

# FedEx Q4 FY21 Earnings Call Transcript – June 24, 2021

## **A. Mickey Foster**

*Vice President, Investor Relations, FedEx Corp.*

Good afternoon, and welcome to FedEx Corporation's fourth quarter earnings conference call. The fourth quarter earnings release and stat book are on our website at FedEx.com. This call is being streamed from our website where the replay will be available for about one year. Joining us on the call today are members of the media. During our question-and-answer session, callers will be limited to one question in order to allow us to accommodate all those who would like to participate.

I want to remind all listeners that FedEx Corporation desires to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act. Certain statements in this conference call such as projections regarding future performance may be considered forward-looking statements within the meaning of the Act. Such forward-looking statements are subject to risks, uncertainties, and other factors which 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 for reconciliation of the non-GAAP financial measures discussed on this call to the most directly comparable GAAP measures.

Joining us on the call today are Fred Smith, Chairman and CEO; Raj Subramaniam, President and COO; Mike Lenz, Executive VP and CFO; Mark Allen, Executive VP, General Counsel and Secretary; Rob Carter, Executive VP, FedEx Information Services and CIO; Brie Carere, Executive Vice President, Chief Marketing and Communications Officer; Jill Brannon, Executive Vice President and Chief Sales Officer; Don Colleran, President and CEO of FedEx Express; John Smith, President and CEO of FedEx Ground; Henry Maier, former President and CEO of FedEx Ground; and Lance Moll, President and CEO of FedEx Freight.

And now Fred Smith will share his views on the quarter and year.

## **Frederick W. Smith**

*Chairman, President & CEO, FedEx Corp.*

Thank you, Mickey. Fiscal 2021 was truly unprecedented, and we're enormously proud of our 570,000 team members who performed magnificently to keep global healthcare, industrial, and at-home supply chains open and more recently allowed significant additional commerce to flow. The FedEx team's role in moving PPE, vaccines, and international release shipments has been perhaps this company's finest hour.

Our financial results speak for themselves. Raj and Mike will have more to say about the numbers of course. Our pride in the FedEx team and our performance for shareholders is greatly tempered, however, by our continuing grief over the 15th April senseless murder at a FedEx Ground facility in Indianapolis of eight FedEx team members. The lingering sorrow among their families, friends, and colleagues throughout FedEx can never be erased. Raj will also comment on this tragedy in a moment.

The strategies we've executed over the last several years were carefully developed and have been executed at a high level with great success overall. As we mentioned previously, the pandemic simply brought many of the market trends which informed our strategies forward. Brie will be more specific about these trends in a moment.

As reported, FedEx revenues for FY 2021 were \$84 billion and we project FY 2022 revenues over \$90 billion. We believe FedEx margins will continue to improve this fiscal year. However, as Raj will cover momentarily, the labor market in the US over the last several months has been quite challenging, adversely affecting hiring and leading to significant reengineering of parts of our networks to deal with the lack of these resources. And while the situation has begun to abate, delivering a successful peak season when we anticipate significant year-over-year volume increases will require additional flexibility and creativity on the part of our management, staff, and front-line team members while maintaining our safety above all culture.

To handle future Ground volumes, we are significantly increasing capacity to deliver both great service and improved financial results. This summer we are intently focused on improving network and delivery operations prior to the volume surge in the fall. There's great focus on revenue quality at FedEx. However, our focus solely on yields does not give a complete picture of our profit upside. As Brie will explain, our alliances with retailer partners generate significant amounts of short-haul traffic, much of which is now shipped from stores.

Our Innovate Digitally initiatives are gaining steam particularly Surround and SenseAware. Let me thank Henry Maier for more than 34 years of loyal and dedicated service to FedEx and RPS, which we acquired in 1998. At the conclusion of this call, I'll have additional comments about Henry's remarkable career and countless contributions to FedEx's growth and success. Of further note the Biden administration has recognized an exceptional talent in our board member General Chris Inglis who was confirmed by the Senate last week to serve as the National Cyber Director. We benefited from Chris's cybersecurity and information technology expertise since he joined our board in 2015 and we wish him well in the hugely important role for which he has been tapped.

Now, Raj, Brie, and Mike will give their remarks, after which we'll answer your questions. Raj?

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

Thank you, Fred, and good afternoon, everyone. As Fred stated, we continue to mourn the tragic loss of eight team members killed at FedEx Ground facilities in Indianapolis on April the 15th. Let me take a moment to remember each team member we lost that day. Matthew R Alexander, Samaria Blackwell, Amarjeet Johal, Jaswinder Kaur, Amarjit Sekhon, Jaswinder Singh, Karli Smith, and John Weisert.

Our most heartfelt sympathies and condolences remain with the families, team members, and friends of these individuals. They will forever be members of the FedEx family.

Now turning to our results. Fiscal year 2021 was a pivotal year for FedEx as we delivered incredible financial performance including record revenue and profit in Q4 and for the full fiscal year. This is in no short measure due to the outstanding work by our global team members. Let me take this opportunity to say thank you to the FedEx team, especially those on the front-lines for going above and beyond the call of duty in these difficult times. When I look back at fiscal year 2021, I'm proud of the role FedEx played in saving lives, helping small and medium businesses get back on their feet, and keeping the globe connected.

The exceptional financial performance was driven by our robust growth strategy and focused execution on three key areas: e-commerce, operational excellence, and digital innovation. Let me take a moment to highlight each strategic focus area and the progress made in Q4. Firstly, e-commerce. The acceleration of trends experienced in fiscal year 2021 highlight the importance of our ongoing strategic initiatives to win globally in e-commerce. This includes FedEx Ground seven-day operations, investing in technology to optimize last mile deliveries, expanding capabilities to better handle large items, offering the first FedEx branded through-the-door service with FedEx Freight Direct, and accelerating the expansion of our retail convenience network.

Ground's full seven-day operations including weekend residential delivery coverage that reaches 98% of the US population on Saturdays and 95% on Sundays give us a distinct competitive advantage. We are working very closely with customers to leverage the full flexibility of weekend operations, so they can meet the demands of e-commerce every day of the week. This is evident in the growth we saw in Ground Sunday deliveries with 56% more packages delivered on Sunday in Q4 than last year.

We are also winning in e-commerce outside the United States by leveraging the strength of our global networks and the expansion of our portfolio. Brie will cover additional details in this regard shortly. The second strategic focus area is operational excellence. Our competitive advantage in the marketplace is fueled by a relentless focus on operational

excellence and customer service. While service is a hallmark of FedEx, like many businesses, we are facing challenges with labor availability, which have contributed to the recent service levels that do not meet our own high expectations of the quality we expect to deliver to our customers.

The inability to hire team members, particularly package handlers, has driven wage rates higher and creates inefficiency in our networks as we use overtime to cover open shifts and route volume around known constraints just as a few examples. As such, we're taking bold actions across the business to address service issues and prepare for sustained volume increases including continued investments in people, capacity, and technology to optimize our networks.

FedEx Ground strategic focus on efficiency continued to reap benefits in Q4 as seen in our ongoing improvements in density. These improvements are driven in part by both B2B and B2C volume growth as well as enhancements in route optimization technology, which drove up the average number of stops the service providers made per hour by 3.6% versus Q4 of the previous fiscal year. Along with the revised service provider e-commerce rate structure, these efficiencies contributed to a 3% reduction in cost per stop compared to the same quarter last year.

Further collaboration to improve efficiency continued across our businesses as we expanded our Last Mile Optimization program. In addition, FedEx Freight provided approximately 70 million linehaul miles and delivered 1.75 million packages for Ground in fiscal year 2021.

Another significant opportunity in further enhancing our operational excellence is the improvement in the profitability of our international operations, which starts in Europe with the completion of the physical integration of TNT. While the TNT integration has seen its share of setbacks, including a 2017 cyberattack and the delays due to the pandemic, we are certain of the value this combination creates for the FedEx of the future. The European restructuring announced in January 2021 is set to deliver \$275 million to \$350 million in benefits on an annual basis starting in fiscal 2024. The cost of the severance benefits under this program which will be incurred through fiscal 2023 will be in the range from \$300 million to \$575 million in cash expenditures.

In Q4, we introduced overnight service from Europe connecting 90% of European businesses to major US markets. It's an unparalleled next-day connectivity that nobody in the marketplace matches. As you can see, we continue to enhance value for our customers while restructuring our European business.

Said simply, the upside in the profitability of our international business is tremendous. Finally, our third strategic focus area, digital innovation. We are reimagining our digital capabilities and infrastructure in a manner that will deliver market-leading customer experiences that are simple, personal, and proactive. We made great strides in fiscal 2021 as we continue to drive new value through strategic technologies including: increasing capabilities and products through sensor-based technologies like FedEx SenseAware ID and FedEx Surround which provide unmatched visibility and predictive capabilities most notably seen during the transportation of life-saving COVID-19 vaccines; building off ShopRunner integration and Adobe Magento extension to enable a more open e-commerce ecosystem; and furthering development of our portfolio of services in the autonomous vehicle space as illustrated with ongoing Roxo testing and this month's announcement of testing with Nuro.

In fiscal 2022, we'll continue to deliver on our strategy around e-commerce, operational excellence, and digital innovation as we execute on the following key initiatives. First, we expect to substantially increase capacity for this peak by investing in FedEx Ground's infrastructure, with the addition of 16 new automated facilities and the implementation of nearly 100 expansion projects at existing operations and key technological enhancements.

Second, we will complete the air network integration in early calendar year 2022, which will bring the physical TNT network integration to a close and provides the inflection point for long-term profit improvement in Europe. Next, we are exercising existing options to purchase 20 additional 767Fs, 10 for delivery in fiscal year 2024 and 10 for delivery in fiscal year 2025, as we continue to modernize our fleet and improve service to our customers. And we finally continue to identify

areas to adapt, collaborate and utilize different elements of our global network to increase efficiency and reduce cost-to-serve.

Our networks and capabilities reflect decades of investment, innovation and expertise that are differentiated from our competition. It's incredibly difficult to replicate and provides a significant advantage over others in our industry. When we knit it all back together, despite some of the cyclical factors, we remain very confident for fiscal year 2022 and beyond. The e-commerce market will continue to be a growth engine globally, and if anything has become clear over the past year, it's the contribution our industry provides to the e-commerce value chain.

We remain focused on differentiation, building customer solutions and improving revenue quality, as critical long-term levers of profitable growth. In addition, the transformation efforts in Europe and US domestic will generate margin improvement opportunities. And finally, we're just getting started on unlocking value with digital innovation. Our robust growth strategy positions FedEx to deliver superior sustainable financial returns and drive shareholder value for years to come.

With that, I will turn it over to Brie.

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Thank you, Raj. Good afternoon, everyone. In a year of extraordinary challenges and change for our business, I continue to be immensely proud of the team's ability to execute our commercial strategy while developing solutions to help our customers grow their businesses. Before I move into fiscal year 2022, I wanted to reflect on our truly exceptional results of 2021. Fiscal year 2021 parcel volume was very strong across our portfolio of e-commerce solutions. Average daily volume grew across all our customer segments, with US small and medium leading the way at 32% year-over-year growth. E-commerce also drove 28% year-over-year growth in our returns business through April. As more consumers shopped online, enrolled FedEx Delivery Manager users grew by 43% year-over-year.

With this backdrop and the momentum from fiscal 2021, our fiscal 2022 outlook calls for robust growth. Enterprise growth in fiscal year 2022 will be primarily driven by US domestic e-commerce growth followed by strength in B2B and international and a focus on revenue quality. In the United States, the flourishing US domestic parcel market will continue to provide opportunity in the coming years. The US domestic parcel market is expected to surpass 107 million packages a day in calendar year 2022 with e-commerce contributing 88% of total US market growth.

Excluding Amazon volume, the US domestic parcel market is expected to be 72 million packages a day in calendar year 2022. As we look beyond calendar year 2022, we forecast that the US domestic parcel market will reach 172 million packages a day in calendar year 2026. In fiscal year 2021, FedEx total US domestic residential package volume mix was 67% versus 62% a year ago. As we look beyond this fiscal year, we expect residential volumes to grow significantly faster than commercial volumes. However, with retail inventories relative to sales at historic lows, we expect solid B2B volume growth this fiscal year.

In fiscal year 2022, we will continue to execute against our revenue quality strategy. In fiscal year 2021 Q4, we increased FedEx Ground Economy yields by 28% and overall US domestic residential yields by 16% year-over-year. It is important to note when reviewing composite US domestic yields that weights and zone will decrease putting pressures on yields as we grow in e-commerce. We are managing total network profitability. Short zone e-commerce and our FedEx Ground Economy service will enable us to spread our assets and maximize sortation capacity.

Within our pricing strategy, we continue to prioritize capacity for commercial and small and medium customer segments. To support the network amid ongoing capacity constraints, we have increased our peak surcharges as of June 21 and will monitor and adjust our strategy as capacity and demand warrant. We will continue to confidently renegotiate our large customer segment contracts to increase profitability. This means balancing product, day of week and lane mix at the

customer level, while ensuring appropriate surcharges and rate increases cover rising labor costs. Most large customer contracts in the US are three years. Almost half of our total large segment volume had pricing agreement implementations in the past 12 months, leaving upside for fiscal year 2022.

Now turning to international. Global trade volume has surpassed pre-pandemic levels and is on course for its fastest year of growth in over a decade. Global air cargo capacity remained down 10% year-over-year as of April, mainly due to the reduction in passenger belly capacity. We expect air cargo capacity to remain constrained through at least the first half of calendar year 2022. Recovery will be slow, potentially episodic, and a full recovery is not anticipated until 2024.

We believe a favorable pricing environment should continue through fiscal year 2022. We will continue to manage demand internationally using yield management and continuation of peak surcharges, especially on trans-Pacific and trans-Atlantic lanes. We are seeing a very good capture rate on these surcharges.

While peak surcharges played a significant role in our international performance in fiscal year 2021, it was not the majority of our revenue growth. In fiscal 2021, we improved parcel and priority mix versus freight and economy, grew our small and medium customer base while penetrating e-commerce. In fact, we grew e-commerce parcel volume by more than \$1 billion year-over-year out of Asia and Europe. To a large extent, due to its lightweight nature and limited relative linehaul capacity requirements, we were able to price e-commerce very competitively. I believe that the e-commerce volume as a result is quite sticky. That being said, we continue to refine our commercial and network strategies to be prepared for when commercial capacity does come back.

Overall demand for exports from Asia have recovered to pre-COVID levels. In fiscal year 2022, our network plans include six intercontinental daily frequencies from Asia to provide more consistent, predictable capacity based on our demand forecasts. This will eliminate some of the ad-hoc nature of our flights in fiscal year 2021. Intra-European B2B volumes have recovered to pre-COVID levels while our growth is further accelerated by significant B2C volumes on our intercontinental lanes. With reduced pandemic-related uncertainty and industrial activity on the rise, we expect the overall European economy to be back to pre-pandemic levels in late calendar year 2021.

Raj covered our new European value proposition. Customers are very interested in both our new Europe to US overnight service and e-commerce product expansion. On the Europe to US lane, we have strong demand with a healthy mix of small and large businesses. We have deployed incremental capacity to serve this high-yielding segment. Our e-commerce value proposition, anchored by our new FedEx International Connect Plus product is very compelling. We continue to gain new customers and have a very robust sales pipeline.

In summary, we had a stellar fiscal year 2021, and the strategies we have in place will help us to win what's next in 2022 and well beyond. With that, I'll turn it over to Mike for his remarks.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Thank you, Brie, and good afternoon, everyone. Our fourth quarter and fiscal 2021 results reflect the tremendous momentum in our business and reinforce our growth strategy and investments across our network to grow our capabilities, improve collaboration and drive efficiency. Our full-year results include over \$1 billion in variable incentive compensation expense, as we reward our team members for their invaluable contributions.

In the fourth quarter, FedEx continued to drive higher profitability with increased margins across the board. Consolidated revenue grew 30% year-over-year in the quarter, while adjusted operating income was up 117% even with higher cost to support increased demand, increased variable compensation expense of \$380 million and our previously announced \$100 million contribution to Yale University to support our carbon neutrality goals. Drilling down into those numbers, the rise in US parcel volume was the greatest driver of our revenue growth and through the incredibly hard work and ingenuity of our team members, we took a significant portion of that revenue growth to the bottom line.

Ground revenue grew 27% in the fourth quarter, with operating margin increasing 310 basis points to 13.6%. Ground substantially improved margins and earned the most operating profit in their history.

As our international business and e-commerce in the US continued to grow, Express revenue grew 32% over Q4 last year, with adjusted operating margin up 340 basis points. Freight blew out this quarter with 38% revenue growth and their highest quarterly operating margin ever at 16.1%. They also topped \$1 billion in operating income for the full year for the first time.

With our overall profit growth, we generated a record \$4.6 billion in adjusted free cash flow, while balancing continued investment in the business, funding our pension plans by \$300 million and strengthening our balance sheet. During the fourth quarter, we executed a debt refinancing and extinguishment transaction, underscoring our focus on reducing our financial leverage. In the fourth quarter, we reduced our outstanding debt by \$2.6 billion or 11% of the total outstanding liability, eliminating all debt maturities through FY 2025 and one in FY 2027.

This transaction resulted in a \$393 million charge in Q4. However, it will lower our interest costs over the next three years with a positive payback on the transaction. In FY 2022, we will continue to drive a robust growth strategy capitalizing on global economic recovery and e-commerce. This focus will flex all levers of our business including volume growth, yield management, operational efficiency, and network optimization.

The FY 2022 adjusted EPS range we provided corresponds to 13% to 18% year-over-year growth on top of record FY 2021 earnings. I'd make the following highlights behind that. We expect margins in all our transportation segments on an adjusted basis to exceed FY 2021 levels driven by several key areas. We expect e-commerce to continue to drive higher profitability and we will continue to invest in our FedEx Ground network to improve efficiency and utilization through expanded and new facilities as well as technology enhancements.

We also look forward to incremental benefit from the completion of our physical integration of TNT which will enable us to offer more and better services to our customers internationally. This key milestone will continue to drive momentum and provide a launch point for even better profitability down the road. Integration expenses will be lower in FY 2022 than in FY 2021 and total integration spending is expected to be \$1.8 billion slightly higher than our previous estimate due to additional opportunities identified to further optimize legal entity structures and improve back-office automation.

We expect continued improvement at FedEx Freight through our ongoing revenue quality and profitable growth strategies. Our outlook includes substantial funding of our incentive compensation programs for our team members. That said, variable compensation expense is not expected to be a headwind for fiscal 2022. While we have clear growth opportunities, the wide spread labor shortages impacting many companies and industries across the US is also impacting us through higher wage rates and lower productivity, particularly in the first quarter. And this is reflected in our overall outlook for the year.

Earlier Raj talked about our innovate digitally initiatives. The spending related to these important projects is included in our outlook and will largely be recorded in the corporate, eliminations and other section of our P&L. Further, we estimate a higher effective tax rate for fiscal 2022 of approximately 24% prior to the mark-to-market retirement plan accounting adjustments.

Finally, I will address our capital allocation starting with capital expenditures, which is expected to be \$7.2 billion in FY 2022. This projects to 8% or less of revenue, which is the target level for the CapEx to revenue component of our FY 2022 to 2024 long-term incentive plan and remains below our historical capital intensity. Approximately half of our expected capital spending this year will be for growth, with the remainder for important projects like replacement of our aging FedEx Express aircraft, which not only is expected to have a high financial return but is an important part of our strategy to reduce our carbon footprint.

We will also continue to invest in the modernization of our key Express hubs and upgrades to other facilities in all our transportation networks to drive efficiency. We will increase replacement of vehicles across the enterprise which we largely deferred in FY 2021. We will add safer more energy efficient equipment. All these projects will yield benefits in the near-term and long-term. We ended fiscal 2021 with \$7.1 billion in cash and as such our leadership team is laser focused on enhanced capital allocation opportunities including our 15% dividend increase for fiscal 2022, which raised the dividend to \$3 per share as we announced on June 14th.

Next, our plan to restart our stock buyback program during the first quarter which we can do without having to increase leverage and our focus primarily to offset dilutive effects of our equity compensation programs and our plan to voluntarily contribute \$500 million in FY 2022 to our pension plan, which was funded at 95% on May 31st.

In closing, we are adding shareholder value by driving profitable revenue growth, expanding margins, generating strong free cash flow, focusing capital spending into the greatest areas of return, strengthening our balance sheet, and improving cash return to shareholders.

Based on record fourth quarter results we just covered and the future strategies we have in place, I can say with confidence that we fully expect FedEx to continue delivering sustainable and superior financial returns in the future.

Next, we will be happy to address your questions.

## **QUESTION AND ANSWER SECTION**

**Operator:** And first we will go to Brian Ossenbeck from JPMorgan. Your line is open.

**Brian P. Ossenbeck**

*Analyst, JPMorgan Securities LLC*

Hey, good afternoon. Thank you for taking the question. Mike, wanted to see if you could give some color as it relates to the Ground margins in the guidance. Obviously, some considerable operating leverage here in terms of incrementals year-over-year. You've talked about the right sort, the right package, the right truck but clearly there's some inflation working its way through the system. So can we think about double digits on the way to teens or would you guide us to something a little bit less than that considering what you're outlining on inflation side which does seem to be a little bit front-end loaded.

So maybe if you can address that and also about the surcharges that you might be able to install to offset some of those costs. Thank you.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Well, Brian, I'll kind of hit the first part and just reiterate a few things we've said and maybe try to tie it together in a different way. But as we've said, the pandemic accelerated the dramatic and rapid shift in the growth of e-commerce. And at the same time as you noted there, put some pressure in areas along the way as well, which is really why the performance at Ground in 2021 has been nothing short of stellar. ADV increased an astounding 23% driven by e-commerce and we still improved margins.

So, Brie highlighted that US domestic parcel growth will continue to be the primarily driven by e-commerce, and we're very confident in our strategy to profitably execute against that. So, we expect margins to improve in 2022 and beyond as we continue to increase density, further improve the facility and on-road productivity, enhance the utilization of our assets. And I kind of emphasize those aspects as Ground is generating exceptional ROIC margins. And so, we remain very confident in the future opportunity and will continue to innovate and differentiate the capabilities there. There was something about surcharges that you asked as well? Maybe you can clarify that.

**Brian P. Ossenbeck**

*Analyst, JPMorgan Securities LLC*

Yeah, right, earlier this week we saw your main competitor announced some surcharges for peak season that were instituted earlier than last year, and they're also bit higher. So, with the inflation you're talking about with capacity in the system, maybe you can address that as well and what you assumed in this guidance here.

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Thanks, Brian. It's Brie speaking. From a structural pricing perspective, we believe that peak surcharges are kind of the new normal and that we have to rely on our pricing to our costs. I think I've covered that in previous calls that we do anticipate every peak that there will be e-commerce surcharges. As we – right now we already have peak surcharges in market, and we continue to evaluate changes that we need to make based on demand and capacity. We implemented some changes on June 11th and we continue to monitor the environment.

**Operator:** And next we'll go to Bascome Majors from Susquehanna. Your line is open.

**Bascome Majors**

*Analyst, Susquehanna Financial Group LLLP*

Yeah, good afternoon, and thanks for taking my questions. It's pretty clear that we're in one of the best trade-up scenarios we've seen from logistics customers with all of your higher yielding, higher priority products doing exceptionally well in this environment. Can you talk a little bit more about how you protect that profitability from both mix and pricing whenever the inevitable partial being reversion to a more stable and sustainable demand and priority environment comes?

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Sure. Happy to take the question. I think we have to separate it between the domestic market and the international market. Here in the US, you heard me quote some just outstanding growth numbers from a parcel perspective. So, we think we actually have quite a sustained growth environment while demand will outpace capacity in the domestic market. Structurally, as I mentioned, we will continue to use surcharges. Not only for peak but to cover large package and to really just make sure that our pricing quite frankly aligns to our cost.

We think we have the very best value proposition in the market full stop. We have the best weekend coverage. And so, as a result, we think the demand that we are planning for will be there for quite some time here domestically.

On the international side, it's a little bit of a different story and far more complex. We do believe as I mentioned that commercial capacity will come back episodically. It will not be a straight line up and we actually have we believe until 2024, the longer it takes for commercial capacity to come back quite frankly the longer we have to make sure that this customer base is sticky. I pointed out in my opening remarks that we had \$1 billion growth in e-commerce.

We priced this e-commerce volume at future price. It is going to be very sticky. It was very competitively priced. So, we don't believe there's any risk there and our small business growth, we've also had internationally. We also believe that volume is very sticky. So as commercial capacity comes back, we'll adjust the network. We'll bend the cost curve to offset some of the surcharge risk. But overall, we feel quite good about the strategies, and we have some time to implement them.



**Operator:** And next we'll go to Helane Becker from Cowen. Your line is open.

**Helane Becker**  
*Analyst, Cowen & Co. LLC*

Thanks very much, operator. Hi, everybody. Thank you for the time. So, I have two questions. My first question is, given the labor shortages that we're seeing and the expectation that it's likely to continue, is this a good time to pivot aggressively into more – the use of more robotics and accelerate the implementation of automation and so on?

**Michael C. Lenz**  
*Executive Vice President & CFO, FedEx Corp.*

Well, Helane, this is Mike. I'll just highlight that within that CapEx projection, a good amount of that is to enhance the efficiency of the facilities, which is what exactly aspect you're hitting on. I'll give it to Raj to talk more broadly about the broader point you raised.

**Rajesh Subramaniam**  
*President & Chief Operating Officer, FedEx Corp.*

Well, I think the point that I want to make here is that the labor environment remains challenged right now. And we're doing everything we can possibly do, whether it is from wages, from technology, from routing and all things associated with it to make sure that we can get our service improved. We expect that over the next two, three months, that situation gets better and that we get ready for peak. And of course, we are considering longer term opportunities that Mike talked about in terms of technology as well. Thank you.

**Operator:** And next we'll go to Ravi Shanker from Morgan Stanley. Your line is open.

**Ravi Shanker**  
*Analyst, Morgan Stanley & Co. LLC*

Thanks. Good afternoon everyone. Can you give us a little bit of color on what the two halves of fiscal 2022 look like, first half versus second half, given that you probably have a little bit kind of, say, pandemic conditions continuing through the next couple of quarters but then some of the comps start getting a little bit harder in the back half of the fiscal year?

**Michael C. Lenz**  
*Executive Vice President & CFO, FedEx Corp.*

Yeah, Ravi, look, we're giving our best middle of the fairway estimate of what we think the year looks like. As you highlight, there's any number of moving parts. So, I don't want to try and parse various elements along the way there. But certainly the recognition that the first quarter here with the labor challenges and the productivity impacts as well as keep in mind we are continuing to still have to make accommodations in the Express air network as well for layover requirements and that. So, there's a number of related aspects there. So, I'll leave it at that in terms of what's at play here.

**Operator:** And next we'll go to David Vernon from Bernstein. Your line is open.

**David Vernon**  
*Analyst, Sanford C. Bernstein & Co. LLC*

Hey. Good afternoon, everyone. So, Mike, maybe just to follow up a little bit on that, is there a way to dimension whether in margin terms or in overall sort of like cost impact? Both the productivity and the wage impact from the inflation that

you're seeing in the marketplace and the difficulty in getting sortation kind of labor into the network? I'm just trying to – anything you can give us that would help us to further kind of dimension how big of a headwind that would be, would be extremely helpful.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Well, I wish we could break it down into the simple buckets. But to amplify what Raj mentioned earlier, when you don't have the people, as many people as you would optimally staff the facility with, then of course your throughput is lower. And then maybe you're not getting the density within trailers and that that you might otherwise expect. So, then you're getting incremental cost there in terms of running the network, the linehaul and that. So, it's not as simple as saying, okay, we're X heads short and that's impacting us this way and wage rate is Y percent of it. It's an iterative ongoing exercise we have to adapt, adjust, and configure around that. So that's how we're managing it.

**Operator:** And next we'll go to David Campbell from Thompson Davis & Company. Your line is open.

**David Pearce Campbell**

*Analyst, Thompson Davis & Co., Inc.*

Yeah, thanks for taking my question. I'm just curious, UPS sold their LTL division to a Canadian company few months ago. Is that expected to have any impact on your marketing or your share of the market in the LTL business?

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Well, David, first – this is Mike. Let me just say, our commitment and value of our Freight business, given the results that I just spoke to, is absolute. So, I'll let Brie address what we think how the market evolves going forward.

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Well, honestly, this doesn't impact our Freight strategy. We are the market share leader because we have the best value proposition. We have had just a stellar year for the Freight team. They have done a tremendous job managing despite the tumultuous year we have. And while they did that, they introduced a new product that is growing rapidly. And in addition to growing our share with small customer, we intend to grow our share with the cross threshold FedEx Freight Direct product and grow our residential share. So, we are tremendously excited about our FedEx Freight division, and we're just going to stay the course.

**Operator:** And next we'll go to Scott Schneeberger from Oppenheimer. Your line is open.

**Scott Schneeberger**

*Analyst, Oppenheimer & Co., Inc.*

Thanks very much. On the labor topic and also this does tie into Freight as well. Mike, you mentioned that it looks like it's largely affecting first quarter. You mentioned you adjusted the guidance for the first quarter. I'm curious on your confidence of – I think much of the country's hopeful that this labor dynamic ends at the end of the summer. But just curious how conservative you were, or maybe a little bit more color about how you're considering it and if you hope to get whole by, say, end of first quarter. And then the follow-up question but thematically the same, is in Freight, you had some customer suspension. And it looks like that's largely alleviated. But could you put a little bit more color on what occurred and your comfort that that's back in a good situation? Thank you.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Okay. Scott. I'll kind of take a swing at the first part, and then I'll give it to Lance, our CEO of Freight for the second part. I mean, look, it's not a unique phenomenon that we're experiencing. It's all the aspects we highlighted. It's in the – obviously it impacts the first quarter the most and the general expectations that everyone has is that this will mitigate as we move into the fall and the markets return to more normalized conditions. So, look, we're at it every day. But there's no unique consideration there beyond just you see a lot of people suggesting that coming September, October, we'll have a more expanded workforce. Lance?

**Lance D. Moll**

*President & CEO, FedEx Freight, FedEx Corp.*

Thanks, Mike. Well, since Freight hardly ever gets any questions, I'm going to take this opportunity to add to Brie's comments and recognize our team for an exceptional year. They successfully battled through what has been the most challenging year I've ever seen in my almost 30 years in this business, and I grew up in it. So, I want to recognize all of the points they put on the board.

Now, I'm sure you all have read the multiple articles written over the last several months about the tightening in the trucking industry, and it starts with the truckload sector. They are five times the size of the LTL divisions, and when they get full, the spillover comes into LTL. We, as the largest LTL carrier, get the majority of it. And so when you have it combined with what the broad actions our competitors have taken to embargo entire sections of the country without any notice, impacting all customers, we decided to take an implemented, temporary, targeted volume control to try to minimize the network disruptions and balance capacity to avoid the backlogs across the entire country.

So, with record growth, there comes some tough but necessary decisions to protect our employees, reduce our backlogs and staff to our business volume. This continues to be the driving force behind our business decisions. Now, in hindsight, I would not have wanted to make a decision back in a corner like this and we're taking measures to avoid it going forward. I hope that provided a transparency.

**Operator:** And next we'll go to Tom Wadewitz from UBS. Your line is open.

**Thomas Wadewitz**

*Analyst, UBS Securities LLC*

Yeah. Good afternoon. Brie, you commented – you provided some comments on pretty optimistic view on tightness in the domestic market. I think the sense is that tightness is going to continue. How do we think about the approach to pricing? I mean, you've had tremendous momentum in pricing. I think was it 14% rise in revenue per piece in Ground? How do you think about the pricing dynamic the next couple years? Would we expect continued kind of stronger than normal pricing gains in Express and Ground? And is it fair to view that as a pretty important driver of margin expansion that you would expect to continue as we look at the domestic package businesses?

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Absolutely. As we look at 2022 and 2023, we absolutely think that you're going to see a greater than our historical average from a year-over-year price increase. As I mentioned this past year when we look at our domestic volume, we repriced about 45% of our large customer segment and quite frankly we actually did most of that in the back half of this year. So, we're going to have some lapping. You're going to get benefits of those renegotiations in the back half of this

fiscal year. We're going to get them in the front half of 2022. In addition, we still have to reprice the rest of the large customer segment.

And really importantly, as Fred mentioned, it's not just about the top line yield. It's about really making sure that our price matches our cost. And we're getting very, very focused on that, very disciplined, making sure the customers that have large package, we have the right surcharges, the right structure there. Those that have the highest peaking factor really pay for the incremental labor at peak. And so, it's not just about the top line which I am – I want to be clear, I'm optimistic about. But it's really about aligning our price strategy with our cost. And we do think that that is going to have tremendous momentum next year and, quite frankly, the year after as well.

**Operator:** And next we'll go to Chris Wetherbee from Citi. Your line is open.

**Chris Wetherbee**

*Analyst, Citigroup Global Markets, Inc.*

Ok thanks. Maybe I could just follow up on that point. So, with the tightness in the market and it seems – maybe you can correct me if I'm wrong, it seems that you and your major competitor are the biggest influencers on capacity in the market. And if you can sort of meter that capacity out over the course of the next couple of years, it should support sort of a relatively robust pricing environment, certainly above cost inflation if we go out into the out years. So, I guess what would sort of take away from that potential opportunity to bring those domestic margins back up to maybe where we had seen them a couple years ago? Is there some other impediment that we're thinking about? Or is it really just a dynamic of trying to match capacity with a volume growth that you outlined that is fairly robust and maintain just a very, very robust pricing environment for the foreseeable future?

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Go ahead, Mike.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Yeah, Chris. Let me just highlight one aspect when we talk about capacity too. The CapEx growth at Ground is focused on smaller units than kind of going back the historical legacy large hubs. We have one opening, but it's targeted to efficiently and effectively execute on a lot of this growing shorter zone demand. And so that's why when we talk about having the right targeted investments to align the cost with the – where demand is going, that's how we're thinking about it. And then, of course, it has to be matched on the pricing side, which as Brie has covered, I think, pretty comprehensively.

So, again, it's an integrated planning process and assessment here. Look, the finance team is part of the discussions and assessments that go on in that as well. So, it's a very integrated with operations, finance, sales, pricing and marketing. So, the team really has a collective focus.

**Operator:** And next we'll go to Jack Atkins from Stephens. Your line is open.

**Jack Atkins**

*Analyst, Stephens, Inc.*

Okay. Great. Thank you. Maybe a longer-term question for either Raj or Mike. But in the past, we found a very high correlation between return on invested capital and a stock's evaluation multiple within the transportation sector. And at Analyst Day earlier this month, UPS laid out a plan to get its return on invested capital up to 26% to 29% versus about

20% today. Your LTM return on invested capital is between 7% and 8%. So, Mike, what do you think's a realistic target for ROIC for FedEx when you look out over the next three years?

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Jack, I'm not going to go put out any sort of targets or guidance beyond what we've gone with today. But I will reiterate that the investments that we're making, we're highly confident will generate a high return on invested capital. And I alluded to the fact that we continue to expect to see margins grow in all the business segments. So that's what we have to do to continue to get that to where we want to keep seeing it, the trajectory. So, I think that's where we'll leave that one.

**Operator:** And next we'll go to Amit Mehrotra from Deutsche Bank. Your line is open.

**Amit Mehrotra**

*Analyst, Deutsche Bank Securities, Inc.*

Hi, guys. Sorry about that. I was on mute. Thanks for taking my question. Brie, I just want to see if you could talk about the re-contracting process for enterprise customers. I know you mentioned they come up every three years. Does the company have an ability to kind of change pricing inter-period with 60 or 90 days' notice? Or is this just really at the end of the contract period? And then separately, Henry can you just share – I don't know, sorry if I missed it, but just the B2B and B2C mix, where B2B is today relative to where it was pre-COVID, just to give us some runway on some of the density benefits you'll get as B2B continues to recover? Thank you.

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Hi, Amit. It's Brie. So, from an enterprise contract perspective, each contract is very nuanced. We have opened some contracts out of cycle, when the customer has looked for increased demand. And so of course when they want to do something different than what has kind of been our historical average with them, of course, we're going to have those conversations. I think it's really important. Yes, we want to grow our price. Yes, we want to grow our yield, but we also want to have really happy, satisfied customers. And so, we're trying to strike that right balance. And so, some customers, yes, they did require changes in their portfolio, a change in mix, to meet their business needs because many of them saw explosive growth, especially in our retail segment and of course in our healthcare. So, of course, as required, we do reopen accounts and have those conversations every Thursday morning. As Mike mentioned, Mike and Jill and I get together, and we review what's necessary to run the business. So, I'm very pleased that the team has been incredibly agile.

I think the second half of the question was about B2B and B2C. So, I think the answer from a domestic perspective is we are going to continue to make Express more Express. We're going to lean into commercial. We're going to lean into premium and healthcare. We're very optimistic about our last mile optimization strategy, which will allow us to continue to put some residential business into the Ground network. When we – and I guess the other thing that I can share is that if you look in May of this past year, it was our highest absolute commercial volume in the domestic network since September 2019. So, we're very confident about the return of our commercial business here in the United States.

However, as I mentioned, 90% of the market growth will be e-commerce and so there will be no settling of the B2C volume within the Ground network. We're going to continue to drive that growth. We're going to lean into it, grow yields. And as Mike's mentioned, our goal is to grow the margin while we do that. So very, very, quite frankly excited to lean into the e-commerce growth for FedEx Ground.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

This is Mike. I should add one thing for those of you that are asking about the sequencing or trajectory through the year. Just as a reminder, I mentioned that we accrued \$380 million of variable compensation expense in Q4. And so if you add up the prior Qs and that, that gets you to \$1 billion or so for the year. So Q1, we were not accruing as much last year, understandably amidst the uncertainty. So just kind of keep that in mind as you think about modeling through.

**Operator:** And next we'll go to Ken Hoexter from Bank of America. Your line is open.

**Ken Hoexter**

*Analyst, BofA Securities, Inc.*

Hey, great. Good afternoon. So, in the outlook, you talked a lot about Ground. But what about Express? So, if we normalize for the \$100 million donation, the rebound in FedEx Europe with the TNT integration, the aircraft efficiency, what's the timeframe to get back to double-digit Express? Maybe detail the progress at TNT as well. And then just an update within that the blending of Express into the Ground network both on the package and facility side.

**Michael C. Lenz**

*Executive Vice President & CFO, FedEx Corp.*

Well, I'll – there have been a number of milestones on the TNT. We had the road network. We completed that milestone. And that helped facilitate the enhanced commercial proposition that was highlighted. And again, the air network is another key enhancement, and that comes toward the end of this fiscal year. So, there's value coming this year, more to come. And then as we highlighted with the business realignment, that hits full stride into 2024. So, it's a multiple year of significant opportunity and increases there.

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

Yeah, Ken, let me just add that we are very excited about where we sit with TNT. The combination of the physical integration this year, this fiscal year and next calendar year is an inflection point, like I talked about. And at the same time, we are also improving – continue to improve our value proposition, the one I just talked to you about, overnight service from several markets in Europe to US is unmatched. So, we continue to make great progress, and we really think that we should see it relate to margin expansion beginning in fiscal 2022 and building into FY 2023.

**Operator:** And next we'll go to Allison Landry from Credit Suisse. Your line is open.

**Allison M. Landry**

*Analyst, Credit Suisse Securities (USA) LLC*

Thanks. Good afternoon. So, Raj, you talked about lower cost per stop at Ground. So, is there any way to parse out how much of that was driven by the increased B2B mix versus increased density and e-comm residential volume related to the last mile optimization, improved asset utilization from the seven-day operations? And then if you could just maybe address how we might be able to gauge the improvement in cost per stop in fiscal 2022. Thank you.

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

Allison, I'm going to have John answer that question.

**John A. Smith**

*President & CEO, FedEx Ground, FedEx Corp.*

Allison, thanks for the question. If you go back, when we talk about LMO, FY 2020, we only delivered 1.2 million packages of LMO. Through fiscal year 2021, we delivered 21.6 million packages of LMO. Now, that's one factor, that's improving our optimization. The next, if you remember, we integrated SmartPost, which is now our economy product. And plus, the surging residential growth since the pandemic. And all these factors has helped us improve our residential density.

Now, one of the things to remember, we're seeing package matching where we have commercial, residential, economy, or LMO packages, where they're destined to the same address or a nearby address for another Ground package. And we fully continue – expect this to continue to increase. Now, we're also confident that our weekend residential delivery coverage, which is already mentioned, reaching 98% of the US population on Saturdays and 95% on Sundays truly gives us a distinct competitive advantage.

**Operator:** And next we'll go to Allison Poliniak from Wells Fargo. Your line is open.

**Allison Poliniak-Cusic**

*Analyst, Wells Fargo Securities LLC*

Hi. Good evening. One of the issues that we heard on the manufacturing side is really the supply chain constraints and sort of the impact that maybe those increased volumes have had. Is this something that's been I guess, one, noticeable to you? And is it starting to abate? Or is it still sort of a level of volume that you continue to expect particularly on the Express side as we move through the rest of the balance of the year here?

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

The supply chain constraints are, of course, real. The other thing to keep in mind here is the inventory to sales ratio. It's an all-time low. And so we do fully expect that as the – especially as the supply chain starts to get organized here and we still have opportunity to grow because especially on the Express side of the business, as the inventory sales ratio still remains very, very low, and that drives a lot of Express traffic. I hope that answers the question. If not, just ask again what was not clear.

**Allison Poliniak-Cusic**

*Analyst, Wells Fargo Securities LLC*

The Express part of it, like is it starting to normalize somewhat where you're seeing that sort of fall off here? And obviously, the inventory to sales ratio might not be as sort of next day just in time based on some of the issues we've had over the past few months. Just didn't know if that was noticeable on sort of the volumes you were seeing at this point.

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

Don, want to take that?

**Donald F. Colleran**

*President & CEO, FedEx Express, FedEx Corp.*

Sure. The intensity of the demand has not abated, and it's driven by the factors that you and Raj both mentioned. One, on the inventory side, not only is it finished product, but it's raw materials, i.e., chips and other things that are going into finished products. So, they remain at historically low levels. The demand also hasn't abated, and so the demand cycle that we're seeing both domestically and internationally continues to be extremely strong. And then the combination of the supply being light, both in the air and the ocean, that has trickle down and trickle up effect certainly is factors that have us remaining optimistic that there's no short-term change in what we're seeing. As a matter of fact, I'm seeing an intensification of that in our international business.

**Operator:** And our next question comes from Bruce Chan from Stifel. Your line is open.

**Jizong Bruce Chan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Great. Thank you, operator. And good evening, team. It's nice to be back in the mix here. Brie, I want to go back to the pricing discussion for a moment but maybe more specific to Europe. It seems like a meaningful commercial opportunity for you over there, but some of your competitors are also looking at expanding in that region as well. So, my question is, are you seeing any signs of a land grab or any competitive pricing pressure develop on that front? Or are you seeing the same sort of structural differentials between demand and capacity that you're seeing here in the US?

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Great question. And, no, from a European perspective, we're kind of the underdog. We actually see and have had tremendous momentum as I mentioned the \$1 billion growth from an e-commerce perspective between Europe and Asia, and that's intercontinental. So, when we look at the Europe business, Raj has mentioned, number one, we now have – we already had but we even strengthened it further. We have the best coverage across Europe into the United States from a commercial perspective, and the sales team is really excited about that value proposition. So, we have upside potential on both the B2B and the B2C market share into the United States from Europe.

From an intra-Europe perspective, we are predominantly focused on B2B. We're just getting going on B2C. But we see upward potential there and we actually also are seeing improving yields in the intra-European theater. So, from an intra-Europe perspective, we're feeling optimistic. And then from an Asia to Europe, that's our third focus area for the European team. We have historically been under-shared in that lane. We have seen a tremendous relationship between our Asia and our European teams. Actually, our Asia team has taken share from DHL the last four quarters. So, we're pretty pleased with them. We see a great pricing environment, and we see some really strong momentum.

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

And, Bruce, if I can just add, in some ways the European markets are the late bloomers of post-COVID-19. But we now expect them to be back to pre-pandemic levels this calendar year versus what we thought. So, there's going to be the demand especially B2B coming back sooner. And again, I think we're in a very good position for that.

**Operator:** And next we have Duane Pfennigwerth from Evercore ISI. Your line is open.

**Duane Pfennigwerth**



*Analyst, Evercore Group LLC*

Hey, thanks. Thanks for squeezing me in here. On the Ground facility investments, as you tilt to smaller facilities, which I think you talked about being driven by ship from store, where the demand is headed, can you talk about utilization of your existing assets? What does churn look like in those? And how often do you exit a facility? And is there any geographic focus to your Ground investments?

**John A. Smith**

*President & CEO, FedEx Ground, FedEx Corp.*

Thanks, Duane. It's John. First of all, we've already talked about this, but let me re-mention the brick and mortar that we're adding. We're adding a very large hub in Chino, California, and we'll end up with 16 regional sortation facilities this year as well as four new automated stations. It's already been mentioned that we're expanding over 100 of our existing facilities, but that's not just how we're attacking our capacity. We're also expanding our operational solutions that maximize how and when we're using these existing buildings, for instance, like when we run multiple preloads in an existing building.

Also, technology is a huge play for us here. It's going to provide the solutions that are critical to enable these solutions to work. And in addition, we're refining tools that use real-time data to help us streamline multiple aspects of our operation, all the way from staffing through package routing to trailer as well as mode optimization. And we're also collaborating with our customers on solutions that will leverage the full flexibility of our seven-day operations and benefit from our expanded regional and local solutions through our e-commerce shippers that will allow them to reach their customers both quickly as well as cost effectively.

**Rajesh Subramaniam**

*President & Chief Operating Officer, FedEx Corp.*

And, Duane, if I can answer the strategic point here, I've long talked about how we work strategically with some of the retail customers as they see their online growth. And again, that's exactly what we're doing. And this – when you see stories of retailers showing tremendous online growth, you can bet there's a FedEx story right behind that.

**Operator:** And our next question comes from Jordan Alliger with Goldman Sachs. Your line is open.

**Jordan Alliger**

*Analyst, Goldman Sachs & Co. LLC*

Yeah, hi. Given the investments you're making in Ground and the automation facilities and preparing for a strong peak, can you give some sense against obviously what's difficult year-over-year comparisons, what sort of big picture volume that you might be looking at in terms of growth perspective? Is it a mid-single-digit type of number better? Just curious. Thanks.

**Brie Carere**

*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Well, we're expecting a pretty robust peak. I think last year we called it Shipathon. I think we're looking forward to another Shipathon quite frankly. So especially in the Ground network we are absolutely expecting a robust peak in volume growth. I think Fred mentioned in his opening remarks, the goal is over \$90 billion for the year, and I'm looking across the table at Jill, my commercial partner, and we're pretty confident in that number.

**Operator:** And I'll turn it back to you for closing remarks.

**Frederick W. Smith**

*Chairman, President & CEO, FedEx Corp.*

Thank you very much for participating on this analyst call. As I said, I'd like to take a moment to personally thank Henry Maier for his dedicated service to this organization. Henry's various roles were pivotal at key points from the time we bought RPS until today. I think even Henry and I would be amazed looking back in time if we thought FedEx Ground was going to be the enormous entity it is today, with substantial growth prospects and an awful lot of that, Henry, is due to your leadership and insights.

You're a remarkable professional in an area which is very arcane and very poorly understood and many, many quarters because of the topology of networks and how they actually operate. I've had a lot of fun just on a personal basis with our repartee, and I'm going to continue that with you, as we talked about the other day. So, all of us wish you and Diane great success in retirement and on behalf of all of us, well done and we are deeply grateful to you.

So, let me end with one administrative announcement. In reviewing the format of these calls, we've made the decision going forward, Raj, Mike, and Brie will handle these quarterly calls. I'll be available on the midyear December call and year-end call next June to answer any questions. The rest of our SMC, we're going to give this time back to them in order to run the railroad because the size and scope of this operation needs every minute that they can devote to their day job rather than to these reports, which will be very adequately handled, as we just demonstrated, by Raj and Brie and Mike. So back to you, Mickey.

**A. Mickey Foster**

*Vice President, Investor Relations, FedEx Corp.*

Thank you for your participation in FedEx Corporation's Fourth Quarter Earnings Conference Call. Feel free to call any one on the Investor Relations team if you have additional questions about FedEx. Thank you very much.