

FedEx Q1 FY26 Earnings Call Transcript – September 18, 2025

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Good afternoon, and welcome to FedEx Corporation's first quarter earnings conference call. The first quarter earnings release, Form 10-Q 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.

Now, I will turn the call over to Raj.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Thank you, Jeni. We delivered a solid quarter, in line with the Q1 outlook we shared in June, despite significant volatility and uncertainty around the global trade environment. Our results demonstrate the resilience we have built into our network. They also reflect the dedication of our world-class team, who have adapted quickly to serve customers with excellence through an evolving demand environment.

I'm very appreciative of team FedEx. We continued to reduce structural costs, while deploying Tricolor, advancing Network 2.0 and improving our European operations. These strategies are enabling us to flex the network faster than ever before, and lowering our cost-to-serve, all while providing our customers with high quality service.

Importantly, we're continuing to win new business in high-value verticals, driven in part by our differentiated digital tools that are enhancing the FedEx value proposition and customer experience. We also continued to make meaningful progress preparing for the spin-off of FedEx Freight, which remains on track. Following the spin-off, Freight will be a separate public company with the best customer value proposition in the LTL market and a proven track record of strong operational execution.

Turning to our consolidated Q1 results. Revenue was up 3% year-over-year, driven by strength across our US domestic package services. We achieved our targeted \$200 million in transformation-related savings, and grew adjusted operating income by 7%.

Similar to last quarter, the results at Federal Express Corporation, or FEC, demonstrate the operating leverage that we built into our business. On a 4% year-over-year increase in FEC revenue, we grew adjusted operating income by 17%, and expanded adjusted operating margin by 70 basis points. Notably, we achieved this result despite continued headwinds from the trade environment and the U.S. Postal Service contract expiration.

Consistent with the industry trends that we have seen in recent quarters, revenue at Freight remain pressured. That said, despite the prolonged weakness in the industrial economy, the LTL market remains rational, and we are well positioned with our disciplined approach to strategic growth. I'm proud of the results our team is delivering across the enterprise

despite industrial economic weakness. While an industrial recovery is not required for long term value creation at FedEx, I'm confident that we will unlock significant upside across the enterprise when the demand environment improves.

Last quarter, I spoke about the degree to which we flexed our networks to better match the demand environment amid global trade shifts. As policies and demand evolved throughout the first quarter, we further adjusted capacity, thanks to our Tricolor strategy. For example, we reduced our Purple tail trans-Pacific Asia outbound capacity by 25% year-over-year and nearly 10% versus the prior quarter. We also decreased our third-party or White tail capacity by similar percentages. At the same time, we shifted capacity to capture profitable revenue on the Asia-to-Europe lane.

With the full removal of the de minimis exemption in the United States late last month, we have been working closely with our customers, helping them maintain effective and efficient access to the vital US market. Given a significant portion of our de minimis volume exposure previously came from China, we were able to use learnings from our experiences in May to help shippers elsewhere navigate the more recent exemption elimination. This level of connectivity extends to how we're advancing the elements of our transformation that are unique to FedEx.

The Network 2.0 rollout is progressing well, and customer feedback, especially when it comes to the consolidated pickup experience, remains very positive. In the first quarter, as planned, we optimized approximately 70 additional US stations. Our total optimized station count across the US and Canada is now approximately 360, enabling us to exit September with nearly 3 million in average daily volume flowing through Network 2.0 optimized operations.

Looking beyond Network 2.0, improving profitability in Europe remains a top priority, and I am especially pleased with the team's year-over-year improvements in labor and on-road productivity metrics. Q1 also marked our best new business quarter in Europe in the last two years, driven by express parcel growth on both the intra-European and trans-Atlantic lanes.

Importantly, this business was well balanced between B2B and B2C customers, demonstrating our focus on growing in premium B2B and longer-haul export B2C segments. This commercial strategy, combined with our rigorous focus on cost management, led to a meaningful contribution to our year-over-year FEC profit improvement.

I talked earlier about how our Tricolor strategy enabled us to flex the network to adapt to changing demand patterns. Tricolor is also driving greater densification and reduced unit costs across our Purple, Orange and White networks. The strategy is simultaneously focused on enhancing service quality and mitigating congestion at major sort locations. Our execution on this important initiative is bolstering end-to-end solutions for global customers as we grow profitably in the global airfreight market. This strategy supported an impressive 14% year-over-year Q1 revenue growth in international priority and economy freight with high flow-through.

Data and technology remain foundational to our business, but we are entering a new chapter in how we leverage them. Our Founder's vision more than 45 years ago that information about the package is as important as the package itself has proven prescient. Today, FedEx operates an advanced digital twin that goes beyond tracking. It is becoming an intelligent system that anticipates disruptions, provides optimized route information in real-time, and creates predictive customer experiences.

We move 17 million packages through our network daily, generating two petabytes of data and 100 billion transactions across software applications. But the real value isn't in the volume. It is in the unique nature of this data. Our position at the intersection of global commerce gives us an unmatched view of physical supply chain patterns, seasonal demand shifts, and emerging trade corridors. This real-world operational data platform cannot be replicated by any competitor or a tech solution. Simply put, FedEx owns one of the richest logistics intelligence assets in the world.

I'm excited to welcome Vishal Talwar, our new Chief Digital and Information Officer and President of FedEx Dataworks, who joined us last month. As the former Chief Growth Officer at Accenture Technology, Vishal brings deep expertise in enterprise AI, and understands how to leverage our unique physical-digital assets into next generation AI-led capabilities.

Under Vishal's leadership, we will continue accelerating two key priorities: scaling AI across the enterprise, from enterprise function to how we operate and serve our customers; and exploring new revenue models that leverage our unique assets. We're also strengthening our cybersecurity posture to protect our strategic advantages.

Before I turn the call over to Brie, I'd like to update you on our expectations for the remainder of the fiscal year. Based on our current assumptions, we expect full-year adjusted earnings to be \$17.20 per diluted share to \$19 per diluted share. This reflects a range of scenarios in what remains a dynamic global operating environment. As it continues to evolve, we will remain focused on executing on our commercial priorities, dynamically matching capacity with demand, and delivering on the \$1 billion in transformation-related savings we shared previously. Brie and John will provide more details on the key variables and underlying assumptions for this outlook shortly.

We have made tremendous progress on our transformation and there is much more to come. To that end, we are excited to announce that our next FedEx Corp. Investor Day will be held in Memphis on February 11 and 12, 2026. I look forward to seeing many of you there, where we will provide more detailed updates on our strategic initiatives and our longer-term financial targets.

Now, over to you, Brie.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Thank you, Raj. I'm very proud of our entire global team for how they are supporting our customers in the current trade environment. Our strong value proposition, including superior weekend coverage, supported 3% year-over-year revenue growth across the enterprise. This is the highest quarterly rate we have seen since the pandemic. At FEC, revenue was up 4%, driven by US domestic package revenue strength. This was a direct result of profitable share growth in the US domestic market. This strength was partially offset by continued weakness at FedEx Freight due to the continued pressure from the industrial economy.

Our value proposition is helping us deepen our customer relationships and win business. For example, in Q1, Best Buy named FedEx as their primary national parcel carrier. Leveraging our advanced visibility tools, Best Buy will provide real-time tracking data in customer order communications, improving their customers' experiences. By providing customers with more timely and accurate updates, the company also expects to reduce support calls, cancellations and reship costs. We are excited to partner with Best Buy to create a smarter, more reliable supply chain that further strengthens their customer trust.

We were pleased to deliver a 5% increase in US domestic ADV year-over-year, with growth across the majority of our services. In line with our expectations and consistent with the trends we saw in May, international export volumes declined, particularly on the China-to-US lane.

Knowing our strongest international lane would be under pressure, we pivoted the commercial team, and they have done a tremendous job capturing demand out of Southeast Asia and Europe. This provided a partial offset against the headwinds to demand on the China-to-US export lane. The team has also done a great job maximizing US outbound capacity. We are seeing improving trends in both outbound weight and volume, supported by strong growth in our healthcare vertical.

At FedEx Freight, aligned with broader industry trends, average daily shipments declined. Weakness in the industrial economy and excess capacity in the truckload market continue to pressure our results. That said, Freight made excellent progress in the quarter continuing to stand up its dedicated sales team. This team is focused on improving the customer experience and maintaining strong yields. As the industrial economy improves, Freight is poised for growth and margin expansion.

The parcel pricing environment continues to improve. We have achieved strong capture from our pricing changes in the quarter, which included an increase in our fuel surcharge index. At FEC, US domestic package yield was up 3%, driven by strength across all services. International export package yield grew 4%, driven by higher fuel surcharges, favorable exchange rate impacts and the reduction in lightweight e-commerce volume due to the change in the de minimis exemption. Our Tricolor strategy continued to drive growth in international priority and economy freight, where we delivered a 9% increase in revenue per pound.

At FedEx Freight, revenue per shipment declined 1%, driven by lower revenue per hundredweight and lower fuel surcharges. While weight per shipment was flat year-over-year, we are encouraged by the sequential improvement in weight per shipment over the past few quarters, and FedEx Freight revenue per hundredweight remains amongst the highest in the industry.

We announced our demand surcharges in July, which are needed to offset the incremental cost at Peak to deliver outstanding service while protecting profitability. Earlier this month, we announced a 5.9% general rate increase effective in January. We expect strong capture from both.

In Q1, we prepared for the ramping of our new Amazon business, which was minimal in the first quarter as we expected. We believe the onboarding will be complete by the third quarter, which will support continued US domestic revenue growth in the quarters ahead. This profitable business will skew towards larger, heavier weight packages.

We are cautiously optimistic about Peak season growth based on what we are hearing from our customers currently. As a reminder, this year's Peak season will last one day longer than last year's. With that in mind, we are expecting a modest increase in Peak ADV versus fiscal year 2025 and a mid-to-high single-digit increase in year-over-year total Peak volume, with growth driven by our larger B2C customers.

Regarding the full year outlook, we are currently planning for revenue growth of 4% to 6%. The top of this range assumes that current favorable trends in the US domestic segment continue, and the lower-end assumes incremental pressure on US demand, particularly in the second half of the fiscal year.

On the international side, the top of the revenue range assumes the current level of international export revenue pressures continue through the rest of the fiscal year, while the lower end assumes an acceleration in these pressures. At FedEx Freight, we expect revenue to be flat-to-up modestly year-over-year, depending largely on the market conditions in the second half of the year.

We continue to advance our commercial priorities, sharply focused on B2B, small-and-medium-sized businesses, Europe and, of course, global airfreight. Within B2B, we continued to onboard new healthcare business in Q1, building on our momentum from prior quarters. This includes strong healthcare-related growth within our global airfreight business.

Later this month, we are launching a new flight linking Dublin and Indianapolis. This new flight will move goods one day faster, supporting healthcare and other high-value verticals with shipments between Ireland and the US. We grew our US domestic small business revenue by more than 10% year-over-year in the first quarter. This was fueled by focused and targeted sales execution and a close alignment between our sales and our operations teams.

This collaboration is accelerating onboarding, shortening deal cycles and driving meaningful new acquisitions. We are also scaling high-impact support to deliver exceptional customer experiences during this complex environment. FedEx Rewards, our loyalty program, which is unique in the industry, continues to see significant growth, while deepening our SMB customer relationships.

In closing, I'm very proud of our team's strong execution in this dynamic environment. We are helping our customers manage through evolving policies and changing demand patterns. We remain disciplined in our approach to revenue quality. We are ready to continue providing outstanding service to our customers before, during and after Peak.

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

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Thanks, Brie. Our Q1 results reflect the tenacity and agility of the FedEx team in providing outstanding service, while delivering on our strategic initiatives and increasing stockholder returns. We executed very well in Q1, with results above the midpoint of our adjusted EPS outlook range. We also maintained our disciplined approach to capital expenditure, continued to repurchase stock, and grew our quarterly dividend.

Turning to our financial results, on a consolidated basis, in the first quarter, we delivered \$3.83 in adjusted earnings per share, up 6% year-over-year. And we delivered these positive results despite significant headwinds from reduced international export demand and the expiration of the U.S. Postal Service contract.

Overall, we delivered revenue growth of 3%, which supported 20 basis points of adjusted margin expansion and 7% adjusted operating income growth. As Brie mentioned, our yield management and strong commercial execution resulted in higher revenue growth from US domestic package services, which contributed to our year-over-year adjusted operating income improvement.

We grew adjusted operating income by approximately \$90 million, despite the \$150 million headwind from the global trade environment, \$130 million of headwind from the U.S. Postal Service contract expiration, and continued softness at FedEx Freight. As a reminder, we'll lap the expiration of the Postal Service contract at the end of this month. Additionally, our Q1 results reflect a higher-than-expected Q1 GAAP tax rate of 27.3%, which was unfavorably impacted by a non-recurring income tax expense related to the examination of prior year tax return filings.

Turning to performance by segment, at FEC, adjusted operating income increased by \$168 million, up 17%, and adjusted operating margin expanded by 70 basis points. This marks the fourth consecutive quarter of year-over-year adjusted margin expansion for FEC. This was driven by higher yields, continued cost reduction efforts, and increased US domestic package volume. These drivers were partially offset by higher wage and purchased transportation rates and the headwinds I mentioned earlier.

As expected, due to the evolving trade environment in the quarter, we experienced a material headwind on our Asia-to-US lane, largely from China outbound, driving most of the \$150 million international export headwind to adjusted operating income. At FedEx Freight, adjusted operating income declined by just over \$70 million, and adjusted operating margin contracted 250 basis points. Though the current operating environment is challenging for the entire LTL sector, FedEx Freight is uniquely positioned to see strong incremental margins in the eventual market upswing.

Moving on to capital allocation, during the quarter, we opportunistically purchased \$500 million worth of stock, which, alongside our increased dividend payout, demonstrates our unwavering commitment to increasing stockholder value. We have \$1.6 billion remaining under our 2024 stock repurchase authorization, and subject to business and market conditions, we expect to continue repurchasing shares during the remainder of FY 2026.

FedEx maintains a healthy balance sheet with \$6.2 billion of cash-on-hand exiting Q1 and with investment-grade credit ratings from the major agencies. I'm also very pleased that our recent Euro-denominated bond offering was significantly oversubscribed, a testament to the strength of our business, balance sheet and capital allocation strategy.

Q1 CapEx was \$623 million, driven by Network 2.0-related facility enhancements, hub modernization, and continued investments to maintain our fleet of aircraft and vehicles. And we continue to target \$4.5 billion in annual CapEx for FedEx Corp. in FY 2026.

With regard to pension contributions, given the well-funded status of our pension plan, we are reducing our expected pension cash contribution. We now anticipate making up to \$400 million in voluntary pension contributions to our US-qualified plans in fiscal 2026 compared to our prior forecast of up to \$600 million.

Moving to our FY 2026 adjusted EPS outlook, which is based on the information that is known to us today. Though the global operating environment remains fluid, with dynamic economic conditions across geographies, our value proposition remains strong, and we continue to execute effectively. As a result, we expect to deliver adjusted EPS of \$17.20 to \$19, which reflects a range of potential scenarios for the year.

Factors that will determine where we ultimately fall in the outlook range include: the evolution of global trade, the health of the industrial economy, the US domestic demand environment, traction in our higher-margin B2B verticals, and inflation. Adjusted EPS of \$18.10, which is the midpoint of our range, assumes, consolidated revenue growth of 5% and \$1 billion in transformation-related savings from our structural cost reductions and Network 2.0 and associated One FedEx savings in FY 2026.

We expect adjusted operating income offsets to include: a \$1 billion headwind due to the global trade environment, recognizing this number could flex in either direction as the environment evolves, and a \$160 million headwind to adjusted operating income from the expiration of the Postal contract. We expect our FY 2026 effective tax rate to be approximately 25% and EPS to be supported by our share repurchase program, as I mentioned earlier.

At the midpoint of our range, we anticipate a 6% increase in Federal Express revenue, with adjusted operating margin down slightly. Also at the midpoint, we expect low-single-digit improvement in FedEx Freight revenue, with margins down year-over-year.

Now turning to our FY 2026 adjusted operating income bridge. We're introducing a new view of this bridge to provide deeper insights into the expected drivers of profitability this year. The bridge shows the year-over-year elements embedded in our outlook in one of the scenarios at the midpoint, resulting in adjusted operating income of \$6 billion.

Of course, the assumptions behind the variables at the midpoint may flex as the environment changes. In this scenario, for FEC volume-related revenue, net of variable costs associated with this volume, we expect a \$400 million tailwind, driven largely by US domestic package services, offset by a material headwind from reduced international export demand. With respect to FEC yield, we expect a \$2.3 billion tailwind, demonstrating our commitment to revenue quality and continued pricing discipline.

Offsets to these tailwinds include: a \$2.1 billion base expense increase across the business, excluding FedEx Freight, a \$300 million headwind from direct trade-related expenses, including higher customs clearance costs, \$160 million U.S. Postal Service contract expiration headwind I mentioned earlier, a \$100 million decline in adjusted operating profit at Freight, and a \$100 million headwind from the net impact of foreign exchange fluctuations.

Embedded in our assumptions are the previously mentioned \$1 billion in headwind to adjusted operating profit from the global trade environment and \$1 billion in transformation-related savings from DRIVE and Network 2.0. And while DRIVE began as a cost reduction program, it is now fundamental to how we run our business.

With regard to Q2, we anticipate a sequential improvement in adjusted EPS. At FEC, we expect to maintain or improve operating margin sequentially, and at FedEx Freight, we expect the year-over-year decline in adjusted operating margin to begin moderating sequentially in Q2.

Before turning to Q&A, I want to provide an update on our spin-off of FedEx Freight, which is progressing well and on track for the June 2026 separation. In August, we submitted our confidential Form 10 to the SEC, and in September, we submitted a request for a private letter ruling on the tax treatment of the transaction to the IRS. These are important milestones as we move toward the tax-efficient spin-off.

Freight now has about 200 frontline LTL sales and sales support personnel on board, and is well on its way toward our goal of 400 sales specialists prior to the spin-off. I'm confident that both the expanded dedicated salesforce and our ramping technology investments will continue to improve the customer experience.

Once separated, FedEx Freight will be a separately traded public company listed on the New York Stock Exchange under the ticker symbol FDXF and we plan to host our FedEx Freight Investor Day in New York City in spring of 2026 prior to the separation. Overall, I remain confident that the FedEx Freight separation and the continued execution of our strategic priorities will unlock significant stockholder value in the years ahead.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster. The first question comes from Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Hi. Afternoon. Thanks for the color on the midpoint. I'm curious on the low and the high end of your EPS range. Is it simply a function of where it comes out in that revenue range, or is there other things that could help impact where it winds up sitting? Thanks.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah. Thank you, Jordan. It's John. I'll start by saying it's really important to note that we're basing this outlook on the information available today. We did center on the midpoint of our range and I think it's fair to say that where we ultimately land will be determined by a variety of variables. And I touched on them in some of my prepared remarks, including the evolution of global trade and its impact on demand, the health of the industrial economy, US domestic demand and so forth. So, it's not any one factor. It's a variety of factors, and we're going to be monitoring those closely. It's going to be a very dynamic environment that we intend to capitalize on.

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

Ken Hoexter

Analyst, BofA Securities, Inc.

Hey. Good afternoon, and thanks for the details on the cost there. I just want to dig into that a little bit to understand, because if I look at the incremental margin growth of 4% to 6%, yet the incremental operating gains are not keeping pace. So, is that because of the headwinds that you ran through? Maybe, John, maybe you can refine that a little bit on the \$1 billion cost, the \$300 million headwind on the trade expenses, I just want to maybe parse that out a little bit further.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Sure. Yeah. There will be pressure. I mean, what we're talking about here is a \$1 billion of headwind as a result of some of the environmental impacts. So, our full year assumption, it does include the removal of the de minimis exemption for the rest of the world that went into effect in the end of August. But I think it's fair to say that that \$1 billion will be something that we'll be focused on, but something that will be a challenge for us as we go forward.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

If I can add to that, Ken, I think that is a big headwind for fiscal year 2026. We're doing everything in our power to make sure that we can improve our customer experience and mitigate the cost as we move forward. The underlying business is very strong as we move into 2027 and beyond.

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

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Yeah. Thanks for taking our questions here. Raj, you leaned a little further in to the data side of the business post the hire of Vishal. I know he just started a month ago. I don't know if he is on the call or could talk a little bit high level about strategy, particularly where you're talking about finding new revenue models to monetize that part of the FedEx story or, if not him, just a little more thought on where you're heading in that and how big a business that might be for FedEx going forward? Thank you.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Well, thank you, Bascome, for raising that question. One of the things that we are clear about is the value of the data that we have. We move 17 million packages a day, two petabytes of data. As I said earlier, it's not just the volume of the data, it's the value of the data, especially in the dynamic world that we live today.

The important thing is that we started this work back in 2020, and we started organizing and engineering this data on a platform basis for some time now, and that's what gives us the edge, especially as AI has now evolved and is moving quickly, the fuel for AI is data and have engineered data and the high value data of what we have is now super critical as we move forward.

It's already bearing fruit. It's bearing fruit in our operations as deep learning models are enhancing our predictability. We couldn't have done Network 2.0 without the data platform that we have and the technology we have. It's already bearing fruit from a differentiation perspective. We have premium monitoring and intervention tools for our customers and the healthcare business that Brie's team is winning, 40% of them are on the Surround platform, which is essentially based on the data platform and AI tools that we have.

We also launched the commerce platform fdx, and that essentially is now becoming a workflow tool for our customers for orchestrating their supply chains. And especially in this complex trade environment, those kind of – it's added value as we improve our value proposition for moving things across borders and being predictive using GenAI to create value from HS classifications and so on. That area is quite nascent, and we have a long road – runway ahead of us.

So, our mission and vision has evolved to make supply chain smarter for everyone. It begins and – with our data platform and the insights that we have on supply chain and the role of AI and the tools that we have. So, I think as we look ahead, we'll talk more about this in February as it becomes an enabler for our operations, a differentiator for our – from our customers' point of view and the new revenue models that we can create based on this. So, thank you again for that question.

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

Scott H. Group

Analyst, Wolfe Research LLC

Hey, thanks. Afternoon. So, any color on the magnitude of sequential earnings growth that you'd expect? And then just – that was for Q2. And then just bigger picture, if I think about the last couple of years, we've heard we're reducing costs and growing earnings despite lower revenue. And then whenever we get the revenue growth, the operating leverage is going to be really strong. And now, we've got 5% revenue growth and a \$1 billion of cost reduction and buyback, but earnings are flat. I guess, why aren't we seeing the better operating leverage? I get the global headwind, but you're still – you're growing revenue 5% even with that \$1 billion global headwind.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

So, Scott, thanks for that. Let me start with Q2, and we have focused our commentary on the full year guidance and are not giving Q2 guidance. But that said, as Brie mentioned, we're cautiously optimistic about Peak season demand. And we do expect, consistent with last year, sequential earnings improvement in Q2 versus Q1's \$3.83, but we're not guiding to Q2 being up or down on a year-over-year basis.

We expect continued benefits from our transformation-related savings and large trade-related OI headwind than in Q1 of the \$150 million. But just pivoting to your second question on kind of the flow through, I'll repeat what I said before. We're facing a \$1 billion headwind due to the trade environment. In Q1, we experienced \$150 million of that to adjusted op income, primarily driven by reduced demand out of China on the US lane. And so, for the full year, and just to give a little bit more detail, we're assuming a material revenue headwind from the global trade environment.

Operating income at the midpoint of the range will require us to execute, but there is going to be pressure. So, the flow through is not as great, given some of the pressures. \$1 billion is embedded in lost opportunity in our FEC volume net of cost line. The direct trade-related expenses for things like customers' clearance and staffing and base expense increases. So, there is a fair amount of pressure there from which we intend to deliver on and we'll be focused on staying in the range.

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

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. Good afternoon. John, I guess it's maybe a little more on that same topic that, I think, Scott was just asking about. The global trade headwind, I still feel like I don't really understand what it is. If I look at your international export revenue, I think was up a little bit in 1Q. And then I think on one of your slides, you were pointing to some nice reduction in hours – in-flight hours on Asia-US in both Purple tail and White tail.

So, I guess it's not clear to me what that \$150 million in 1Q is. It doesn't seem to be revenue. It doesn't seem to be clear where the cost impact is. So, I really just wanted to see if you could just help us understand that a little bit better, and also why that gets meaningfully worse on a full year basis to like \$1 billion instead of – versus a \$150 million in 1Q? Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Hey, Tom. It's Brie. I'll take the top line question and then certainly let John kind of add in the color on the expense increase. So, what we saw in the first quarter is the vast majority of that \$150 million was impact from reduction in top line revenue, specifically the majority of that is de minimis impacted and coming out of the China lane.

We anticipate that that will continue to flow through the year in addition to the \$150 million per quarter as we are planning for incremental pressure because of the global de minimis change which took place at the end of August. We've got \$100 million of bottom line pressure throughout the year, and then we have \$300 million of incremental expense. So, to be really clear, that \$1 billion of headwind is predominantly an impact of top line revenue reduction because China to the US is a very profitable lane for us. John?

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah. No, Brie. Just to add what I mentioned before, I mean, you touched on it, the direct trade-related expenses was \$300 million for additional custom clears and related capabilities and also running through the base expense increases that coupled with the top line that you mentioned.

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

Jonathan Chappell

Analyst, Evercore ISI

Thank you. Good afternoon. I think we're all trying to get to the same place here. So, I'll just layer on top of Tom and Scott. If this is all a top line impact from the global trade, \$150 million in the first quarter, \$850 million, or, yeah, \$850 million for the rest of the year, which is close to \$300 million. So, it's almost doubling the impact in fiscal 2Q, 3Q, and 4Q.

You have to get to the midpoint or even the low end of the full year revenue guide. The rate of change will have to accelerate from the 3% in the first quarter and your year-over-year comps and even two-year stack comps are more difficult. So, can you just help us bridge where the revenue acceleration comes from if this anomalous headwind is intensifying, potentially doubling? Is it all from price and yield? Are you expecting some significant volume pickup at some point, absent the global tariff headwinds and de minimis?

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Hey, Jonathan. It's Brie. So, great question. So, yes, we were very pleased with the 3% revenue growth in the first quarter. To get to the midpoint of 5%, first of all, we do expect the majority of trends will continue. So, right now, what we're seeing in September looks a lot like August. So, it's a continuation of trend with a couple of really important notes.

Number one, in the first quarter, we had a \$280 million top line headwind because of USPS. That goes away in Q2 and beyond. Two, we are still onboarding some of the wins from our Q4 of last year and early Q1. As I mentioned, as an example, Amazon is still onboarding, and it had very little impact in Q1. There are several other examples of onboarding.

And then in the back half of the year, we do expect FedEx Freight to have modest yield improvement and better than the first quarter or the first quarter and the second quarters from an expectation perspective. So, we do think the midpoint is very realistic, and we're clear-eyed about how to get from Q1 to the rest of the year's range.

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

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Hi. Good evening and thanks for taking my question. Brie, I appreciate all those details. I was wondering if maybe you could walk through the outlook for domestic volumes on the package side again. And it's no secret that your largest

competitor is shrinking here. So, can you talk about maybe the competitive landscape [ph] what's presenting for (00:45:04) market share opportunities and pricing? Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Yeah. A great question. So, from a domestic perspective, we're not, and I'm speaking specifically to parcel, we're not expecting a massive trend change. We are expecting, as I mentioned, the onboarding, I think you'll see the mix look very similar from a different package profile. A couple of things, the team has done a really good job from an execution perspective. We've had the best momentum in SMB in the last quarter that I've seen for a while, so that's helping our yield growth.

From a yield – the other thing to note is, of course, fuel was very helpful in the first quarter, and that will continue through the year. In addition to that, we executed some price changes that came in in the middle of the quarter, and those will be helpful in Q2 and beyond. So, net takeaway, I don't see a massive trend change. This is self-help, if you will. This is market share, strategic profitable market share acquisition, and we expect it to continue.

To your point on price, we're really focused on winning with value proposition. We're winning in healthcare. We're winning in small business. We're winning because of our seven day. I think you all heard the Best Buy example. Pricing is improving in the market, and we think very rational, competitive, but rational.

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

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Yeah. Hey, thanks. Thanks. Good afternoon. I guess maybe just wanted to ask about the range. So, 4% to 6% on the top line and \$17.20 to \$19 on the bottom line, midpoint is 5% of revenue, for the midpoint of the EPS. Should we assume that 4% revenue growth lines up with \$17.20 and 6% is at the \$19 side? And then maybe just a quick clarification point. What exactly is the \$300 million of direct related expenses on the trade side? Just want to get a sense of what that is.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah. Hey, Chris. It's John. I would not make that direct connection between the factor you described on the 4%, leading to on the low end. As I said before, this is a dynamic environment. There's going to be a lot of puts and takes as we go forward here, and we're going to be aggressively monitoring and managing it. That was just – we just gave one scenario, as we mentioned, when we talked about how we get to the midpoint. There could be a number of others as well. With regard to your second question, I'm just trying to recall if you could, the \$300 million. Yeah. I'm sorry. That was customs clearance and related staffing and related administrative expenses as a result of adapting to the current trade environment.

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

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Hey. Thanks. So, regarding the top end of your guidance, you said it's predicated on the continuation of strength in domestic. I guess it's a questions for Brie. You saw some of the best conditions you said since like COVID period. Your pricing was certainly the best, I believe, since 2022. Volume growth, third consecutive quarter of mid-single digit plus growth in domestic volumes. Brie, you said, SMB best momentum you've seen in a while. So, maybe you can help us

understand what's really driving the share gain? What do we need to see to make it sustainable? And then regarding the onboarded, the business you're onboarding, what does it look like? What's the profitability profile, et cetera? Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Thanks for the question, Richa. Honestly, from an execution perspective, we're really focused on strategic segments. SMB, we are selling direct. Our primary competitor sells through more platforms and third parties, and we've really seen just some outstanding execution momentum. We have a loyalty program that is highly effective, and we've been very focused on making sure customers are aware and engaged in loyalty program, and that is working.

From healthcare, that's why you're seeing the premium volume momentum that we have seen over the last two quarters essentially, so we're pleased with that. Healthcare is very sticky revenue. It is high service expectations, very, very custom SOP, and so it is profitable, but it's also very sticky. And then, of course, from an e-commerce perspective, you have seen that HD ground economy bundle working. We are growing there. We are faster than our primary competitor. We have rural coverage that they don't have, and of course, we now cover about 65% of GDP on Sundays, so really pleased with the team's focus.

Equally pleased with their revenue quality. We've been pulling pricing levers as appropriate, and that definitely benefited us in the first quarter, and we anticipate that we'll get a high capture throughout the year. Of course, we're also planning very rigorously for peak. Peak surcharges are in place. They are working. The team's got a very, very focused plan for Peak that I'm excited about.

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

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Great. Thanks, guys. A two-parter, if I may. On the de minimis, what has been the customer reaction to the expiry of the rule, and do you think that is a new normal going forward? And also, does it feel like there has been much pull forward in international volumes that may have benefited you in fiscal 1Q? Where does that kind of normal run rate look like for the next kind of several quarters as well?

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Thanks for the question. I'm certainly not going to speculate on the future trade environment. But I will tell you, obviously, from a customer perspective, it has been a very stressful period. I'm really proud of our clearance operations team and our commercial team because they are lockstep with customers. It has been particularly challenging for small exporters, because they do not have the expertise and the staffing, and that's where our teams have come in and really partnered with them to help, as Raj talked about, automate some of their clearance inputs from our digital perspective, so we're very, very focused from a partnership perspective. But it has been really tough on small customers and exporters.

As far as the pull forward, I will remain optimistic. The American consumer from our numbers has been resilient. We do not see any indication in either airfreight or our domestic parcel business that this is pull forward. I will absolutely acknowledge July was quite strong for us, especially the Prime Week. We saw a lot of US retailers with sales and market, and they effectively saw strong volumes in July, but I don't necessarily see that as a pull forward. And like I said, right now, from our forecasting for both Peak and the back half, we're confident in the range we put out from a top line perspective.

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

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Hey. Afternoon. Thanks for taking questions. So, maybe, Brie, just to start off by elaborating a bit more on the peak. It sounds like some of its visibility to maybe some of these new contracts that are onboarding, some of it's more of the macro. So, maybe you can separate just how much of the peak strength is FedEx related versus what you see in the underlying market? I think that'd be helpful.

And also, maybe a little bit of context on Freight. We didn't get too much color on that, but certainly a tough market and a tough quarter. But it sounds like you expect things to stabilize and improve pretty significantly from here. So, wanted to get some additional thoughts on what's embedded in that outlook? Thanks.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Okay. I think I got it all, Brian, but stop me if I don't hit all of it. From a Peak perspective, yes, I – when we look at kind of the number of operating days in the season of Peak, we are expecting kind of from an ADV perspective sort of a low-to-moderate growth from an ADV, but total volume will be up because we have that extra day. I do think a relatively significant portion of this volume growth is our acquisition that we took on the back half of last year, and so you're going to have that lapping benefit for us from a Peak perspective. I anticipate that our numbers will be slightly elevated versus market.

I also – from a performance perspective, we do see this driven by large B2C retailers and brands. That's definitely heavy from a Peak perspective. Rest assured, we have the revenue quality strategy and the Peak surcharges in place. The team has done a really good job. We're lockstep with Scott Ray and the surface team to manage capacity and service. So, we feel very good from a Peak perspective. But to your point, I don't necessarily think that it's an indicator of overall market performance.

From a FedEx Freight perspective, you've all tracked the pressures on the industrial economy. We are the FedEx or FedEx is the market share leader in the LTL industry. And so, of course, we are feeling that pressure. The team's number one priority at FedEx Freight, and take this responsibility very seriously, is revenue quality. We will have the benefit of the lapping in the back half, so we do anticipate that yields will increase in the back half, but we remain very disciplined and very focused.

Operator: The next question is from Bruce Chan with Stifel. Please go ahead.

J. Bruce Chan

Analyst, Stifel, Nicolaus & Co., Inc.

Good afternoon and thanks for the question. Maybe just one on the broader airfreight market. We've been hearing about some potential supply constraints as the global fleet sort of ages here. I guess, first, are you seeing signs of that? And then, so, how do you think about the flow through with Tricolor? I imagine you've got some good flexibility to shift volumes sort of between the Purple tails and third-party capacity?

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Yeah. From an airfreight perspective, again, we're a relatively small market share participant from a global airfreight perspective. We are being selective and really focused on premium freight. I am particularly proud of the airline team this quarter. They shifted capacity and equally proud of the commercial team.

We knew because of the trade environment that, our China to US lane and we are the market share leader there, would be pressured. And so, we pivoted. We are growing between Asia and Europe, which is a large lane. We're being selective there. And then equally important, on the Purple tail that we balance capacity and the team did a really good job from a US perspective. I'll give the healthcare team a shout out. Almost 50% of the weight growth from the US export perspective came from healthcare airfreight. So, our healthcare strategy is working there too.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Bruce, if I can jump in on this Tricolor, if you remember the conversations that we have had before, the idea was to decongest the hubs and to have a truck-fly-truck network so that it links all our networks together optimally and densification of our network. All those are being tracked at KPI level very carefully, and I'm happy to report that the team has done a tremendous job and it is working. And that's what enables us to provide the value proposition to our customers to strategically and profitably grow in these segments. So, again, we are early innings on Tricolor, but the implementation has been stellar.

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

Elliot Alper

Analyst, TD Securities (USA) LLC

Thank you. This is Elliot Alper on for Jason Seidl. So, in terms of Network 2.0 and heading into Peak season, are you planning for any changes in the process, like putting some stations on hold in busier markets as you work through Peak? Could that affect any timing in terms of the cadence of the \$1 billion in cost savings or anything to think about there?

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Well, thank you for the question. We are very encouraged by the progress on Network 2.0. The Canada transition is complete and the service levels there are very strong. We are obviously moving forward in the US market underway as we planned. There is no change to the plans that we have set in place. We have exiting Q1 with 18% of our US ADV running through the Network 2.0 model. We have closed about 140 facilities and integrated 360 stations in the process. And at the end of the day, I want to – that's pretty much as planned. And that's what we will continue to execute going forward. You have to remember that Network 2.0 is an efficiency story, but also a growth story. As we improve our customer value and customer experience that this becomes a – both an efficiency part of the equation and also ability for us to grow in this segment. Thank you.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

I think it's important to note we never plan for a new optimization in the middle of Peak. So, our rollout schedule, it's a given, but that just doesn't happen in Peak because service is our top priority for our customers.

Operator: The next question is from David Vernon with Bernstein. Please go ahead.

David Vernon

Analyst, Bernstein Institutional Services LLC

Hey. Good afternoon, and thanks for taking the question. So, John, I wanted to kind of come back to this question on operating leverage and try to help better understand the bridge that you laid out here. When we think about first quarter, is

there anything in the comp on a year-over-year basis that maybe added to the leverage, whether it's incentives or anything like that?

And then as we think about the remainder of the year, right, obviously there's a lot of things happening on trade and things happening in the top line, bottom line. Is the answer here of why we're not getting more leverage, just that the mix is shifting to less profitable traffic? I'm just trying to kind of really understand this thing at a high level, like if we're – if we've got \$1 billion worth of cost taking out, that would offset the headwind and then we got 5% of revenue growth. Like, why isn't there more falling to the bottom line?

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Yeah. As I mentioned before, there's a variety of factors in play here, including kind of the opportunity cost of the hit to revenue as a result of the change in the trade environment. Mix shift is a factor to lower yielding mix, but I should say it's profitable. It's profitable mix. I want to be clear on that. But that is certainly a consideration, but there's a whole dynamic environment of factors that are putting pressure on us that run the range that are factored into that \$1 billion.

Operator: The next question is from Ari Rosa with Citi. Please go ahead.

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Hi. Good afternoon. So, just on the revenue growth target, maybe you could help us understand how much of that is coming from new business wins, because I don't think that's been totally clear. So, like, is there a way to segment how much of the 4% to 6% is driven – is organic versus kind of new business wins? Anything you can give us on kind of the margin contribution of that. And then if I can squeeze one other one in, the \$600 million of Freight spin costs, maybe you could just give a little bit of color on what that is. Thank you.

John W. Dietrich

Executive Vice President & Chief Financial Officer, FedEx Corp.

Well, I'll start with the Freight spin cost and then turn it over, that, like with any large transaction, there's a significant amount of cost that's incurred and it's largely driven by the IT and the systems and enhancing the systems at Freight to improve the customer experience. There are some staffing costs, but I would say those are small in the scheme of things. We talked about the sales force and so forth, but largely IT related, and systems related.

Brie A. Carere

Executive Vice President & Chief Customer Officer, FedEx Corp.

Yeah. As far as the revenue range, it's a combination of factors as I talked about. We've got execution from a share gain perspective. We've got execution on getting the right business in and then yield. The one thing that I can emphasize that as we look at the difference between the Q1 and Q2 through Q4, the domestic momentum, one of the larger factors there will be continued onboarding, but we'll also be pushing on yields.

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, thank you, operator. In closing, our Q1 results demonstrate our ability to support customers through this dynamic environment, and I'm incredibly proud of the FedEx team for their outstanding commitment to our customers and for driving such strong performance in this quarter. I'm confident that the momentum we have established positions us well for the Peak season ahead. Thank you very much.