FedEx Corp Reports Strong Third Quarter Results

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Operating Results Significantly Impacted by Severe Winter Weather; Continued Strong Earnings Growth Expected in Fourth Quarter.

“I’m exceedingly proud of our FedEx team members, who are moving the world forward through the delivery of COVID-19 vaccines — the most important work in the history of FedEx,” said Frederick W. Smith, FedEx Corp. chairman and chief executive officer. “As reflected in this quarter’s results, continued execution of our strategies is producing strong earnings growth and margin improvement across our company. We expect demand for our unmatched e-commerce and international express solutions to remain very high for the foreseeable future.”

Operating results increased primarily due to strong volume growth in U.S. domestic residential package and FedEx International Priority services and pricing initiatives across all transportation segments. These factors were partially offset by costs to support strong demand and expand services, variable compensation expense, higher labor rates, and one fewer operating weekday.

Severe winter weather during February reduced the quarter’s operating income by an estimated $350 million. The weather significantly impaired operations at several of the company’s largest facilities, including the primary FedEx Express hub in Memphis and FedEx Express hubs in Indianapolis and North Texas.

Net income includes tax benefits of $108 million ($0.40 per diluted share) from a tax rate increase in the Netherlands applied to deferred tax balances and associated with voluntary contributions to the company’s pension plans.

Outlook

FedEx is unable to forecast the fiscal 2021 year-end mark-to-market (MTM) retirement plan accounting adjustment and certain debt refinancing costs that may be incurred in connection with debt reduction and refinancing transactions as part of the company’s capital allocation strategy. As a result, FedEx is unable to provide a fiscal 2021 earnings per share or effective tax rate (ETR) outlook on a GAAP basis.

For fiscal 2021, FedEx is forecasting:

- Earnings of $16.80 to $17.40 per diluted share before the year-end MTM retirement plan accounting adjustment and debt refinancing costs that may be incurred;
- Earnings of $17.60 to $18.20 per diluted share before (i) the year-end MTM retirement plan accounting adjustment and (ii) debt refinancing costs that may be incurred and excluding (iii) TNT Express integration expenses; (iv) costs associated with business realignment activities; and (v) the second quarter fiscal 2021 MTM TNT Express retirement plan accounting adjustment;
- ETR of 21% to 22% prior to the year-end MTM retirement plan accounting adjustment; and
- Capital spending of $5.7 billion, an increase from the prior forecast due to changes in the timing of aircraft payments and the acceleration of FedEx Ground

capacity expansion initiatives.

These forecasts assume continued recovery in U.S. industrial production and global trade, no additional COVID-19-related business restrictions and current fuel price expectations. FedEx's ETR and earnings per share forecasts are based on current law and related regulations and guidance.

"The significant improvement in our third quarter results highlights the momentum in our business which continued through an unprecedented peak season," said Michael C. Lenz, FedEx Corp. executive vice president and chief financial officer. "Our growth in fiscal 2021 has identified opportunities for investments that further position us for sustained long-term growth in earnings and cash flows as we move into fiscal 2022 and beyond."

Corporate Overview

FedEx Corp. (NYSE: FDX) provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. With annual revenue of $79 billion, the company offers integrated business solutions through operating companies competing collectively, operating collaboratively and innovating digitally under the respected FedEx brand. Consistently ranked among the world's most admired and trusted employers, FedEx inspires its more than 570,000 team members to remain focused on safety, the highest ethical and professional standards and the needs of their customers and communities. FedEx is committed to connecting people and possibilities around the world responsibly and resourcefully, with a goal to achieve carbon-neutral operations by 2040. To learn more, please visit about.fedex.comopens in a new window.

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 18, are available on the company's website at 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.comopens in a new window, 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 and underlying assumptions. Forward-looking statements include those preceded by, followed by or that include the words "will," "may," "could," "would," "should," "believes," "expects," "anticipates," "plans," "estimates," "targets," "projects," "intends" or similar expressions. 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, the negative impacts of the COVID-19 pandemic; economic conditions in the global markets in which we operate;

anti-trade measures and additional changes in international trade policies and relations; a significant data breach or other disruption to our technology infrastructure; 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; our ability to successfully implement our FedEx Express workforce reduction plan in Europe; our ability to continue to transform and optimize the FedEx Express international business, particularly in Europe; our ability to successfully implement our business strategy, effectively respond to changes in market dynamics and achieve the anticipated benefits and associated cost savings of such strategies and actions; the future rate of e-commerce growth and our ability to successfully expand our e-commerce services portfolio; damage to our reputation or loss of brand equity; the impact of the United Kingdom's withdrawal from the European Union and the terms of their future trading relationship; the timeline for recovery of passenger airline cargo capacity; changes in fuel prices or currency exchange rates; our ability to match capacity to shifting volume levels; the impact of intense competition; evolving or new U.S. domestic or international government regulation or regulatory actions; future guidance, regulations, interpretations, challenges or judicial decisions related to our tax positions; our ability to effectively operate, integrate, leverage and grow acquired businesses, including ShopRunner, Inc.; legal challenges or changes related to service providers engaged by FedEx Ground and the drivers providing services on their behalf; an increase in self-insurance accruals and expenses; 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 quickly and effectively restore operations following adverse weather or a localized disaster or disturbance in a key geography; our ability to achieve our goal of carbon-neutral operations by 2040; constraints, volatility or disruption in the capital markets and our ability to obtain financing; 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 statement, whether as a result of new information, future events or otherwise.

RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
TO GAAP FINANCIAL MEASURES

Third Quarter Fiscal 2021 and Fiscal 2020 Results

The company reports its financial results in accordance with accounting principles generally accepted in the United States ("GAAP" or "reported"). We have supplemented the reporting of our financial information determined in accordance with GAAP with certain non-GAAP (or "adjusted") financial measures, including our adjusted third quarter fiscal 2021 and 2020 consolidated operating income and margin, net income and diluted earnings per share, and adjusted third quarter fiscal 2021 and 2020 FedEx Express segment operating income and margin. These financial measures have been adjusted to exclude the impact of the following items (as applicable):

- TNT Express integration expenses incurred in fiscal 2021 and 2020; and
- Fiscal 2021 business realignment costs.

We have incurred and expect to incur

significant expenses through fiscal 2022 in connection with our integration of TNT Express. We have adjusted our third quarter fiscal 2021 and 2020 consolidated and FedEx Express segment financial measures to exclude TNT Express integration expenses because we generally would not incur such expenses as part of our continuing operations. The integration expenses are predominantly incremental costs directly associated with the integration of TNT Express, including professional and legal fees, salaries and employee benefits, travel and advertising expenses. Internal salaries and employee benefits are included only to the extent the individuals are assigned full-time to integration activities. The integration expenses do not include costs associated with our business realignment activities.

Costs related to business realignment activities in connection with the FedEx Express workforce reduction plan in Europe are excluded from our third quarter fiscal 2021 consolidated and FedEx Express segment non-GAAP financial measures because they are unrelated to our core operating performance and to assist investors with assessing trends in our underlying businesses.

We believe these adjusted financial measures facilitate analysis and comparisons of our ongoing business operations because they exclude items that may not be indicative of, or are unrelated to, the company's and our business segments' core operating performance, and may assist investors with comparisons to prior periods and assessing trends in our underlying businesses. These adjustments are consistent with how management views our businesses. Management uses these non-GAAP financial measures in making financial, operating and planning decisions and evaluating the company's and each business segment's ongoing performance.

Our non-GAAP financial measures are intended to supplement and should be read together with, and are not an alternative or substitute for, and should not be considered superior to, our reported financial results. Accordingly, users of our financial statements should not place undue reliance on these non-GAAP financial measures. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. As required by Securities and Exchange Commission rules, the tables below present a reconciliation of our presented non-GAAP financial measures to the most directly comparable GAAP measures.

Fiscal 2021 Earnings Per Share and Effective Tax Rate Forecasts

Our fiscal 2021 earnings per share (EPS) forecast is a non-GAAP financial measure because it excludes (i) the fiscal 2021 year-end mark-to-market (MTM) retirement plan accounting adjustment, (ii) certain costs (debt refinancing costs) that may be incurred in connection with debt reduction and refinancing transactions (debt refinancing transactions), (iii) estimated fiscal 2021 TNT Express integration expenses, (iv) estimated fiscal 2021 business realignment costs, and (v) the second quarter fiscal 2021 MTM TNT Express retirement plan accounting adjustment. Our fiscal 2021 effective tax rate (ETR) forecast is a non-GAAP financial measure because it excludes the impact of the fiscal 2021 year-end MTM retirement plan accounting adjustment.

We have provided these non-GAAP financial measures for the same reasons that were outlined above for historical non-GAAP measures. The fiscal 2021 year-end MTM retirement plan accounting adjustment, debt refinancing costs that may be incurred and the second quarter fiscal 2021 MTM TNT Express retirement plan accounting adjustment are excluded from our fiscal 2021 EPS and ETR forecasts, as applicable, because they are unrelated to our core operating performance and to assist investors with assessing trends in our underlying businesses. Estimated fiscal 2021 TNT Express integration expenses and estimated fiscal 2021 business realignment costs are excluded from our fiscal 2021 EPS forecast for the same reasons described above for historical non-GAAP measures.

We are unable to predict the amount of the year-end MTM retirement plan accounting adjustment and debt refinancing costs that may be incurred, as they are significantly impacted by changes in interest rates and the financial markets, and our ability to complete any debt refinancing transactions depends on a variety of factors, including economic and market conditions. Accordingly, such adjustments are not included in our fiscal 2021 EPS and ETR forecasts, as applicable. For this reason, a full reconciliation of our fiscal 2021 EPS and ETR forecasts to the most directly comparable GAAP measures is impracticable. It is reasonably possible, however, that our fiscal 2021 year-end MTM retirement plan accounting adjustment and debt refinancing costs that may be incurred could have a material impact on our fiscal 2021 consolidated financial results and ETR, as applicable.

Source: Fedex