FedEx Corp. Reports Third Quarter Results

19-03-2019

FedEx Corp. today reported the following consolidated results for the third quarter ended February 28. This yearâ€™s quarterly consolidated results have been adjusted to exclude TNT Express integration expenses and business realignment costs. Last yearâ€™s quarterly consolidated results were adjusted to exclude TNT Express integration expenses and the benefit of an estimated $1.15 billion reduction in the companyâ€™s net U.S. deferred tax liability attributable to the lower statutory rate enacted as part of the Tax Cuts and Jobs Act (TCJA).

“Our third quarter financial results were below our expectations and we are focused on initiatives to improve our performance,” said Frederick W. Smith, FedEx Corp. chairman and chief executive officer. “Our investments in innovation, network infrastructure and automation will increase our competitiveness and drive long-term earnings growth. FedEx built and operates the preeminent global parcel and logistics network, and we have a lengthy track record of success.”

Third Quarter Results

Operating income improved due to lower variable incentive compensation expenses, U.S. volume growth, a favorable net impact of fuel at all transportation segments and increased yields at FedEx Freight and FedEx Ground. Partially offsetting these benefits were higher costs at FedEx Ground, driven in part by increased purchased transportation rates and the January launch of year-round, six-day-per-week operations. Also, FedEx Express international revenue declined as a result of lower yields and unfavorable exchange rates. FedEx Express international and U.S. yields were down due primarily to higher growth in lower-yielding services and lower weight per shipment.

Net income includes tax benefits of $90 million ($0.34 per diluted share) from the recognition of certain tax loss carryforwards and approximately $60 million ($0.23 per diluted share) as a result of the enactment of the TCJA, primarily from a lower statutory income tax rate. These items were partially offset by a tax expense of $50 million ($0.19 per diluted share) related to new lower rates in the Netherlands applied to deferred tax balances. Last year’s results included a tax benefit of approximately $200 million ($0.75 per diluted share) from a pension contribution and a tax benefit of approximately $120 million ($0.44 per diluted

share) attributable to a lower statutory income tax rate under the TCJA on first-half fiscal 2018 earnings.

"Slowing international macroeconomic conditions and weaker global trade growth trends continue, as seen in the year-over-year decline in our FedEx Express international revenue," said Alan B. Graf, Jr., FedEx Corp. executive vice president and chief financial officer. "We have launched our voluntary employee buyout program, constrained our hiring, are limiting discretionary spending and are reviewing additional actions to mitigate the lower-than-expected revenue trends."

Outlook

FedEx is unable to forecast the fiscal 2019 year-end mark-to-market (MTM) retirement plan accounting adjustments. As a result, the company is unable to provide a fiscal 2019 earnings per share or effective tax rate (ETR) outlook on a GAAP basis.

FedEx is now forecasting for fiscal 2019:

Earnings of $11.95 to $13.10 per diluted share before year-end MTM retirement plan accounting adjustments;
Earnings of $15.10 to $15.90 per diluted share before year-end MTM retirement plan accounting adjustments and excluding TNT Express integration expenses, costs related to a FedEx Ground legal matter, costs associated with business realignment activities (including the U.S.-based voluntary employee buyout program) and the revision to the provisional benefit from the remeasurement of the net U.S. deferred tax liability included in fiscal 2018 earnings;
ETR of 22% to 23% prior to year-end MTM retirement plan accounting adjustments; and
Capital spending of $5.6 billion.

These forecasts assume moderate U.S. domestic economic growth and no further weakening in international economic conditions from the company's current forecast. FedEx's ETR and earnings per share outlooks are based on the company's current interpretations of the TCJA and related regulations and guidance, and are subject to change based on future guidance, as well as FedEx's ability to defend its interpretations.

Fiscal 2019 pre-tax cash costs related to business realignment activities, including the voluntary buyout program for eligible U.S.-based employees, are expected to total $450 million to $575 million and should predominantly occur in the fourth quarter of fiscal 2019. Actual costs will depend on acceptance rates. Savings from business realignment activities are expected to be $225 million to $275 million in fiscal 2020. Similar programs are likely for employees in international regions.

FedEx continues to make progress on the integration of FedEx Express and TNT Express operations. In February, FedEx Express began

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to integrate its intra-European shipments into the TNT Express European road network. With this development, FedEx Express customers in Europe will on average see at least one business day of transit time improvement on 40% of all European lanes, with the full implementation expected in June.

Europe accounts for a significant percentage of the combined FedEx Express and TNT Express international revenue, workforce and facilities. Integration activities in Europe are complex and require consultations with works councils and employee representatives in a number of countries. While substantial progress on integration activities is expected to occur in fiscal 2020, particularly in Europe, integration work will continue into fiscal 2021.

Integration expenses are expected to exceed $1.5 billion cumulatively through fiscal 2021 and additional costs may be incurred related to investments that will further transform and optimize the FedEx Express business. The timing and amount of integration expenses and other investments in any future period may change as plans are revised and implemented. The forecast for fiscal 2019 integration expenses is down slightly to $435 million.

"We are focused on offering innovative e-commerce solutions, increasing our revenue quality, reducing our cost to serve and completing the integration of TNT Express," said Rajesh Subramaniam, FedEx Corp. president and chief operating officer. "We remain confident in the long-term strategic value of the FedEx Express/TNT Express combination and look forward to realizing the synergies from a single pickup-and-delivery network, single air and road network, back-office efficiencies and sustained revenue growth."

Corporate Overview

FedEx Corp. (NYSE: FDX) provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. With annual revenues of $69 billion, the company offers integrated business solutions through operating companies competing collectively and managed collaboratively, under the respected FedEx brand. Consistently ranked among the world's most admired and trusted employers, FedEx inspires its more than 450,000 team members to remain focused on safety, the highest ethical and professional standards and the needs of their customers and communities. To learn more about how FedEx connects people and possibilities around the world, please visit about.fedex.com.

Additional information and operating data are contained in the company's annual report, Form 10-K, Form 10-Qs, Form 8-Ks, and Statistical Books. These materials, as well as a webcast of the earnings release conference call to be held at 5:30 p.m. EDT on March 19, are available on the company's website at

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investors.fedex.com. A replay of the conference call webcast will be posted on our website following the call.

The Investor Relations page of our website, investors.fedex.com, contains a significant amount of information about FedEx, including our Securities and Exchange Commission (SEC) filings and financial and other information for investors. The information that we post on our Investor Relations website could be deemed to be material information. We encourage investors, the media and others interested in the company to visit this website from time to time, as information is updated and new information is posted.

Certain statements in this press release may be considered forward-looking statements, such as statements relating to management's views with respect to future events and financial performance. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from historical experience or from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, economic conditions in the global markets in which we operate, a significant data breach or other disruption to our technology infrastructure, anti-trade measures and changes in international trade policies, our ability to successfully integrate the businesses and operations of FedEx Express and TNT Express in the expected time frame and at the expected cost and to achieve the expected benefits from the combined businesses, the impact of the United Kingdom's vote to leave the European Union and the terms of its withdrawal, if it ultimately occurs, changes in fuel prices or currency exchange rates, our ability to match capacity to shifting volume levels, evolving or new U.S. domestic or international government regulation, future guidance, regulations, interpretations or challenges to our tax positions relating to the TCJA and our ability to defend our interpretations and realize the benefits of certain provisions of the TCJA, our ability to effectively operate, integrate, leverage and grow acquired businesses, our ability to successfully implement our cost-reduction initiatives and productivity enhancements, legal challenges or changes related to owner-operators engaged by FedEx Ground and the drivers providing services on their behalf, disruptions or modifications in service by, or changes in the business or financial soundness of, the U.S. Postal Service, the impact of any international conflicts or terrorist activities, our ability to successfully mitigate unique operational and regulatory risks relating to developments in technology and other factors which can be found in FedEx Corp.'s and its subsidiaries' press releases and FedEx Corp.'s filings with the SEC. Any forward-looking statement speaks only as of the date on which it is made. We do not undertake or assume any obligation to update or revise any forward-looking

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statement, whether as a result of new information, future events or otherwise.

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