

FedEx Investors Meeting Transcript – June 29, 2022

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Good morning, everyone. Welcome to Memphis and to our FedEx Corporation's 2022 Investors Meeting. I hope you enjoyed the showcase yesterday and seeing the FedEx team and technology in action. Thank you to all our friends in the financial community for joining us today.

Before I begin, I would like to give a brief overview of the people who are here today. You probably noticed the different colors of the lanyards everyone is wearing. The green lanyards are investors. The orange are sell-side analysts. The blue are the other bankers and insurance folks. Red is the media. And purple are the FedEx employees. So, that's the colors of the lanyards for folks. There's about 160 people here today. Today's meeting is also being broadcast live on our website.

I thought I would just mention shortly, I've had a lot of people ask about this particular building we're in. It's the air operations center that has many flight simulators and classrooms for the pilots. And so, that's the building you're in here. And this auditorium was very useful during COVID because the pilots could actually spread out and be 10 feet apart in everything and so, it was very useful then. So, that's the building.

I'd like to thank everyone who made the meeting possible today, especially my Investor Relations team. Elizabeth Allen, Steve Hughes, Jeff Smith, Matt DeBerry, and Robin Moye. The first four names have over 90 years of investor relations experience here at FedEx. The entire team combined has over 100 years.

The lawyers make me say this so I have to read it because it's being webcast. I would like to remind everyone that FedEx Corporation desires to take advantage of the Safe Harbor provisions – of the Safe Harbor provisions of the Private Securities Litigation Reform Act. Certain statements made today, such as projections regarding future performance, may be considered forward-looking statements within the meaning of the Act. Such statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

For additional information on these factors, please refer to our press releases and filings with the SEC. Please refer to the Investor Relations portion of our website at [fedex.com](https://www.fedex.com) for a description of the non-GAAP financial measures discussed today, including a reconciliation to the most directly comparable GAAP measures.

So, today, we have about a half a day of presentations and discussions with you today so we can see – as you can see from your agenda that we handed out. I know you will gain a much better understanding of our company's strengths, our competitive differentiation, and our plans for the future.

So, just briefly, Raj Subramaniam, our President and CEO, as of June 1, will cover strategic outlook and vision. Brie Carere, our EVP and Chief Customer Officer, will discuss global commercial strategy and the market backdrop. Mike Lenz, our CFO, will discuss financial initiatives, our outlook and the financial targets. Then we'll probably have about a 20-minute break, and then we'll have the three OpCo CEOs speak John Smith, Lance Moll, and Richard Smith, and Karen Reddington, who's head of Europe, And Raj will then do a panel on operating collaboratively. And then, we'll end with Rob Carter, our CIO, will talk about everything FedEx Digital.

So on our website, you'll find a copy of the agenda, biographies of all the speakers, copies of all the slides, and then even a video of – the video presentation that you saw last night of our Executive Chairman, Fred Smith. So let's get started.

[Video Presentation] (00:04:43-00:06:30)

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Good morning. FedEx was founded to connect dots that others could not, to deliver in ways that created possibilities. The last two years highlighted the need for reliable supply and our network was ready. When the world came to a halt, it was our team members in more than 220 countries and territories that delivered the vaccines, kept our customer's global trade and society moving. Our commitment to service is the FedEx way. While we'll always continue evolving, our Purple Promise to make every experience outstanding that will remain constant.

We are at a pivotal moment in the history of FedEx as we enter our 50th year. As the CEO of FedEx, I am honored to share the vision of how we deliver what's next because even after decades of changing the world, we are just getting started. It's indeed a pleasure to be with you all here in Memphis, the place where it all began. Thank you again for joining us.

In this session, you'll hear from me and my extended team about our shared vision for tomorrow, but the real focus is on the work that we need to do to best deliver today for our customers, our employees, and our shareholders. The FedEx network is our distinctive strength, and one that is exceptionally difficult to replicate.

We have built an unmatched combination of scale, access, and flexibility. The power of our networks is such that FedEx can pick up a shipment in any one part of the world, and get it to any other part of the world in the next couple of – the next couple of days. FedEx Express is the largest express transportation company in the world, with 15 hubs, our Express global network connects more than 99% of global GDP.

And FedEx Ground, that's our ground parcel network that transports day definite packages both for businesses, and now increasingly for residences. It's faster to more locations than our direct competitor. And FedEx Freight that's the market leading solution for priority and economy LTL shipping. It makes LTL shipping simple.

With the shift towards e-commerce the investments that we made in our network for long-term growth are paying off. Things like building our Ground and Express capacity, expanding seven-day residential delivery, and modernizing our IT infrastructure. And today we stand at the intersection of trends shaping the world.

Despite changing policy landscapes, the market is more interconnected than ever before. Our unparalleled physical network generates petabytes of data every single day. We have valuable digital intelligence that's relevant for customers around the world. And we are using these insights to reduce our cost to serve, improve the efficiency of our customers operations, and enhance the end consumer experience. The demand has never been greater from communities looking for vaccines to companies searching for more reliable, sustainable options. FedEx is the clear choice to make supply chains smarter.

So, we have built an unparalleled global network. We have modernized our fleet. We have added capacity to meet e-commerce demand. Now, as CEO, my focus moving forward is to unlock the value from this foundation. This will shape how we operate, collaborate and invest to deliver today innovate for tomorrow. Deliver today innovate for tomorrow, guides our short-term and long-term goals. Deliver today captures the immediate work at hand with three key strategies to drive shareholder value.

First, drive yields by improving service, and targeting high-value customer segments. Second, expand margins by delivering through a more efficient network. And third, elevate financial returns through profitable growth, and capital efficiency. Throughout the day, you'll hear about each of these in greater detail. We have bold visions for FedEx, our intelligent supply chains, unique culture, and our unwavering commitment to sustainability position us as the innovators and global connectors of tomorrow.

Our strategic operating principles drive everything we do, compete collectively, reinforces customer centricity as the

foundation for every experience that FedEx delivers. Now, the growth in e-commerce over the past two years presented a whole new opportunity to optimize across our networks. As Chief Operating Officer, I recognized that we needed to transform the way we worked across these operating companies. And thus, we created operate collaboratively to own a One FedEx mentality that improves customer experience, asset utilization, and financial performance.

Our third principle, innovate digitally, means using data, technology, and other digital intelligence from the 15-millionplus packages that flow through our network every day to differentiate our value proposition to customers. We are extracting greater insights and lowering costs in a way that will ultimately transform this industry.

Our strategy will focus on driving premium yields and balanced growth, which we will achieve through specific commercial levers, such as focusing on high-value customer segments. To increase profitability across the business, Ground will drive margins to 11% to 12%, leveraging the network that we have already built. We will continue to win in the attractive LTL Freight market, driving operating margins above 20%. We'll enhance profits from a fully integrated European operation, helping drive Express margin of 8% to 9%. We will reduce our cost-to-serve by operating a more collaborative and efficient network. And to enhance returns through profitable growth and capital efficiency, we'll reduce fleet investment, elevate ROIC, and drive higher dividend and buyback payouts.

Our focus on execution and driving higher returns paired with lower capital intensity will drive shareholder value over the next three years and beyond. By investing in the right way, at the right time, we will deliver in smart and financially sustainable ways, and drive key business outcomes. We will create revenue growth of around 4% to 6% annually with a renewed focus on attractive market segments.

Our leadership in revenue quality will continue. We will deliver double-digit operating margins. Efficient and responsible allocation of capital will fuel it all as we lower our capital intensity and increase our return on invested capital. We will grow our capacity utilization, moderate aircraft fleet investment, and drive a 200-basis-point improvement in ROIC. These efforts, combined, to deliver 18% to 22% total shareholder return through fiscal year 2025. We will explore these targets in more depth shortly.

Now that we have covered our financial targets, I'm going to spend a few minutes talking about two areas of great importance to me. Our world-class culture and team and our sustainability initiatives. FedEx is guided by our People-Service-Profit or PSP philosophy. It is the blueprint that guides how team FedEx delivers today and innovates for tomorrow. Our path forward will be driven by our culture and a deep bench of talent.

We are an employer of choice and known around the world for our iconic culture. Our team members build a career and life at FedEx. And we are immensely proud of the differentiated experience that we offer. Working at FedEx is synonymous with opportunity and growth. We know it takes a highly motivated team to consistently deliver outstanding experiences and we are committed to enabling our team members' career goals, starting with the most dedicated frontline team in the world.

And finally, our sustainability initiatives. FedEx will make global operations carbon-neutral by 2040 and we are leading by example. A few of our initiatives include converting the parcel pickup and delivery fleet to zero-emission delivery vehicles, electric vehicles. Investing in alternative sustainable fuels, reducing our aircraft energy consumption, and transforming our facilities to become more energy efficient. These advancements not only bring us closer to our carbon-neutral ambition, but also enable our customers to reduce their own footprints through sustainable packaging and carbon neutral shipping.

In closing, we stand at a pivotal moment. We are focused on balanced growth and revenue quality, expanding our margins and increasing returns on capital, which will drive 18% to 22% total shareholder return through fiscal year 2025. As we evolve and better serve our customers, our people, and our shareholders, we are delivering both next quarter's profits and the next quarter century of our legacy. Thank you again for joining us here today.

[Video Presentation] (00:20:32-00:21:28)

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Good morning, everyone. On behalf of our global sales, marketing, customer experience and pricing teams, I am incredibly proud to be here with you today to present our global growth strategy. As many of you know at FedEx, we have always been focused on the customer. We've worked very hard to build enduring customer relationships, an incredible global brand, and, of course, a world renowned network.

And I believe now is a great opportunity to lean into these relationships and to build on our very focused growth strategy. We will do this by focusing on what we do very well, and the customers who value our end-to-end capabilities.

So, what does this mean to all of you? It means that we are going to grow revenue 4% to 6% per annum with a focus on yield over volume growth. We have recognized – go back one. It means that we're going to grow in the right customer segments and that we're going to focus on where we can bring value. It means that we have the most differentiated value proposition, and you're going to hear from that from my team and all of us today on why we are so proud of what we've built. And it means that we're going to continue to lead in pricing.

Now, as we built this plan, we did assume a normalized economic environment with an above-trend inflation rate. And if inflation continues to persist, then you have my commitment that we will work to get inflation plus pricing.

As we stand here right now, I recognize that the risk of a softening economy continues. But our commercial model is incredibly resilient. And you have our commitment that we're going to pull both commercial levers, as well as cost and capacity levers to be able to adjust to really any environment.

Over the last three, four years, this team has been through a global trade war, a global pandemic, rising fuel costs, a labor shortage, and an actual war. Our team has learned to be incredibly nimble and flexible, and I believe that we can adapt to any economic environment.

We've also worked incredibly hard over the last several years to build an incredibly diverse customer base, both small and large customer mix. We've worked hard to balance. And, of course, we have diversified our revenue globally.

Now, despite any economic backdrop, we have been very fortunate to operate in a durable and a healthy market. COVID absolutely accelerated the growth in the market as you can see in the slide behind me. Right now, we have returned to normalized growth rates in the market. But what the growth and the acceleration enabled is this massive market, and so we can be even more selective within it to focus on the customers that we care the most about.

And we've invested very well to position FedEx Ground, so let's talk about that. From a market perspective, over the last several years, you can see that the Ground market absolutely has outpaced the Express market growing at about 8.5% CAGR while Express grew about 0.5% CAGR. E-commerce has been and will continue to be the market driver. 90% of growth will come from e-commerce. 10 years ago in the United States, the Ground market represented about 70% of the market. Today, 90% of the market.

We made a very important decision in 2019. We chose not to partner with Amazon. We did this knowing what remains is a very large and healthy market, and Fred talked a little bit about this last night. Today, in the United States, there are 57 million pieces a day outside of Amazon volume. These are the world's most prolific retailers. These are our small and medium businesses. And of course, this is the B2B market.

We believe that this market will continue to grow to 67 million pieces, and we're very pleased our strategy has played out. When we made this decision in 2019, we really believed that this market would thrive, and grow, and these retailers have

kept pace with Amazon. In fact, as Fred mentioned last night, some of our largest retail customers outpaced the growth of Amazon.

Now, it is a large market. It is a healthy market and it is a competitive market. And we know that service is paramount in this market. At FedEx, service has always been part of our competitive advantage and our value proposition. This service standard is simply not negotiable. It's who we are and it's what we come to work to do every single day. You have heard it from Raj. You're going to hear it from me. Our Purple Promise is to make every FedEx experience outstanding.

Now, in COVID, the business experienced changes and impacts like something we've never experienced before. In rapid succession, we had monumental volume growth in demand, followed by labor shortages in every segment of our business. And yes, service did suffer as a result.

Since then, it has been our number one priority after safety, and all hands on deck worked to improve service. And since coming out of peak, we have improved service month over month over month. And we're going to continue to build on that momentum until we get back to where we need to be, which is our historic market-leading service levels, the service that the market expects from FedEx.

And while service is absolutely cornerstone to our value proposition, I believe strongly that sustained differentiation will come through our digital portfolio and a digital – and our digital experiences. Our aspiration in the e-commerce world is to provide both retailers as well as the end customer, package visibility that does three things. It provides confidence, clarity, and control. And so we've been investing in our digital experiences. This year we improved our estimated delivery date experience. That is a mouthful. We say EDD internally.

What is our EDD experience? This is the way that we tell end recipients when their package will arrive. We improved it by using a brand new AI model developed by our very own Dataworks. And this model made the accuracy dramatically better. It reduced changes by 40%. As you can imagine, you're all consumers in this room. If you get a change notification, it creates a question mark of is my package going to be on time? If we create that question mark in customers' heads – their minds, they pick up their phone and they call us. We do not want them to call us. We want them to stay in the digital experience. So, this new model has been a great enhancement to our estimated delivery date experience. We're now taking that model and we are going to improve our estimated delivery time window model.

What does that mean? This fiscal year, our goal is to get all FedEx Ground deliveries in the United States to a four-hour window, to get Express to a two-hour window, and then to rapidly improve by expanding this capability to 13 countries. We can move quickly because we're going to use the same ML model that we use for our estimated delivery date, for our estimated delivery time window. This is the power of data. This is the power of Dataworks.

In addition to that, to further improve confidence, we launched last or announced last week that we will be the first carrier in the United States to offer a Picture Proof of Delivery for every residential delivery in the United States. We will bring this to market before peak this year. Let me tell you and Jill Brannon, if you've had an opportunity to meet her, customers have been asking for this. They are incredibly excited and we are thrilled to bring it to market before peak of this year.

Now, we're improving in digital beyond visibility. The other enhancements I wanted to share with you is, last year, last calendar year, we improved FedEx Ship Manager at fedex.com. If you don't know what FedEx Ship Manager at fedex.com is it is the small business application that our customers use to create a shipping label. We worked hard last year to improve this capability. It has a great new modern look and feel. But more importantly, it is easier to use and it allows small businesses who are very time pressured to move much quicker. We're bringing it to the United States this year; and most importantly, small business customers have told us they love it.

Now, let's talk about small businesses. We have been small business friendly for over 20 years. Our expansive network provides an unmatched value proposition for small business. Our national retail footprint of more than 30,000 manned locations allows us to meet small businesses where they are. And, of course, in an ecommerce world, our retail network

allows us to offer really simple and easy-to-use returns processing, which is critical for our small business e-commerce customers. Small customers love the LTL and the parcel bundle. If you are a small business, you are wearing multiple hats; and any way that we can make your life easier, they appreciate. We also further incentivize the use of our parcel portfolio and our LTL portfolio through the use of earned discount.

In addition to that, FedEx is the only provider in the industry to have a loyalty program. My FedEx Rewards has been creating stickiness in customer loyalty for 15 years. We have 1 million enrolled customers in the United States who actively participate in our loyalty program.

At FedEx, we're also very focused on building direct relationships with our small customers. We believe that this allows us to really engage with customers up and down the supply chain and to sell the entire portfolio. And an alternative strategy could be to go purely through e-commerce aggregators. We do not believe that is the right strategy because when you're working through a third party, you end up a price in a box on an application, and we do not think that is the right way to sell the value, and the premium that we provide to small businesses. We are confident that we are the right choice for small businesses who want to carefully manage their brand and their customer experience.

Now, in addition to small businesses, we are very, very well-focused and positioned for B2B. We've got some great innovative solutions like FedEx Surround. You're going to hear Rob talk about FedEx Surround a little bit later. FedEx Surround has market-leading monitoring and intervention capabilities that are especially designed for the B2B segment.

In addition to that, to win in the B2B segment or the industrial segments, it is absolutely paramount that you have deep vertical and industry knowledge which FedEx has. Let me bring this to life by talking about healthcare. To win in healthcare, we have global dangerous goods capabilities, we have deep regulatory FDA and clearance capabilities, and we have both the physical and the digital capabilities to manage cold chain. What I mean by that, FedEx Surround will help our healthcare customers identify when a shipment is about to be in stress or avoid any issues with the shipment if it does become stressed. So, we can reroute the shipment or if the shipment is in our network and an issue occurs, we have the ability to identify it, isolate it, intervene, re-ice it, preserve its efficacy and get it back to where it needs to go to the patient that it is intended for. There are few in the world that can compete with FedEx and healthcare.

Small business, B2B, incredibly important so are the large enterprise customers and the world's most prolific retailers. These customers play a very critical role for us at FedEx. They help us manage our overall cost to serve. And, of course, they help keep our network utilization levels in check.

We have worked very, very hard to achieve the right balance, making sure we have capacity for our small business customers which we absolutely do. We have worked hard to find a win-win relationship with these customers and they absolutely recognize the cost and the complexity of running a network at – of our scale and our reliability.

The sales team has been extremely successful and renegotiating contracts in this space and while we absolutely want to find a win-win with our customers, we will continue to be firm that we price for the value and the reliability that FedEx brings to these customers.

Now to that end, I won't spend a whole lot of time. I think we mentioned maybe 26 times in the last earnings call our revenue quality, Ken. We are the market leader. We have done a fantastic job of staying ahead of the competition. And you have my commitment that we will continue to lead the market in price. How do we do this? We have a worldclass pricing team, and a robust pricing playbook. Obviously, we will continue with our general rate increase. Last year was 5.9%. We did an incredible job of getting a very high capture rate of that general rate increase.

We're going to continue to revisit all of our enterprise contracts. We've done a very good job there, and are starting to embed CPI language to be able to manage further inflation. We've been using surcharges very strategically. The best example is peak surcharges. FedEx led the industry in instituting an e-commerce peak surcharge to make sure that those customers that stretch our networks in the holiday seasons that they pay for those increases.

We believe that these are systemic changes that are here for the future and e-commerce. In addition to that, we are working very hard to build out our dynamic pricing road map. We are using the power of data and the Dataworks team with our fabulous pricing strategy, and we will be again bringing dynamic capabilities to market four to five times a year. We will have our first release of dynamic pricing this August in advance of peak.

In addition to that, we often get asked a lot about local and regional competitors. Well, we are going to win with the bundle. We are going to bundle our local, our regional, our national, and our intercontinental and global capabilities. As Fred mentioned last night, there are very few in the world that have this capability, and we think this is a unique way for us to compete in the market.

Now, I do want to take a moment and talk about international. We are very pleased with how we have positioned our global networks to meet where trade flows are, and to enable the growth of global commerce as Fred talked about last night. We have a strong presence around the world trans-Pacific, trans-Atlantic, Europe to Asia and back. As many of you know, we are already the trans-Pacific parcel market leader. And the completion of the TNT integration closed the largest portfolio gap we've had and we've been working on for more than 20 years as you know.

TNT not only gives us an incredibly robust value proposition across Europe. It enabled us to improve our value proposition into the United States, where we now have the best trans-Atlantic portfolio. And you're going to hear later from Karen that it improves the efficiency of the ground line haul in Europe, as well as our P&D costs, which makes us more competitive from Asia into Europe as well. Karen Reddington, our President of Europe is here today and she'll share more about our European growth strategy. And later, you'll hear from Kawal Preet, our President of the EMEA region.

Yes, our networks are flexible and we will adapt and react to market conditions. I want to emphasize that we are clearly aware that commercial capacity will come back. People love to travel and trade. It is inevitable. And we are ready for this change in the market. We expect commercial capacity levels to come back to pre-COVID levels by the end of calendar year 2024. And the forecast that I shared a moment ago, we have already built in the yield reductions which are predominantly coming out of our APAC division into this forecast. We have been very pragmatic about the return of commercial capacity and have very detailed plans to react as that happens.

So, in closing, we have built this incredible global brand. We are committed to growing in high value segments and to making sure that we have the right mix of customers. We will double down on service quality and deliver the experience that customers have come to love from FedEx over the last 50 years. And if I haven't mentioned it, we will lead the market in price.

And with that, I'd like to ask Mike Lenz, our CFO, to come up and review our financial targets. Thank you.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Well, good morning, everyone. And let me add my thanks for all of you coming and spending some time here with us for a couple of days. As Raj and Brie have introduced, we're at a key moment in our history. We've built an unparalleled global network and set of capabilities, and now we are focused on maximizing the value of that network and driving total shareholder return through balanced growth and revenue quality, expanding our margins, and increasing returns on capital. Given the massive scope of our operations, even small changes to streamline our processes or unlock efficiencies can drive significant value. We have a great opportunity ahead of us.

As you can see here, we will deliver strong performance over the next three years that builds upon our FY 2022 earnings, the highest in our company history. Here we've outlined the financial targets for FY 2025. The outcome is that 18% to 22% annualized total shareholder return through FY 2025. This will be achieved through a balance of revenue growth, significant margin improvement, and higher cash flow yield. Brie covered the moderate growth assumption with a low

volume component as we're absolutely mindful about of the overall environment, but the commercial approach that Brie outlined is completely consistent with our financial targets and the entire team is aligned behind this.

Expanding margins across the business is our top financial priority. By FY 2025, we intend to achieve a 10% consolidated operating margin. And the biggest opportunity is at Ground, where we'll reach 11% to 12% margin in FY 2025.

Importantly, we will be lowering our capital intensity. We finished last year at roughly 7.2% and we'll be down to 6.5% by FY 2025. And the overall emphasis on driving higher return on invested capital will be at the forefront of our investment decisions and we're projecting a 200-basis-point improvement on that metric in the next three years. As a result of that, we'll further increase our returns to shareholders and advance to a 25% dividend payout ratio by FY 2025. And we fully expect to continue the momentum in the years beyond that.

So, now, I'll give a little more color on each of these targets and how we plan to deliver. As I said, margin expansion is the top priority to grow earnings. At Ground, e-commerce has challenged productivity over the past few years, but we are executing on operations and technology initiatives to lower the cost to serve. In addition to a rigorous focus on driving the right volume into the Ground network, we have multiple cost initiatives underway.

These include productivity improvement, higher asset utilization, and lower liability costs. So to give you a few examples, we're implementing and developing additional enhanced tools to improve efficiency in our dock and linehaul operations. We'll also achieve higher capacity utilization through technological innovation, and we will continue investments in safety technology, training, and other initiatives that will lower the cost of risk.

All in all, we'll bend the cost curve at Ground by \$1 billion annually by FY 2025. And you'll hear more details on the specific actions and initiatives supporting that later this morning from John Smith, the CEO of our Ground company.

Now, turning to Express. The biggest opportunity in Express is driving improved profitability in Europe. Roughly half of the profit improvement that we outlined for Express will come from Europe, where we will leverage the fully integrated network. Brie spoke about the commercial value proposition that that will enable, and of course, an integrated air network means we have a more efficient and lower cost airline.

Beyond Europe, Express will strategically leverage our international air partners. So, as commercial capacity becomes more available, we'll increase our utilization of that lift. And as we near the conclusion of our fleet modernization, we'll benefit from increased efficiency and lower cost to serve in running the airline.

At Freight, coming off a spectacular FY 2022, we expect to continue to grow profitability and exceed 20% operating margins with a relentless emphasis on realizing appropriate value on every shipment, strategic investments in the network, and profitable growth on the differentiated offerings in our Freight company. Altogether, we expect to push the enterprise to double digit margins by FY 2025.

Now turning to overhead and support costs. Historically, our costs have grown roughly in line with revenue, but that is changing. Our operate collaboratively and innovate digitally mindset has identified significant opportunities to do better, in fact, \$1 billion of improvement to start. Work is already underway in a number of areas with key programs already in motion. For example, we will consolidate transactional activities in shared service centers for greater efficiency. We're embarked upon modernizing and automating a number of our customer support activities so we can both enhance the customer experience as well as deploy less resources per transaction. Next, we'll enable digital capabilities to automate back office workflows and eliminate manual inefficient processes. And finally, we'll expand upon centers of excellence in key parts of the world where we can combine the best of functional expertise with the scale and efficiency of shared services.

Now, with improved margins and lower capital intensity, we're projecting significantly higher cash flow. Our priorities for cash are as follows: first, invest in the business with high ROIC initiatives that further enhance our competitive

position or improve efficiency; second, continue to maintain a resilient balance sheet with a minimum of a BBB/Baa2 investment grade credit rating, and we'll continue to fund our pension plan and look for further opportunities to reduce the size of the liability.

Finally, we're targeting a 25% dividend payout by FY 2025, which is significantly higher than we have historically distributed. And residual cash beyond these priorities, we will continue with share repurchases similar to what I outlined last week with our plans for FY 2023.

Now turning to capital, over time, we have invested to build the world's most powerful network. Moving forward, we're ready to enter an era of lower capital intensity at FedEx. We'll go from our historical levels of roughly 8%, as I mentioned, we were 7.2% this year, and by FY 2025, we'll be at 6.5%, and beyond that after then.

But what will drive this? First, a majority of our air fleet will be modernized by the end of FY 2025. So we will have lower aircraft spending going forward. Next, most of you had the opportunity to tour our Express facility at the Memphis hub, and saw the modernization project underway there. We have a similar initiative in Indianapolis, and both of those projects will near completion at the end of FY 2025. Next, lower investment and ground capacity as we focus on asset utilization and further optimization of the infrastructure we have in place. And overlaying all this, of course, is a rigorous prioritization of our CapEx spend to ensure we are investing in the highest ROIC projects.

Going forward, I'll talk a little bit about aircraft spend because I know that's a topic of great interest to this audience and to me as well, because my role prior to coming to FedEx was in charge of fleet planning at an airline. As Fred highlighted last night, we have over many years undertaken an extensive fleet modernization plan and we are near the conclusion of that program. The last couple of years, we've averaged roughly \$2.4 billion in CapEx, and as you can see here, that profile comes down over the next three years and we expect to be at or below the \$1.5 billion beyond FY 2025.

How will we get there? We'll retire the last of our MD-10s at the end of this calendar year and we will soon begin retiring MD-11s as passenger belly capacity returns, and we continue with our 767 deliveries that enable us to more efficiently operate our air network. I should also add that the pace of retirements is also a function of how demand evolves, which highlights our flexibility to manage capacity in a financially efficient manner. And because of our efforts, we will have the youngest and most fuel-efficient fleet, which will continue to pay off over the long run.

Now shifting to returns, over the last five years, we've returned over \$8 billion of capital to shareholders through dividends and share repurchases. By FY 2025, we'll increase the dividend payout rate to 25% of adjusted net income, which is up from roughly 16% the past year. And we're well on our way to achieving this with our recently announced dividend increase of over 50%. This is a significant commitment on our capital allocation and shows our confidence in our cash flows.

Ultimately, all initiatives drive towards generating higher shareholder returns. Focus is on profitable growth, significant improvement in margins with better asset utilization and lower capital intensity, the focused ROIC lens to deliver higher returns on your money and generate strong cash flows into the future. Now these goals take us to FY 2025. As you'll hear later today, we have the opportunity to do more beyond that, primarily driven by network optimization, otherwise known as Network 2.0.

So, in summary, we're committed to delivering these results for you and our incentive programs are aligned with these outcomes. We have clear plans and an opportunity through and beyond FY 2025 that builds on our unmatched foundation. And we are confident in our ability to deliver. Now, of course, we're mindful of the uncertainty in the macroeconomic environment, but we are confident in our ability to adjust as needed. We're very pleased to share these goals with you and confident we can deliver.

[Video Presentation] (00:55:10-00:59:25)

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

All right. Welcome back. Hope you had a good break. Now we'd shift to here directly from our operators and to talk about their highest priorities as we deliver today. So, with that, let me welcome up John Smith, CEO of FedEx Ground. John.

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

Well, thank you, Raj. It's good to be here with you this morning and happy to share more about the Ground story as we go forward. Now everyone understands that e-commerce has been the primary driver of growth in our industry. And that was further accelerated by the pandemic, which increased residential volume and created labor market challenges that impacted our margins. However, we've shown great agility and responsiveness navigating the last two years, with a focus on a more balanced growth in the right segments, reducing our cost to serve and making our network more efficient with higher asset utilization. And we have a clear path to 11% to 12% margins by FY 2025.

But before diving in on how we're going to get there, let's step back, and look at where we've been in the last few years. Now, as Brie mentioned, e-commerce has changed the game. Over the past decade, e-commerce has driven 90% of the growth in our market. Domestically, Ground volume growth has outpaced Express growth by 20 times. And with this growth, came a shift to more residential volume. Now, this hurt our delivery density, with our packages per stop dropping approximately 20% over the past few years.

However, we anticipated these trends and we are strategically invested to position ourselves to capitalize on the e-commerce growth with our future-ready network. Now, we expanded our network footprint to increase capacity. We have added 73 facilities and over 22 million square foot of sortation capacity over the past three years. We've added six- and then seven-day operations across our network, and we began building out a regional network that currently includes 17 regional sortation facilities. Now, these facilities are smaller and more cost-effective to operate. But most importantly, they are strategically located to enable overnight service for all of our key e-commerce shippers.

Next, we added incentives for our service providers to equip their fleets with vehicle safety technology. And by January of 2023, 100% of those businesses have committed to having this technology on their vehicles. And that technology includes video event data recorders, rear sonar systems, and blind spot detection systems.

Finally, we launched route optimization technology, and that technology has improved service provider stops per hour by 7.5%. And all of this adds up to time saved, productivity gain, while driving costs out. As we were making these changes, the pandemic hit, and it's really been a tale of two years on our margins. FY 2021 revenue grew 34% virtually overnight.

Now fortunately, the investments we've been making in capacity, combined with the flexibility of our service provider model helped us initially capture that e-commerce growth. However, in FY 2022, significant unforeseen labor shortages created certain operational inefficiencies such as having to reroute packages sub-optimally and it made it harder to attract and retain the people necessary to handle this additional volume. And our investments have been crucial for both short-term and to position us for long-term success.

Since 2021, we have made considerable investments in labor, including permanent enhancements and compensation as well as healthcare and educational benefits. Now for package handlers enrolled in one or more of these benefits, our retention on those folks is 2 to 3 times better than the norm.

Now we launched a scheduling app, as you saw earlier with Chris, which allows package handlers to view, adjust and add shifts with ease. Now, this helps our management team ensure that we have the right level of staffing for every sort and it contributes to long-term retention as well.

Next, our service provider model. And our investments in P&D technology have allowed for greater flexibility and efficiency. We have supported growth and success of thousands of independent businesses, all of whom helped us flex with the pandemic-driven growth as well as adjust for the change in our product mix. Now, as the pendulum has swung back and volume has softened, these businesses can react nimbly. And this speaks to the power of our service provider model. Our investments in people and service providers have stabilized Ground against all these disturbances brought on by COVID. And we are on solid ground for long-term success.

Now we also recognize opportunities to extract more value from our network. So let's talk about the future. As I mentioned, Ground is on a path to sustainably deliver 11% to 12% margins by FY 2025, with more to come in the future years. Now we're working toward that in two major ways; number one, focusing on profitable revenue through targeted growth as well as high service levels; and number two, we're going to drive \$1 billion in cost savings through productivity initiatives that will both increase efficiency and reduce our cost.

Now, Brie spoke this morning on the commercial levers we're pulling in the Ground businesses, and targeting the more profitable customer segments as well as a focus on revenue quality. Now, we are working closely with the commercial team to ensure our operations evolve in line with the demand. Now, this includes an intense focus on service, as we work to exceed shipper expectations and truly differentiate ourselves through an outstanding recipient experience.

Now, let me spend a few minutes outlining how we're going to take the cost out of our Ground business. Over the past few years, our productivity has deteriorated, as our product mix shifted and our operations expanded both physically and over a full seven days a week. And there is no eighth day, thank goodness. Given the scale of our network and the market volatility, it has taken some time for us to fully recalibrate our operations. However, we've been implementing bold initiatives to reset our productivity.

One of the significant projects that we're working on is what we're calling dock modernization, and it's a collection of initiatives aimed at improving frontline productivity through increased package handler retention, along with multiple technology plays. We're also optimizing our line-haul operations using data and technology to optimize each package's path across the transportation, whether it be mode, timing or the routing of that package.

Next, we're taking actions to reduce our operating costs. The vehicle safety initiatives I mentioned earlier will help us control our liability costs. New driver eligibility standards for ISPs, and a liability contribution and safe operating incentive will reinforce the shared commitment of FedEx Ground and our service providers to drive safety excellence.

In terms of labor, the packaging and handling tool that Chris mentioned on the video, this will ensure that we have the right staffing levels, again, by the right sort, by the right day of the week. And this will help us be more strategic and targeting in our recruitment as well as the associate expenses that go along with that.

And I've already talked about the strength and the flexibility of the service provider model and we are continuing to ensure that the financial and agreement terms appropriately reflect market dynamics. We're also committed to leveraging the buying power of Ground to reduce service provider cost wherever we can. For example, in the coming weeks, we're introducing a new third-party option for group healthcare that has the potential to reduce service providers' out-of-pocket costs.

Finally, we're making moves to ensure we are really sweating our assets with a higher focus on improving our ROIC. So, what does that mean? Looking ahead, we will be limiting our investments in fixed capacity growth to instead maximizing existing assets through new technology and new operational strategies. Now, we've already started, and we will continue to run what we call dual preload operations in more and more of our facilities. Now, what this basically means is we'll be sorting packages, and service providers will be dispatching delivery vehicles in waves throughout the day, and we are building the very needed technology stack to operate multiple preloads seamlessly. Since sweating our assets will leave little downtime within our facilities running the seven-day-a-week network, we are shifting to data-driven

predictive maintenance within our buildings. This is very important. This technology will help our facility's maintenance team identify and address potential issues early to reduce unplanned downtime in a facility.

Lastly, we're unlocking new insights from our digital initiatives that will help us better balance volume across facilities and specific sorts. And this will be based on characteristics of that volume, whether it's package size, whether it's service type or other attributes. Now, let me assure you that all of us at Ground are committed to delivering 11% to 12% margins by FY 2025, and as I said earlier, and continuing to improve further past that point.

Now, as we come out on the other side of the volatility caused first by the pandemic and now the economic downturn, we have stabilized the key elements of our operation. We are now in an ideal position to approach this new day in a new way. And this includes reducing our cost through actions and technology that drive up productivity, while driving down our operational expenses. It includes elevating our focus on ROIC by sweating our assets and reducing our CapEx. And it includes doing all of this while maintaining consistently safe and excellent service to help drive and support all the commercial actions that we all heard earlier.

Now, this entire team at Ground is committed to delivering today for a strong tomorrow. Thank you.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Thank you, John. I think it was great to hear the profitable story of – growth story at Ground. I know you might know this that, you set up the stage for the FedEx Freight success, and I have every confidence that John will drive these results and beyond at Ground.

Now, I want to turn the floor over to Lance Moll, the CEO of FedEx Freight. Come on up, Lance.

Lance D. Moll

President & Chief Executive Officer, FedEx Freight, Inc.

And those were literally big shoes to fill. Well, thank you, Raj, and thank you all for the time this morning and really the time last night. I had a lot of good conversations about Freight last night with several of you. And before I go into any further detail, I want to take the opportunity to really say how proud I am of this FedEx Freight team.

Trucking business is tough in good conditions and the conditions they faced over the last couple of years and what they achieved has been nothing short of exceptional. The past two years have been like any I have ever seen in my 30 years in the trucking industry. We have thrived despite the economic conditions. The downturn of the economy throughout the initial recovery and accompanying volume surge. And now during the ongoing labor shortages and capacity constraints. Throughout it all, this team has delivered. Not only did we improve our financial performance, we did it in a way that protected the health and the culture of our company.

So, this chart illustrates really the journey we've been on over the last five years. We set out to accelerate, improve in sustainable financial performance for the enterprise. And as the largest LTL carrier in North America, we knew we could further capitalize on the premium service and differentiated offerings we bring to the LTL market. Our strategy has been and will continue to be to drive profitable share growth through a continued focus on revenue quality and outstanding customer experience.

As you can see here, we are delivering. We have nearly tripled our operating income since FY 2020, and more than doubled our operating margin to 17.4%. And as sign of things to come, we just reported our first ever 20%-plus operating margin in this last quarter. We are committed to delivering 20%-plus operating margins by FY 2025. Absolutely committed to delivering sustainable operating margins 20%-plus by FY 2025. To achieve this goal, we will maintain pricing discipline and continue to drive profitable share growth and manage our cost regardless of the economic conditions.

Now, the Freight finance team collaborates extensively with Jill and her sales team. We believe our 48,000 team members are the best in the industry, and we strive to be the LTL employer of choice. One way we do this is our safety-above-all mindset. It is absolutely our number one priority. Before we begin any meeting, whether it's out in the field, on the frontline, if it's in the corporate office or any back office before any meeting, we open with a safety message, just to reinforce that safety will always be our absolute number one priority.

We continually review and adjust our compensation structure. And our in-house driver development program has been in place for many years, and we've graduated a record 1,800 students through the program in the last year. We will continue to strategically invest in our network with the fastest published transit times. We have several projects underway to modernize and selectively expand centers to increase capacity over the next three years. We will also continue to invest in the latest safety technology. As we move ahead, our technological innovations will bolster our profitable growth and continue to optimize our operations.

So, I hope you had a chance yesterday to attend part of the Freight Expo to see how we're utilizing Dimension in Motion or DIM technology. We believe FedEx Freight is an industry leader with this DIM technology. We're making significant progress in our capture rate and now capture the dimensions on over 80% of all shipments moving through the network. Now, the immediate benefit of dimensioning is that the higher capture rates offer better data to understand freight profile, to better cost our business, better price our service. But on the longer-term horizon, higher capture rates enable a simplified DIM-based pricing alternative.

Next, our application of RFID technology to associate shipments to our forklifts has earned us a patent. This allows us to improve shipment visibility on our dock and enable control at the handling unit level, not the shipment level, but the individual handling unit level. The software and hardware solutions combined with our forklift computers allow us the ability to extract near real-time data for the freight on our docks. Now, down the road, we expect the technology to further our ability to more efficiently route handling units to the right doors, to improve cube utilization on our trailers before they're dispatched as well as additional segregation and sequencing.

Now, in addition to focusing on our fundamentals, we will continue to build and leverage our unique portfolio. We provide the only employee and equipment company branded FedEx Freight Direct offering. We currently provide 100% nationwide coverage for our basic and our basic by appointment services and reached 90% of the continental US for our standard and premium through-the-door services.

Now, we expect a significant profitable growth in the e-commerce solution over the next three years. We have similar plans to grow our profitable Canadian cross-border offering. Our clearance team further differentiates us in this market. Mexico with our brokerage inclusive option offers us another great opportunity to grow profitably in Mexico.

Now, lastly, FedEx Freight is committed to ensuring we're putting the right shipment or the right package in the right network at the right price. We provide our customers with a seamless outstanding experience. We have heard on prior earnings calls, we are supporting Ground and Express at levels we have never before. And we expect this collaboration to increase going forward and you'll hear more from John and Richard and me, during the panel discussion with Raj, on how we're doing this.

So, in closing, FedEx Freight has cemented its position as the market leader in the LTL industry. And we will continue to build on our position over the coming years. We are focused on driving 20%-plus margins by FY 2025, enabled by our commitment to maintain pricing, the discipline around our pricing structure and profitable share growth; strategically investing in our excellent team and leading network; profitably growing our differentiated product offering with FedEx Freight Direct and cross-border.

So again, thank you for the time this morning to showcase FedEx Freight. Thanks.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Thank you, Lance. Let me also congratulate the FedEx Freight team for their outstanding performance. And as you can see, we're going to take it even higher from here. So, great work.

So, with our focus on network optimization, there are clear avenues we can access, including increased collaboration for Freight across our operating companies, and you will hear more about that later today. But first, let's hear from Richard Smith, who'll walk through the strategy for FedEx Express.

Richard W. Smith

President & Chief Executive Officer-elect-FedEx Express, FedEx Corp.

Thanks, Raj. I'm excited to share what lies ahead for Express, and good morning to all of you. I had the pleasure of talking to a number of you last night at the dinner before I had to leave. Unfortunately, my wife and I have been battling with a little case of food poisoning we got on a trip over the weekend. So that's my way of telling you it wasn't the food last night and you're all okay. In fact, I've been told that Memphis barbecue is so sublime that it can actually act as a cure for food poisoning. I probably should have had some so.

Before I begin, I would be remiss if I didn't take a moment to piggyback on Raj's comments during the Q4 earnings call and acknowledge my dear friend and mentor, Don Colleran, for his 40 years of outstanding leadership and service to this company. And perhaps most importantly, for leading Express these past few years through some of the most turbulent seas we've ever had to navigate. So, a huge thank you to Don and a congratulations on a well-deserved retirement. Don was also up last night cramming in case he had to back me up today and I couldn't be here. So he's always got my back. And for that, I'm eternally grateful.

It's important to remember that FedEx had its beginnings, pioneering absolutely, positively overnight delivery. And we grew out of this ability to offer a time-definite product from any point to any point, making those critical deliveries that must be there in the morning in a way that our customers, Jill, can rely on.

So as FedEx has evolved, our Express network remains a differentiated product in the market. Today, though, we recognize that this differentiation carries with it cost challenges. And we're attacking the cost base to improve our margins. As we look to the future, we expect to drive roughly \$1 billion in profit improvement by fiscal year 2025. We'll do this by sharpening our commercial focus, leaning in to attractive market segments and geographies.

We'll also address inefficient processes and confront the labor challenges in our industry, aggressively optimizing our assets and our network. This includes adding flexibility in how we will flow volume beyond our Purple Tail, hub-and-spoke system, and finding new ways to collaborate across the operating companies, as you'll hear in a minute on the panel, to lower our costs.

And finally, we do this by leveraging our investment in TNT and driving profitability with a fully integrated Europe in that market, which Karen Reddington will speak on shortly. Together, these priorities will drive 8% to 9% operating margins by fiscal year 2025 and continued improvement thereafter.

In terms of our commercial focus, Express is all about leveraging our strengths and leaning into our dual roles in the portfolio of being the time-definite provider, as well as the international growth engine for the enterprise. We're laser focused on our service levels, as you heard from Brie, and ensuring they are where our most service-sensitive customers need them to be to support their needs.

We have historically been a leader here, but the unprecedented demand and labor challenges induced by the pandemic unfortunately resulted in service levels that have been below our historic averages. To address that, we've invested in our

talent and retention programs, as you've heard, as well as in digital innovations to better serve our customers with enhanced capabilities.

For example, we've expanded our SenseAware ID sensor-based logistics offering, which came in very handy in delivering the world's vaccine shipments, for example, particularly delivering over half of the shipments and associated kitting in the United States, but we've extended that offering now to our Priority Alert and First Overnight shipments in the US, and we rolled this technology out in Canada and Latin America and the Caribbean this year to help us differentiate on those most premium services that we offer.

And to echo what you heard earlier, we're focused on balanced growth in the highest value segments. In the United States, we're targeting the more profitable, small and medium business segment to gain share. We'll also continue to pursue B2B volume from time-sensitive and attractive segments, like health care and technology, where we can add value and drive premium yields.

Our international focus is similar as we continue to build our presence in strategically important and attractive markets such as India and Latin America. The recent deal we did with Delhivery, for example, gave us a lower cost model for serving the Indian consumer, which allows us to grow more profitably in this major growth market.

We also recently expanded our Miami ramp operation with the largest cold chain facility in our network, so we can better transport temperature-sensitive goods from Latin America to consumers all around the world.

Meanwhile, our trans-Pacific lane saw meteoric growth during the pandemic as you heard from Kawal Preet, and despite recent slowdowns due to COVID resurgence, we expect Asia Pacific to continue to be an area of strength for us. As Brie explained, we'll be judicious, focused, and highly deliberate about how and where we grow. No matter how trade flows evolve, we have compelling offerings in the most critical international markets. Simply put, we have the global network to flex with global trade.

To fully take advantage of those commercial opportunities and improve our margins along the way, we're working to lower our cost to serve by optimizing what we spent on those five decades building this vast and complete global Express network. We will better utilize our existing assets, in turn, lowering our appetite for new capital as you heard from Mr. Lenz.

And let me just double-click on this point for emphasis for all of you, but this is the exciting part for you guys where we finally turn the corner and we see all these prior investments pay off as we bend the capital curve, and here's how. First, we're improving our utilization of existing network capacity. As you heard John talk about sweating his assets, well I'm doing the same at Express. While we've historically invested to build capacity, our focus moving forward will be on better sweating our existing assets.

For example, in our sortation facilities around the country, we've always relied on a single night short window for our overnight products. We've now pulled our Standard Overnight products, those parcels with later delivery times, in the afternoon and evening, into a new sunrise sort window, which, by the way, allows for later delivery. And you heard John talk about secondary preloads or a second wave dispatch, right? I can probably give a lot of those packages to John and he can go ahead and deliver them for me. So that's how we're sweating the assets and interoperating, which you'll hear more about on the next panel.

But this new sort adds almost 20% capacity without any incremental capital investment, simply by using the Indianapolis hub during a previously fallow period. This objective around optimizing our current assets extends to our fleet, where we're nearing the end of our fleet modernization program. And our current modernization efforts have reduced the average age of our fleet by four years and increased capacity by 10 million pounds, all while lowering our fuel burn by 9.9%, which is pretty critical on the current environment I think you'd agree.

In addition, on our international routes, our more fuel-efficient Boeing 777 freighters will eventually replace our older tri-motor MD-11s. And these aircraft are able to fly more freight in less time between your major markets in Asia, Europe, and the United States. We're also using digital innovation to modernize, you'll learn more about this later in the day from Rob Carter, as we look to supplement our human workforce and reduce our cost to serve through automation and robotics.

Second, we're leaning into our Freight forwarder, FedEx Logistics, the company I know well as its previous CEO, by the way, to procure and better manage third-party commercial linehaul. This is operate collaboratively, taken internationally. By strategically tapping into a network of global airline partnerships and using commercial linehaul, particularly on imbalanced lanes, we can connect more cost-effectively some markets point-to-point instead of the continued overreliance on our traditional hub-and-spoke Purple Tail system. This allows us to diversify our lane flows and route volume more dynamically into gateways versus hubs, leading to less capital intensity and lowering our overall cost to serve.

This strategy supports our commercial growth plans while avoiding adding up to 50 new wide-body aircraft to our fleet in the next 10 years, which we would otherwise need to fly about 30 daily frequencies that can now be flown more economically and efficiently with partner lift. As a result, we will deploy our Purple Tail crews and airplane assets towards the higher yielding, more premium segments of our business that it was designed for. It's all about processing more volume with less capital input and better resource management, or simply put, moving more packages and freight with fewer enterprise assets and people.

Third, we are increasing the collaboration across our operating companies to improve flexibility and utilization. It's why we changed our operating strategy to compete collectively, operate collaboratively, and innovate digitally to telegraph to everyone what we were about to do. That includes not just enhanced collaboration with our forwarder, FedEx Logistics, as I talked about, but also the existing asset base networks at Ground and Freight across North America. Again, you're going to hear us talk more about that topic in a few minutes with Raj, but it represents a hugely profound opportunity for both FedEx Express and for FedEx as a whole to drive out duplication and cost.

And finally, before we dive deeper into that, there's the opportunity in Europe, which I now want to invite Karen to walk us through laying out what lies ahead for the region. Karen?

Karen Reddington

Regional President of Europe-FedEx Express, FedEx Corp.

Good morning, everyone. I am absolutely thrilled to be here today to talk about what is next for Europe. Now, 50% of global Express trade revenues touch Europe. So, I want to take you back to a time before we acquired TNT. Of course, we had a substantial operation in the US and we have a compelling proposition in Asia Pacific. But in Europe, our footprint was relatively small and this meant that we just couldn't quite complete that last piece in having a truly global jigsaw.

Fundamentally, we weren't able to compete effectively because we didn't have the cost profile or the value proposition to take to the market. What TNT did was unlock the scale we needed. To put it in context, when we acquired TNT, we immediately gained market share, for example, in intra-European economy market, and multiplied that share by 5 times. And to give you an example of why scale matters, if you look at the road network, TNT had an expansive road network, whereas at FedEx, it was relatively skeleton. And that meant that TNT could operate at over half the cost of FedEx. Scale really does matter.

So, let me turn to the business of integration. We always knew this was never going to be simple. Two businesses operating in the same space. It was going to be a multi-year effort. We had to bring together and rationalize the operational footprint. We had to take these two portfolios and streamline them. We had to modernize our IT infrastructure and deliver new IT capabilities. And of course, we had to bring our people together, tens of thousands of team members. But on March 28, we completed the physical integration of the networks. So, what does that mean for the business?

The air network integration in and of itself will bring benefits of between \$75 million to \$100 million by 2025 – FY 2025. But when you think about this integration, we've brought together the two air networks of these companies and created an air network that is more extensive than either of them as standalone. We now serve almost 75 points. We do that at jet speed with 10% more capacity, but with 13% less flights per week. Because we've got a more extensive network, we've been able to improve our next-day coverage and our noon delivery coverage.

And this isn't just a story of our Purple Tail integration. We've also enabled operational capabilities at the major commercial gateways across Europe. This means that we can operate both Purple and partner Tail networks, and as Richard said, that is absolutely vital to enable us to have that flexibility going forward and scale up or down, no matter what the external environment.

Now turning to the road network, TNT brought with it an extensive road network. And we are in a commanding position. We are the only carrier in Europe that offers both a parcel and freight network. This is a unique proposition. And this network goes all the way from Turkey in the east through to the tip of Portugal. We can reach the major European centers in less than 48 hours. So, in summary, March 28, with the integration of these networks, was truly a capstone moment in this story.

But what does this all mean for our customers? The network was a key enabler. It was a foundation for what we're about to deliver. The network has primed us to be able to connect to our customers with commercial capabilities that we've never had before in Europe.

Let me start with Intercontinental. As Brie mentioned, we have an outstanding proposition to the US. We are still the fastest next-day service to the US, but we've extended this offering. Richard talked about sweating assets and having multiple sorts. We're leaning into this. So if you're a customer in Europe, you have choice. You can get an early cut-off for the 10:30 delivery we're famous for or you can go end of day in Europe and deliver by end of day in the US. Nobody can beat this offering.

And let me take you back to those Purple, partner Tail networks. We can now fly in intercontinentally on Purple or partner Tail and then we can move onwards in Europe, either by Purple Tail flight or inject into the trucking network. This means we can move the right product in the right network at the right cost to serve.

So if we turn to the – to European business, we can operate seamlessly across air, ground and freight, great proposition for the customer, especially those small and medium customers. We've enhanced our portfolio offerings. So on the Express side, we offer priority timed options. You have the choice, noon delivery or end of day. On the road side, we've rolled out our regional economy parcel and freight product. This is a product that is more tailored to the nature of the ground business.

Now, let me turn to Domestic. We have significant domestic businesses in Europe. But those domestic businesses are there to create that scale that I mentioned at the beginning that is so important. But we are not in domestic for domestic sake. We are not planning to add capacity to grow domestic. Instead, as we grow our more lucrative International cross-border business, we will switch out International volume for domestic volume.

So, now you're all wondering, what does this mean all up? With integration behind us, the European team is laser-focused on profitable growth. I already talked about the completion of the air integration and the \$75 million to \$100 million that we'll deliver by FY 2025. And I think if you recall, we announced in January 2021 that we would be transforming our back-office operations in Europe. With integration, we had to de-duplicate some of our operations. We have been adding automation and capabilities along the way and we are on target with our programs to deliver the benefits we announced.

Now, on top of that, we can layer on this competitive network, this compelling portfolio, and we will continue to offer and optimize across this business and all up, we will deliver \$400 million to \$600 million in benefits by FY 2025.

Fundamentally, we have the right scale, the right network, and a powerful portfolio that means Europe can absolutely commit to our part of the Express ambition.

Thank you very much, and I'm really pleased to be able to share what is now the next chapter in the European story.

Let me invite Richard back on to close out for Express.

Richard W. Smith

President & Chief Executive Officer-elect-FedEx Express, FedEx Corp.

Thanks, Karen, and well done. To summarize what you've all heard, FedEx Express will continue to grow our yields and improve our margins, bringing the European networks together digitally and physically is transformational for our business and will enable profitable growth there in perpetuity.

We're going clear-eyed into that market, into the macro market and knowing where we want to win and where we can win with a more targeted focus in the most attractive segments and geographies. We're even more committed than ever to driving redundant costs out of the business while preserving the differentiation, which is the reason we have the highest yields in the market in addressing our legacy cost structure disadvantages. I liken us to a heavyweight prizefighter who's been holding our own, with one hand tied behind our back. Now, watch what happens when I untie that other hand.

Bottom line, we're focused on lowering our capital intensity, sweating the assets we own and improving our returns, ultimately driving sustained profitability well into the future. Thank you very much.

Karen Reddington

Regional President of Europe-FedEx Express, FedEx Corp.

Thank you.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Thank you, team. Now, I would like to shift the focus and talk about how we are going to operate collaboratively across the network. Since we unveiled our strategic operating principles back in September 2020, we continue to look for ways to optimize our equipment, our facilities, and our resources. And that's what makes us unique and so with that, let me introduce you to Network 2.0.

Network 2.0 fundamentally changes how we look at our networks, and moves beyond discrete collaboration to more of an end-to-end optimization. We will have the digital and data capabilities to drive efficiencies across our networks like never before, and that'll be enabled by our Operations Insights Platform (sic) [Operational Insights Platform] or OIP.

The operators have already explained many of the in-network improvements that'll help drive our FY 2025 goals. In the years beyond fiscal 2025, OIP will also unlock significant incremental value from the across network optimization.

So you may ask, what does that mean? It means that in the next five years, we will have 100 fewer stations than we have today even when accounting for growth. It means that over the next five years, we will reduce 10% of our pickup and delivery routes. It means that over the next five years, we'll optimize our enterprise linehaul network. The opportunity is vast when you consider the hundreds of millions of miles that we drive across our operating companies.

The work is already underway and will require roughly a \$2 billion onetime expense. But it also means that in the next five years that we expect these goals to deliver \$2 billion annually for FedEx. And that's just the start. When we say we are focused on next quarter's profit and the quarters far beyond, that's what we mean.

So to talk more about this, I'd like to invite John, Richard and Lance back on the stage. Come on, folks. Okay. All right. Let's start with you, Richard, and talk a step – take a step back and talk about why and how we're evolving our operating model.

Richard W. Smith

President & Chief Executive Officer-elect-FedEx Express, FedEx Corp.

Sure, Raj. They say a picture is worth a thousand words. So, let's start there by taking a good look at this slide, which depicts our Express, Ground, and Freight station footprints in the lower 48 states of the United States. As you all know, our discrete operating companies have been at the core of FedEx's business model for decades now. They were designed to deliver different products to support different customer needs in an effort to find the optimal balance between economies of scale and economies of focus. Operating them independently also allowed us to be nimble and flexible and to build capabilities very fast.

Express was able to focus on creating a market-leading time-definite offering while Ground focused on their date definite products. At the same time, selling as an enterprise, competing collectively, as we say, afforded us benefits that cannot be overlooked. Over 95% of our revenue, as you've heard, comes from customers who use more than one operating company. However, as we grew, these networks expanded and overlapped often in suboptimal ways.

And with the rise of e-commerce, well, we needed to find a way to operate with greater efficiency and a lower enterprise cost to serve model to meet the demands of that market where most of the future growth is coming from. Hence, operate collaboratively became the order of the day and is now a core part of how we will evolve the FDX business model in our enterprise footprint. That means leaning into the investments we've made in these networks and allowing each one to do what they do best.

John, do you want to add some more color around that?

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

Sure, Richard. Now, you're right that we will continue to evolve our networks, but it's important to note that that process is very complex. We have to have a disciplined approach. And we can't forget that we already deliver over 15 million packages a day. So moving too quickly could be disruptive, but a steady evolution that is enabled by technological advances such as OIP, spoken about earlier, it will allow us to unlock the value along the way versus waiting for a big bang.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Yeah. So, now, let's focus in on Network 2.0. As we discussed, we see our collaboration opportunities in three primary areas: number one is powering our network through linehaul; number two, supporting our pickup and delivery operations; and number three, our sortation facilities and equipment. And we've already made great strides in these areas. So, let's start with you again, Richard. Talk about our facilities and the plans we're going to make those more efficient.

Richard W. Smith

President & Chief Executive Officer-elect-FedEx Express, FedEx Corp.

Sure. Well, you saw on the map a few moments ago our Express and Ground facilities overlap and in many markets are even within fairly close proximity to one another. However, to facilitate the right traffic going into the right network at the

right cost to serve, which is a mantra of ours, if you haven't guessed, we have to physically bring these footprints together to eliminate transfer costs and further improve the efficiency.

Combining our facilities, as John said, is not an easy task. As Express, Ground and Freight have grown independently over the past two decades, we've built systems and processes that do not talk to each other, which is a key requirement of operating collaboratively. But through our Last-Mile Optimization program, or LMO for short, which we launched back in early 2020, really kind of right as the pandemic was revving up and impacting our business or starting to in parts of the world, we've been pushed since 2020 when we launched LMO to really develop the technology and the business systems to allow us to communicate across OpCos so that we can interoperate effectively.

This Network 2.0 transformation fundamentally changes how we look at our discrete networks. For example, going forward, we'll be able to, in lower density markets, consolidate down to a single station across operating companies; thereby, reducing route redundancy, as you mentioned in the beginning, Raj.

In higher density urban markets, our stations will co-locate distinct Express and Ground operations under one roof to really facilitate those transfers and make them highly efficient, with the data powering those decisions. This colocation, along with planned operational changes and the technological enhancements that I referenced earlier to enable it, will also add capacity by sweating the assets similar to how I talked about us doing this with our Express hubs in my presentation earlier, or how John talked about in his operations.

And we'll do virtually the same thing in these larger co-located stations as Ground launches these secondary preloads or the second wave delivery dispatch for those stations and can take the afternoon and evening traffic that we run through, say, our response system or moved out of the night system into the response system.

So we used the station capacity multiple times to support the needs of both businesses rather than adding more stations. With the data-driven technology allowing us to more efficiently route the packages to their destination based on distance and best route rather than necessarily network affiliation. As John mentioned earlier, this is a thoughtful approach, which ensures speed-to-value creation over the next several years and minimizes disrupting our vast and complex physical operations.

You want to add more?

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

Yeah. We've already begun executing with various pilot programs in select markets. For example, we already have three Express operations currently located within the Ground building. And we've announced plans to do the same in several other markets. By taking this approach, we will also be able to operate with fewer stations overall.

As Raj mentioned earlier, our current path indicates that FedEx Ground and Express can operate with 100 fewer stations in the next three to five years while still accommodating growth. As we look ahead to calendar year 2024, we'll further enable a common IT infrastructure for important elements of both operations such as – very important – scanning and sortation.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, Richard, you mentioned Last Mile Optimization. Of course, we launched that back in February 2020. Let's talk about how that'll continue to improve our pickup and delivery operations.

Richard W. Smith

President & Chief Executive Officer-elect-FedEx Express, FedEx Corp.

Absolutely. We're tackling this strategically across both geographies and products. For instance, at Express, in the lower 48 US states, we're evaluating our lowest density rural markets as I said. And our end of day volume, that's better served by leveraging John's immense scale at Ground. This provides dual benefits.

One, it helps Express focus on service for priority, our bread and butter, right, our raison d'être, if you will. And second, it increases Ground's delivery density and asset utilization during their nonpeak months. I call that a win-win. On the flip side, as we announced earlier this fall, in Alaska, the pickup and delivery of all Ground packages will be handled by Express, given our extensive presence in that state. Alaska is a major strategic market for the Express company, as you know, with us having a big hub there, so our scale lent itself to LMO actually going in reverse in that market. And Express being the single service provider for John and FedEx Ground there.

Of course, John and his team were very focused on being up-front about what this means for Ground team members, including employment opportunities with Express as we make the transition. And we always try to focus on doing things the best way that we can for our people in adherence to our PSP philosophy.

But by working more collaboratively with our Ground business domestically here in the US and with our Freight business to support the inbound and outbound movement of international airfreight facilitated by FedEx Logistics into and out of gateways on commercial linehaul, we can better focus on our core strengths, making Express even more Express. So we can double down on our time-definite products and expand our margins while also improving Ground densities at the same time.

And LMO was crucial for this and a huge paradigm shift for us. Think of it as the first step in this bold next chapter of the FedEx story. Rather than duplicate last-mile routing footprints across these two parcel networks, LMO created the insight and processes to effectively hand off packages between networks and remove redundant routes. So it's a good thing John and I are both ex-football players, although we were actually linemen so we never actually got handed the ball. But I digress.

The point is this was a huge move for us that opened a world of learning and future collaboration opportunity that was just not possible before. To date, it has resulted in FedEx Express bringing approximately 1.3 million packages into the Ground network every week. And in fact, since starting LMO, FedEx Ground has delivered more than 70 million Express shipments. And that is only the beginning. John?

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

Yeah, Richard. And Ground is ready to take on this volume. And as I mentioned earlier, Ground has been strategically adding capacity over the past few years so that we can be a key enabler for Network 2.0. And we can now service Ground volume as well as absorb Richard's Express volume, while providing the excellent service expected from FedEx. As we unlock data and insights with our OIP, we'll be able to further optimize the connections between the operating companies and increase our overall asset utilization.

Now, as Richard mentioned, this is about leveraging the strengths of each network and ensuring the optimal path for each package. For instance, where possible within service level constraints, Ground may handle deliveries to outer zip codes to route packages through the lowest cost channels. Now again, we are clear-eyed on the complexity and the potential for short-term operational challenges, but we're confident that there is immense value to be unlocked in waves as we progress.

Now, Raj has already noted by FY 2027, we see an opportunity to eliminate more than 10% of the collected –

collective P&D routes. And this will remain a focus well beyond our targets discussed today.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Okay. Well, let's now move on to linehaul. Lance, let me bring you into the conversation and talk about how we're going to optimize our operations there.

Lance D. Moll

President & Chief Executive Officer, FedEx Freight, Inc.

Sure. Yeah, I was wondering if I was going to have a chance to speak. Hello? So, yeah, let's take a minute to really talk about how we're collaborating now. The parcel peak and the LTL peak are obviously very different. The LTL peak typically starts in late spring and runs through fall, whereas parcel peak ramps up in November and runs through December. During the Ground peak, Freight was able to provide John and his team last year with over 1 million miles of linehaul support in addition to weekday and weekend package support as well as where a Freight driver and a Freight tractor pull in John's Ground equipment where they need us to help support during their busy time.

But even beyond peak, Freight also has very strong relationships with major rail networks throughout the United States. We've coordinated over 80 million miles of intermodal support for Ground and his team in the last fiscal year. In FY 2022, we did this by sharing over 3,000 of our multimodal containers. I think you had a chance to see one of them up on the Hill yesterday with our Purple chassis. And what John and I both do is we share those resources back and forth, given the peaks, differing peaks that we both have. Freight manages the pool, and then we deploy containers over to John when they need them for their intermodal activities.

So again, working with Dataworks and Ground, the engineering team over at Ground as well as the engineers at Freight, we've identified some complementary activities to reduce drayage cost between both operating companies. So, all of the intermodal activity that John has at Ground and that we have at Freight, previously was being looked at separately. Ground took care of their intermodal trailers, Freight took care of theirs. But the Dataworks team created a dashboard which gave the Freight team who really needs to manage the intermodal business for both companies, visibility to all of the intermodal containers with Ground, Freight, and with Freight on them.

So then, when our drivers were there, instead of driving back just a tractor, a bobtail mile, which is just a tractor by itself without a trailer attached to it, we had visibility to where, okay, instead of going back to Freight, the Freight hub with just a tractor, there's a Ground trailer over there. We'll pick it up and bring it back then to John's station.

So, in total, we see the opportunity. After we just scaled up the Dallas-Fort Worth market and moving on to Kansas City, we see there's an opportunity to attack 15 of the large railhead markets throughout the United States. And the savings on reducing those empty bobtail miles, I talked about, is roughly 8 million miles.

So this is just one of the many ways that we're working together on a consistent basis and really how we will continue working together with everything surface transportation-related going forward.

So John, I don't know if you have anything to add there.

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

Yeah. Well, Lance, this collaboration has just been stellar and there's more to come, but just wanted to point out that we're just scratching the surface right here. When you think about the sense and scale of the Ground linehaul network and the Freight linehaul network, just back FY 2022 which ended May 31, the Ground network ran 2.4 billion miles just

on the road, the linehaul miles. Lance and his team ran 1.3 billion miles. If you add those together, those networks made 54 round trips to Mars. So that – when you say billion, it really doesn't mean a lot, but when you think about how far that is, and we went round trip 54 times, that kind of puts it in perspective of what we have an opportunity to take those networks and combine the power of those. It's just incredible.

So when you think about over the next five years and how we're going to be able to optimize these linehaul network systems, it's going to reshape how we run and how – it's going to reshape the business. We'll be able to collaborate seamlessly to minimize empty miles. We'll be able to inject volume across OpCos to increase our asset utilization on the road.

For example, we're in the process of building a cross OpCo optimization model that identifies by day of week opportunities to reduce empty miles. We have eight test lanes in place right now. We've got 18 more coming in the next couple of months. And again, this is just the start. Our Network 2.0 transformation opportunity is vast. And when you consider the hundreds of millions of miles across all OpCos over the next five years is just absolutely exciting. So we're – as you can tell, this is a great opportunity for us from an enterprise to unlock the power of our networks.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, thank you, team. As CEO, I'm really excited about this future. We have built an unparalleled global network. And we are now focused on unlocking the value from that foundation. As we look to this future, leveraging our data and digital assets will be the engine that enables the value of Network 2.0 and this team here is poised to execute. Thank you.

[Video Presentation] (02:29:39-02:33:39)

Robert B. Carter

Chief Information Officer & Executive Vice President-FedEx Information Services, FedEx Corp.

Imagine a FedEx that sees supply chain anomalies and disruptions before everyone else. Imagine a FedEx that sees supply chain opportunities and the ability to advise our customers for accurate placement of inventory to avoid any disruptions. Imagine that we do this before anyone else. Imagine we spot economic trends both contractions and expansions all around the world with commerce data that represents 15 million shipments a day.

We've got data that does an incredible job of looking back, looking back through history and seeing shipments seasonally and systemically across time. That's the historical data we've got. We've gotten increasingly good at seeing exactly what's happening now with all of our assets around the network, real time data that lets us see what's going on. We're using those two things together and AI and ML technology to predict what happens next.

Our ability to predict those incidents that are heading our way allow us to avoid disruptions and deliver on the service our customers expect. But in this data-driven world, maybe most importantly, using the power of AI and ML, the data begins to become clairvoyant.

The data actually begins to answer questions we never thought to ask. It begins to spot patterns that we never saw. The data from the past, the present, its predictions and its ability to spot patterns in the world are the optimization intersection. It's the nexus of the physical and digital worlds. A physical world that connects 99% of the world's GDP with 15 million shipments a day. And a digital twin that operates completely consistently with that, giving us insight into every one of those shipments that allows us to see the commerce patterns of the world. Data at our fingertips, petabytes of data that tell the story of commerce in the world.

We don't have a crystal ball. But we do have a front row seat to the commerce of the world. We're leveraging data and

technology to deliver today and innovate for tomorrow. You've heard from my business partners, and I thought about just coming up here and saying the benediction because every single one of them talked about the role that technology is playing from the CEO to the CFO to the Chief Customer Officer, the Chief HR Officer and every one of the operating heads talked about the role that technology is playing.

This is an unlock for our business, the activation of data, elevating data to a first class citizen in our technology estate. Technology is the central nervous system of this business. And it's the enabler for the world's most powerful network. But the full power and potential of that network has yet to be fully unlocked. Technology's always been at the core of FedEx. We were the original innovators of tracking systems. We were the original innovators in industry of handheld computers that helped us manage the edge of interaction with our customers. We were the innovators in automated sortation, particularly at FedEx Ground.

We also put technology in the hands of our customers first, giving them the ability to ship and track and manage their supply chains much more visibly and successfully. Now, we're poised to lead the way again. We've been on a decade-long journey. Some of you were here 10 years ago when we talked about the dominant design of technology, that technology was changing in the world. And frankly, that was the nascent era of cloud computing.

But we've been working across this decade to simplify and streamline our technology and systems and to create value all along the way by improving productivity, by improving the security of our systems, which is intimately and imminently important in today's world, and improving the reliability all the while. And along with this comes the ability to improve the customer experience and the digital engagement that Brie and others have talked about.

We've shifted to the cloud and deployed composable software units, smaller, more discrete pieces of software. We've been eliminating monolithic applications one after the other after the other. These smaller software components have the ability to change based on marketplace conditions to be reassembled in ways to drive new value and new ways of operating. We're breaking down silos with app-like on-demand capabilities and we're unleashing the power of data. Digital and technology aren't just components of the transformation efforts you've heard about. They're the pillars of achieving the returns and efficiency that our ambitions call for. The cloud enablement that I've described means that we're moving to a zero data center, zero mainframe environment that's more flexible, secure, and cost effective.

Within the next two years, we'll close the last few remaining data centers that we have. We'll eliminate the final 20% of the mainframe footprint. And we'll move the remaining applications to cloud-native structures that allow them to be flexibly deployed and flexibly used in the marketplace in the business. And while we're doing this, we'll achieve \$400 million of annual savings. These modernization efforts are a critical unlock, freeing our data from silos all around the globe. We're activating that data like never before. It was this unlock that inspired Dataworks. Dataworks is a progressive organization where we've unencumbered the teams that are working with this data.

We've positioned data scientists, data architects, and technology professionals with analysts that can unlock value from the data like you've heard every one of my business partners talk about. Dataworks is building an unmatched supply chain data platform, a platform that combines FedEx data with customer data, with external data like weather, power, traffic and more. That's what FedEx Surround is. FedEx Surround is when we take all of that data, and apply it to the world's supply chain problems and opportunities and optimize our business.

We're leveraging machine learning and AI across all of these phases so that we can create new insights. These insights provide critical context to optimize our operations to co-create with our customers and to understand economic shifts and supply chain trends. This data is enabling us to predict challenges before they become problems.

The mission of Dataworks is to make supply chain smarter for everyone. To do this, we're applying data in three critical areas. First, we're optimizing the way FedEx operates. You've heard the team talk about that repeatedly. We're also integrating more closely with our customers. And lastly, we're commercializing our valuable data to deliver new revenue streams and move up the e-commerce value chain.

The power of big data is allowing us to optimize our operations. An example that you heard Richard talk about and that you heard Raj talking about is operational insights platform. This incredible platform of data that allows us to see all of our assets and all of the traffic moving across those assets at the same time. This also allows us to use that data and that modeling to do things like co-locate stations and eliminate stations and optimize routes and consolidate facilities in the future. It creates visibility into our hubs and some of the choke points that we have that allows us to really optimize assets and sweat them significantly better. Express, Ground, Freight and Logistics are able to connect and collaborate in whole new ways like you heard about in Network 2.0. We're better able to use our capacity and our assets. This unified platform allows us to realize the full potential of our networks, and this is how we're taking operate collaboratively to a whole new level.

Turning to the customer, we recognize that every package that our customers ship has a unique digital fingerprint. And from the moment our customers receive an order in their systems, we're integrating with them to create an itinerary for every package. That itinerary puts the right package in the right network with the right cost to serve. It helps them optimize their supply chain and inventories, and it's the most effective use of our capacity and our capabilities.

The interesting thing about that fingerprint and that itinerary is it can be dynamic in this future. We're able to reroute shipments based on any challenges that that supply chain provides. Surround is the engine that enables the real time insights that allow our customers to optimize their inventory and better plan their supply chains, allows us to anticipate customer demand and optimize around their needs. But don't take my word for it. Let's hear from our customers.

[Video Presentation] (02:44:51-02:45:12)

As we move up the value chain in e-commerce and open up new doors to our customers, we're uncovering all new pass to value.

[Video Presentation] (02:45:24-02:46:45)

It's this kind of data collaboration that's really making a difference in the efficiency with which we can serve customers like Walmart and their ability to get information from us. We're just scratching the surface with this right now, but we're injecting FedEx insights into our customers' operations and receiving back from them critical detail about shipments that they're receiving in their world. Inventory placement optimization is a critical example of what happens when you share this kind of data, and harnessing their data helps us to continuously tune our network. This is the network effect that we're achieving through the power of big data.

Creating a data-driven network that leverages the strength of our OpCos helps us stretch capacity and create digital density without adding physical assets. It's really important to recognize that the visibility game is continuing to be lifted through all of this technology, but particularly importantly through sensor-based logistics.

This little device, SenseAware ID, is an incredible unit that's revolutionizing the visibility of shipments. It's what allowed us to achieve 99% delivery reliability for critical vaccines right at the time when our networks were most stressed with the pandemic challenges that we faced. Today, these tags were on critical medical shipments, priority alert shipments and all first overnight shipments around the world – around the US, I'm sorry. It's beginning to get ready to roll out to the world. Transforming tracking by making packages visible at all time on the network is really a breakthrough and actually has potential in the future to save labor as we no longer would have to scan packages because of their visibility on the network.

We've received over 50 patents on this technology and we're far ahead of our competitors. And this isn't a nascent rollout. In the last 24 hours alone, 1,110,000 SenseAware IDs have checked in on the network as they're moving out there. And there's an inventory of these ready to deploy that exceeds 3.5 million SenseAware IDs. We are scaling this technology and it is low cost and highly efficient for our business to use this.

As you heard Chris Winton talking about, we're also appifying the world of our team members. We're giving them apps that give them the flexibility and help us address labor challenges. We're using data to build sustainability tools that will help us achieve our carbon neutral goals. But maybe just as importantly, those sustainability tools are being connected with our customers so that they can see their carbon footprint for the shipments that are in our network, another area where we're leading the competition.

We're taking Innovate Digitally to a whole new level here. And what I want to talk about here is really the two wings of innovation that we exercise. You see, you can innovate internally and you can tap into external, leading edge technology partners. And those two wings help you fly better. If you only use one of those, you kind of flap around in a circle, so we believe in leaning into technology that we've created and that we're curating as well as critical partnering with leading technology firms. Rebecca talked about robotics. You can see some of the robotics at work in our operations. But that's really just the beginning.

Some of the advancements in robotics that are coming are going to really help us tackle our labor challenges and improve efficiency. Autonomous vehicles like Roxo, Nuro and over the road technologies like Aurora that helped us improve safety, economics and environmental impact. Working with the EV manufacturers to help us electrify our fleets to become carbon neutral and to make our operations more efficient. And all of this is powered next-generation talent. It's super important that we're able to source talent, the best talent from around the world to bolster our innovative culture and create solutions that will move us forward. Talent is the frontier for us.

Incredible data that we're harnessing really gives us a front row seat to the economies and the commerce of the world. As 15 million packages pass through our networks every day, we believe that these insights and the capabilities are driven by the data produce infinite value. We're working to move up the e-commerce stack and open up valuable new revenue streams. We're making our network more integrated, more sustainable and more efficient.

Smart investments in our technology enable smarter supply chains for everyone. We're partnering with our customers to connect more people and more possibilities around the world. We're unlocking value now and innovating for a better future. We're leveraging data and technology to deliver today and innovate for tomorrow.

[Video Presentation] (02:52:26-02:53:22)

We're going to break for lunch and we're going to resume back for questions and answers at 12:00 noon. So please feel free to sit anywhere for lunch. Thank you very much.

QUESTION AND ANSWER SECTION

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. We're going to start questions and answers. And the way it's going to work is you're going to raise your hand and wait for a microphone to come to you because we need everybody to hear the question here and also on the Web. And then before you ask your question, please give your name and the company you work for so everybody knows who you are. Well, also, for those people who don't want to raise their hand here, we handed out cards, where you can write your question also. But I'm probably going to take predominantly most questions live here. And then there – there'll be a few questions that we're getting from the Web that we'll ask also.

So, with that, Raj, Mike and Brie, come on up. And I know there's folks that have to get to the airport and everything. So, we want to get this done. So, okay. So, who – Scott Group. Okay.

Scott Group

Analyst, Wolfe Research, LLC

Thanks. It's Scott Group from Wolfe Research. I've got two questions. Maybe first for you, Mike. You guys laid out \$3 billion to \$4.5 billion of profit improvement. Can you just help me, maybe give us a bridge to get there and how much is from cost? I think you talked about \$1 billion of cost at Ground, \$400 million, \$500 million at Europe. The \$1 billion of overhead, is that incremental or is that part of the ground in Europe? And then last year, there was like \$500 million of bad guys. Is that part of that \$1 billion at Ground or is that also incremental? Just any way to help us sort of get to that \$3 billion to \$4.5 billion.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Okay. Sure. Thanks, Scott. So, look, as we approach this, we wanted to provide specificity around the objectives in terms of the financial outcomes at each of the entities between now and FY 2025. And then give the specific actions that we control and what we're doing to drive those outcomes. So that was, as we talked about the Ground efficiency initiatives, the opportunity in Europe, of course, overhead supports across all the enterprise in that and that's the elements that come together to achieve those outcomes.

Now, if I try and take it a little different way to your question about how do I bridge that, so the \$3 billion to \$4.5 billion, I'm not giving a forecast specifically, but if you take the revenue projection and the margin targets there, you can get to roughly \$2 billion of that comes from Ground, about \$1 billion of Express, north of \$500 million from Freight, and then a few hundred million from the other entities in that.

So if you want to think about of a bridge, that's a different way to characterize and go with that. I think – and to clarify the elements that Karen talked about in terms of the Europe overhead, that is separate and distinct from the broader go-forward initiative there, because that was something we had already identified previously in that. So, hopefully, that puts a little more context around how we get there on these various pieces that come together for the consolidated 10% by FY 2025.

Scott Group

Analyst, Wolfe Research, LLC

And then can I ask one for the operating – for the operating people?

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

We should go one question each. So let's...

Scott Group

Analyst, Wolfe Research, LLC

Okay.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

...let's move on.

Scott Group

Analyst, Wolfe Research, LLC

Okay.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Chris Wetherbee?

Chris Wetherbee

Analyst, Citigroup

Yeah. Thanks. Chris Wetherbee from Citi. So thinking about the Network 2.0 in the context of what you just said about the cost opportunity. So that's \$2 billion. But does that start the initiatives? I guess, the LMO at least started in 2020 to some extent. So do we get any of that included in the forward guidance for fiscal 2025, or is it something that starts beyond that? Can you just sort of help us understand the opportunity there and maybe some numbers around it?

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Sure, Chris. Let me break that into two pieces. First, how to think about the onetime costs and then the – how do we think about the \$2 billion opportunity that we identified as the potential by FY 2027. So, first, the \$2 billion of cost, onetime cost that has transformed the business. That's not sort of run the business type of things. Those kind of investments are already baked into what we highlighted here. So for example, Rob's \$400 million of savings, that's an investment we've made and actually, it's a little bit of a drag in the early phases of it because you're in a duplicative state, but then exiting out. So I wanted to just clarify how we distinguish onetime versus run the business or R&D type aspects. So the \$2 billion is onetime that would occur over the five-year period.

And then, as in terms of the benefits themselves, look, we believe that there's opportunity that we can realize along the way here, but we've conservatively not baked in to the 2025 estimates here that we outlined any sort of material financial impact of that broader network optimization and collaboration. So, hopefully, that distinguishes and clarifies a little bit of that there.

That, look, as we – a lot of plans to get detailed implementation around and decisions made in that. So we may uncover things as we go through the process there. There's a potential upside in terms of the timing there. But in terms of distinguishing between now and 2025 versus that, we've conservatively kept that as the beyond.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Yeah. Yeah. One question. Ken?

Ken Hoexter

Analyst, BofA Securities, Inc.

Just to clarify that, Mike, are you saying the \$2 billion expenses is going to be within the five years? So you're saying we're going to continue to see realignment and restructuring in cost going on. I just want to clarify that...

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Yeah. No, I mean the business transformation, you've got significant systems development to enable and facilitate what we were talking about that the team is identifying there. You've got the design and implementation elements in that as well as reskilling, reorientation, resources in a significant way, given the size and scope of the network. So, yeah, that's specifically what that is intended to cover.

Ken Hoexter

Analyst, BofA Securities, Inc.

Thanks for clarifying. My question is on the time for the 100 centers merging together, is that going to be coming up soon in terms of pre-peak season, we'll see any of those benefits? I know you said you had three done already. Are we going to start seeing them and/or what the timeframe of that?

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

So, I'll take an initial overview of that, but we have to have a number of the foundational elements in place. Again, because it's a network, you can't just do one part of the network, maybe opportunities to realize it at phased along the way, but that's an evolution over time as we get the systems underpinnings and move forward with the asset evolution, as you will, the stations in that.

So for example – but we can certainly, as we go forward, report on our progress in that regard similar to – John highlighted the three that we have so far. But in practical terms, a Ground facility is not inherently configured to take an air container. So you got to do the nuts and bolts of doing that. And most of you probably saw that yesterday there.

I should probably clarify as well, too, since we're talking about this topic that the capital projections that I gave you between now and 2025 do consider that as we go along with facility investments in that, that is in there, so not implying that there is incremental capital spend above and beyond what I outlined earlier today to enable the kind of the station and kind of hard asset elements there along the way. So, hopefully, that gets at what you're asking, Ken.

Richard W. Smith

President & Chief Executive Officer-elect-FedEx Express, FedEx Corp.

If I can just clarify for you, you used the number 100 colocations, don't conflate the number. It's 100 fewer stations and that's factoring in the growth. That is not the number of colocated stations. And remember, in some of the rural markets, we'll go down to a single service provider. So we're reducing the number of stations in the rural markets. We're co-locating in some of our existing markets largely within the Ground stations because they're larger and more automated, which will also lead to station reductions. So I just didn't want you to conflate the two numbers.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. Jordan?

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Hi. Jordan Alliger, Goldman. Just to make sure I understand, the \$2 billion in additional value to be unlocked from 2.0. What is the \$2 billion? I mean it's the pickup and delivery. There's the stations. But it's a big number. So I'm just curious if you could help understand the driver of the \$2 billion? Thanks.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Yeah. Well, let me start by saying it's the conversation we just had earlier about the number of overall routes comes down. The number of overall stations, to Richard's point, just that comes down. And we have linehaul efficiency between the networks so – and these are – 10% decrease is a lot. And so, we get much more efficient in the way we move, especially the data from the packages in our network. I don't know, Mike, you want to add anything more to that.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

No, yeah, those are the big elements. So I think there's also will be – as we evolve in that direction too, I said \$1 billion of sort of overhead and support infrastructure is the starting point. Similar to how I described the operational assumptions in terms of – between now and 2025 versus beyond, that overhead is between now and 2025, but I think we'll also identify as the networks work differently together too that we'll realize more opportunity there as well just from what Raj has outlined.

Because, look, it's a system – well, we have, as Rob highlighted, backbone infrastructure, of course, is very standardized across the enterprise and we continue to drive efficiencies there, but because of the heritage and how the networks evolved over time, we still have different systems supporting different networks or processes in that. So, as you converge and harmonize and standardize those, you eliminate some of that along the way, too. So, again, just there's no single magic bullet, I guess, Jordan, is what I want to emphasize there.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Helane?

Helane Becker

Analyst, Cowen & Co. LLC

Thanks, Mickey. Helane Becker with Cowen. So what do you think the competitive response is going to be to your next three years of planning? How are you thinking about what they're thinking about doing and how you will respond to that? Thank you.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

So from a competitive perspective, firstly, we believe now that we have a very strong value proposition all around the world. Our e-commerce portfolio is complete. We are clearly becoming critical infrastructure for e-commerce for several companies. And so you have to ask them how are they going to respond. But from our point of view, we now have the foundation in place to drive the results we just talked about.

And in Europe, for example, we have now closed off the competitive gap. And so it's just what we are doing proactively to be able to provide a new value proposition for our customers. I don't know, Brie, anything you want to add to that?

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

I guess, the one thing that I would add in the United States, obviously, versus our primary competitor, we've already had kind of the labor cost built in. So we think from a pricing environment, obviously, the industry is motivated to just keep it rational because ours is built in from our primary competitor, has some risk there, I would say. And then again, from a diversification of a customer perspective, we think we're in a much better place with our base customer, our customer base, as well as, as we've talked about, we've renewed a lot of our enterprise customers. So, domestically, we feel like we're in really good shape.

And then if you look to Europe, I cannot highlight enough the uniqueness of what Karen covered. There's a lot of tools in the playbook we've used very successfully over the last 20 years. What Fred showed was not easy to show that market share growth at FedEx Ground. So, yes, we're absolutely confident we've got the right playbook to take that to Europe and to win where we need to.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. Bascome?

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Bascome Majors, Susquehanna. I appreciate the discrete cost opportunities in several markets and ways to get to those. But you're also underpinned by this 4% to 6% revenue CAGR, and that's clearly not entirely within your control. If we were to end up in a situation where that becomes untenable because of the economy and how do you track your progress on the goals that are within your control? And how do you communicate to us, the investment community, that you're making that progress, even if you're plugging your leak on the revenue side from what the economy has offered you? Thanks.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, let me start it off and then I can have either Brie or Mike jump in here. Firstly, so we have some economic assumptions that underpin our forecast right now. We have some cushion for if that numbers go below where we think it's going to be. We have dealt with economic crises before. Cycles, cycles come and go.

Even just before the pandemic, we were actually pulling down lift. And then as the pandemic hit, we were scaling back lift. All happened very, very quickly. The size and scale of our network allows us to flex up and down. So we will match our staffing to volume levels. We already are, from a discretionary costs, we are fully in a level we'll pull down here and we will match our network. And we have actions we're taking in July and August, for example, to take some intercontinental network down to get the volume. So we'll manage that.

Now, to be very clear, we're not assuming a deep, prolonged recession in this number. So that's a different matter. But with the reasonable economic scenarios of slowdown to a mild recession, we can manage through it. Anything to add, anybody?

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

I think you said that well.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

I mean, look, just in terms of thinking about – I talked earlier about how we can manage air fleet economically in a scenario you outlined there where perhaps demand is different than anticipated. I talked about that we'll soon begin retiring the MD-11 fleet and that can be financially efficient. Well, over the last several years, we've bought roughly 20 MD-11s off of lease, expiring leases for under \$10 million, we'll say. So, you get to the point you come up to a maintenance event, you temporarily park it. And you're able to manage capacity effectively that way. In fact, that was the direction we were headed back in the spring of 2020 as well.

And then, obviously, we had a very significant shift in terms of the environment in that. So, it would be aspects like that. I mean, I talked about the overhead initiative. Look, if it was as simple as, oh, there's something over there that we shouldn't be doing, I would have made that go away a year ago. But everything that's there is in place because it supports customers or it's part of the operation in that. So if we have to move faster, we have to take more risk in that regard. We're trying to be balanced in terms of how we go about that. But those are the kind of trade-offs that we would have to make along the way there.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

David?

David Vernon

Analyst, Bernstein

Hi. David Vernon from Bernstein. Two governance-related questions for you. One, Raj, why not just go to ROIC in the LTIP? Why not just, like, make this very, very simple and put a ROIC target for management to be incented on, which combines TSR and all of those stuff?

And then, second question, Mike, when I get asked from the outside what's in this \$800 million loss that's retained at the corporate center, it's sometimes hard to describe. So, what is your approach as a CFO of the company to managing down that corporate center cost? And why is it the right decision not to allocate that back to the businesses where it can be incorporated into the operating profit of the reporting companies? Thanks.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Thank you, David. On the first one, we think it's more balanced approach to have EPS and CapEx and the TSR metric. And it's – we've come a long way from where we were, and we think this gives us a more balanced way of managing our incentives to the goals that we have set. There is no other magical explanation for that, Mike?

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Yeah. Okay. So I think one thing I'll maybe elaborate on is the – I talked earlier about R&D investments in that are part of run the business. Well, the corporate cost center as you call it is where we book much of that activity. So Dataworks is in

there, the R&D investments in robotics, Roxo, and other initiatives there. So, that is a purposeful investment we're making there that is going to drive value for and across the enterprise going forward. So, just a ballpark, that's roughly \$350 million, \$400 million range of what we're – for FY 2023 we have here. Now, that's going to enable and return benefits over time, but want to be real clear, hey, we are making that type of investment. And we think that is the right thing to do and is incorporated into the targets here. And then the – as you know, Logistics and Office are part of that cost center too. And they enable and facilitate across the enterprise as well.

Certainly Office, the print business was impacted significantly during the pandemic. We're seeing improvement there and anticipate seeing further improvement going forward. So, that's kind of the background of what's there and why. So hopefully that helps illuminate that a little more in terms of how we think about it now.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Just one point, I mean Office also being the most profitable channel for our retail traffic.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay, Allison?

Allison Poliniak-Cusic

Analyst, Wells Fargo

Great. Allison Poliniak from Wells Fargo. You highlighted a lot of software to drive some productivity across the platforms. It seems like they'd have a greater impact maybe near-term. How should we think about those productivity in the context of your plan? Are they going to be weighted more towards the first part of that, given some of the technology that you're implementing across the platforms or is it more balanced? Thanks.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

So, if I understood this the question right, when are these platforms coming into being and when is the productivity coming because of that? So, the good news is that we have some of the OIP platform work is already being completed and that's already underway, but that's just the tip of the iceberg. And we got a lot of work to be built over the next 12 months to fully develop the platform and the real benefits start to come out of that. But there are several things coming in the second half of this fiscal year to drive dock modernization. We have something called sort by due date, which allows us to go upstream and allow us to utilize our capacity in a much better fashion. We're improving our pickup and delivery density through technology. Those things are coming literally second half of this fiscal year, and they will drive near-term result as well.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Amit?

Amit Mehrotra

Analyst, Deutsche Bank

Hey. Amit Mehrotra with Deutsche Bank. It sounds like there's a lot of confidence around the \$4 billion EBIT improvement plan, some conservatism as well. I just want to reconcile that with just the inflationary pressure on the \$80 billion, \$90 billion cost structure that you guys have. So, it just assumes that the underlying profitability uplift needs to be kind of 2x to counter the inflationary pressure in the cost structure. It's either that or the cost structure, in fact, is defying gravity relative to inflation.

And just related to that, conspicuous by the absence is any free cash flow discussion, I want to know – you've given CapEx which is really helpful, but working capital has been – there's a pretty big gap between operating cash flow – a long bridge between operating cash flow and net income. So, Mike, I was hoping maybe you can kind of help us think about how free cash flow trends relative to that \$4 billion bridge. So, two questions in there. Sorry, Mickey.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

I think I caught two and we'll call that more than one. Okay. So, look, we had \$3.5 billion of free cash flow, adjusted free cash flow in 2022. We'll be north of that – north of \$4 billion in 2023. And obviously that number grows with the projections there to get to the numbers we have beyond that.

Look, I will say that, if you think about working capital, we've actually – our cash conversion cycle is down six days between FY 2022 versus what it was in 2021. So, happy to take offline some elements of what you're including in working capital there. But that's definitely a focus. And again, we made progress there and definitely some more plans there.

Amit Mehrotra

Analyst, Deutsche Bank

Okay.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Well, I mean there's inherently baked in that we're going to – it's not that we have zero percent wage increase baked into the plan. So, when you ask about a, can I just subtract \$1 billion here and then that's the answer, no, we were considering all of that. In fact, for our FY 2023 plan, while we're not assuming a level of wage rate increase analogous to what obviously was experienced in the last year, we are assuming a higher than kind of call it historical normalized are not in there.

So, again, that also is indicative of while the yield assumption you may feel is robust, it's actually very conservative in the context of the environment that every business is operating in today and what everybody is experiencing and seeing themselves. So, hopefully that helps to give some clarity that we're being eyes wide open on that front too.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay, Jeff?

Jeffrey Kauffman

Analyst, Vertical Research Partners LLC

Thank you very much. Jeff Kauffman from Vertical Research Partners. So, there was a great discussion, I think 3.7 billion line haul miles between Ground and trucking. So two parts to this. Number one, kind of what percentage of Ground and Express line haul is trucking moving, say, today versus five years ago? Where does that go as we start to collaborate? And then as we start to take Ground packages through FedEx Express locations and Express packages through Ground locations at some of these sortation, how do we decide where the revenue goes and how do we allocate the expense?

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, let's start with the first one. John, if you can answer that...

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

Well, if you go back, I think you said five years, the growth has just been truly tremendous, especially at the Ground company. If you go back five years, for instance, Freight ran on the rail, probably 50% more miles than Ground, or about nine months ago, we passed Freight on miles run on the rail. And when you go back to the \$2.4 billion for Ground and \$1.3 billion for Freight, we see that to continue to go up. And when you think about that, the opportunity, you talked about a 10% when we get the technology reduction in miles, that is a tremendous amount of cost savings. So, again, we're very excited about that, and we feel like that as we grow, unleashing the power of those networks is a huge advantage for us.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

To the second part of the question, I mean, an Express product is Express revenue, and just as we do already today, anything that one company does for the other, there is an arm's length transaction and agreement, if you will, for lack of a – to simplify it down, that defines how that looks.

So, Raj talked about Office as a channel for our most profitable parcel shipments. Ground and Express pay Office to receive those shipments in that. So the concept is just – would become more expansive, obviously, in that context.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Jack.

Jack Atkins

Analyst, Stephens, Inc.

Great. Thank you. Jack Atkins with Stephens. I guess, we've been chasing a 10% sustainable consolidated margin for over 10 years now. I guess, Raj, what can you tell the folks in this room and those online about what you're going to do differently than what's been done in the past to ensure the execution over the next three years is there to make sure we not only hit that, but can sustain it moving forward?

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, thank you, Jack. I think this plan that we laid out today has got a lot of concrete detail. As CEO, my job here is to make sure that we execute against the plan, and the team is fully committed to deliver against these goals. Our incentives are now lined up clearly against the goals that we talked about, and we are clear-eyed about where we need to get to.

And so, listen, I think the network building and the foundation that has taken for us to get here, there are a lot of unique factors in the last 10 years that we have to take into account. But now we are here, this is the time to unlock that value and we are all absolutely clear-eyed about that.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Ravi?

Ravi Shanker

Analyst, Morgan Stanley

Thank you, Ravi Shankar, Morgan Stanley. Two questions on Europe. What's the starting point for profitability on which we apply the \$400 million to \$600 million improvement? And second, when you talk about replacing domestic volumes with international, what does that mean from a customer perspective? Like, are you going to be dropping existing TNT customers for new Express customers? Thank you.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

The first part is, yeah, we don't give specifics by entity in that, but rest assured the biggest opportunity within the Express international business is Europe.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Brie.

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Yeah. On second half of the question, so from a domestic perspective in Europe, as Karen kind of went over, the domestics there are in service of the intra-European. That intra-European ground market, think about it as you would kind of the ground market here in United States. It is a very profitable segment. And then, of course from an intercontinental coming into Europe, we have been under share especially from Asia into Europe.

So, the opportunity there is, yeah, over time to optimize to trade up customers, it's a process. It's not something that like you wake up one morning, we're going to say these customers go, these are in. As contracts come up for renewal, we look at the opportunity cost and say this domestic customer would need to have X increase, otherwise I could sell that last mile capacity or that capability to a different customer. So it becomes a part of the negotiation and that is what we're really focused on.

We got started this year, in particular in our Italy and our UK domestics. And so we have some opportunity now to go and get some intra-European and intercontinental business to get into it. So it's a process. It's an evolution. And really what

you're doing is you're looking at the opportunity cost, if I keep this customer versus I sell into this customer, and that's the process we're working through the Europe team and Karen's team has just an incredible revenue management team and I'm confident you're going to see some momentum there.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay, Brandon.

Brandon Oglenski

Analyst, Barclays Capital, Inc.

Thank you. Brandon Oglenski from Barclays. I guess, I just kind of want to piggyback off of Jack's question, because it's not just the 10% Op margin that you guys have targeted for a long time, but also, last time we were here in Memphis, maybe 10 years ago, was a multibillion-dollar Express profit improvement plan. So I guess, two-part question here, Mike. I think what a lot of people are struggling with is what is within your control in that \$3 billion to \$4.5 billion EBIT improvement outlook? How much is cost? How much is efficiency? That's what people really want to get their arms around.

And then Raj, I guess, my second part of the question. This really felt like kind of two parts to the day here. First, the old FedEx where we get segment outlooks and then targets. But Network 2.0 sounds so profoundly different from what we've heard from FedEx for many, many years. Culturally, what's enabling this? And are those savings additive to the outlook that Mike provided and why not accelerate this? You guys said it yourself, 90% of the volume is in the Ground network. You have duplicative Express assets serving 10% of the market. Shouldn't that be a bigger target for the organization?

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

You take the first one.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Yeah, I would just reiterate. Look, we emphasized and highlighted a number of the cost and efficiency initiatives including the air network integration at Express, everything that John talked about. You saw Lance's technology in that there that will make them more efficient in that. So you couple that with, as Brie highlighted, very low volume assumption growth here over this time period. I feel like we've tried to address the relative yield considerations here as well. So we really feel it is a conservative assumption on the revenue growth side over this time period with all of these initiatives that we identify here being the things that we will control and that we will move on.

And like I said earlier, if we've got to adjust and take bigger risk to get at some of it, that's just the trade-off we have to make. So, again, that was the – why we spend a fair bit of time talking about some of the more arcane, perhaps, operational elements because there's real plans behind that and the enablers is coming online over periods of time. Again, nothing in this business is a – like a big bang turn on the switch one day. And that's probably a good lead into the...

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Just – forgive me for just going through the history a little bit here. We have two systems, time definite and day definite systems, and it worked brilliantly. And especially when we are focused primarily in B2B and we've gained prodigious

share in the Ground business over the last 20 years. And just to put that in perspective, we had a 70-point gap in the turn of the century. And now it's 12-point gap because of the model that we had and we are faster.

What changed in the last four or five years is the fast growth of e-commerce and all the things that Brie just talked about. So now we have data from the traffic in both networks that gives us an opportunity to optimize. And so when you roll that forward over five years, we see that opportunity be significant so that we have the – we have to do that. Now, how fast can we go? Well, there are pacing items whether it's technology or assets. We got to be really, really careful that we do this right and without avoiding any disruptions.

So there's enough in-network efficiency opportunity that we're working on. And these cross-network opportunities will be real, but we got to do this right. And obviously, we're going to start moving in this direction if things come ahead, great, but we don't want to dial that into this number for now, and that's the only reason. But we're not going to do anything to disrupt the flow of our customers in this process. We have to do this very carefully and we'll do it thoughtfully.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Tom Wadewitz. Tom?

Thomas Wadewitz

Analyst, UBS Securities LLC

Yes. Thanks. So Tom Wadewitz, UBS. So wanted to ask one discrete question on Express, how much is the size of the international air rates coming down? Is that get that get back that you're factoring? Is that \$500 million you get back? Is it \$1 billion, just kind of magnitude?

And then related to the networks sharing assets, that's a really big deal, how much is contractor versus company employee a barrier to execution? Can you have contractors and company employee drivers in the same building? And is that an issue or is that kind of a no problem to have them mixed together? Thank you.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Brie get the first one and then John, I'll get you to answer the second one.

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Sure. Great question, Tom. As I mentioned earlier, the predominant impact from a yield perspective with commercial capacity coming back is in our APAC region. I'm not going to break out the number, but I'm going to tell you that it's significant. We do not anticipate that it will be this fiscal year. We anticipate it will be predominantly in the following fiscal year. We were, I think, very conservative in the amount that we allocated, so it is a pretty big headwind from an Express perspective, we're working through some mitigation strategies. Right now, you're going to see us bring back the portfolio slightly differently.

In Asia Pacific, one example of the way that we're going to adjust is historically we had our International Priority and our International Economy product coming out of Asia, and we actually offered an IE for a lightweight. There's very little cost difference in a lightweight International Economy product versus International Priority. When we reopen IE, it will not come back with the same pricing strategy as IP as an example. So we are trying to mitigate it. It's in APAC, it's next year, and it is significant.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

And also keep in mind, what Richard and I highlighted as well that, when that capacity comes back online, well, then that's something we can utilize to carry traffic as well. So it's – you get that opportunity that goes along with that as well in terms of own – our own lift versus utilizing partner lift. John?

John A. Smith

President & Chief Executive Officer-FedEx Ground, FedEx Corp.

All right. Just real quick. We've got three facilities and the key, when you do something like this is the communication side in making sure that we tell our people the why, the why we are doing this, and we have a very good strategy on how we operate the colocations. And we feel really good about our ability to manage through this. And when you look at it from the purple dollar, in the purple dollar eye, this is absolutely the right thing to do. So we feel very confident that we can manage this.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Yes. Go ahead.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Thanks. Brian Ossenbeck with JPMorgan. Mickey didn't recognize me with the beard, I guess.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

We got bright lights up here. I saw you.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Thank you. So just want to go back to Brie in a question on the revenue side. Can you just talk about the end markets you're targeting? It seems like both you and UPS are going for the same type of market, longer haul, higher value, SMB. How big is that market now? How fast is it growing? And then if you can just elaborate more on dynamic pricing, we're hearing more about that in the industry. Are you rolling out some of that in the fall, it sounds like. Is that going to help with managing the peak surcharges, managing capital intensity? How early are you in those innings? And is there any benefit from that recognized in this plan? Thank you.

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Okay. I'll start with the second part and then I'll go to the first. I think if I replay it back, the question is on our dynamic pricing capabilities, how far along are we and where is the overall industry, essentially? Okay. So I think from a dynamic pricing, the industry really is in first innings. At FedEx, we historically had released both our pricing logic changes, our general rate increase as well as any new capabilities once a year. Rob and I are working as quickly as we possibly can. We're moving to four releases of capabilities. And I'll come back to the difference between the logic chain and capability in a minute with our ultimate goal to release five times a year.

What does that mean when I say capabilities? Last two years ago, as an example, we rolled out peak surcharges for e-commerce. So you paid more in November and December. It's a pretty static way. We did it. It's very manual intensive. This August, we're releasing a capability to have a far more granular peak surcharge to be able to manage customers really in an automated way if they are not hitting the requirements that they are giving us because, as you can imagine, as we go into peak, it's important we get the surcharge. It's also important that the volume shows up in the network where we need it to show up.

And so this August will be our first wave of a more granular peak surcharge. And then essentially, our goal is every 10 weeks to be able to have fine-tuned capabilities. You can imagine some of the obvious ones would be more day-of-week pricing, more customized in certain hotspots or constraints to work around them from a pricing perspective. Our largest customers have enough volume, and if you're managing our network and their network really as one, you can optimize. We reduce some waste. We improve our margins. They reduce some costs.

So, we are moving quickly now. I am confident we're ahead from an industry perspective. But I think it's sort of a win-win, quite frankly, for the whole industry. I think the first question was our target growth areas and kind of the relative pace. So, right now, from a growth perspective, small business e-commerce was growing quite healthy actually when we got – we look back over the last couple of years, small businesses were growing slightly slower than large, but at a very healthy pace from an e-commerce perspective. We've seen that normalized. And I will say that they're doing quite well. The one caveat is if we were to go into a recession, we do know that small businesses suffer more. So we have accounted for that in a softening scenario.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. We have an online question here. In a post COVID world, are there capabilities you are missing? And how should we think about potential acquisitions in the near to long term?

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, obviously, at this point in time, the way I think about it on the physical side of the equation, the portfolio is – of all the major gaps in the portfolio are filled. But, obviously, there are some opportunistic ones that come along that are tuck-in things. We'll obviously look at that. But, for the moment, the – that's very difficult to comment on without any specifics. But the bigger parts of the portfolio are largely filled at this point. And that's why I keep saying the foundation is really built and we are unlocking the value from the foundation we created.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Any more questions?

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

There's one up there, Mickey.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Scott. Okay. Okay. Yeah. Go ahead, Ari.

Ariel Rosa

Analyst, Credit Suisse

Hi. Good afternoon. Ari Rosa, Crédit Suisse. I wanted to ask about the revenue target, the 4% to 6%, how that breaks down between volume and yield? It sounded like, based on what you said, it was pretty bullish on both pricing and on volume. You talked about pricing above inflation, but you also talked about growth with non-Amazon large enterprise accounts and SMBs. So how are you thinking about the dynamic between those two, and is there room to outperform there?

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Yeah, great question. So right now, we're thinking about between 1% and 1.5% on volume, not all volume being equal. So, again, we do think that the Ground company has the opportunity to grow faster, obviously, than the Express here domestically. When we look outside of the United States, again, our number one area of focus is the entry European market. So we would like to see that grow a little bit faster.

And then from a pricing perspective, I can't commit to do what we just did last year. That was pretty phenomenal. The team just did an outstanding job. But yeah, we're going to work really hard to stay above inflation. In the Freight company, you saw that because contracts are annual, we were able to really move very quickly. We still have some room in the parcel. We haven't completed all contract renewals, so not everybody has had kind of that step change because of the inflationary environment.

So if we're going to push ahead, we'll push on yield.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. We have another online question. Why did you invest in FourKites, and what is your vision for supply chain intelligence?

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Well, I think we believe in this notion of making supply chains smarter. And in this – especially in this kind of day and age, supply chain seems to have taken over every segment of the conversation here. And having an end-to-end visibility of supply chains on a common data platform of compatible technology is just really important. And early visibility on supply chain issues provide real value especially to the healthcare customers and high value customer segments. We are already making terrific progress in this regard, bringing in – especially the healthcare segment because they really would like to understand an end-to-end visibility beyond just the FedEx world from – all the way from the port to the ships to trucks and then anything to the door.

So, this information, visibility is very important and that's just the start. And so we are very excited to first of all have our capabilities with FedEx Surround and all the and all the things that go around with it. And now, with the investment we have at FourKites, and enabling that visibility of an end-to-end supply chain, adding value to our customers and of course to us.

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

May I add something, Raj.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Yeah, of course.

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

I think the one thing to that, I think, there has been a real recognition at FedEx and then beyond is we're a powerhouse in the industry. And as we see third-party entrants, and you see predominantly a software player, we believe we have an opportunity to monetize the value we bring to all of those platforms and you're going to see us lean into that monetization.

It's really hard to have a global supply chain platform if FedEx is not present.

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

Yeah.

Brie Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

And so you're going to see us really be far more thoughtful about getting the value that all of you have invested in FedEx and making sure these third-party platforms are good partners – paying partners.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. Anybody on the sell side hasn't asked one question? Okay, Scott, you have another one? Is there anybody else? The whole group has been on the round 2. We're going to wrap this up in a couple of minutes.

Unidentified speaker

Mike, the \$2 billion at onetime, is that all cash? How much is expense first CapEx? Has it spread out?

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

So, look, it will be over in the five years. So, we're just getting started in terms of defining the specific – this timing of system development and that but the plans are there and we'll be – they'll be some of that this year and so the CapEx.

Unidentified speaker

Cash versus CapEx?

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Look that would largely be cash, there could be some like if we get out a lease or something at a facility or something like that. But just to reiterate CapEx related to facility configuration, reconfiguration or when we add a facility that has kind of

got joint capabilities as it where, that is in the CapEx numbers that I gave you earlier, so that's not – we don't have an adjusted CapEx to simplify it.

A. Mickey Foster

Vice President, Investor Relations, FedEx Corp.

Okay. Let's take one more question. David?

David Vernon

Analyst, Bernstein

Thanks, guys. So, I appreciate the commentary on the acquisitions side but I wanted to ask you Mike around the idea of divestitures. Any idea of becoming more capital efficient? Are there businesses that FedEx has acquired over the years that maybe didn't play out the way you thought they would or are there capabilities, Raj, like the ability to drop off a package at a FedEx Office that maybe you could still achieve in a less capital intensive manner through maybe a franchise model like others in the industry do?

Rajesh Subramaniam

President & Chief Operating Officer, FedEx Corp.

So on that front in the second part, I think we actually, the fact that, you know, when we originally bought Kinko's this – e-commerce was never in the picture. But now suddenly the value of the FedEx Office franchise has become significantly more in this e-commerce world. So now have a very unique experience to be in the FedEx Office as a competitive differentiation and I think the amount of small and medium customer traffic that goes through that channel. Plus returns that comes to the channel is significant. So, it's a very big – it's a very good portion part of the portfolio. I don't know, Mike, if you want to add.

Michael C. Lenz

Executive Vice President & CFO, FedEx Corp.

Look, overall, the emphasis on lowering our capital intensity, and so we are, obviously that we'll look across the board at everything that makes sense in that regard.

Okay. So, that ends the question-and-answer session, and we have a few closing remarks by Raj.

Okay. Well, you heard from our team about how we're delivering today and innovating for tomorrow. And with specific strategic commitments, that will strengthen our foundation and lead the way to what's next. The operating principles that we have, competing collectively, operating collaboratively, and innovating digitally, with those, we are positioned to draw on our global footprint and the data-driven insights like never before. And enabled by these principles, we are focused on delivering higher total shareholder return led by more balanced growth through targeted customer segments, expanding our margins and profitability, lowering our capital intensity and continuing to increase our return on invested capital.

Thank you again for joining us today as we embark on the next evolution of our legacy: deliver today, innovate for tomorrow. Thank you very much.

Okay. I want to thank everyone for participating in our meeting this week. If you'd like to ride to the airport, a bus will be departing very soon out front and another bus will take everybody back to the hotel. Please feel free to call anyone on the Investor Relations team if you have additional questions on FedEx. Have a safe trip home. Thank you.