

# MCINTIRE INVESTMENT INSTITUTE

AT THE UNIVERSITY OF VIRGINIA



## **FedEx Corporation (NYSE: FDX)**

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# AGENDA

- Overview
- Misperception
- Thesis
- Headwinds/ Tailwinds
- Risks
- Recommendation



# COMPANY OVERVIEW



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- American global courier service headquartered in Memphis, Tennessee
- Founded in 1997 via a merger between FDX Corporation and Caliber System Inc.
- Employs 300,000 workers
- Handles 8 million packages every day



# MAIN COMPONENTS

FedEx Express



FedEx Services



FedEx Freight



FedEx Ground



# STOCK OVERVIEW: (NYSE:FDX)



Share Price: \$103.39

52wk Range: \$83.8 – \$104.10

Market Capitalization: \$32.51 billion

Beta: 1.33

P/E: 16.18

EPS: \$6.49

EV: \$24.78 billion

EBITDA: \$5.45 billion



# THESIS



# THESIS

1

FedEx Corporation fundamentally undervalued by the market



2

Restructuring and focus on Ground Shipment can uncover hidden value



3

FDX has competitive edge in emerging markets





# VALUE IN NUMBERS



# COMPETITORS

## United Parcel Service



- 65% share of domestic ground delivery
- Delivers 4 billion packages across 200 countries

## United States Postal Service



- Works with both UPS and FDX to deliver packages
- Holds a strong monopoly over letter mail

# VALUE IN NUMBERS

	<b>FedEx</b>	<b>UPS</b>	<b>Industry</b>
Market Cap.	\$33.05 billion	\$77.44 billion	
P/E	16.18	17.84	17.30
PEG	0.8	1.5	
EPS	6.49	4.53	
ROE	13.19%	42.37%	
ROA	6.96%	8.83%	

# RESTRUCTURING



# RESTRUCTURING

- FDX to boost revenue by \$1.7 billion annually
  - \$1.2 billion will come from cost-cutting initiatives
  - \$500 million through growth in Express division
- Done in response to weakening economy & customer unwillingness to pay for quicker shipping



# WHAT ARE THEY CUTTING?



## Air Efficiency (\$ 700 million)

- Transition old jets out
- Bring in Boeing 757s & 767
- Less flights needed



## Ground Efficiency (\$350 million)

- Replace 5000 inefficient vehicles
- Introduce electric vehicles



# WHAT ARE THE CUTTING?



## Reductions (\$400 million)

- Reduce redundancies in staff
- Cut jobs in unprofitable sectors



## Updates (\$450 million)

- Make office space more efficient
- Make buildings green friendly

# BENEFITS

- Reduce Shipping Cost Increases

Projected increases for 2013

	<b>FedEx</b>	<b>UPS</b>	<b>USPS</b>
Air Shipping	3.5%	6.5%	9%
Ground Shipping	7%	9%	9%



# GROUND SHIPPING

- FDX seeking to expand Ground Shipping
- USPS seeking to renegotiate \$1.5 billion ground shipping deal with either UPS or FDX
- Competing with UPS to seize part of USPS faltering \$20 billion market share

Time-definite.

When you need it there a little faster, choose FedEx Express®. Delivery today, first thing tomorrow, or in 2 or 3 days.

[Learn more ▶](#)



# GROUND SHIPPING

“USPS made the decision to renegotiate contract due to budget costs and 2012 cost projections” – Jane Whieler, USPS corporate employee

“We are seeking to split the contract to cut costs but most likely one company, based on their prices, will get a lion’s share...” – Steve Niel, USPS corporate employee

# EMERGING MARKET GROWTH



# GROWTH OVERSEAS IN 2012



TATEX

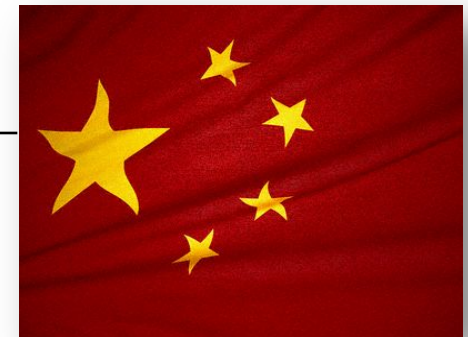


Opek Sp.z.o.o

Annual Revenue	
→	\$202 million
	\$70 million
↗	\$500 million
	\$833 million
	Total: \$1.6 billion in 2013



Rapidão Cometa



FedEx China  
Yangtze River Express





# EUROPEAN MARKETS

- UPS holds the advantage
  - Second largest courier in Europe behind Deutsche Post AG
  - Suffered \$265 million from TNT dealing falling apart
- Unable to put funds towards emerging markets



# EMERGING MARKETS - CHINA

- FDX holds the advantage
- Has had foothold since 1989
- FedEx China: 8 cities
- Yangtze River Express: 400 cities
- More efficient jets
  - UPS jets make layover in Alaska



# POTENTIAL IN CHINA

- \$26.3 billion projected market in 2020
- Chinese Postal Express following path of USPS
- UPS in weaker position to take advantage of this



# EMERGING MARKETS – BRAZIL & SOUTH AMERICA

- FDX via recent Brazilian acquisition
- 45 branches and approximately 145 distribution points, 770 vehicles and trailers, and 9,000 team members across the country
- UPS failed to gain traction via failed TNT deal



# MISPERCEPTION



# MISPERCEPTION

- Undervalued by investors due to perceived cyclical nature of FDX Express
- Seen as small player in Courier industry (25% of shipping in US vs 65% held by UPS)
- Saw 12% drop in profits due to Hurricane Sandy





# TAILWINDS & HEADWINDS & RISKS



# TAILWINDS & HEADWINDS

## Tailwinds

Bureaucracy in China makes progress very slow leading to delays and drops in estimates

## Headwinds

Rapidão Cometa's connections in other South American countries will speed up the rate which FDX can expand

# RISKS

- Revision to the Railway Labor Act may dramatically increase labor and benefit costs
- Lawsuit pending regarding claims of overcharging
  - Gokare P.C. v. Federal Express Corp.
- Rising oil prices could hurt FDX ability to increase their global presence
  - Prices have already risen by 8% by since January 1<sup>st</sup> 2013

# RECOMMENDATION

➤ Initiate a position at 2.5% - 3.0%