Officer

Hi, it's Baris here.

On the free cash flow side, we had $3 million positive in Q2, and we continue to guide for EBITDA to free cash flow conversion of about 30%. This quarter was driven by our cash cost of our productivity integration initiatives, which was roughly $23 million cash outflow. The accounting charge was earlier, but the cash payment was this quarter in the second quarter, and roughly around $40 million of timing of working capital.

Our cost initiatives overall have very attractive ROI and payback, and it's clearly seen in our projection and EBITDA upgrades. And our CapEx is entirely in our control as we continue to scrutinize every dollar we spend. We prepaid debt of around $115 million as we're comfortable with second half, and our actions actually show the comfort level we have for the second half of the year.

Stephanie Moore – Jefferies

Got it. Thank you so much.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Thank you. Our next questions come from the line of Scott Schneeberger with Oppenheimer. Please proceed with your questions.

Scott Schneeberger – Oppenheimer

Thanks very much.

Yes, so a very strong new business win quarter. And I assume, I think you mentioned that – I'm not sure, I don't recall – retention probably still mid-to-high 90s, but the organic growth did decelerate a bit. So, it sounds like that was volume pressure, maybe consumer discretionary activity. Could you discuss what the transactional volume was in the quarter, and where you expect that to go, and what you are doing with that variable cost management correspondingly? And then lastly, how we should see that come through in the margin over the next couple of quarters? Thank you.

Baris Oran – GXO Chief Financial Officer

Hi, it's Baris here.

Let me help you out with the volumes, and the margin trajectory and how we manage our costs throughout our cycle.

As I mentioned, we've seen some softness coming from retail vertical, our omnichannel retail, and then strength in aerospace, technology, and food services. Also geographically, our organic growth in Continental Europe has been very, very strong.

So, as we look into, and try to see, in the first couple of weeks of July, that trend tends to continue, but we started seeing further moderation and slight improvement in some of our facilities in U.K. and U.S. It's too early to call whether it's a major uptick or not, but we start to see moderation.

As you would recall, roughly 70% of our cost structure is variable. This business is designed to scale up and down costs. There are facilities that double in size during the peak and go back to its normal shape after the peak. So, we have the muscles to do that. And you're seeing that in our – how our margin is very stable throughout the cycles.

And remember, roughly half of our business is closed-book, and half of our business is open-book, cost-plus. So, that gives us a lot of resilience through cycles as you see in our margins.

Scott Schneeberger – Oppenheimer

Thanks, Baris. And congrats on the EBITDA outperformance in the quarter, and the increase of the EBITDA guidance.

Could you just provide us a bit of, it's kind of the components or the drivers of the EBITDA bridge from the prior guidance to where we are now? What's really been behind that – the main components? Thank you.

Baris Oran – GXO Chief Financial Officer

Sure. The majority is coming from our productivity gains – not only at the central initiatives, but at the site level, our productivity has improved. And there is some support coming from the exchange rates as well. That's making up the upgrade in the EBITDA.

Scott Schneeberger – Oppenheimer

Great. Thanks. I'll turn it over.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Thank you. Our next questions come from the line of Bascome Majors with Susquehanna. Please proceed with your questions.

Bascome Majors – Susquehanna

Good morning.

Your wins halfway through this year, as you talked about earlier, just give you a tremendous start on next year's top-line growth. And of course, the comps are going to get pretty difficult or at least more difficult, but the sales pipelines near record levels, and you've got another nine months or so to add more new deals that can move the needle before you get to 2025. So, given taking it all together, and adding in that head start, Europe stabilization, maybe a soft landing in the U.S. looking more likely today than it did this time like last year. It does feel like next year is setting up to reach or exceed your longer term view of that mid-to-high teens EBITDA growth over time. So, a lot of words to basically ask, is that kind of view towards 2024, at least on a preliminary basis, reasonable from where we sit today? And what could still get in the way of achieving that? Thank you.

Baris Oran – GXO Chief Financial Officer

Thank you.

As we look into our progression in our top-line and new wins, its phenomenal. As you highlighted, the numbers are achievable into 2024. And a couple of additional things, I would like to remind you, that is going to support us into our EBITDA into next year.

Our productivity initiatives as you would recall are driving around $26 million of benefit this year. And the run-rate is going to be about $40 million at the end of the year. So, there's going to be about $14 million that's going to support our EBITDA into next year. And also with the updated exchange rates, we are expecting maybe a single-digit uplift coming from FX as well. And that should support our EBITDA further into 2024.

Bascome Majors – Susquehanna

Is there anything as you look forward that you're fearful of or that can maybe get in the way?

Baris Oran – GXO Chief Financial Officer

Well, I mean, this business is very, very resilient. We are not 100% immune from macro, but we have shown you quarter-after-quarter resilience from the swings. So far, we are doing really, really well. We have phenomenal wins. Our productivity efforts on the ground – at the site level, at the center level – are delivering. So, we look very comfortably into 2024.

Bascome Majors – Susquehanna

Thank you, Baris.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Our next questions come from the line of Chris Wetherbee with Citigroup. Please proceed with your questions.

Chris Wetherbee – Citigroup

Hi, thanks. Good morning.

Maybe picking up on the cost and synergy opportunities. Baris, can you just lay out what's in the back half, what's been realized so far from the cost takeout as well as the synergies around Clipper, and what we're expecting by quarter for the next two quarters of the year?

Baris Oran – GXO Chief Financial Officer

Sure. So far, in Q1 we generated about $4 million of benefit and in Q2 we generated about $5 million benefit, from both integration and cost takeout productivity initiatives. For the balance of the year, we expect another $17 million, roughly even across the quarters, and that's going to get to the $26 million impact for this year. Of course, the run-rate is going to be $40 million by the end of the year.

Chris Wetherbee – Citigroup

Okay. That's very helpful.

And then, Bill, maybe you can talk a little bit about what you're seeing on the demand side, particularly from the consumer, the e-comm vertical. I think there's been some discussion about whether inventory destocking has come, is starting to wind down, or maybe it's still in process. And you've talked a little bit about the peak season. Volumes were down mid-single or low-single digits, I think, in the quarter.

Maybe if you could start with sort of how that progressed. Is that still sort of the right run-rate as we're sitting here in 2Q? And those big picture thoughts around the consumer or e-commerce verticals would be helpful.

Bill Fraine – GXO Chief Commercial Officer

Yes. Hi, Chris, this is Bill.

What I would tell you is, let me tell you a little bit about what we're seeing in the selling with the new customers. And I think this will go back into what you're asking the question about.

The size of the pipeline is growing, and we're seeing e-comm customers, by the way, leading a big parade here in new business. And the return, we're seeing the return of $100 million deals. We're seeing – you look at our top 200 prospects, are above $10 million each. If you look at our top 10, its $20 million, and if you go to some of the larger accounts, they're $100 million. So, we're seeing bigger deals come in. And this is because customers are wanting to restructure their supply chains and move into new markets.

And I'll give you one example. So, what we're seeing is, we're seeing more and more opportunities, and the opportunities are coming faster and larger, as I mentioned. And really it's because our brand is becoming a beacon for customers who want to renew their supply chains. They really look to GXO as a leader in this with both automation and the ability for scale and expertise.

So, I'll give you an example. I recently traveled with a customer at the beginning of July – a big partner in Europe – and they want to come in the U.S. We traveled around North America, and they were planning the future, kind of where they want to be. We visited their sites. We visited our sites. And when they left, they were going to come back with a plan and maybe put out an RFP. Instead, we've already gotten a verbal agreement to take over Canada for them. We've got a new site in Australia, and we're looking at the U.S.

So, what we're seeing is that's the kind of change that's happened. Where that would have been a longer period of time to get there. They see what we do. They see the value of what we bring. They see that we bring expertise across multiple sites. So, it's the same. We can do this over and over again. And they're very comfortable with the returns we've shown them, what they've seen with our existing customers. So, that's the big change.

As far as peak, yes, I would say it's mixed. We have some customers who expect to do fairly well and are doing fairly well now, better than the average. So, their volumes have come up. We have customers who are being, I would say, they're taking advantage of where they think peak's going to be. So, they're not going to discount. They're going to hang on to their prices. They're going to improve their margins, but they're going to take opportunities as they come up.

So, we'll know more as we get into September, and we're really planning heavily with customers right now. But I'll tell you that, I would imagine that the fourth quarter looks a lot like last year's fourth quarter.

Chris Wetherbee – Citigroup

Okay. And just one point of clarification – in terms of the pipeline relative to conversion, are you suggesting that there might be a faster pace of conversion out of the pipeline? Does that change sort of what the pipeline should look like over the course of, how we should measure it quarter-to-quarter or year-over-year?

Bill Fraine – GXO Chief Commercial Officer

Yes, great question. That's exactly what's happening. So, the acceleration of our pipeline's up well over two times now. So, it's really moving and speeding up, and that's generating a lot of value for us.

And again, the amount of customers – what you saw in the almost $500 million – the amount of customers, the amount of opportunities, this will continue as we go forward. I would say that aerospace, industrials, high-tech, and I mentioned e-comm – they're all looking for a big 2024.

Chris Wetherbee – Citigroup

Okay. That's helpful. Thank you for the time.

Operator

Thank you. Our next questions come from the line of Amit Mehrotra with Deutsche Bank. Please proceed with your questions.

Amit Mehrotra – Deutsche Bank

Thanks. Hi, everyone.

I just want to circle back maybe to Bascome's question on next year's kind of, I guess, revenue outlook.

So, if I look at the new business wins, $457 million, I guess you're talking about that being incremental revenue in 2024. That implies something like 4-5% revenue growth for next year. And of course, another six months to go for additional wins. We got some, hopefully, cyclical volume recovery. So, it just seems like the progress you're making on the net new wins, should kind of bridge you to double-digit, low-double-digit growth next year in terms of revenue, but then I look at consensus and consensus is saying it's going to be 8% next year. So, I'm just trying to understand kind of what the right way to think about revenue growth next year is. It feels like low-double-digits is achievable. You certainly probably have to start getting to those numbers to hit your 2027 target?

If you can talk about that, that'd be great.

Mark Manduca – GXO Chief Investment Officer

Hey Amit, it's Mark here.

I agree with everything you're saying in terms of the theoretics of it.

So, what have you got in your favor here? You've got clearly the record new wins, which is growing the snowball in our business, which has obviously always historically been the biggest important part of our 8-12% revenue growth.

You've heard as well in Bascome's question about the fact that our retention rate has been extremely strong in that mid-to-high 90s. So, that's very low attrition for those gross wins that you're talking about. So, that's in your favor as well.

Bill, as well, talked about the fact that the pipeline is strong. It's converting well. We're seeing a lot of big $100 million customers coming to us. So, that's exciting as well.

Malcolm talked about the fact that the comps are extremely weak, for the second part of this year. So, that's in your favor going into next year as well.

And then as you move further down the P&L, you have a number of things in your favor as well. We're signing lots of automated contracts – Bill talked about that. And then, Baris' central efficiency program is running ahead of plan as we've talked about in the last two quarters.

So, whether it's top-line, I hear your points, very sensible, or whether it's margin, all of those things are running in our favor into 2024. And I think it's going to be a bumper year.

Amit Mehrotra – Deutsche Bank

Okay. A bumper year, not a bumpy year, right? A bumper year, I just want to make that clear. That's an English thing. So, I just want to make sure that's clear.

So, the other thing I wanted to ask about was the central efficiency plan. Because when we think about GXO, we don't think about cost savings – we think about revenue growth. It's a growth-centric story, but at the same time, you have all these businesses and all these different geographies that arguably have been put together through M&A over the decades. And so, that's a big deal and I just don't feel like we talk about it enough. I know you've started to talk about it a little bit more.

Can you just, as we think about 2024, what's the year-on-year incremental benefit? Because it's not a high operating leverage business, but next year, you could argue that maybe we do see some operating leverage because the revenues go up and then the central efficiency costs bring the cost structure down. Can you help us size that in terms of what the net year-on-year incremental cost savings are from central efficiencies? Because I think that's a big opportunity.

Baris Oran – GXO Chief Financial Officer

It is. Remember those cover several areas and we do things more efficiently across the business conducting activities that are not related to core business. Some of them are procurement related, some of them outsourcing non-core activities like call centers, data centers. And we also have reduced our non-operational, non-customer facing staff by about 10% year-to-date. So, those are all paying off quite well.

By the end of the year, we're going to be running a – hitting a run-rate of about $40 million by 2023 – at the end of 2023. And that is going to increase within 2024 and we're going to continue to reap benefits from this. This program is not over. We are executing more and more steps and we'll continue to see benefits out of that.

Amit Mehrotra – Deutsche Bank

Okay. Alright. Thank you, guys. Appreciate it.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Thank you. Our next questions come from the line of Allison Poliniak with Wells Fargo. Please proceed with your questions.

Allison Poliniak – Wells Fargo

Hi. Good morning.

The new business wins, you talked quite a bit about that automation. What about the other services components? Are those increasingly part of these contracts in terms of whether it's return or repair? Just any color there. Thanks.

Bill Fraine – GXO Chief Commercial Officer

Yes. Hi, this is Bill.

Yes, definitely, and returns (or reverse) is growing very well at 27% in Q2. And we continue to see enormous potential in this category moving forward. As an example, we were able to convert 600,000 units from B to A for one customer. And what that means is bottom-line dollars for them in a large amount. So, those benefits are, as I mentioned before, we're able to show live examples to customers. So, when people come in, we can show the values of reverse across Europe, across the U.S. And so they see that this is there, but that is definitely a huge growth area for us. And it also involves automation again and analytics, both areas that add value and also become value added services.

Allison Poliniak – Wells Fargo

Got it. And then you certainly had sizable wins from competitors this quarter. Is it really just driving just the automation opportunity that you can provide them? Is there anything else that's sort of kind of leading them more towards or leaning them more towards GXO versus the other competitors at this point?

Bill Fraine – GXO Chief Commercial Officer

Yes. Here's what I would – I'll tell you what we were told.

So I was with a customer last week in Memphis who’s looking to do some work with us in the U.S., and they had visited sites in California, Tennessee. And then I met with them and we were going through some, just kind of the contract and the numbers and the conversations. And they had their other team on the phone. And what they said was that we've just visited over five sites for GXO and these are the finest sites we've visited – and they repeat the same processes across all sites, which is really what's critically important to customers is to see that it's not just that we have a good site. It's that the processes and the practices, the automation, everything we do, is repeatable. Because that's when they can get to count on it. So that's what I would say they would tell us is a big difference. They see that in us. They don't see the same continuous improvement. They don't see the same approach to making sure the same process of measurable and controllable across the sites.

And finally, what I would add in there is engagement, employee engagement. We've just recently finished a survey that came back very strong from our employees. And that's very important to this market. At the end of the day, hourly employees do the work of moving these products. And what they also saw was that we are heavily engaged. They hear it from our employees. They see it as they walk through our sites. And that engagement is something that is very important to us and very critical to our success.

Allison Poliniak – Wells Fargo

Got it. Thank you.

Operator

Thank you. Our next questions come from the line of Jason Seidl with TD Cowen. Please proceed with your questions.

Jason Seidl – TD Cowen

Hey, thank you, operator. Good morning, gentlemen. And a special congrats to Adrian for his new role.

Adrian, I know we talked a little bit about this in the past. I mean, you guys are utilizing some AI already in your network and having some success and putting that new technology to use. Can you talk a little bit more about it and then how you think that could be used to even win further customers down the road?

Mark Manduca – GXO Chief Investment Officer

Hey, I'll stop there. It's Mark here.

Adrian is not with us today, but only in spirit, exactly in spirit. It's been part of our DNA for a while. AI is very important to us. We've been working on this for five years. This is not something that has arisen in this business in the last six months. Long duration.

We've got significant scale as we talked about on this call in a very fragmented market. And that scale from an artificial intelligence standpoint, and obviously the data that that scale yields, makes us a very likely winner in this arena going forward.

So, it's an area of huge excitement for us. And I think it's going to be an area that's going to drive a lot of accuracy and efficiency for customers going forward.

Bill, do you want to talk about some specifics?

Bill Fraine – GXO Chief Commercial Officer

Yes. I'll give you some examples.

And as Mark mentioned, it's really in our DNA. We've worked for years with analytics with our customers. So if you look at how we handle returns or how we handle processes inside the site. We're always, we have a heavy analytics group that's looking at these numbers and following these numbers. And it's how we improve. It's how we learn. It's how we manage returns at a better pace. We can see the products that are coming in and pre-position to make it more seamless and productive for the customer and get the best value back to them as I mentioned moving these days.

So, what AI does is it takes that same data and it starts to automate it. It puts it through some systems and we've already begun that in few different areas. And it helps us redesign transportation networks. It helps us improve automation productivity. So, the AI will look at the data coming out of the automation and it will help us decide how best to move products and what products, as I mentioned earlier.

And finally, we use it to handle even areas like how we pack. How we make the best use out of packaging, which lowers the cost for the customer and improves on ESG.

Jason Seidl – TD Cowen

I appreciate the color on that.

And I guess my follow-up is going to be something that really we haven't talked about too much because, jeez, you guys are recording record wins, so who would be talking about the M&A side. But does all this new growing business, does that put potentially M&A on the back burner? Or is this something you guys are still looking at? And maybe if you are, could you talk about what you're seeing out there in the market in terms of multiples?

Malcolm Wilson – GXO Chief Executive Officer

Jason, hi, it's Malcolm. Let me touch on that. And I'll ask Baris to comment on the multiples point.

But from an M&A point of view, as you can see, our business, we're really growing at a stellar volume. We're taking market share, customers really want to work with GXO, level of automation. That's really why we just appointed Adrian.

So overall, we're in really great shape, but we have to recognize sometimes there are vertical specialization, or maybe geography specialization where customers really want to see what you're doing on the ground. And when you're not on the ground, it's very difficult to convince customers to come across to you. And that's typically where we're focused on an M&A route. That's where we design our M&A pipeline. It's where we look out for best opportunities when we think about margin accretion, customer growth. And that's typically how we look at things. So that's very much the direction that we have. No need from our business perspective to do M&A to grow scale. We're already the largest pure-play in the world, but very much looking at different vertical specializations.

And Baris, maybe you can just give a view of what we're seeing around from a verticals perspective in terms of multiples and the like.

Baris Oran – GXO Chief Financial Officer

Sure. What we are focusing on right now is where we can have additional capabilities, additional customer relationships, additional geographies. We have – we're looking into additional capabilities in North America, including Canada and Mexico, and that does include value added services as well that we can expand further to our customers.

We have a sizable pipeline in Germany. We are looking into potential acquisitions in Germany as well. But our cash flow generation, our deleveraging, is at the heart of what we do right now. And we always look at this as an alternative to invest in our own stock through a buyback. And we always compare that and see if it makes sense for our shareholders, if it pays off for our shareholders. That's how we benchmark in our capital allocation whether we should look into our own -- investing in our own business, through buyback or invest in growth in M&A.

When we take over a company. We grow them faster. We gave them more capabilities. We give them new relationships. There's a lot of cross sell opportunities. So those are the things we are cultivating right now.

Today, the number -- the sellers are not as many out there. The multiples of the expectations of the private sellers has come down some, but not as much. So that's the part that we have to be always mindful of. There's financial numbers behind those, and it should make sense for our shareholders.

Jason Seidl – TD Cowen

Makes sense. Gentlemen, appreciate the time as always.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

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

Ravi Shanker – Morgan Stanley

Great. Thanks everyone.

Bill, maybe for you, another question on the pipeline, your business, obviously, kind of impressive brands and names on there, but with the distinctly consumer/retail tilt. Is that a deliberate decision? Are you guys prioritizing consumer retail over industrial? What's the e-commerce mix there? And where do you think that end market kind of pie-chart looks like maybe three years now?

Bill Fraine – GXO Chief Commercial Officer

Yeah. Thank you, Ravi.

I will tell you that, e-comm is a lot of what we see today because they're working to restructure their supply chains. So that's the big difference. What they've seen is, is there are definitely winners in the market who are doing very well, and their supply chains are different and further advanced than others. And so they're trying to get there. That's one big part, I would say. So, we see a lot of that.

But definitely not to take away from anything else. Aerospace is on fire right now as you'd imagine with the return of flying on planes as we all know we're doing today in crowded airports as we're seeing today. So you've heard us talk a lot about Boeing, but a lot of aerospace work. A lot of industrials work. Industrial is very hot right now. We're seeing a lot of that happening for us. Food and beverage – some big closes in there. You'll be hearing more and more as we get to the quarters.

We can't mention some names, but probably when you get up every morning and you do something you do every day on the way to work, we're doing a lot of work with big companies that we're growing accounts with.

And so I would say that all of those, all areas are, and if you look, the big thing that's exciting for us is a huge portion of our pipeline is new logos. And that's a big benefit. People who haven't outsourced business before are coming to us to outsource because they realize they can't take the quantum leap they need to take without coming to an expert, right? They just don't have that experience in-house. It doesn't exist. They don't have the time to learn about automation. They're not automated today. So that's a big piece for us.

And finally, it's takeover-in-place. And we talked about some of those and that's just where we are talking to our existing customers and non-customers about the cost benefits and the bottom-line value benefits of us taking a site that they're already running today. Never mind the secondary part of, then we can take it and we can, reset it for the future over time. So the example would be we get two or three sites, over time we may turn those into one site and we may automate the sites. We may make -- whatever we decide to do, but the benefit they get right away is cost off the book. The benefit to get long-term is a company that's bringing them more and more value in creative ways.

Ravi Shanker – Morgan Stanley

Got it. That's super helpful.

And kind of that also touched on the point I wanted to follow-up on, which is the -- you mentioned the e-commerce guys are transforming their supply chains. We've obviously seen the leading e-commerce retailer the U.S. and the world kind of completely restructure their supply chain, move to a more kind of regional, local type model.

How do you see that evolving? What role does GXO play in that? Does that mean kind of more warehouses and more inventory to store? Does everybody else follow? Just maybe unpack that a little bit and maybe the role that automation plays in that as well?

Bill Fraine – GXO Chief Commercial Officer

Yes. Well, there's two ways.

One is that because of our expertise, we become what I would call, very core to their business. So there are certain things, for example, as you know, we run a very large return center in Indiana. There are certain things that are core to companies as they decide to look at their new supply chain.
So returns is a big part. That's why you're seeing it growing in that same process.

Reaching out and getting closer to the markets, as you mentioned, and having regional locations is all about a cost and a speed advantage. And the benefit of that is the GXO Direct model. Some of these main customers we're talking about that are large companies that have their own supply chains and companies that are coming in from Europe into the U.S, my conversation, constantly with them is, why do you want to go out and build a bunch of sites across the United States? What you can do is you can have a core central process and you can use GXO Direct in the markets you need to be in to be closer. It offers you flexibility, it offers you speed, and it offers you a winning team that's already in place. So, you really skip over the implementation in those markets. That's an idea people are gravitating to. They like that idea. And that's why we're seeing great growth in those markets and we'll see more.

So those are the areas we really get to help and not just here, but we're in the UK now and we'll be in Europe soon, Continental Europe with Direct. And in those cases, exact same things are happening there. Customers are seeing the same value – we mentioned TJX earlier. So, we play a big part in that.
And the final thing I would say is, goes back to what I said earlier. What we're being told by our customers is we run the best sites that they have. So, where we have those sites, we're definitely the leader in those.

Ravi Shanker – Morgan Stanley

Got it. Thanks a lot.

Bill Fraine – GXO Chief Commercial Officer

Thank you.

Operator

Our next questions come from the line of Brian Ossenbeck with JP Morgan. Please proceed with your questions.

Brian Ossenbeck – JP Morgan

Hey, good morning. Thanks for taking the questions.

Maybe for you, Bill. Can you talk more about the German market? Seems like it was a long time coming. You were serving it from a couple of different countries before, but making a pretty big effort. Can you just talk about if that was a customer's pulling you into their, clearly its $20 billion, so it's not small. But maybe you can talk about how that looks ramping up and in terms of what you might need to add there, as you mentioned, M&A earlier?

Bill Fraine – GXO Chief Commercial Officer

Yes, I'll talk to you from what we're seeing and what we're doing on the selling side. And then let Malcolm talk a little bit about what he sees. Obviously, he's closer to Germany than I am, but what he sees the market wide.

But obviously, we all know it's largest market in Europe so you definitely want to be in it. What we've done is we've developed a strong sales team there. We've expanded it. We have a focus. We have Stefan who's leading it now for us as the president of the market. And we have a very strong pipeline and we see huge opportunities. We're already doing work in Poland that supports Germany. And we have sites in Germany that was part of the Clipper purchase. We gained opportunities in the market. So we see great growth in there as we go forward 2024, 2025 and beyond. It definitely has a big play in our 2027 numbers.

Malcolm Wilson – GXO Chief Executive Officer

Yes. And let me just add, Brian, it's Malcolm here.

It's a huge addressable market. I mean, it's $100 billion market. We're very pleased to be in there. When we made the acquisition of Clipper, we brought that Clipper business together with the GXO business. And as Bill just mentioned, we've got a super leader running it – Stefan Van Hoof – he's a great guy. He's well respected through the market. We're really down the route now. We've been engaging a lot of marketing campaigns to arouse local interest in our new company there. And we've actually already opened a state-of-the-art facility in Dormagen, which really is enabling us to showcase a lot of the new technologies that we're bringing in. And I know Adrian, in his new role, will be spending time there, really to help showcase some of the things that we're doing.

So, we're in a very good position, but for us, it's still a very tiny market. And that's really one of the things that's exciting us. We can see so much potential for our growth and we'll do it organically, but also Baris mentioned earlier, when we're in a small environment in the market, we're not equally opposed to looking at specialized M&A just to accelerate our growth in particular geographies. But overall, we're in a very good position. I think we're going to do -- it's going to become one of our larger markets as we progress through the next few years.

Brian Ossenbeck – JP Morgan

Okay, thanks for that.

Just to follow-up with Baris. Can you give a little more color to talk about the central efficiencies a bit, but can you talk more about the ones at the site level? Is that sort of expected at this point of the cycle when things slow down a little bit? You catch up the high speed of growth and maybe you can go back and improve on some of these sites.

Does that sort of in your numbers for the back half of this year? And then what does that look like into next year when maybe growth starts to ramp up again? Can you still improve on those site by site?

Baris Oran – GXO Chief Financial Officer

Yes. We are improving on those sites on a site by site level. And Adrian's appointment will also help in deploying small tech in addition to automation, I would say, at the site level as well. So if you're looking at the organization at the site level, looking at our layers at the site level, spend of control at the site level. So all of those are part of our productivity efforts and it's paying off quite well. And you will see that progressing towards the end of this year and into next year. There's more to come on that side.

Brian Ossenbeck – JP Morgan

Okay. Thanks, Baris. Appreciate it.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Thank you. Our next questions come from the line of Jeff Kauffman with Vertical Research Partners. Please proceed with your questions.

Jeff Kauffman – Vertical Research Partners

Thank you very much, and thank you for slipping me in.

Just kind of a broader picture question. You talked about what's going on in your pipeline with your customers. As we start to get more and more of these more complex assignments with your customer base, in theory, that should probably go hand in hand with some stronger margins. Can you talk a little bit about going on, on the margin side of the business as you're implementing more of these automation projects?

Baris Oran – GXO Chief Financial Officer

Sure, it's Baris here.

We see about 200 to 300 basis points higher margin in the automation. And many of the new projects, Bill has mentioned, there's a lot of automation involved. Even if it is takeover-in-place, first time outsourcing of the existing facility. Over time, we implement automation in those facilities. So, they do become automated over time. That's one of the drivers of our productivity and also we have been very conscious of our cash and capital expenditure on those. And when our customers see that these payoff beautifully, they are actually willing to give us longer term contracts and also sometimes take the burden on themselves as well. So it pays off beautifully for them. And it is making our contracts like much stickier, margins higher, and we create a lot of value, so we capture more value.

Jeff Kauffman – Vertical Research Partners

Baris, thank you. That's my one.

Baris Oran – GXO Chief Financial Officer

Thank you.

Operator

Ladies and gentlemen that is all the time we have for questions today. I'd now like to hand the call back over to Mr. Wilson for any closing remarks.

Malcolm Wilson – GXO Chief Executive Officer

Thanks, Daryl. And thanks again for hosting our call today. We appreciate it.

GXO, we've now delivered a strong first half to 2023 and have now raised our 2023 adjusted EPS and EBITDA guidance twice. And importantly, we got great confidence on the delivery of our 2027 target.

Whilst the macro is not providing much of a tailwind for underlying volumes, we're really excelling in everything that we're controlling. We've delivered record wins and have a very exciting pipeline for the future. Growth opportunities are abundant in our business. This sets us up for a great 2024 and through delivering strong EBITDA and EPS and returns for our shareholders, we expect all of these benefits to continue.

Our results today and our upgraded guidance shows that GXO is proving itself a resilient growth leader. In no small part, this is down to all of our teams focus on delivering a best-in-class service to our customers and helping them to navigate the current environment.

With that, we'll bring the call to an end. I'd like to finish by wishing everybody a great rest of the day. And I thank everybody for your attendance to the call. Many thanks.

Operator

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