

# Investor presentation

September 2022

**GXO**



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# Reverse logistics

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# Market opportunity is huge

National Retail Federation (NRF)\* predicts the spend on global reverse logistics will rise to

**\$604B**

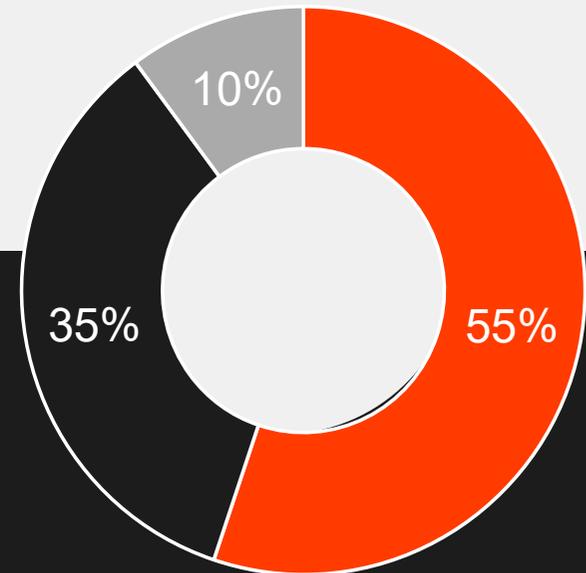
by 2025

\*National Retail Federation, USA



## \$61bn reverse logistics contract logistics market in GXO's main markets

■ North America ■ Western Europe ■ UK

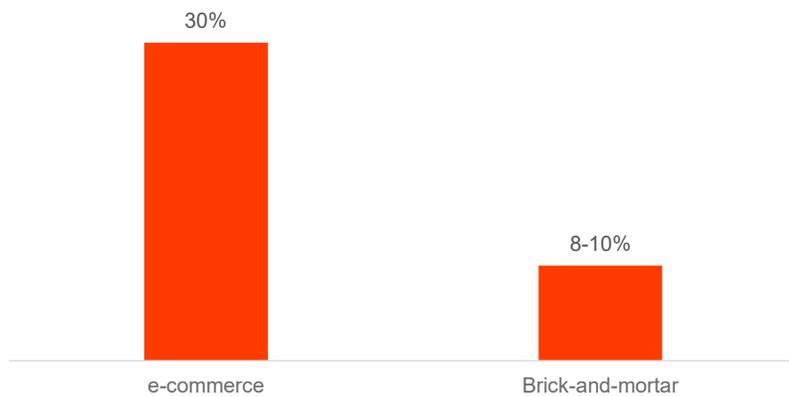


- Within the wider reverse logistics market the addressable contract logistics opportunity is estimated to be \$61bn in 2022.
- The revenue opportunity is expected to grow at 12% CAGR to 2027
- GXO currently holds less than 2% market share.
- **Key verticals:** e-commerce, Retail, Automotive, Consumer Electronics & Pharma

Source: Third-party industry research

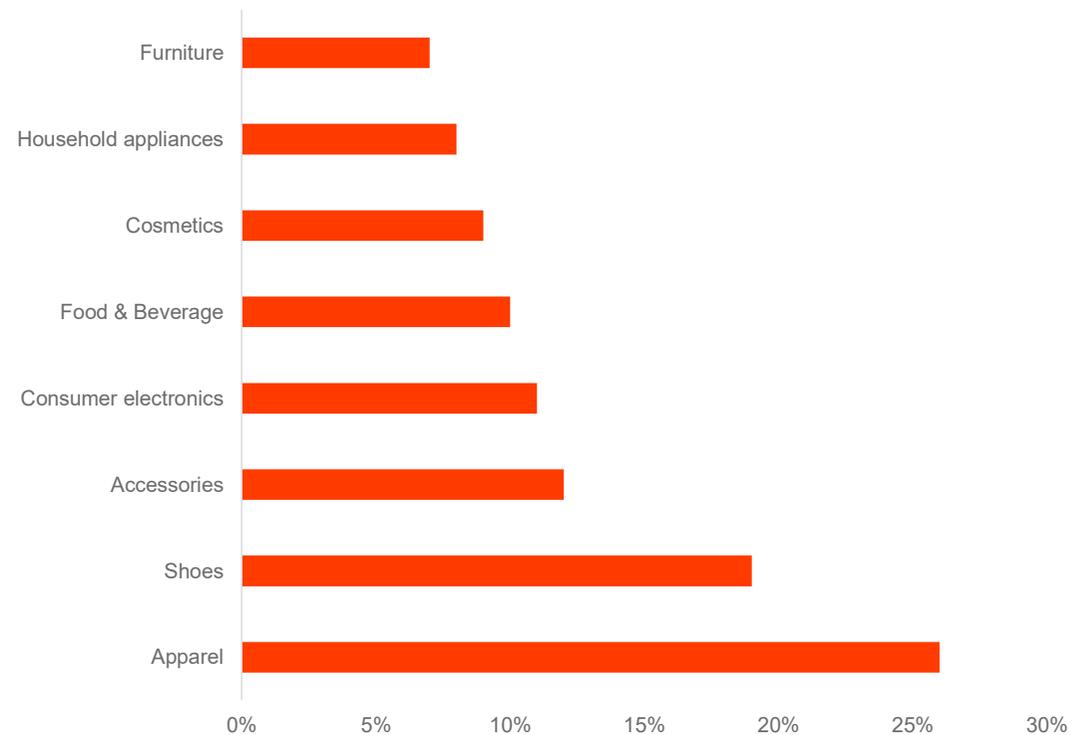
# Reverse logistics need is linked to e-commerce and apparel

% of products returned 2020

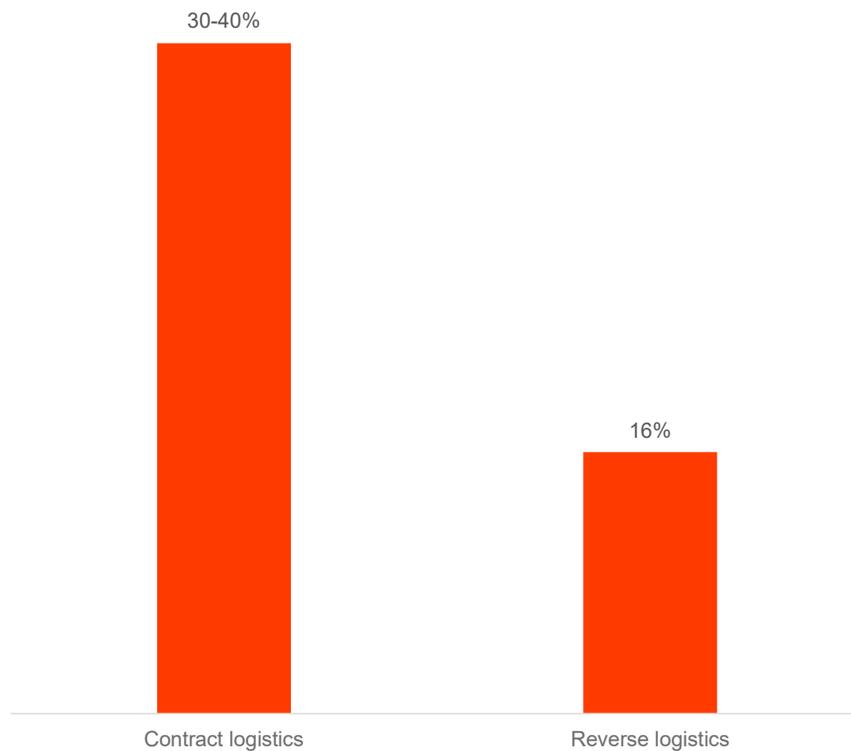


- Return rates for products are significantly higher in an eCommerce environment
- The apparel category has the highest return rates

Return rates by category US 2022



# Outsourcing levels are lower in reverse logistics



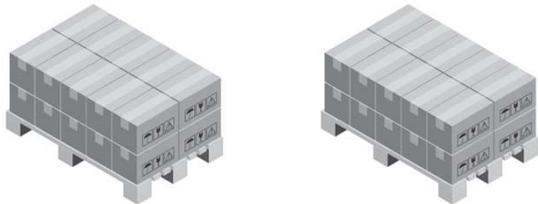
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- Outsourcing of reverse logistics is lower than wider contract logistics.
- A GXO survey in 2021 based on 360 retailers found that only 16% had outsourced their reverse logistics activities this compares to outsourcing levels for the contract logistics industry of 30-40%.
- The outsourced portion of the contract logistics market is expected to grow at ~14% CAGR to 2027.

Source: Third-party industry research, GXO eCommerce survey 2021

# Significantly higher warehouse revenue capture in reverse logistics

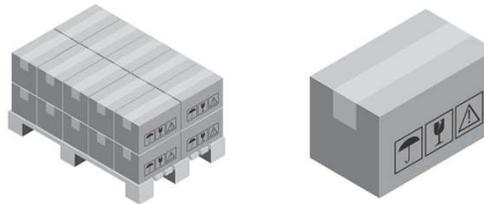
Wholesale: pallet in and pallet out



Revenue multiplier

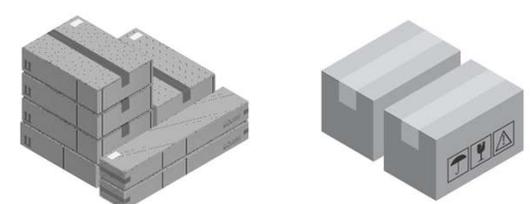
1X

e-commerce: pallet in and single out



~3X

Reverse logistics: different parcels in and uniform singles out



~6X

- The contract logistics revenue opportunity is set to grow significantly faster than the market overall
- Wholesale logistics are predominantly based around a pallet in and pallet out process
- e-commerce logistics sees pallets converted into single items as this becomes a D2C process
- Reverse logistics sees a wide selection of items returned requiring inspection, sortation and repair before onward distribution



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# Margins linked to customer value-add

Reverse logistics was ~7%  
of GXO revenue in 2021



- Reverse logistics is an attractive and fast growing vertical for GXO.
- Reverse logistics margins were on average higher than the group average in 1H 2022 at EBITA and EBITDA levels.



**Fashion eCommerce industry:  
c.30% returned and 25% of  
returns are sent to landfill....**



## ...when GXO manages reverse logistics:

**96%+**  
of returned  
items resold

C. 30% of  
products  
returned

Item returned  
to warehouse

Goods  
inspected  
and refund  
processed

Same day  
customer  
refunds

**~3%**  
of returned  
items go to charity

Rectification or  
refurbishment  
where possible

**<1%**  
of returned items go  
to landfill, compared  
to industry average  
of 25%

Disposition route  
management

**Route A**  
Return  
to stock  
for re-sale

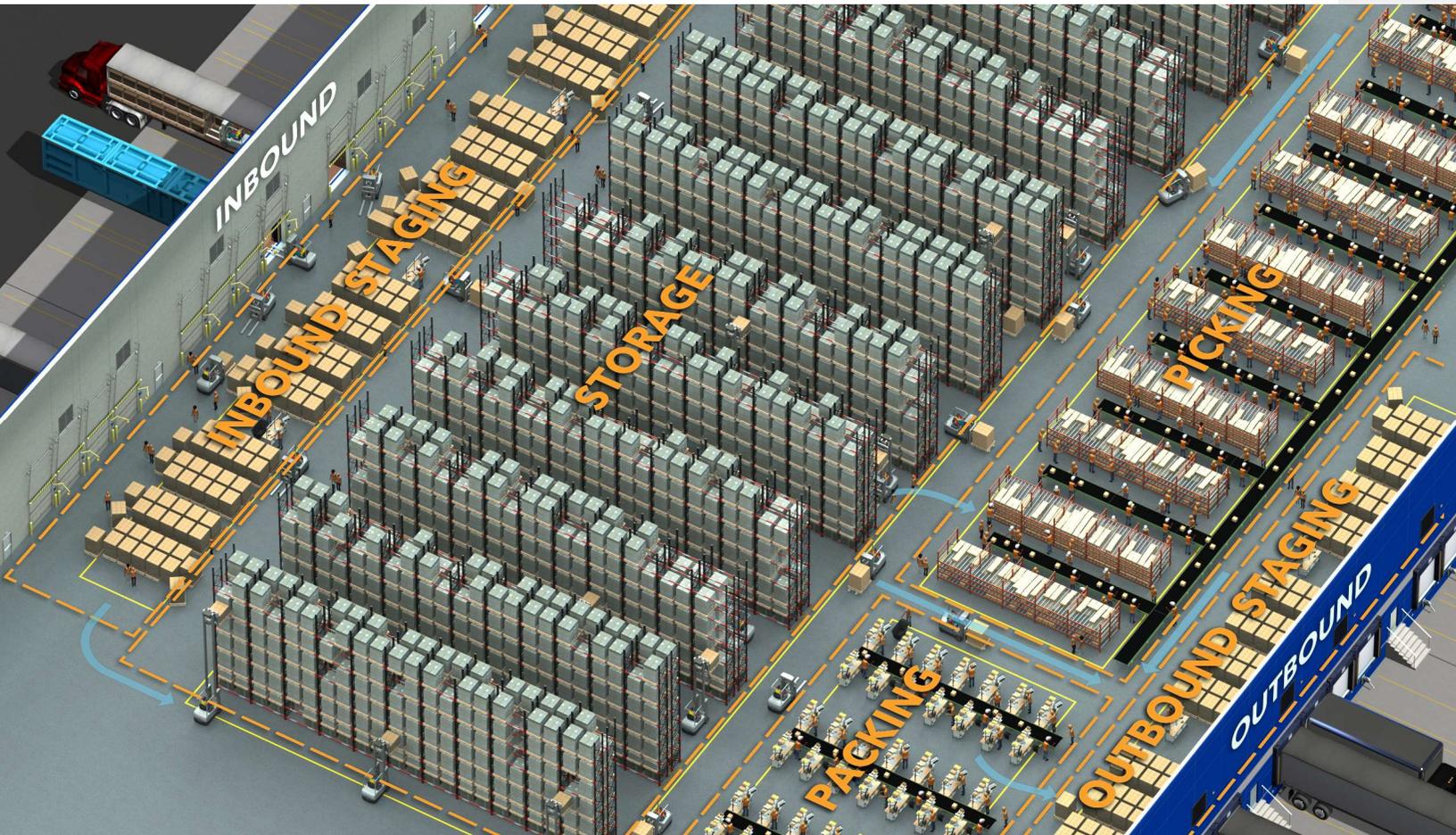
**Route B**  
Secondary  
market  
Jobber/eBay/

**Route C**  
Disposal

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# e-commerce: before GXO's value-add



- **Inbound staging:** largely manual with a high reliance on MHE. Focus on emptying containers, inventory quality checks, and labelling to comply with WMS.
- **Storage:** racking and MHE based solution. Inventory turnover un-optimized. Case picking to replenish the flow racks and forward pick area.
- **Picking:** entirely manual process breaking down cases into single orders and totes.
- **Packing & sortation:** entirely manual process turning totes into outbound parcels and labelling for onward journey.
- **Outbound staging:** manually consolidating single orders and sorting for onward transportation.



# e-commerce: GXO leveraging technology to drive more value



- **Inbound staging:** 'Destuff-it' drives material productivity gains in unloading (2-3x), ATL and AGV tuggers improve productivity of MHE unloading process.
- **Storage:** AS/RS improves storage density (2x), robotic arm depalletizer and iBOD boost productivity (2-3x) by accelerating the breakdown of pallets to layers, improving the speed of processing and inventory turnover.
- **Picking:** GTP system improves the forward pick productivity (4x).
- **Packing & sortation:** Polybag sealers (2-4x) and T-sort system (2x) improve packing productivity.
- **Outbound staging:** ATL system deployed to load trailers with pallets.

# e-commerce: illustrative customer impact of logistics optimization

## Un-optimized

	% sold at full-price	Revenue per item (\$)	Revenue (\$)	Cost of product at 40% COGS (\$)	Gross profit (\$)	Margin (%)
Full-price	70%	100	70	28	42	
Discount	30%	50	15	12	3	
	100%		85	40	45	<b>52.9%</b>

## Optimized

	% resold at full-price vs disposed	Revenue per item (\$)	Revenue	Cost of product at 40% COGS (\$)	Gross profit (\$)	Margin (%)
Full-price	85%	100	85	34	51	
Discount	15%	50	7.5	6	1.5	
	100%		92.5	40	52.5	<b>56.8%</b>

**Uplift**

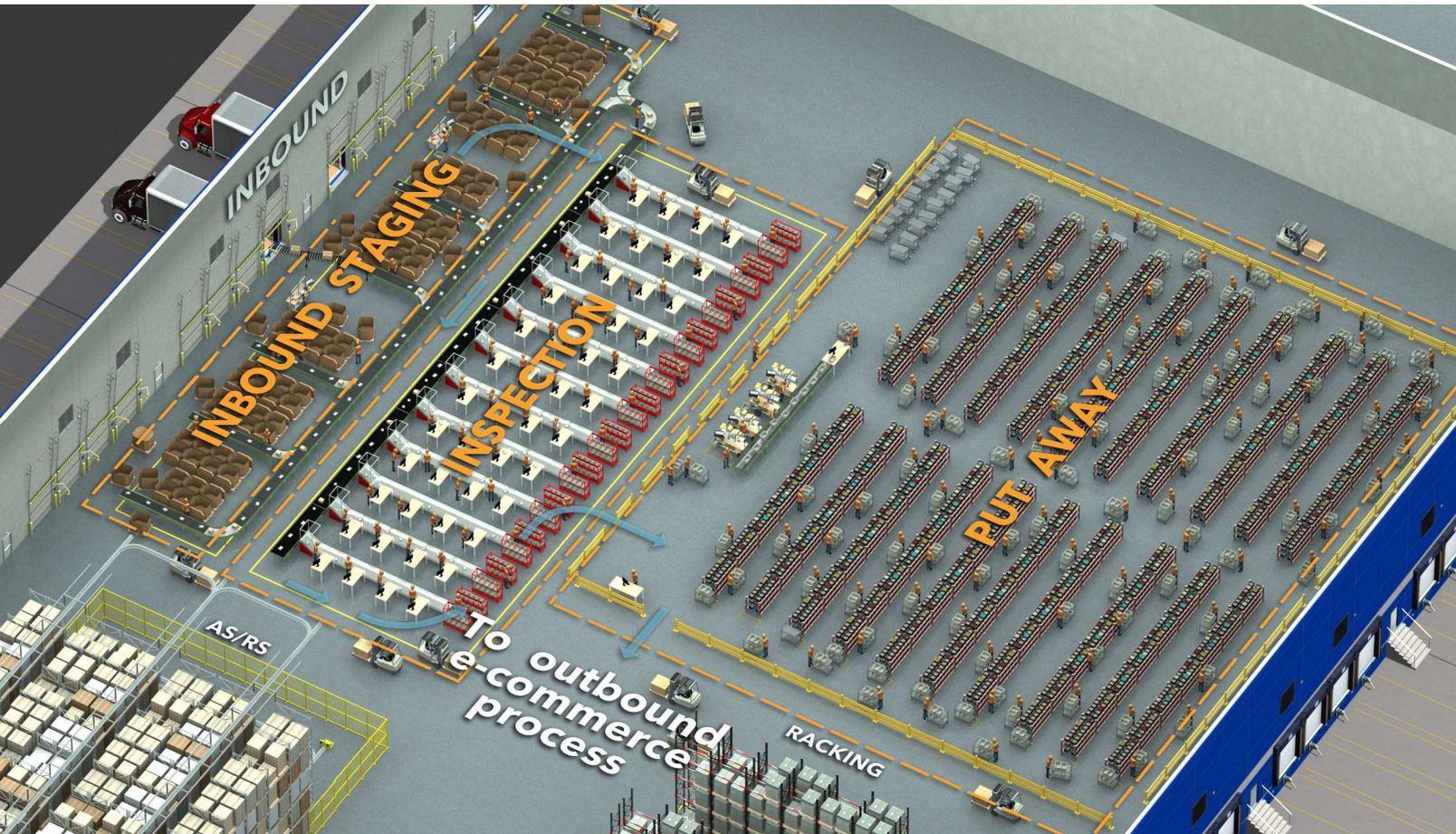
**+8.8%**

**+16.7%**

**+3.9%**



# Reverse: GXO leveraging technology to drive more value



- **Inbound staging & sortation:** due to the complexity of sorting returned eCommerce inventory there can be significant inventory build up at inbound staging as manual reviews are undertaken.
- **Inspection:** unsorted inventory requires more in-depth review by colleagues which again results in significant process bottle-necks at the inspection stage and inventory build-ups.
- **Put-away:** manual put-away is slower than the automated equivalent and runs the risk of inaccuracy and requires higher levels of colleague training. It is also less efficient at managing storage density.

# Reverse: GXO leveraging technology to drive more value



- **Inbound staging & sortation:** predictive analytics deployed where possible to pre-sort returned inventory to accelerate inbound inspection. ATLS and AGVs used to drive productivity.
- **Inspection:** hi-speed scan tunnels help sort eCommerce returns at a faster rate (2x) as well as improving accuracy.
- **Put-away:** 6RS systems deployed to improve productivity (1-2x), reduce distance walked by operatives as well as boosting accuracy and speed of ramp-up for new colleagues.



## Reverse: illustrative customer impact of logistics optimization

<b>Un-optimized</b>	% resold at full-price vs disposed	Revenue per item (\$)	Revenue (\$)	Cost of product at 40% COGS (\$)	Gross profit (\$)	Margin (%)
Full-price	75%	100	75	30	45	
Return	25%	0	0	10	-10	
	100%	100	75	40	35	<b>46.7%</b>

<b>Optimized</b>	% resold at full-price vs disposed	Revenue per item (\$)	Revenue	Cost of product at 40% COGS (\$)	Gross profit (\$)	Margin (%)
Full-price	96%	100	96	38.4	57.6	
Return	4%	0	0	1.6	-1.6	
	100%	100	96	40	56	<b>58.3%</b>

**Uplift**

**+28%**

**+60%**

**+11.6%**

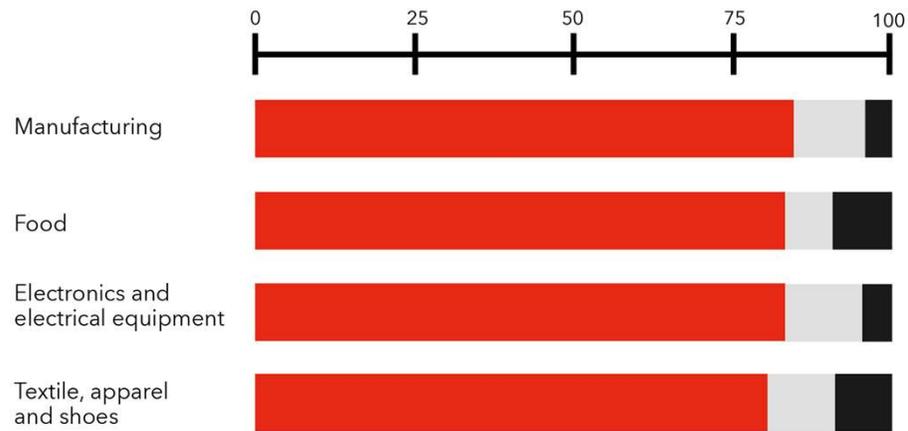


# GXO's environmental impact on consumer industries

>80% of greenhouse-gas (GHG) emissions in consumer-goods categories come from supply chains

Scope 1: direct emissions
  Scope 2: emissions from purchased power
  Scope 3: embedded emissions

Breakdown of impact by scope, %



Focusing on Scope 3 vs Scope 1 and 2 emissions

5.6x

5.1x

5.0x

4.2x

Only 25% of companies engage their suppliers to address Scope 3 emissions



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Source: Third party industry research

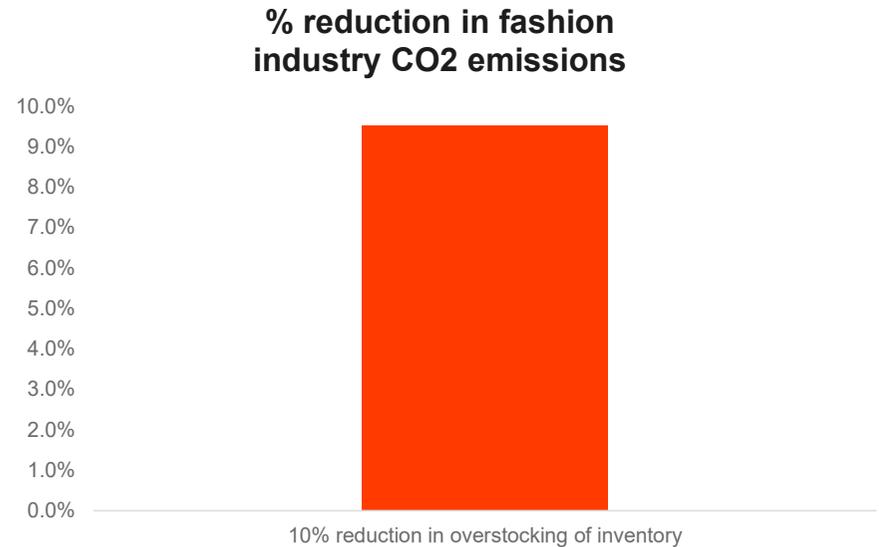
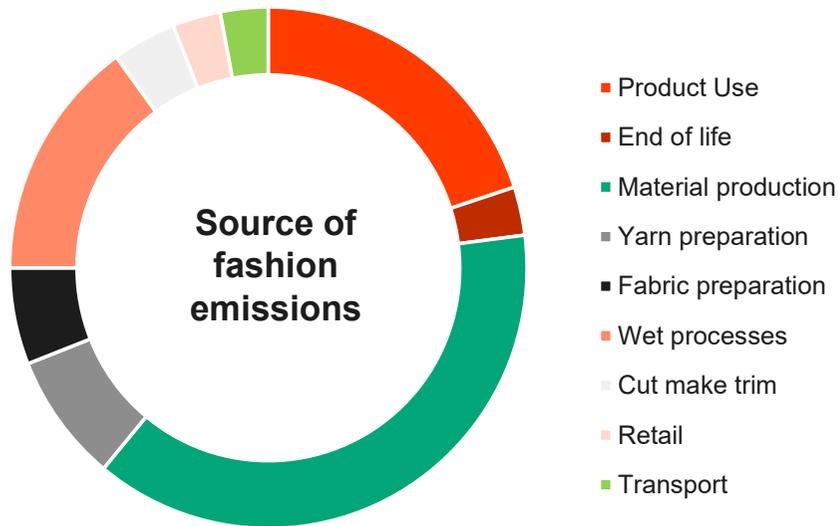
% of global CO2 emissions



- Food
- Fashion
- Consumer Electronics
- Other

# Fashion: 4% of global CO2 emissions, 77% from supply chain

GXO's solutions directly address inventory inefficiencies within the fashion supply chain which represents the single biggest lever to reduce emissions for the sector



**c.30% of fashion inventory remains unsold as 'overstock', the emissions generated in producing overstock offer the greatest area of emission reduction**