

FedEx Q4 FY25 Earnings Call Transcript – June 24, 2025

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Thank you, operator. Before we begin, I want to take a few minutes to honor someone who meant a great deal to this company, the business community, his beloved family, and to me personally. It feels strange to be here with you all so soon after his sudden passing. And it is difficult to put into words the tremendous loss felt by all who knew Frederick W. Smith. But Fred was a man grounded by a mission. And he would tell us to stay focused on the business and keep marching forward. And so, we will do just that.

But first, I wanted to share a few thoughts. Fred was more than a business leader. He was a visionary who revolutionized the delivery industry. He was a man who led with integrity and inspired others. His belief in people, his relentless pursuit of excellence and his commitment to connect people and possibilities built one of the world's most successful companies over the last five decades. And his legacy will be felt for decades to come.

On a personal note, I will miss his strategic counsel, impeccable character and sharp wit. He taught me that leadership is about service and not titles. He challenged me to think bigger, act bolder and always, always put our people and our customers at the center of everything we do. I feel tremendously fortunate to have spent 34 years learning from one of the most brilliant minds in our country's history. Please join me in extending heartfelt condolences to the entire Smith family during this difficult time. As we move forward, we'll honor his legacy by continuing to build the company he loved with the same passion and purpose he inspired in us all.

Now, consistent with our succession plan, yesterday the board elected Brad Martin as the Chairman of the Board of FedEx Corp. Brad is a highly regarded business leader and strategic thinker, who is intimately familiar with the business, having previously served as our Vice Chairman.

With that, I'm going to turn the call over to Jeni.

Jenifer Hollander

Vice President-Investor Relations, FedEx Corp.

Thanks, Raj. 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 investors.fedex.com. This call and the accompanying slides are being streamed from our website. During our Q&A session, callers will be limited to one question to allow us to accommodate all those who would like to participate. Certain statements in this conference call may be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For additional information on these factors, please refer to our press releases and filings with the SEC.

Today's presentation also includes certain non-GAAP financial measures. 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 and Chief Customer Officer; and John Dietrich, Executive Vice President and CFO.

And now I will turn the call back over to Raj.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Thank you, Jeni. I want to start by commending our team for their strong efforts and execution. We delivered a solid finish to FY 2025 with another quarter of adjusted operating income growth and adjusted operating margin expansion, despite a challenging demand environment. This performance reflects the progress we've made on our strategic transformation, which continues to position FedEx for long-term value creation.

In FY 2025, we delivered on our \$2.2 billion DRIVE structural cost reduction commitment. This enabled us to achieve our two-year \$4 billion DRIVE target compared to the FY 2023 baseline. We advanced Network 2.0 in FY 2025, as we began optimizing larger, more densely populated markets. We continued to lower our capital intensity, and we returned \$4.3 billion in cash to stockholders. We achieved all of this in the face of major headwinds, including the expiration of our U.S. Postal Service contract, two fewer operating days, and volatility and uncertainty related to global trade policy. Against this dynamic backdrop, I'm very proud of our ability to deliver on our targets, adapt our network to changing trade flows, and provide excellent service for our customers.

Now turning to our consolidated Q4 results, revenue was up 1% year-over-year. We grew our DRIVE savings sequentially and achieved our DRIVE cost reductions target in this quarter. This enabled us to grow adjusted operating income by 8% and expand adjusted operating margin by 60 basis points. At Federal Express Corporation, our results demonstrate the operational leverage that we have built into our business through DRIVE. On a 1% increase in revenue, we grew adjusted operating income by 9%. We achieved this result in a weak demand environment, with growth largely driven by our deferred services. Our performance demonstrates the flexibility of our network, and I'm confident in the operating results we can deliver when the industrial economy recovers. Consistent with the trends over the last several quarters, our higher margin B2B volumes remain pressured, which affected both FEC and Freight results. That said, we are encouraged by the sequential improvement at FedEx Freight and our ability to protect profitability with an operating margin of 20.8% in Q4.

The trade-related events of the fourth quarter showcased our ability to leverage both the scale and the flexibility of our unrivalled global network, supported by insights from the vast amounts of data we collect. We are at the center of the global trade ecosystem. We connect 99% of the world's commerce. We move \$2 trillion worth of goods every year. We connect 3 million shippers to more than 225 million consumers. And as the world changes and supply chains evolve, we benefit from our presence in over 220 countries and territories. This uniquely positions us to be a valuable partner to our customers, as they navigate shifting demand trends, evaluate the impact of tariffs on their businesses, and adjust their supply chains accordingly.

And importantly, our Tricolor strategy enables us to adapt our own network faster than ever before, as circumstances and the needs of our customers change, driving greater efficiency and a better customer experience. For example, in the fourth quarter, we flexed our network to match the demand environment as trade flows shifted. We reduced capacity on our Asia-to-Americas lane by more than 35% the first week of May compared to April. This included reducing our third-party or white tail capacity by 50%. We then continued to adjust the capacity as needed, as demand trends evolved throughout the month. We exited May with a net capacity reduction of about 20% versus April.

We have been introducing other network changes in Asia, allowing us to consolidate from multiple points into a centralized gateway. We recently added a direct flight from Singapore to the US, enabling us to more efficiently capture increased demand out of Southeast Asia. We continue to evaluate trade patterns and are prepared to alter our routes and capacity commitments should demand shift, with a focus on Asia-to-Europe and Asia-to-Latin America.

In addition to rapidly adjusting our physical network, our team has done a remarkable job working closely with our customers and helping them navigate increasing operational complexities. We continue to apply our digital platform-based solutions to effectively address key pain points amid changing global trade policies. These solutions support a wide range of stakeholders, importers, exporters, brokers and regulators, and they are tightly integrated with our customers' existing

workflows, ensuring that critical trade and tariff-related work can occur seamlessly and efficiently. As you are all aware, there's a lot happening outside of FedEx. Trade policies are evolving, and trade patterns are changing. What's truly remarkable is the significant way we have leveraged our technological capabilities and processes to navigate these complexities and operate more efficiently for our customers.

Network 2.0 is the next leg of our structural transformation, and it is well underway. In April, we completed the full optimization of Canada, our largest market yet. As planned, we optimized 45 US stations in Q4, and we are now picking up the pace. On June 1, we implemented Network 2.0 on nearly 30 stations across 11 markets, and we will optimize another 33 stations across nine markets by the end of this month. That means we exit June with roughly 2.5 million average daily volume flowing through Network 2.0-optimized stations.

Looking beyond North America, we have made progress in Europe, including our DRIVE target. That said, Europe remains a significant opportunity for long-term financial improvement. We have been implementing the workforce reduction plan we announced in June of 2024. This was a very difficult but necessary decision for us, leading to about \$150 million of savings on an annualized basis in FY 2027. We have achieved better on-road productivity with sustained improvement in net service levels. We have now seen two consecutive years of cost per package reduction in our European business. In FY 2026, we will focus on further improving on-road and in-station productivity, bringing new digital experience to our customers and growing market share profitably in the region.

A quick update on the Freight spinoff, last month, we named Brad Martin as Chairman of the Board of FedEx Freight. We also named John Smith as President and CEO of the standalone company. As many of you know, John has deep freight expertise and a strong track record of improving margins and profitability at both FedEx Freight and FedEx Ground. We're moving quickly to announce the rest of our Freight leadership team. We recently hired Michael Rodgers as Chief Technology Officer for FedEx Freight. Mike brings vast external technology experience, having most recently spent time in the fuel supply and the retail sectors.

Additionally, Eddie Klank will serve as the FedEx Freight's Chief Human Resources and Legal Officer. Eddie brings deep expertise from his nearly 30-year career at FedEx, most recently as Corporate Vice President for Corporate Governance, Securities and Tax Law. Mike Lyons has worked at FedEx Freight since 2007, will serve as the Chief Specialized Services and Commercial Officer. And Clint McCoy, who has worked at FedEx Freight for nearly 30 years, will be the Chief Operating Officer. I'm confident that this mix of strong external, FedEx Corporation and FedEx Freight talent will set up FedEx Freight for success.

Before I wrap up, I want to provide early perspective on how we are thinking about the current quarter and the year ahead. The global demand environment remains volatile. We're staying close to our customers to help them plan and adapt as they navigate trade policy changes. And we are actively matching our capacity with demand as the environment evolves. John will walk through our expectations for the first quarter of this fiscal year. We remain focused on what we can control. For FY 2026, we expect to achieve \$1 billion of transformation-related savings, which includes DRIVE and Network 2.0. I again want to thank the team for the innovative and mission-critical work they're doing to make supply chains smarter for everyone. This work has resulted in a solid finish to the fiscal year, and importantly, it's translating to better outcomes for our customers in a very complex operating environment.

Now, let me turn the call over to Brie.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Thank you, Raj. I am proud of how we are helping our customers navigate this challenging period, and I think it's fitting to share that so too was our founder. Just this past Friday, Fred told me how fun it was to watch the teamwork, and that he saw and felt the momentum building in the business. He was excited about our e-commerce value proposition, the power of our clearance capabilities, and of course, the growth in global air freight and healthcare. I want to commend the entire

organization for our focus on creating vast differentiation and showing up for our customers. Delivering the Purple Promise has served us well for the last 50 years, the last quarter, and undoubtedly it will serve us well in fiscal year 2026.

Taking a closer look at our Q4 revenue performance, consolidated revenue was up 1%, with a 1% increase at Federal Express and a continued weakness as expected at FedEx Freight. For both segments, a better-than-expected May more than offset a softer-than-expected April. Looking at our volume trends by service, US domestic volumes held up well throughout the quarter, with growth accelerating in late April and May. Our nationwide coverage and our speed advantage are helping us win new, profitable business. We saw 6% volume growth across our US domestic parcel services. From an international perspective, our volume trends closely tracked global trade headlines. March performance was solid and in line with our expectations.

Following the April 2 tariff announcement, customer concerns increased, and as a result, volume softened. In early May, upon tariff implementation, China-to-US volumes deteriorated sharply and remained weak throughout the rest of the quarter. Our international export revenue was flat, reflecting the tariff-related impact on our Trans-Pacific trade lane. I do want to take a moment to commend our clearance team at the Memphis Hub for their success in navigating this environment and maintaining excellent service. This was an impressive feat, given customs entries in May were double the January through April average.

Within our Freight segment, shipments remained pressured, but the year-over-year declines moderated sequentially, with average daily shipments down 1% year-over-year in Q4 compared to down 5% in Q3 and down 8% in Q2. In fact, average daily shipments, up 8.3% sequentially was our greatest Q4 over Q3 increase since fiscal year 2021. As we prepare for the Freight spinoff, we are continuing to execute on our commercial strategy with an emphasis on improved service and pricing discipline, and we continue to build out our dedicated sales force. The pricing environment continues to improve. At Federal Express, total US domestic package yield was up slightly, with strength in our priority services offset by mix shift and softer yields and deferred and Ground Economy. Maintaining pricing discipline remains a top priority.

International export package yield declined 1%, driven by lower International Economy yields, partially offset by an 11% yield increase for International Priority. Within global air freight, we are pleased to see higher revenue per pound. This is a direct result of our Tricolor strategy, which is designed to increase network flexibility, reduce costs, and importantly, support profitable growth in the international export freight market. Thanks to Tricolor, we delivered 5% growth in international air freight revenue in Q4, with a high profit flow-through.

At FedEx Freight, I remain encouraged by the continued increase in revenue per hundredweight, up 1%, signaling a continued commitment to revenue quality. Total revenue per shipment declined 1% due to lower fuel surcharge and lower weight per shipment. Looking ahead, as global trade policies continue to evolve and companies adjust their shipping patterns, we are well positioned to support our customers and adapt as needed. Our current expectation is for flat to 2% revenue growth in the first quarter. This range includes approximately \$570 million of idiosyncratic revenue headwinds from the expiration of the U.S. Postal Service contract and recent trade disruptions. Where we land in the range largely depends on how the US domestic revenue at FEC evolves.

The top-end of the range assumes current favorable US domestic trends at FEC continue through Q1. The lower end of our range assumes incremental pressure to US domestic demand. Internationally, we expect revenue from the China-to-US lane to remain pressured consistent with what we saw exiting Q4. At Freight, we forecast revenue to decline slightly year-over-year in the first quarter.

Now, a quick update on our commercial strategy. Our focus is paying off, translating to better customer experiences and financial outcomes. Our emphasis on B2B, small- and medium-sized businesses, Europe and air freight is a deliberate approach to capitalize on high-margin market opportunities while diversifying our revenue streams globally. Within B2B, healthcare and automotive remain important verticals for us. We exited FY 2025 with \$9 billion in healthcare-related revenue, which drove growth in our US priority volumes. In Q4 we became the first global integrator to achieve an important pharma-related certification known as CEIV. This is for ground handling across our express hubs and ramps.

This marks a significant milestone in our commitment to quality, compliance and leadership in pharmaceutical logistics. It validates the strength of FedEx's quality management system and our ability to deliver end-to-end logistics services in compliance with the increasingly complex and highly regulated pharmaceutical industry. As we look to further penetrate the high-margin healthcare segment, I am confident this achievement will unlock even more opportunity for us.

Within automotive, we recently created a distinct vertical with its own dedicated leadership team, and we are off to a strong start. We were recently awarded GM Supplier of the Year Award for the 21st year in a row. Our focus for fiscal year 2026 will be growing within the \$18 billion high-margin segment of the North American automotive market, a subsector focused on premium services that supports automotive supply chain. Additionally, small and medium customers remain central to our commercial strategy. FedEx Rewards, our loyalty program, is unique in the industry and has become an important gateway for small- and medium-sized businesses.

I am especially pleased with our revenue growth in the US, as the Rewards program enrollment increased 8% year-over-year. The Rewards program creates a more seamless, personalized customer experience that drives customer loyalty. I want to again thank our team for continuing to execute on our commercial strategies. Their efforts are improving the customer experience, helping our customers navigate this period of volatility, and positioning us well for sustainable growth that flows through to the bottom line.

And with that, I'll turn it over to John.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Thank you, Brie, and hello everyone. First, I'd like to share that the culture and extraordinary business that Fred Smith created unconditionally drew me to FedEx. I always greatly respected Fred from my earliest encounters with him in the industry, and I'm grateful and beyond privileged to have worked directly with him these past two years.

Now turning to the quarter, I'm very pleased with what we achieved in Q4. This includes the actions we've taken to increase stockholder value, our discipline on CapEx, and the transformation we advanced, all while navigating a very complex environment. Our Q4 results reflect our ability to flex our network, on-board new revenue, and manage costs. On a consolidated basis, we delivered \$18.19 in adjusted earnings per share for FY 2025, achieving two consecutive years of earnings growth, despite the prolonged freight industry softness, two fewer operating days, the expiration of the U.S. Postal Service contract and extraordinary weather events.

Federal Express also posted higher FY 2025 results year-over-year, despite significant headwinds, with adjusted operating income of \$151 million and \$641 million in revenue growth. This strong flow-through to the bottom line demonstrates the powerful leverage inherent in our business, a reality that will become even more apparent when we see a recovery in the industrial economy.

While consolidated adjusted operating income declined to \$121 million, this was due to FedEx Freight results, which continued to be challenged due to the prolonged weakness in the industrial economy. Taking a closer look at consolidated Q4 performance on a year-over-year basis, we delivered an 8% increase in adjusted operating income on a 1% increase in revenue. These results reflect our ability to grow revenue profitably, as well as our ongoing commitment to managing our cost structure. Our revenue performance includes recent healthcare wins, which are part of our strategy to profitably grow in B2B. Adjusted operating income increased by \$147 million and adjusted operating margin expanded by 60 basis points. We achieved this result despite a \$165 million headwind from one fewer operating day, \$120 million headwind from the U.S. Postal Service contract expiration, and pressures from the global trade policy changes.

At FEC, adjusted operating income increased by \$136 million and adjusted operating margin expanded 70 basis points. This was driven by continued DRIVE savings, increased US and international export volume, and base yield growth. These drivers were partially offset by operating expense inflation and the headwinds I mentioned earlier. Regarding our

Asia international export exposure, the bilateral China-to-US lane represents around 2.5% of consolidated revenue and is our most profitable intercontinental lane. Due to escalating trade barriers in the quarter, we experienced a material headwind on our Asia-to-US lane, largely driven by China. Notably, this was not fully factored into our prior March outlook, as certain tariffs were not yet announced and implemented until after our last earnings release.

At Freight, operating income fell by \$30 million and operating margin declined 40 basis points. Freight's operating income also reflects a \$33 million gain-on-sale of a legacy facility. As anticipated, our Freight performance improved sequentially and our team maintained pricing discipline as base yields continued to be a tailwind to the quarter and the fiscal year.

In addition to our segment results, our fourth quarter results include a non-cash impairment charge of \$21 million related to our decision to permanently retire an additional 12 aircraft, including seven A300s, three MD-11s and two 757s, as well as eight related engines. Over the last three years, we've removed a net 31 jet aircraft from our fleet, which is a 7% reduction versus FY 2022. These actions are aligned with the company's fleet reduction and modernization strategy as we continue to improve global network efficiency and better align air network capacity with anticipated demand.

Now moving on to capital allocation, I'm extremely pleased that we both significantly reduced our capital intensity and returned \$4.3 billion to stockholders in FY 2025. This was well above our previous \$3.8 billion commitment.

During the fourth quarter, we opportunistically purchased an additional \$500 million in shares, bringing our total to \$3 billion in share repurchases for the year. And we remain committed to returning capital to stockholders. We increased our dividend by 5% in FY 2026, making this the fifth consecutive year with a dividend increase. We will also continue to repurchase shares and expect the combination of our fiscal 2026 share repurchases and dividend payments to approximate adjusted free cash flow. We also significantly reduced our CapEx spending in FY 2025 by approximately \$1.1 billion, for a total of \$4.1 billion compared to \$5.2 billion in FY 2024. This marks our lowest capital spending in over 10 years. Additionally, our CapEx as a percentage of revenue was 4.6%, the lowest level since FedEx Corp. was established in fiscal year 1998.

We're currently planning for FY 2026 CapEx to be approximately \$4.5 billion, of which \$700 million relates to Network 2.0 investment. And we plan to further reduce aircraft CapEx to approximately \$1 billion this fiscal year, a level we plan to maintain for the next several years. I'm also very proud that our adjusted free cash flow conversion from net income was extremely strong at nearly 90%, representing a step change versus prior years, driven by our lower capital intensity. On this point, approximately 85% of our FY 2025 CapEx was related to modernization of our aircraft and vehicle fleets, as well as optimization and automation of our network.

We continue to prioritize investments that support increasing efficiency and reducing our cost to serve as opposed to capacity expansion. This capital spending approach signals an inflection in the life of our business, as we can now further reap the benefits of our global network and seek to increase stockholder returns and improve ROIC in the years ahead. And we're translating our adjusted free cash flow at parity into stockholder returns. With respect to pension contributions, in FY 2026, we're planning for up to \$600 million of voluntary pension contributions to our US-qualified plans, which are 103% funded as of the end of FY 2025. And finally, we have \$1.3 billion of debt maturing in FY 2026 which we expect to pay off or refinance.

Now, I'd like to walk you through our expectations for Q1. As we've talked about, the macroeconomic environment remains uncertain. Our outlook is therefore based on current tariff rates, recent trends we're seeing, as well as that which we're hearing from our customers. As Brie shared, we're currently planning for consolidated Q1 revenue to be in the range of flat to up 2%, including \$170 million adjusted operating income headwind from international export due to global trade policy impacts. This translates to a Q1 adjusted EPS range of \$3.40 to \$4, which includes approximately \$200 million in transformation benefits. We also anticipate our quarterly effective tax rate to be approximately 25%. At \$3.70 of adjusted EPS, the midpoint of our range, we anticipate a 1% increase in Federal Express revenue, with adjusted operating margin up modestly. Also at the midpoint, we anticipate FedEx Freight revenue to be down slightly, with a modest decline in operating margin.

Now turning to our FY 2026 Q1 operating income bridge, which shows the year-over-year elements embedded in our outlook. This bridge reflects adjusted operating income of \$1.25 billion, which is equivalent to \$3.70 of adjusted EPS. For revenue, net of cost, we expect \$130 million tailwind, reflecting our assumptions of operating expense inflation and revenue growth, mostly US domestic. We're forecasting \$170 million in headwinds from international export as I mentioned, driven by the global trade policy impacts, primarily on our Trans-Pacific lane. Lastly, we anticipate \$120 million in headwinds from the expiration of the U.S. Postal Service contract. Partially offsetting these headwinds is \$200 million of benefit from our transformation initiatives.

Now, turning to some important considerations for FY 2026, we expect around \$1 billion in incremental year-over-year benefit from our transformation-related efforts, which includes structural cost reduction benefits from DRIVE and Network 2.0. We anticipate a moderate ramp of these savings throughout the fiscal year. In addition, the U.S. Postal Service contract expiration will be a near-term headwind. For modeling purposes, I want to note that this significant revenue and operating income headwind is limited to the first four months of FY 2026, and likely to skew typical seasonality. As a reminder, small upticks in B2B revenues can result in significant incremental flow-through. So, if we see a recovery in the industrial economy, we're well positioned to see strong leverage to operating income. In addition to our Q1 outlook, we remain committed to being transparent and resuming our full-year outlook for adjusted EPS, effective tax rate, and capital returns as visibility improves.

Now that we're into a new fiscal year, we're very excited about the significant value creation opportunities ahead for both FedEx Corporation and the future standalone FedEx Freight company. In that regard, we plan to host a FedEx Corporation Investor Day in Memphis in early calendar 2026, where we'll share more details on our long-term strategy. This will include a detailed update on our strategic initiatives such as Network 2.0, which represents a \$2 billion savings opportunity from our physical network integration and associated one FedEx savings by the end of fiscal 2027. Additionally, we'll continue to progress our Freight separation plans and expect to spin-off Freight in June of 2026. We also look forward to hosting a FedEx Freight Investor Day next spring, prior to the spin-off.

In closing, while FY 2026 presents unique challenges and uncertainties, what remains unchanged is our commitment to driving stockholder returns and building a more profitable FedEx. Our transformation initiatives, capacity reductions and successful commercial strategies are helping us navigate the current environment and position us extremely well for when demand recovers. I'm confident in the value creation opportunity that remains in front of us.

And with that, operator, let's please open it up for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. The first question is from Daniel Imbro with Stephens. Please go ahead.

Daniel Imbro
Analyst, Stephens, Inc.

Yeah. Hey, good evening, everybody. Thanks for taking our questions. Raj, I guess, I want to start on the Network 2.0 savings. And maybe John, you can help chime in here too. But, Raj, you mentioned ramping the pace of them through the fourth quarter and kind of into the first quarter. I guess, I think John said \$200 million of DRIVE and Network 2.0 in the first quarter. But can you talk about the shape of how you see that \$1 billion developing through this year, just given the pace of the rollout?

And then, John, just digging into that \$200 million, it looks like you got almost \$700 million of DRIVE savings in the fourth quarter. I think if you just flatlined that, it should be a few hundred million of benefit in the first quarter. So, are there any offsets as to why those DRIVE savings aren't larger in the first half of the year? That'd be great. Thanks.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

So, thank you, Daniel. I'll take that. And with regard – I'll start kind of in reverse order, make sure I capture all your questions. Yeah, with regard to the \$1 billion, we're anticipating \$200 million of that in the first quarter, as we stated. And as I said in my remarks, we see a ramping up of that through the year, and that will include not only DRIVE, but Network 2.0 savings. And we've been clear that with regard to financial returns on Network 2.0, we're really not going to see the material impact of that until end of fiscal year 2027. So, with regard to your comment on the Q4 results, you're right, we achieved our north of \$600 million, I think it was \$650 million roughly of DRIVE benefit, which we committed to at the beginning of the year. We ramped up sequentially through the year and achieved our \$4 billion for the two years and our \$2.2 billion for FY 2025.

So, DRIVE is going to be something we're going to continue to focus on. We're going to continue to feed the pipeline. It runs across and is part of our culture here. It's a way of doing business for us. And the way I've described to some, it's really a journey, not a destination. So, we're going to keep feeding it, but that's our current outlook.

Operator: The next question is from Brian Ossenbeck with JPMorgan. Please go ahead.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Good evening. Thanks for taking the questions. Brie, just wanted to talk about the competitive dynamic in pricing. And your commentary made me think, in the past you said competition is still pretty challenging and at times increasing, but it sounded like the pricing environment is actually improving. So, if you can give us a sense as to what changed, then also how you're trying to balance the extra capacity in network with some of these improving utilization, with some of these pricing initiatives like fuel surcharges and other over-dimensional hard-to-handle that we're seeing hit the market? Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Thanks, Brian. As I did mention in my prepared remarks, we do see improvement in the pricing environment, which is encouraging. I do want to note that this is compounded with our team's focus on revenue quality. And I could not be more proud of the team's execution. As you saw over the last quarter, they pulled multiple pricing levers. We continue to work on our large package strategy, because we get a higher price relative to market, because this is a very differentiated capability. We've got great coverage in rural. We're continuing to look at opportunities to monetize that and get paid for the differentiated value. And then, of course, we did make a significant change in our fuel surcharge of 2%. So, we are pleased with the market, but we're equally pleased with the team's ability to execute. I think a great proof point of this is in Q4, when you look at the domestic yield for the quarter, you will see that the overall domestic parcel yield is still pressured. But what you can't see is that for home delivery and ground commercial, we had our best year-over-year yield improvement for those two really important products in Q4. So, again, just a great proof point of how well the team is executing. Thank you for the question.

Operator: The next question is from Chris Wetherbee with Wells Fargo. Please go ahead.

Chris Wetherbee

Analyst, Wells Fargo

Yeah. Hey, thanks. Good evening, guys. Maybe I could ask about the guidance, thinking a little bit about what shows up in fiscal 1Q that may not as we go through the rest of the year. So, the \$120 million from the post office, I think that's easy to understand. The \$170 million on the international side, I guess, can you maybe help us understand and break it down a

little bit between maybe de minimis or what we're seeing, and so, China to the US or relative to maybe other countries to the US. And then, how does that play out? What do we need to see to sort of change that dynamic into the next several quarters of the year? In other words, does it stick around for a while? Is there a certain event that you're looking for to give you some more comfort that that's maybe not going to be around for the rest of the year?

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

I think I'll take that one. So, from a – obviously the trade environment is the primary reason that we are focused on Q1 versus a range for the entire year. We just simply cannot predict how that's going to play out. We built the range, as John talked about, based on the current trade and tariff environment. What we do anticipate is that from a year-over-year perspective, we will have pressure in the Trans-Pacific lane. And so, when we talked about the headwind on tariffs, the vast majority of that is impact from China to the US. And within that, the vast majority is the impact of de minimis.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

I think what I'd add to that, Brie, is for other points in the globe outside of China, there's still some trade negotiations going on there as well, which we don't yet know the outcome of. So I think that adds that additional color.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Yeah, and let me just say this much, I think over the next 30 to 60 days the trade environment will change. And so, we will see how that evolves and if it's very dynamic, and at that point we'll be able to be more prescriptive. Thank you.

Operator: The next question is from Richa Harnain with Deutsche Bank. Please go ahead.

Richa Harain

Analyst, Deutsche Bank

Hey, everyone. Thanks for the question. So, I know and I appreciate, a lot of challenges and uncertainties out there as you all said, hence no full year guide. But just as we think about the cadence of the year in terms of some of the discrete tailwinds and headwinds related to cost savings and the like, perhaps you can help us a little bit more. So, recently, Q1 has represented something like 20% of fiscal year EPS results. John, you mentioned some of those things in the bridge, like the USPS will be a headwind early part of the year, that goes away, and that'll influence normal seasonality. So, should we assume Q1 will have a lower weight than usual, especially as these structural cost savings ramp up through the year?

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah. Thanks, Richa. Yeah, I think that's a fair assumption there when you look at the particular headwind with regard to the Postal Service contract that we're going to lap in subsequent quarters. So, as you said, we're only providing first quarter outlook at this time. And that U.S. Postal Service headwind will be a factor. As a reminder, we'll lap that, and as we continue to build out on our expected \$1 billion in transformation benefit throughout FY 2026, that could have an impact depending what happens on the revenue environment, particularly in US domestic.

Operator: The next question is from Jason Seidl with TD Cowen. Please go ahead.

Jason H. Seidl

Analyst, TD Securities (USA) LLC

Thank you, operator, and condolences to the Smith family. The transportation sector definitely lost a giant. Wanted to just parse out between sort of B2B and consumer, it sounded like a lot of the pressure was on the B2B side still. Maybe you could talk a little bit about the consumer? And I think you mentioned May was better than expected. What were you guys seeing so far month-to-date in June?

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp

Hey, Jason, thank you for your comments. And we'll pass on to the family. Brie?

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Thank you for the question. So, from a B2B perspective, yes, you're absolutely right, we have not seen a marked improvement in the industrial economy, and that's certainly pressuring both our FedEx Ground Commercial, but also our base at Express and certainly the FedEx Freight division. So, we have not seen improvement there. Obviously when we see improvement, we're ready to capture that. From a consumer perspective, when we saw the May increase, obviously spent a lot of time looking at the data. There is no one indication that we can point to that says that there was a consumer pull forward. What I can tell you is onboarding within our own pipeline was stronger in May, and that was the largest driver. Whether or not there is consumer pull forward is TBD, which is why we gave you the range that we did from a revenue perspective.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Let me just make one more point here. I think, in Q4, we noticed the operating leverage that we have with the volume increases primarily driven by B2C. So, obviously that's the hard work that we have done over the last three years, this gives us that operating leverage. And when the B2B starts to grow again, there is significant opportunity here.

Operator: The next question is from Jon Chappell with Evercore ISI. Please go ahead.

Jonathan Chappell

Analyst, Evercore Group LLC

Thank you. Good afternoon, and our condolences as well to the Smith family and the FedEx family. It struck me with Raj's comments about cutting Asia-to-US capacity by 35% in the first week of May and exiting May down 20%. As we think about this tariff impact, how much of that \$170 million, at least as it relates to the first quarter, is strictly revenue? And how much of it is costs that could be fleeting, so to speak around the flexibility of your network?

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

I'll say, this is Raj, I think the, first of all, because of the implementation of Tricolor, our network has become incredibly more flexible. What we've accomplished in May would not have been possible without the implementation of Tricolor. I will leave it to John to parse the revenue and the cost side of the equation.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah. Thanks, Raj. I think it's a fluid situation in that in areas where we may be contracting in terms of flights and so forth, we're redirecting that to where the demand is going to. So, it's not a straight take out of the cost, and we're going to continue to adjust to the demand flows. So, we're going to be watching that closely. We're going to be watching our assets closely. So, I think it's fair to say I'm not going to parse out the \$170 million in top line and bottom line. But I will say we're watching it closely, and it's an appropriate estimate of what we're seeing right now.

Operator: The next question is from Conor Cunningham with Melius Research. Please go ahead.

Conor Cunningham

Analyst, Melius Research

Hi, everyone. Thank you. Just going back to Network 2.0, you mentioned I think 2.5 million packages that are going through the new network now or by the end of June I should say. Can you just talk about the margin contribution of those? Are they coming in as you would expect? And you've downplayed the potential of those being more of an FY 2027 thing. I'm just trying to understand why there is that lagging gap. Is there like a lag period between those needing to go up to where you would think from a margin contribution standpoint? Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Hi, Conor. Thank you for the question. So, from a Network 2.0, I cannot emphasize enough how pleased we are with Scott Ray and the execution that this team has demonstrated. When we looked at the original case, from a P&D perspective, the majority of the savings are in the pickup and delivery reduction, and we are hitting those targets. So, we're very pleased with that. As we think about when we want the flow-through or expect the flow-through from Network 2.0, it is important that it is going to follow, because when we go into a market, we have costs to implement the change in service and to make sure that we've got the right contingency. So, we have no revenue breakage, so that's why you're seeing a lag. We are on track, as we talked about for FY 2027 and the \$2 billion. So, we feel really good about this program.

Operator: The next question is from Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Yeah. Hi. And offer my condolences to the Smith family as well, truly visionary. So, sort of a secular question. Can you give perhaps some of your perspective on the change in global trade patterns due to tariffs? I know it's early, but specifically for less-than-truckload and potential ramifications to domestic manufacturing? And then from more of a global perspective, indeed do you expect to see an emergence of a China Plus One and even a Plus Two strategy from a logistics perspective? Thanks.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Thank you, Jordan, I appreciate your condolences as well. The patterns are changing as we speak. And clearly, we are seeing growth from Southeast Asia, for example, Vietnam. We launched this direct flight or redirected this flight, now go Singapore directly to the United States, which is a significant value proposition improvement for that market. We're looking at Asia-to-Europe as an opportunity. I was in the Miami, our headquarters of Latin America, inbound markets are growing,

and markets like India are growing substantially as well. So, the patterns are changing as we speak. And the good news for FedEx is that we have built out this global network. This is where we get to flex our scale of the network that we build out, because we don't have to do much different, because we are already there in these markets. We have to be careful in making sure that our capacity is right in markets and – but it's, you know, we can move faster than the whole manufacturing can move, and we get the feedback of what's happening on the ground from the bottom up. As you see, we are a referendum on global supply chains every single day. So, this is something that we are working with.

The second part of it is, the fact that over the last many, many years, for every country to every other country, for every commodity, we have the data, and not only do we have the data, we have engineered it and created their digital twin. So, then we are able to apply the most modern technology to be able to create a platform solutions for our customers in this very complex environment, and so, whether it's importers, whether it's exporters, whether it's brokers, whether it's regulators. So, yes, the complexity is increasing. The environment is changing, but here is where we get to flex our scale. Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Raj, I don't have very much to add. I think you covered that comprehensively. I think post-COVID, we already saw a focus on regionalizing supply chains. I think there was that impetus to diversify, and I think that there is going to be a continuation there too. I'm really pleased with the commercial team and their execution in developing markets. India comes to mind right now. We have a relatively small revenue base, but they are really doing well from a profitable growth perspective. We can see the same thing; we've got great momentum from Asia into Latin America. So, I think the team is actually executing really well. I think the other thing that's critically important is Jill and the team have put an extraordinary program in place that incents the Chinese sales team to notify their counterparts around the world.

So, to Raj's point, from a bottoms-up, when they make a sales call in China and they have a customer there that is diversifying, we know we are connected, and so we have the right conversations with their counterpart in Mexico or Vietnam or Malaysia, wherever else they are moving or thinking about shifting their demand. So, I think we are really well prepared for any change in the market.

Operator: The next question is from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors

Analyst, Susquehanna

Thanks for taking my question. John, when you walk through the cash flow, I know we'll see this when we get the 10-K later, but how much CapEx is in the Freight segment for last year? And how is that anticipated to trend in the budget for this year and the \$4.5 billion that you talked about?

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah, Bascome, I'm going to – I may have to get back to you on that. I don't have that numbers right at my fingertips. And if you could just give me a minute, I'll come back to revisit that answer.

Operator: The next question is from Scott Group with Wolfe Research. Please go ahead.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

And before I do Scott...

Scott H. Group
Analyst, Wolfe Research LLC

Hey.

John W. Dietrich
Executive Vice President & Chief Financial Officer, FedEx Corp.

Hey, Bascome, I do have that number. It's \$437 million. So, apologize for that slight delay. Thank you. Hey, Scott.

Scott H. Group
Analyst, Wolfe Research LLC

All right. Thanks. And I'll echo condolences as well to Fred's family and the FedEx team. John, I guess my questions are for you. Can you clarify how much of the \$1 billion this year is DRIVE versus Network 2.0? And then, I guess I understand we don't have a full year guide, but what's your degree of confidence that we'll see full year earnings growth this year? I'm not asking for a range, but just directionally do you think we're set up to grow earnings this year?

John W. Dietrich
Executive Vice President & Chief Financial Officer, FedEx Corp.

So, thanks, Scott. So, on your first question of the \$1 billion, we're not really breaking out how much of that is DRIVE and Network 2.0. I expect we're going to have puts and takes on both fronts. And what we are committed to is the \$1 billion. And when you look at our prior goals, we put it out there and we achieved them. So, I'm looking forward to achieving this \$1 billion, and as I said before, keeping to feed the pipeline.

So, with regard to our guidance, I think it's dependent on where the demand environment goes to. We're going to be focusing on those things within our control. We've got a handle on those things within our control. And depending on what happens in the macro environment will depend on where we fall within the range. So, we put a range out there for a reason, and we believe if there are favorable factors, we're going to be on the top end of the range. And if we're under pressure, we will be on the lower end of the range. So, I think a good way to think about it is that the zero flat revenue, we're at the lower end of the range at the \$3.40 at 1%, we'll be at the \$3.70, and at the 2% we'll be at about \$4. So, obviously we're going to shoot for that \$4 and then some.

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

And Scott, let me just talk a little bit more broadly. I think if you look back at the last three years, we have reduced our total costs in absolute terms by \$4 billion plus, and this is in a period of inflation. That provides us a lot of leverage. And we can see the opportunities now, in your own words, the jaws of the crocodile could potentially open. I think we have the – even with B2C volume increasing, we are seeing now significant operating leverage. And at some point, the industrial economy will turn. So, we have opportunities on both sides, one on the revenue side, we will have to deal with an uncertain and dynamic economy, but – and then secondly, the operating leverage we've created because of our cost structure will help us going forward.

Operator: The next question is from Brandon Oglenski with Barclays. Please go ahead.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Hey, good afternoon, everyone, and thanks for taking the question. And obviously, America lost a great business visionary and a patriot over the weekend. So, condolences to family, friends and colleagues. But Raj, I think over the years, we would get Fred's insight into global policies, especially on trade. We know over the years he was a big proponent of free trade. I guess, can you give us some insight into his past guidance and maybe recent guidance on how to navigate higher US barriers that maybe are here to stay? And how do you navigate the FedEx network in that scenario? I really appreciate it.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Thank you, Brandon. We are all laughing here about how in the world I'm going to answer that question. But first of all, thank you for your condolences. Yes, Fred was absolutely on the side of free trade, but as he constantly reminded me that we don't make policy and we get to implement the policy sometimes, and that's what we're doing. And I think the point that I would make to you is, it's very, very difficult to predict what is going to happen over the next 30 to 60 days or even further, and it's a dynamic environment. So, we just have to live with that. But what I would say is the point I stressed before. The scale of FedEx comes into play in these kind of situations, both on the physical side and the digital side. As the complexity and the friction increases and the trade flow patterns change, we have the advantage from the perspective that we have the scale to execute for our customers. So that's what we will focus on. And I'll stay away from the prediction game right now.

Operator: And the final question today comes from Tom Wadewitz with UBS. Please go ahead.

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. Good afternoon. And, yeah, look, my condolences as well. I know it's got to be painful, the unexpected loss of your founder. So, condolences also to the FedEx family. The question I have a bit of difficulty kind of translating, I guess, the information you give us on the Network 2.0 in terms of, like, is it just, is it tracking or I think in terms of terminal closures maybe as being a better read as opposed to terminal conversions, just a better read on cost savings. So I know you're going to give us some updates in the future, but just any thoughts, do you feel like you're kind of ahead of the game on how that's going and/or just how would you think about it in terms of how it's progressing versus the program that you've had, kind of had the same targets out there for a while? And are there any components within that, just like instead of terminals that are up and running on Network 2.0, how many terminals have actually been, or stations have actually been shut down at this point? Thank you.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Thanks, Tom, it's John. I think the best way to describe it is that we're on track. Look, this was a long game exercise and initiative. And one of the things that is paramount is that we, as Brie mentioned before, preserve our customer service and not only maintain, but enhance our service. We're seeing good progress on both the reliability side as well as the financial side for those locations we have transitioned. We're seeing the 10% improvement on our PUD. So, we're learning along the way too, and we're adapting along the way. So, I think it's fair to say we're on track. We've put our targets out there in terms of the \$2 billion with Network 2.0 and as part of one FedEx, I view those as going hand in hand and we look forward to updating you. But I'd say it's on track.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Yeah. And thank you, Tom. Again, I think I would just say, first of all, I'm very pleased with how we're progressing here. As of at the end of FY 2025, we've closed 100 stations and integrated 290 stations under the Network 2.0 model and we

expect to, by the end of this program, expect to remove roughly 30% of our surface facilities. So, I was just out there in the West Coast, where we just implemented Network 2.0. I was just so delighted to see how well that they have done, the morale of the team and how the team is working together. So, yes, this is a journey for us, but I think so far so good, Tom. Thank you.

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

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Well, in closing, I would like to extend a sincere thank you for the outpouring of support received as we mourn Fred's loss. The words of support, anecdotes, thoughts and prayers that have poured in over the last 72 hours are a testament to the life and legacy he leaves behind. I will end with a story that embodies who Fred was as a person and what he stood for. As the family gathered over the weekend, his son Cannon noticed an engraving on the back of Fred's watch, the same watch he wore for many, many years, as he shook thousands of hands from heads of state and business leaders, to military veterans and countless FedEx team members. And engraved on the back of this well-worn, unassuming timepiece is the phrase, waste not a moment. Let me say that again, waste not a moment. We will carry that sentiment with us as we honor Fred's memory and lead FedEx through the next chapter. Thank you very much.