Good afternoon and welcome to FedEx Corporation’s first quarter earnings conference call. The first quarter earnings release, Form 10-Q and stat book were on our website at fedex.com. This call and the accompanying slides are being streamed from our website where the replay and slides 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 of those who’d like to participate.

Certain statements in this conference call, such as projections regarding future performance may be considered forward-looking statements. 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 the filings with the SEC.

Please refer to the Investor Relations portion of our website at fedex.com for a 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 Raj Subramaniam, President and CEO; Brie Carere, Executive Vice President, Chief Customer Officer; and John Dietrich, Executive Vice President and CFO.

Before I turn the call over to Raj, I wanted to let everyone know that I’m retiring from FedEx at the end of October. It has been a privilege being a long-time part of the FedEx team. I truly believe that FedEx’s best days are ahead, but I will be cheering from the sideline as I am 67 years old, and I want to spend more time with my family.

With that, I will now turn it over to Raj for him to share his views on the quarter.

Rajesh Subramaniam  
*President, Chief Executive Officer & Director, FedEx Corp.*

Thank you, Mickey, and good afternoon.

I would like to first congratulate Mickey on his upcoming retirement. He has led our Investor Relations team for nearly 18 years, spanning 70 earnings calls, and after tomorrow 18 annual meetings. He will be missed by all and especially this audience and we thank him for his outstanding service to FedEx over the years.

Let me also take this opportunity to welcome John Dietrich, our Chief Financial Officer for FedEx. With more than 30 years of experience in the aviation and air cargo industries, John brings a unique blend of financial and operational expertise to our leadership team at a very important time for this company. He’s already hit the ground running and I’m very happy that he has joined FedEx.

So now turning to the quarter. We entered fiscal year 2024 with strength and momentum, delivering results ahead of expectations in what remains a dynamic environment. I’m proud of what the FedEx team has accomplished over the last 12 months. Amid significant demand disruption, we delivered on what we said we would do, driving over $2 billion in year-over-year cost savings in fiscal 2023. We are now well advanced in executing on that transformation to be the most efficient, flexible and intelligent global network. Our first quarter progress gives me great conviction in our ability to execute going forward.

We came into the quarter determined to provide excellent service to our customers, despite the industry dynamics. We achieved that goal, while delivering innovative and data-driven solutions that further enhance the customer experience. As a result, we are well-positioned as we prepare for the peak season.
As you can see in our results on slide 6, our transformation is enhancing our profitability. Ground was a bright spot with higher revenue year-over-year, driven by higher yields. On top of this growth, Ground drove exceptional operational performance, leading to its most profitable quarter ever on an adjusted basis.

As expected, total revenue declined as volumes and yields were pressured at Express and Freight. We indicated last quarter that Express revenue would be adversely impacted by international export yield pressure, as well as a change in strategy by the US Postal Service, which we are addressing through DRIVE as we build a more nimble airline.

For the total company, we delivered 200 basis points of adjusted margin improvement as we realized efficiencies across our networks. This performance is a testament to the power of DRIVE and the FedEx team working collaboratively to implement structural cost reductions throughout the enterprise.

During the quarter, labor negotiations at our primary competitor and the bankruptcy of Yellow disrupted the market. Our priorities were clear. Protect our customers, deliver outstanding service, and focus on high-quality revenue. We delivered on those priorities, leveraging our flexible network to profitably add volume, while maintaining the highest levels of service.

While we captured upside as a result of these one-time events, we were highly discerning in terms of the business we accepted in keeping with our goal to drive high-quality revenue. Importantly, we expect to maintain the majority of the volume we added in the quarter. I want to thank our FedEx team for deftly navigating these conditions to execute on our disciplined strategy.

Now turning to DRIVE. We are fundamentally changing the way we work. DRIVE is taking cost out of our network, and we are on track to deliver our targeted $1.8 billion in structural benefits from DRIVE this fiscal year. At Ground, our DRIVE initiatives reduced cost by $130 million this quarter. These savings were primarily driven by lower third-party transportation rates as a result of a newly implemented purchase bid system, as well as optimized rail usage, the continued benefit from reduced Sunday coverage, and the consolidation of sorts.

At Freight, we continue to manage our cost base more effectively. For example, during the quarter, Freight completed the planned closure of 29 terminal locations during August. And at Express, despite headwinds from Asia yields and the US Postal Service, we delivered on our plan. We’re making our global network more efficient primarily through structural flight takedowns and efficiencies at our hubs and sorts as we rightsize the capacity across the network.

In Europe, DRIVE initiatives are on track, and we expect them to gain further traction over the course of the year and into FY 2025. Looking ahead, we are excited to leverage John’s aviation experience as we continue to transform our air network.

And our DRIVE expectations for this year include the G&A savings we had previously outlined which we believe will start to ramp in the second half of this fiscal year.

Finally, on slide 8, I will provide a brief update on our key strategic focus areas as we move into the next phase of our transformation. This includes One FedEx, which is how we are better aligning our organization to enable Network 2.0. We are well underway with plans to simplify our organization. In June 2024, FedEx Express, FedEx Ground and FedEx Services will consolidate into one company, Federal Express Corporation.

The reorganization will reduce and optimize overhead, streamline our go-to-market capabilities, and improve the customer experience. To-date, we have implemented or announced Network 2.0 in several markets including Alaska, Hawaii, and Canada. As each market is different, we’re continuously learning and tailoring the network to adapt to the operational characteristics unique to each region while delivering the highest quality service for our customers. We will continue to use both employee couriers and service providers for pick-up and delivery operations across the network. As with any significant transformation, these changes are being thoughtfully executed and will take time to complete.
The network that FedEx has built over the last 50 years provides us a foundation that is unmatched. This physical network enables us to transport millions of packages a day around the world, generating terabytes of data that contain invaluable insights about the global supply chain. We are focused on harnessing the power of this rich data to make supply chains smarter for everyone: for our customers, for our customers’ customers and for ourselves.

As we move to the next phase of our transformation, I have given the team three specific challenges: to use data to make our network more efficient, make our customer experiences better and drive new profitable revenue streams through digital.

Looking ahead to the rest of FY 2024, we remain focused on delivering the highest quality service and aggressively managing what is within our control. Factoring in better-than-expected first quarter results, we are increasing the midpoint of our adjusted EPS outlook range. As we continue to deliver on our commitments, I'm confident we have the right strategy and the right team in place to create significant value.

With that, let me turn the call over to Brie.

**Brie A. Carere**  
Chief Customer Officer & Executive Vice President, FedEx Corp.

Thank you, Raj, and good afternoon, everyone. In the first quarter we remained focused on revenue quality and being a valued partner to our customers. We did this in an operating environment marked by continued but moderating volume pressure, mixed yield dynamics and unique developments in the competitive landscape.

Let's take each segment in turn. At FedEx Ground first quarter revenue was up 3% year-over-year driven by a 1% increase in volume and 3% increase in yield. Revenue at FedEx Express was down 9% year-over-year. Volume remained pressured though total Express volume declines moderated sequentially. International export package volumes were up 3% year-over-year.

Similar to the fourth quarter, parcel volume declines were most pronounced in the United States. Additionally, US freight pounds were down 27% continuing the trend we mentioned last quarter tied to the change in strategy by the United States Postal Service.

Across Ground and Express, volumes improved sequentially aided by the threat of a strike at our primary competitor. We onboarded new customers who valued our service and were committed to a long-term partnership with FedEx. As a result, we added approximately 400,000 in average daily volume by the end of the first quarter, and the team did an excellent job focusing on commercial ground business acquisition.

At FedEx Freight revenue was down 16%, driven by a 13% decline in volume. We experienced significant improvement in volume in August, due to Yellow's closure. Freight benefited from approximately 5,000 incremental average daily shipments at attractive rates as we exited the quarter.

As you can see on slide 11, monthly volumes have improved sequentially with Ground and international export volumes inflecting positively on a year-over-year basis. We expect to continue benefiting from this quarter's market share gains throughout the fiscal year. We anticipate improved year-over-year growth rates especially late in the fiscal year albeit within a muted demand environment.

The yield trends we shared last quarter persisted, particularly at FedEx Express where we saw reduced fuel and demand surcharges year-over-year. Product mix shifts, including an increase in e-commerce volume and demand for our International Economy service after the May reopening in AMEA also put pressure on yield growth.
At FedEx Ground we saw better than expected yields as a result of higher weight per package and product mix. At FedEx Freight, base rates were strong despite lower weights. The revenue per shipment year-over-year decline was due to lower fuel surcharges.

Now looking ahead to Peak. We recently announced demand surcharges for the holiday shipping season to stay well positioned relative to market. We also announced a 5.9% general rate increase effective this coming January. This average annual increase, 1 point below last year's rate, reflects the current cost and market environments along with the investment we need to serve customers effectively. We had a high capture rate for our GRI in FY 2023 and believe this year's increase will ensure that continues.

We continue to find new revenue quality opportunities. In 2024, we will implement technology changes to increase our capture of package dimensions in several markets outside of the United States. Further, we are updating our dimensional pricing to market practice in Europe moving from per shipment to a per piece strategy.

Moving to slide 13. I was very pleased with our service levels around the world. I'm proud of how our team delivered here in the United States as we added volume late in the quarter. We are also building momentum in Europe. We improved service year-over-year in the region. And as a result, the Europe team was able to win back market share that we lost due to previous service challenges. There's still work to do. But our service improvements are also leading to better financial performance in Europe with much more to come.

As Raj stated, we have a vision to make supply chains smarter for everyone and I have a few examples of how our digital infrastructure is enabling new capabilities for our customers. We are improving the customer experience through technology with recent investment in Salesforce Data Cloud. We will integrate three customer platforms - customer service, marketing and sales - into one giving the customer a more informed, efficient and personalized experience when doing business with FedEx.

We are now offering our Estimated Delivery Time Window which provides customers with a four-hour window for their package delivery for 96% of inbound volume globally across 48 countries. This growing capability is nicely complemented by Picture Proof of Delivery, or as we like to say, PPOD, which has expanded across Europe in the first quarter. Now available in 53 markets, PPOD provides shippers with increased confidence in package delivery and helps reduce the volume of customer calls and claims.

One FedEx and Network 2.0 will simplify how we do business, which is particularly important for our small and medium customers. For example, our current customer contracts reflect three independent companies. One FedEx will enable us to change that, making doing business with FedEx and becoming a new customer easier.

Network 2.0 will be more efficient for FedEx, but also more efficient for our customers. When we integrate our market with one truck in one neighborhood, that's not just for deliveries, it also means a streamlined pick-up experience: one pick-up per day versus two. This is a simple, but very impactful change and customer feedback has been overwhelmingly positive.

Small and medium businesses are a high-value growth segment, and we are of confident that the improvements underway will further enable share gains.

And lastly, we've expanded My FedEx Rewards beyond the United States into nearly 30 other countries with 9 more European countries to launch later this year. My FedEx Rewards is the only loyalty program in the industry and benefits our customers by providing them with rewards they can invest back into their business. They can use them to recognize their employees for a job well done or give back to their communities.

My FedEx Rewards has been a successful program in the United States, and we've built lasting relationship as we continue to invest in our customers. We are excited about the potential to replicate this success in Europe and around the world.
Striving to anticipate customers’ needs and provide them with superior service is deeply embedded in our FedEx culture. I’m proud of how our teams work together to support our current customers, build relationships with new ones and ensure that FedEx was positioned to succeed during the quarter.

Now I will turn it over to John to discuss the financials in more detail.

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

Thank you, Brie. And good afternoon, everyone. I'm really excited to be here. It's been a full sprint these last few weeks as I continue to get up to speed with this great company. As some of you may know, I've done business with FedEx throughout my career. Through that experience, I've always admired how FedEx literally created a new industry and has built a differentiated network that serves customers all over the world. I've also admired its great culture that has thrived through the People-Service-Profit, or P-S-P, philosophy.

After only being here a few short weeks, I've seen the incredible opportunity we have before us. Not only will we continue to provide our customers with the best service and product offerings, but our plans to bring our businesses together through One FedEx and execute on DRIVE and Network 2.0 initiatives will be truly transformative. These initiatives will leverage and optimize everything that the talented teams across FedEx have built over the last 50 years. It will make us smarter. It will make us more efficient. And it will enable us to serve our customers better.

Before getting into the numbers, I want to share a brief overview of the priorities that will guide me and the finance organization as we move forward. First and foremost, I'm committed to setting stringent financial goals that reflect the significant opportunity we have to improve margins and returns. This will be enabled by the DRIVE initiatives and the integration of Network 2.0 as we move towards One FedEx.

I've been really impressed by the tremendous amount of work already completed on DRIVE from the initiatives in place, the accountability embedded in the program and the team's steadfast focus on execution.

In terms of our capital priorities, I'll focus on maintaining a healthy balance sheet, returning cash to shareholders and reinvesting in the business with a focus on the highest returns.

Our finance organization will partner closely with Raj and the leadership team to ensure we deliver consistent progress towards these priorities with the goal of delivering significant value for our employees, partners, customers, and shareholders in the years to come.

Finally, a guiding principle for me will be to have open and transparent communication with all key stakeholders, including all of you in the financial community. I already know some of you from my prior roles. I look forward to continuing to work together and engaging with the rest of you in the weeks and months ahead.

Now taking a closer look at our results. Our fiscal year 2024 is off to an outstanding start as demonstrated by the strong operational execution in the first quarter. At FedEx Ground, DRIVE initiatives are taking hold and we delivered the most profitable quarter in our history for that segment on an adjusted basis. Adjusted operating income at Ground was up 61% and adjusted operating margin expanded 480 basis points to 13.3%.

These strong results were driven by yield improvement and cost reductions, including lower line-haul expense and improved first and last mile productivity. As a result, cost per package was down more than 2%.
At FedEx Express, the business was able to improve operating income despite a decline in revenue. This further demonstrates that DRIVE is working. Adjusted operating income at Express was up 14% and adjusted operating margin expanded 40 basis points to 2.1%.

Cost reductions and transformation efforts at FedEx Express included structural flight reductions, alignment of staffing with volume levels, parking aircraft and shifting to one delivery wave per day in the US, all of which more than offset the impact of lower revenue.

It's important to note that expanding operating margins and reducing cost at Express will be a key focus for me and the team.

At FedEx Freight the team diligently managed costs and revenue quality amid a dynamic volume environment. Operating margin declined 290 basis points based on lower fuel surcharges and shipments, but remained strong at 21%.

Now turning to our fiscal year outlook on slide 17. As we've been discussing, we're beginning to see the benefits of our DRIVE initiatives and are focused on improved revenue quality. Based on our solid first quarter performance and our view of the rest of the year, we're raising the low end of our full year adjusted earnings per share outlook by $0.50. We're now expecting adjusted EPS in the range of $17 to $18.50. We're confident we can deliver on this higher earnings outlook despite the constrained demand environment.

We're now assuming revenue to be relatively flat at the midpoint of our fiscal year 2024 adjusted EPS outlook range. Of course, an improvement in demand would translate into greater operating leverage and earnings upside supporting the high end of our range. We'll be closely monitoring the demand environment going forward, including economic activity in North America, Europe and Trans-Pacific trade.

We'll also be keeping a close watch on other key factors that impact the demand environment including inventory restocking, inflation and e-commerce trends.

Turning to slide 18 and consistent with last quarter we want to share how we're thinking about the operating profit considerations embedded in our full year outlook. For illustration purposes, we used adjusted operating profit of $6.3 billion which is the equivalent of the adjusted EPS midpoint of $17.75.

Within this outlook, we're highlighting a few key assumptions. Revenue net of cost increases is now expected to be up $500 million due to improved revenue quality and flow-through at Ground. We continue to expect approximately $800 million of international export yield pressure as demand surcharges significantly diminish and service mix continues shifting toward deferred offerings.

As a result of our strong first quarter performance, we're also planning for a $600 million increase in variable compensation. These headwinds are more than offset by the $1.8 billion in structural cost savings from our DRIVE initiatives which we shared with you last quarter and are on track to achieve.

Moving on to slide 19. We remain steadfast in our commitment to prudent capital allocation and shareholder returns. Our liquidity position remains strong, and we ended the quarter with $7.1 billion in cash. Capital expenditures for the quarter were $1.3 billion and we continue to expect to achieve our target of less than 6.5% CapEx-to-revenue for the year.

Our capital expenditures at Ground will decline as we reduce capacity investment and we're planning for lower annual aircraft CapEx over time which we expect to be approximately $1 billion in fiscal year 2026.

And as we've previously communicated, we're standing behind our commitment to capital discipline by tying executive compensation to ROIC. Given improved earnings, we're generating significant and improved cash flow. This is supporting...
our ability to enhance shareholder returns, demonstrated by the completion of our $500 million accelerated share repurchase program in the quarter.

Looking ahead, we expect to repurchase an additional $1.5 billion in common stock this fiscal year while we're also paying our dividend.

With that, let's open it up for questions.

**QUESTION AND ANSWER SECTION**

**Operator:** And the first question will come from Jon Chappell with Evercore ISI. Please go ahead.

**Jonathan Chappell**  
**Analyst, Evercore ISI**

Thank you. Good afternoon. Brie, if I could ask you a question. You've had a major competitor that's really been very disciplined on price over the last few years, but now after some of the disruption that you mentioned in your prepared remarks, seems like they may be more aggressive on price to win back volume. How does that change the way you think about strategy both as it relates to share and pricing not just for this year but kind of for the two- to three-year time period?

**Brie A. Carere**  
**Chief Customer Officer & Executive Vice President, FedEx Corp.**

Hi, Jon, and thanks for the question. So, a couple of things that I would like to comment on. I think the first and foremost is the pricing market has been very rational for the last several years. I think it's also important to remember that we are the price leader in every market segment in the domestic market. We actually lead on price and that's because we have the better value proposition. We've got seven days a week. We've got Picture POD and we've got the faster network. So, as I think about responding to the current competitive pressure my job is to make it very difficult for our primary competitor to win back that share. The team has done an outstanding job of onboarding the business that we won in the last quarter, and we had some time to prepare for it. So, the executive team has been out. We've met with a lot of these new customers. They're happy. Service is good. And that's really what I'm focused on right now is delivering just awesome service and so they want to stay with FedEx because we're the better provider.

**Jonathan Chappell**  
**Analyst, Evercore ISI**

Thanks, Brie.

**Operator:** The next question will come from Jack Atkins with Stephens. Please go ahead.

**Jack Atkins**  
**Analyst, Stephens, Inc.**

Okay. Great. Thank you. And first, John, congrats to you on your new role with FedEx and, Mickey, congratulations on your great career.

So, I guess I would like to maybe dig into the revenue guidance for a moment in terms of what's changing there. It feels like the macro assumptions are perhaps a bit weaker, but we have some competitive dynamics both in Freight and at Ground that are helping. Could you maybe kind of help us understand a little bit, Brie, in terms of what's changing to your macro-outlook? And it seems like you're a bit more conservative there.
Brie A. Carere  
*Chief Customer Officer & Executive Vice President, FedEx Corp.*

Yeah, absolutely. Fair question. So, as I just mentioned we really did feel good about how we executed within the quarter, but the macro did not help. As we’re thinking about the domestic market specifically from a parcel perspective, if you look at calendar year 2023, total volume for the whole year will be down about 0.5% for the total year. That’s a little bit lower than we anticipated the full year, so we have adjusted, like I said, the market’s not helping so we really have to work hard to kind of to grow the yield, and the team’s doing a great job.

When we get to international, again, the team executed. They took share in Europe but when I look at the macro a couple of things, trade is growing at 1.7%, that’s down versus 2.2% the previous year. As we look at inventories, they’re in a pretty good place in that, from a retailer’s perspective, I think the retailers have done a good job, they’re not carrying a lot of extra inventory. Wholesalers are. But the net takeaway is that inventory restocking is not going to help us. And then if you look at capacity from a packs perspective, transatlantic packs capacity is back and while it’s not back coming out of Asia, total capacity is back to pre-COVID levels.

So, we don’t see inventories helping. We don’t see trade giving us a huge boost, and so we’re going to work really hard to execute. That being said, I think it’s really important to note that this revised sort of demand outlook is already reflected in the range and so despite the fact that the macro is a little bit softer we raised the midpoint, feel really good.

Jack Atkins  
*Analyst, Stephens, Inc.*

Okay.

Rajesh Subramaniam  
*President, Chief Executive Officer & Director, FedEx Corp.*

Yeah. And then, Jack, let me just add onto the last point that Brie just mentioned. That’s really important as we – even despite the fact that we have lower revenue expectations, we’ve actually raised the bottom line. This is a sign of our DRIVE execution working.

Last time on the call I gave you all a simple formula, one, two, three: 1% revenue growth for the bottom of the range and 3% for the top of the range. Well, I can now say it’s minus one, zero, one. It’s not quite as catchy as one, two, three, but in fact it’s better performance. Thank you for the question, Jack.

Jack Atkins  
*Analyst, Stephens, Inc.*

Thank you.

Operator: The next question will come from Tom Wadewitz with UBS. Please go ahead.

Thomas Wadewitz  
*Analyst, UBS Securities LLC*

Yeah. Good afternoon. And congratulations on the good results, particularly in Ground, a very impressive margin performance. I wanted to ask you about how we think about that Ground margin going forward and what happens if the volume side is a little bit softer. So, we would think that some volume probably came over from diversion maybe from
UPS. Kind of how much was that a factor in driving this Ground margin performance? And if you lose a little momentum on volume, should we still expect a lot of momentum on that Ground margin? Thank you.

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

Yeah. Hi, Tom, this is John. Thanks for that question. Yeah, look, we've demonstrated substantial improvement in year-over-year margins in Q1 and we anticipate continued improvement in Q2 on a year-over-year basis. Also, we're focusing on revenue quality which resulted in solid yields in Q1, up 6% year-over-year excluding fuel surcharges which also helped boost margins.

I think the team's doing a great job identifying those opportunities with the best revenue quality and will continue to do so. And as Brie mentioned, we got this business, and we want to keep it. So, thanks for the question.

**Operator:** The next question will come from Jordan Alliger with Goldman Sachs. Please go ahead.

**Jordan Alliger**  
*Analyst, Goldman Sachs & Co. LLC*

Yeah, hi. Thanks. Just curious, can you talk a little bit more about DRIVE? You sort of talked about some of the things that you worked on this quarter. But can you maybe tease up what we could expect upcoming quarters or two, whether it be cost saves, aggregate cost saves expected in the second quarter and maybe some of the targeted areas in Ground and Express from here, what we could look forward to? Thanks.

**Rajesh Subramaniam**  
*President, Chief Executive Officer & Director, FedEx Corp.*

Well, thank you, Jordan. Let me start off and then I will turn it to John for additional color here.

I am just delighted with the way we are executing against DRIVE. It's not any one thing, and there's a series of initiatives. It's changing the way we are working inside this company with a lot of rigor, a lot of accountability and a lot of measurement. In fact, last week we had an internal DRIVE meeting with all the stakeholders, and I have not seen a more energetic conversation and with the real numbers. So, if we look at the first quarter, obviously we got some benefit from the competitive activity, but the bigger issue is really the execution of DRIVE which we expect to continue to perform as we go forward. The momentum that we have in the first quarter gives me a lot of confidence.

So let me give it to John to give some more color on that.

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

Yeah. Thanks, Raj and I echo everything that you've said. And as I said in my remarks, one of the things I'm most impressed with is the rigor around this program and the accountability and the project plans. It's really extraordinary to see that come together such that we're really confident in reaching our goal of the $1.8 billion for the year. And to Raj's point it's coming from everywhere in the organization.

One of the examples we used was the example of Ground. I think it was $130 million we referenced. The reason we referenced that, not only because of the significant savings, because it also adopted some technology tools which helped us – in our bidding system which allowed us to capture more revenue on a more efficient basis in the bidding system. So, it's a combination of everything: operational execution, leveraging technology and going after the market. So, thank you.
**Operator:** The next question will come from Scott Group with Wolfe Research. Please go ahead.

**Scott H. Group**  
*Analyst, Wolfe Research LLC*

Hey, thanks. Afternoon. I'm in a car. Hopefully you can hear me okay. John, any color on how much of the $1.8 billion of DRIVE you've gotten so far? And then I know you said Ground margins would continue to improve year-over-year in Q2. Any thoughts on sequential margins of Ground and just across the rest of the business for Q2? Thank you.

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

Yeah, thanks, Scott. And good to talk to you again. Yeah, with regard to DRIVE, that $1.8 billion, we expect it to be reasonably spread out, fairly evenly through the year. We had an exceptional Q1. We're expecting that to continue to ratchet up in Q2, maybe slightly heavily loaded in the back half of the year as some of these programs get their traction and start to show the results through the year.

So again, I'm not going to sit here and say there's any dramatic changes for any one quarter. It's fairly evenly spread.

**Operator:** The next question will come from Chris Wetherbee with Citigroup. Please go ahead.

**Chris Wetherbee**  
*Analyst, Citigroup Global Markets, Inc.*

Hey. Thanks. Good afternoon. Hey, John, just a follow-up on that, I guess. Can you outline what the savings would realize from DRIVE in the other segments, Freight and Express? I know you outlined the Ground, the $130 million there. That would be helpful. And then just wanted to sort of think about the guidance a little bit bigger picture. So, sounds like you want to hold onto a big piece of the 400,000 packages per day that you captured from a competitive standpoint.

But can you walk us through the puts and takes of the guidance of what you're adding in, I think Yellow and maybe UPS into that, and then maybe some of the macro there to help kind of bridge from where you were before to kind of moving that midpoint up a little bit?

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

Sure. With regard to DRIVE first, it really is coming from every aspect of the organization. We highlighted Ground. But for some of the flight restructurings, for example, I think Express is doing a nice job there as well, taking down aircraft as well as revise the flight schedules. And that will be a continued focus for me.

I'm not going to be listing by group exactly where specifically on the savings. But in the aggregate, what I will say is we're committed to achieving and will achieve that $1.8 billion for the year.

With regard to the guidance, look, we took a thoughtful approach on guidance. It was a strong quarter. We recognized that. And we're delighted to have been able to raise our guidance for the full year. Not only does that reflect strong execution for the quarter, but really a focus on those things that we can control amid a soft market.

Things are playing out largely as we expected and there are going to be puts and takes. Yes, we enjoyed some upside from UPS and Yellow. But as Brie mentioned, it was a soft market. There were some offsets there and yield pressure in the soft market.
Also embedded in our outlook is $600 million in incremental variable compensation through the balance of the year. That's $100 million more than our prior estimate. But at the end of the day, we're really pleased to have increased the lower end of the range, even when we're seeing this uncertainty. And we will keep you posted as the year progresses.

**Operator:** The next question will come from Brian Ossenbeck with JPMorgan. Please go ahead.

**Brian P. Ossenbeck**  
*Analyst, JPMorgan Securities LLC*

Hey, thanks. Good evening. Just wanted to ask about another angle, the Teamsters contract negotiation, obviously, we've seen a lot of these union contracts get reset higher. This one reset the bar for comp and benefits and logistics, and I think it came in even higher than you guys expected. So, do you think there's a catchup across the board from a cost perspective as you look across your various segments as they now deal with what was reset in the reality in the market? Thanks.

**Rajesh Subramaniam**  
*President, Chief Executive Officer & Director, FedEx Corp.*

Yeah, thank you, Brian. As you all know or you may recall, that in FY 2022 we increased compensation annually by about $1 billion. I mean, we were dealing with market conditions in real time, and we knew that our competition would see a step change. It's exactly what happened.

And also, you know we have two pick-up and delivery models in the market and while we have taken a majority of the increase, we will continue to invest in our people. That's a given. And our outlook reflects that.

In fact, coming up in October, we have our annual merit increases which are a regular and important component of our overall compensation structure. It's also important to remember that beyond compensation, working at FedEx offers our team members a great overall value proposition, a collaborative culture and offers great career opportunities among other things. So, it's a very important issue for all of us, and we are staying right on top of it, and we appreciate your question. Thank you.

**Operator:** The next question will come from Allison Poliniak with Wells Fargo. Please go ahead.

**Allison Poliniak-Cusic**  
*Analyst, Wells Fargo Securities LLC*

Hi. Good evening. Raj, you mentioned peak season, the upcoming peak season, in your opening remarks. Just given sort of the dynamic environment, your approach to disciplined revenue quality and such, has your approach to this peak season changed at all? Just any color there.

**Rajesh Subramaniam**  
*President, Chief Executive Officer & Director, FedEx Corp.*

Well, thank you for the question, Allison. The peak season I would say is that there is really no difference in our approach other than to say our service is really strong. Thus, now we expect normal seasonality versus the volumes we are seeing today and probably year-over-year comparable to where we were last year. And the networks are running very well, and the team is ready to support our customers during this most important season.

And, Brie, I don't know if you want to add any more to it than what I just said.
Brie A. Carere  
*Chief Customer Officer & Executive Vice President, FedEx Corp.*

No, Raj, I think you covered it. We feel good about peak and from a pricing strategy perspective we’re committed to our strategy, which does include peak surcharges. We think that’s really important. We need to invest in the network. This is a really important time of year for us, but it’s also a really important time for our customers and so having that surcharge there allows us to flex the network, deliver great service and then we’ll wind it down in January, but we see no major change in strategy.

Allison Polniak-Cusic  
*Analyst, Wells Fargo Securities LLC*

Thank you.

Operator: The next question will come from Ken Hoexter with Bank of America. Please go ahead.

Ken Hoexter  
*Analyst, BofA Securities, Inc.*

Hey, great. Good evening. Mickey, best of luck in retirement. It's been a great 18-year run. And, John, welcome. Look forward to working with you.

Just overall great job in results and particularly at Ground. But at 2% margins at Express, any reason we’re not seeing maybe more leverage at Express given the moves you’ve made with parked aircraft and the structural change you talked about? Maybe walk through some of the timing on the gains at Express in particular. And then I guess to wrap it up, given the feed of $0.80 in the quarter versus the Street yet you’re raising the bottom target by $0.50, is that – are there softening gains the rest of the year on some of the margins? I know you talk about the $600 million in cost, but you had prior talked about $500 million, so I'm just wondering if there’s maybe some slimmer margins that you're looking at in other areas. Thanks.

Rajesh Subramaniam  
*President, Chief Executive Officer & Director, FedEx Corp.*

Well, Ken, let me start off. And John can add to what I say here. I think it's important to remember for Express some of the key headwinds that we're facing in this quarter. Firstly, the demand surcharges declined substantially year-over-year. We also opened up International Economy and the reopening of International Economy resulted in yields decline.

As we had mentioned in the talk track earlier that the volumes from USPS also declined as part of their strategy. That's number three. And then in the same time, we also have market driven headwinds from fuel prices. So, net-net of all that, there was a revenue decline of $1.1 billion. In addition to that, the variable compensation increase for Express was also there.

Despite all that, we increased our earnings and improved profit and this is actually DRIVE working. And as we start to lap these headwinds, DRIVE progress will become even more visible in the numbers and again we think that's a tremendous opportunity and the teams are working hard to capture that.

I'll just make a quick comment on the forecast and then I'll turn it over to John. The demand environment remains uncertain and we're being prudent in our financial projections given that environment and once again our ability to drive better results even in a lower demand environment is what's really encouraging to me. Now, the environment changes and we are more positive, obviously there's significant leverage on that.
So, John, if you want to add anything to it.

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

No, Raj, I think you've really captured it. All the significant headwinds that Express faced, yet they were able to turn a profit and a year-over-year improvement is exceptional.

With that said, we're going to be focusing on those markets. We're going to be focusing on continuous improvement. We're going to be focusing on the DRIVE initiatives to keep improving those margins. And on the guidance, yeah, I think Raj covered it. Thank you.

**Operator:** The next question will come from Amit Mehrotra with Deutsche Bank. Please go ahead.

**Amit Mehrotra**  
*Analyst, Deutsche Bank Securities, Inc.*

Thanks, operator. Hi, everyone. Congrats on the quarter. John, I guess wondering on the Ground performance, obviously it's incredibly strong. And just wondering if you would -- is there anything to ring fence there that you would consider kind of one-time due to the volume diversion opportunity? I'm just looking at that plus 4% in August and wondering is there any cadence shift throughout the month and some of that volume went back.

And I guess just clarifying on Express, I think it sounds like there was a $150 million step-up sequentially in Express related to the incentive comp. Can you just confirm that? I can get it from the Q. But I was just wondering that maybe that may explain why the decrements sequentially were so high and I guess that moderates as we go on because that's now in the cost structure. If you can just clarify that.

**John W. Dietrich**  
*Executive Vice President & CFO, FedEx Corp.*

No. I think what I said was $100 million incremental to our last report, from the last time we reported on it. So that's -- that piece of it.

With regard to Ground, look, as I mentioned just a short while ago, we think the improvement is going to continue on a year-over-year basis in terms of ring fencing anything as Brie talked about. We're going to be looking to keep that incremental business and in fact have terms that require, we were very discerning on the customers we took on and have agreements in place with those customers.

And on the Freight side as well, with Yellow, that capacity at least for now has come out of the market and Freight is going to be taking advantage of those additional volumes. But I mean, just getting back to Ground for a moment, we're expecting a continued year-over-year improvement and no ring fence to identify.

With regard to Express, we're going to be focusing on the margin expansion. I'm not exactly sure on your question from a perspective otherwise, but we're going to be focused on that margin expansion and continuing to grow and leverage the opportunities we have at Express.
Operator: The next question will come from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors  
Analyst, Susquehanna

This spring, your primary competitor talked about potentially launching some dynamic pricing products in the parcel space which we haven't seen a lot of from the larger carriers before. Can you talk a little bit about where and if FedEx uses dynamic pricing in its US domestic products at this point? And has that evolved in the competitive landscape as a tool for market share and network efficiencies? Thank you.

Brie A. Carere  
Chief Customer Officer & Executive Vice President, FedEx Corp.

Sure, great question. We're actually really pleased with the progress that we're making. Our pricing team along with Dataworks are building a great platform to be able to price more dynamically. Where we are currently using this capability now is we have made our peak surcharges around the world more dynamic. We have a great spot pricing capability that we're using in our air Freight products that we are using to kind of match capacity to the market as well as we're starting to use that domestically in some backhaul lanes.

We've got a long roadmap of things that we're going to bring to market that we're very excited about to drive revenue quality, but I have to admit, I really don't want to share much more than what's already visible in market because I certainly don't want to provide any competitive intelligence that I don't need to.

Operator: The next question will come in David Vernon with Bernstein. Please go ahead.

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

Hey, good evening and thanks for making the time. Mickey, congratulations. John, welcome to the circus.

Quick question for you on the cost per piece in the Ground segment. The $10.30 sort of sequentially is a big surprise. How should we feel about that number in absolute terms as we look at the rest of the year? Should we be kind of running at that $10.25, $10.35 range? Are there additional things that are going to be popping in and out of that – on the cost-per-piece basis. I'm just trying to get a sense for kind of where we should be expecting the cost structure for the full year. And if you could talk a little more about the drivers in this quarter. You mentioned line-haul. I'm just wondering if you renegotiated a bunch of line-haul rates in a down truck market, that kind of thing, which should be sticky for the rest of the year. Thank you.

John W. Dietrich  
Executive Vice President & CFO, FedEx Corp.

So, I'll take that in reverse order. On the measures taken, yeah, it's across the board with DRIVE, line-haul and all the things we mentioned in our prepared remarks.

And with regard to the rate environment, we're expecting it to remain consistent, so that's factored into our forecast and – but we will continue to update as time goes on. Again, line-haul, dock productivity, higher wage and settlement rates that we're focused on, as Raj touched on, and just across the board focused on productivity. And that's true at Ground and that's going to be true at Express and with Freight as well. And I mentioned the first and last mile in my remarks.
Operator: The next question will come from Brandon Oglenski at Barclays. Please go ahead.

Eric Morgan  
**Analyst, Barclays**

Hi. Good evening. This is Eric Morgan on for Brandon. Thanks for taking my question. And congrats to Mickey, and welcome to John.  

I wanted to ask on Network 2.0. Raj, you mentioned you’re continually learning and tailoring the network as you go through this process, so can you give us some color on what has gone right and wrong so far with co-locating the Express and Ground terminals?  

And on the employee service provider decisions, I know it’s market by market, but maybe could you give us some insight into what variables you’re considering when making those decisions? Just trying to better understand the strategy there and how confident you are in execution.

Rajesh Subramaniam  
**President, Chief Executive Officer & Director, FedEx Corp.**

Well, thank you for the question. Things are going quite well as we feel we are on track to complete our Network 2.0 by our commitment of fiscal year 2027. As you know, we have announced and/or implemented optimization changes in Alaska, Hawaii, Canada as well as several other locations in the Lower 48. And we’re definitely learning a lot in this process. I mean, we have technology. We have facilities. We have people. And our principle is pretty straightforward. It’s going to be data-driven and it’s going to follow the P-S-P philosophy. And again, it’s important to note that we’ll continue to use both the courier and the service provider model for pick-up and delivery operations tailored to the characteristics of each market.  

So, so far, so good. And again, we are putting all this in place as we move forward. And post peak, we’ll announce the next wave of rollout of Network 2.0.

Operator: The next question will come from Helane Becker with TD Cowen. Please go ahead.

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

Thanks very much, operator. Mickey, congratulations. John, welcome on board. And thanks for the time, team.  

So, my number one question is the UAW is doing these targeted strikes and I know automotive and automotive parts was a big part of your vertical, one of your big verticals. I’m kind of wondering how you’re thinking about that, the impact in the current quarter, how you’re thinking about mitigating any impact and so on, if you can help out there. Thanks.

Brie A. Carere  
**Chief Customer Officer & Executive Vice President, FedEx Corp.**

Hi, Helane. Yes, it’s a fair question. We do have a healthy business in automotive here in the United States and around the world. But we’re also highly diversified. We have looked at our initial numbers and we have accounted for in our current demand forecast for some fluctuations in automotive. We do anticipate that there will be in certain locations some rolling strikes and so we have accounted for that within the current demand outlook.  

Right now, we believe that both FedEx and the entire economy would benefit obviously from a fast resolution, but we’ve accounted for it.
Operator: The next question will come from Bruce Chan with Stifel. Please go ahead.

Jizong Bruce Chan
Analyst, Stifel

Hey. Good evening, everyone. Mickey, John, congrats to you both. If I could maybe go back to something that you talked about, Brie, FedEx having a superior value prop with regard to service and speed, does Network 2.0 make FedEx even faster? And if so, do you think that opens more yield capture opportunity that maybe goes beyond some of the guidance that you've given around the initiatives?

Brie A. Carere
Chief Customer Officer & Executive Vice President, FedEx Corp.

So, from a Network 2.0 perspective I'm actually really excited about this from a FedEx service perspective. The piece that I mentioned in my opening remarks is pick-up and I just wouldn't underestimate this. We have long known that this was an opportunity and when Raj talked about some of the early learnings in the US market, we knew it was an opportunity but the enthusiasm from customers on how much easier it is to manage as we collapse and make the – not just the pick-up experience, the physical pick-up one, but we also will rationalize our pricing there and we will automate pick-ups in a more streamlined fashion so it's a better customer experience.

To date we do not – we have not yet found opportunities to speed up the network from a Network 2.0 perspective, but we continue to iterate. What we have found is it's a lot easier to respond and adapt in the network as we bring them together and so that has also been something that customers have asked for especially in the B2B space and health care.

So, we are learning a lot, but the net takeaway is customers are actually very supportive and excited about Network 2.0.

Operator: The next question will come from Ravi Shanker with Morgan Stanley. Please go ahead.

Ravi Shanker
Analyst, Morgan Stanley

Thanks, operator. And Mickey, good luck and thanks for the help over the years.

Brie, just one quick follow-up for you. You said that pricing traction was good so far and you're converting a pretty decent amount of the base rate increase. What percentage of that – I think historically it's been like closer to 50%, kind of what rate are you converting right now?

And also, you said that the pricing environment remains pretty rational. But you said the US Post Office basically say they're not going to have any pricing surcharges. I think the USPS – as for the UPS changes were noted in the call, I think Amazon is launching some competitive service as well. Do you think 2024 could be a tougher environment pricing wise across the industry?

Brie A. Carere
Chief Customer Officer & Executive Vice President, FedEx Corp.

Okay. That was a lot. But I think I got it, Ravi. Jump in here if I don't get it all.

So, from a GRI perspective, if we go back to last January, the answer is the vast majority of our customers pay the full GRI. That is excluding the large customers where we've already pre-negotiated but the customers that are on our service guide terms, we get a very high capture rate and so we anticipate that we will see the same thing this coming January.
From a peak surcharge perspective, I think it's really important to understand that we structure our peak surcharge to really target volume that will surge and drive the network to flex. So, the vast majority of our customers actually do not pay a peak surcharge because their volume just doesn't flex up enough to qualify for the peak surcharge. And so when we look from a competitive environment, I actually don't think the USPS' peak surcharge is particularly relevant in what we're doing so I'm not worried about that and actually continue to feel good, And we've also pre-negotiated peak surcharges with the vast majority of those customers that pay them, so I feel good heading into peak.

And then when you think about Amazon or ship with Amazon, I think it's really important to remember we spent the last 50 years building the best transportation network in the world. We get up every day thinking about nothing other than making our supply chain better for our customers and the market and customers I think really value the fact that when they win, we win, and they don't have to worry about a provider who is going to compete with them.

I do think that we take competition very seriously, and I'm focused on continuing to provide an even better value proposition, and we've got some things planned for 2024 that I'm really excited about sharing with you in a couple of months, so I feel good. Thanks, Ravi, for the question.

Operator: The next question will come from Stephanie Moore with Jefferies. Please go ahead.

Stephanie Moore
Analyst, Jefferies

Hi. Good evening. Thank you for the question. I appreciate the color that you gave on the Freight segment and kind of what you're seeing in August but given just the major disruption in the market, can you talk a little about how some of those diverted volumes just the mix quality fits with FedEx's current Freight mix would be helpful just for context. Thank you.

Brie A. Carere
Chief Customer Officer & Executive Vice President, FedEx Corp.

Sure. Happy to answer that question. So, when we talk about the volume that came on, I think it's important to split it. Actually, if you look at it, about half of it came directly from Yellow customers. So, give or take about 2,500 pieces a day. And the reason being is that Yellow had a lot of low-quality revenue. And so, there was some revenue there and some customers that didn't want to pay for the value of the FedEx Freight speed and the quality that we provide.

What happened, however, was some competitors took on more Yellow volume, and their service was not what it needed to be. And so, as a result, we went and got an additional 2,500 pieces from the market. Net takeaway is the margin of the 5,000 was very healthy. The sales team was incredibly disciplined and both Lance and I are very, very pleased with that volume, that the network is running really well, and I'm confident that we will keep the majority of that. And that's what we've planned to do.

Operator: And our last question today will come from Jeff Kauffman with Vertical Research Partners. Please go ahead.

Jeffrey Kauffman
Analyst, Vertical Research Partners

Thank you very much for squeezing me in. And congratulations, John. And, Mickey, it's been great working with you all these years. So, thank you.

John, question for you. And I just wanted to go back and clarify kind of what Ken Hoexter was asking on the guidance. The adjusted earnings went up I guess about $0.25 at the midpoint and you highlighted the reasons why.
But it looked like the unadjusted earnings went down about $0.15 at the midpoint. You took the high end of the range down to $16.60 and the low end up a little bit. And I just want to understand. You talked about the $100 million of incremental incentive comp. You talked about some of the continued yield pressure. You talked about some of the negatives and then I saw that it looked like you also extended the adjustment range for the business optimization costs up from about $500 million to $620 million. So, is that the net that explains the difference between the $0.15 reduction in the unadjusted guidance and the $0.25 increase in the adjusted guidance at the midpoint?

John W. Dietrich  
Executive Vice President & CFO, FedEx Corp.

Yes, Jeff. That's correct. You have that right.

Jeffrey Kauffman  
Analyst, Vertical Research Partners

Okay. That's my question. Thank you very much.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Raj Subramaniam for any closing remarks. Please go ahead, sir.

Rajesh Subramaniam  
President, Chief Executive Officer & Director, FedEx Corp.

Thank you very much, operator. Let me say that in closing how proud I am of our team for delivering such a strong start to the year. Our execution of the structural cost reductions remain on track and as we prepare for peak, we will continue to make every FedEx experience outstanding for our customers. We've proven that DRIVE is changing the way we work, and we are enabling continued transformation across FedEx as we build the world's most flexible, efficient and intelligent network. Thank you for your attention today. I will see you next time.