

FedEx Q2 FY26 Earnings Call Transcript – December 18, 2025

Jenifer Hollander

Vice President-Investor Relations, FedEx Corp.

Good afternoon, and welcome to FedEx Corporation's second quarter earnings conference call. The second 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 investors.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 have only one week left in peak season, and I want to extend my sincere thank you to our frontline workers, pilots, and all of team FedEx as we approach the finish line. These individuals are out there working hard to deliver a successful peak for our customers, and making every FedEx experience outstanding.

Before I turn to our Q2 results, I also want to acknowledge that our thoughts and prayers remain with those at UPS, along with the families and community affected by the recent tragedy. We're working closely with Boeing and the FAA to ensure the safety of our own MD-11 fleet, which we will discuss later in the call.

Now, let's review our performance in the quarter. In Q2, we provided excellent service to our customers, won new business in high-value verticals, and delivered strong results, high-single-digit revenue growth, margin expansion, and high-teens adjusted EPS growth. Quite remarkably, we did this while navigating multiple external headwinds, including the unexpected grounding of our MD-11 fleet, nationwide air traffic constraints, weakness in the industrial economy, and of course, the impact of global trade policy changes.

We're extremely pleased with our Q2 performance, especially in the face of these challenges. It's a direct effect of the rigor we have embedded into our culture over the past several years, and the resulting transformation from Network 2.0, Tricolor, and structural cost reductions, all enabled by data and technology. We're demonstrating the resilience and flexibility we have built into our network, and our ongoing efforts to reduce structural costs are leading to significant improvements in profitability.

We remain on track to spin off FedEx Freight on June 1, 2026, as a separately listed public company with the best value proposition in the industry. We recently appointed Marshall Witt as CFO of FedEx Freight. Marshall brings significant and external public company experience, having served as the CFO of TD SYNNEX for the past 12 years. He also has deep industry and company expertise from his 15 years previously working at FedEx Freight, primarily within the finance organization. FedEx Freight's entire executive leadership team is now in place, and the team is moving quickly to prepare for the separation. Our conviction in the potential value that will be unlocked from this spin-off is stronger than ever.

Turning to our consolidated Q2 results. Revenue was up 7% year-over-year, driven by yield and volume strength across our US domestic package services. We achieved our targeted transformation-related savings and grew adjusted operating income by 17%. Federal Express Corporation, or FEC, delivered another quarter of strong operating leverage. On an 8% year-over-year increase in FEC revenue, we grew adjusted operating income by 24% and expanded adjusted operating margin by 100 basis points. Nearly half of our revenue growth was driven by B2B services, an important enabler of increased profitability, and this marked our fifth consecutive quarter of year-over-year adjusted operating margin expansion at FEC.

In line with ongoing LTL industry trends, Freight results remain pressured, driven primarily by lower volumes, partially offset by higher weight and revenue per shipment. This is the result of our sustained focus on maintaining strong revenue quality. Given the strength of our Q2 results, and our updated assumptions for the second half, we are raising our adjusted EPS outlook to \$17.80 to \$19. Brie and John will detail the underlying assumptions shortly.

We're demonstrating our ability to execute well in any environment, reflecting the progress of our network, organizational, and digital transformation efforts. This quarter truly showcased the importance of network integration and optimization, along with the power of a resilient industrial network. Both shifting global trade patterns, and the unexpected grounding of our MD-11 fleet required significant changes to our network, which we implemented swiftly and successfully.

To that end, let me provide a quick update on how we flexed our network during the quarter. From a global trade perspective, we reduced our purple tail trans-Pacific Asia-bound capacity by about 25% year-over-year. We also decreased our third-party or white tail capacity by nearly 35%. We continued to shift some of our capacity to the Asia-to-Europe lane, and importantly, these flights typically have an attractive B2B mix of over 75% with high-load factors. When we grounded our MD-11 fleet, our focus, as always, was on safety above all, making sure our planes would be inspected, and as safe as possible. We're also focused on helping our customers and providing technical support to the regulators. Of the 34 MD-11s we own, 25 were in operation at the time of the groundings. Our network planning team immediately implemented contingencies, prioritizing protecting our customer commitments, and stabilizing the network.

We revised our November schedule quickly, condensing our planning process into three days, and the actions we took included trucking more volume in the United States instead of flying, given 18 of our MD-11 flights were US domestic, shifting volume to other types of aircraft within our FedEx-owned fleet, adding capacity via third-party lift, and adjusting the timing of maintenance for our remaining fleet while staying compliant with regulatory guidelines. As a result, we were able to mitigate the operational and financial impacts of the MD-11 groundings, which ultimately pressured our Q2 adjusted operating income by about \$25 million.

For the final week of peak, we have additional contingencies in place. We lost about 4% of our global cargo capacity before mitigating actions during our busiest season. As a result, our cross-functional teams are working around the clock to minimize any service disruption. And looking beyond peak, we are extremely focused on maintaining high service levels with the benefit of more time to plan. We'll keep you posted on the expected timing of the MD-11 return to service.

Network transformation remains a key priority for us. In support of this ongoing transformation in October, we named Kawal Preet as Executive Vice President of Planning, Engineering, and Transformation. Kawal is known for creating high-performance cultures. With nearly 30 years of institutional and industry expertise, her depth of operational and engineering knowledge will support further progress towards our global integrated network. For the past five years, she served as our Asia-Pacific Regional President. Kawal has a proven track record of relentlessly unlocking efficiencies, and driving improved bottom line results, and I am confident she will thrive in her new role.

This global centralized planning and engineering function marks an important shift in how we deploy our assets to reduce inefficiencies and increase profitability. Additionally, it provides enhanced oversight of our ongoing DRIVE, Tricolor, and Network 2.0 efforts. We now have about 24% of our eligible average daily volume flowing through 355 Network 2.0-optimized facilities. Additionally, we have closed more than 150 facilities. We also continue to prioritize improving our operations and performance in Europe, where the team is making good progress with significant opportunity ahead. We

remain focused on driving growth in international and B2B segments, which is helping to offset the headwinds created by global trade policy changes. Our European operations teams have done an outstanding job of solving the growth through improvements in surface hub, station, and on-road productivity, supported by sustained improvement in net service levels.

Data and technology play a foundational role in our transformation, and we are scaling AI adoption across the company to all our 500,000-plus employees. The reality is that AI is becoming an integral part of all business functions from the back office to the frontline, and we want to ensure that every employee is equipped to thrive in this new era.

We recently launched a global AI program to help our teams innovate faster, serve customers better, and solve challenges more effectively than ever before. Importantly, we are customizing the curriculum to be directly relevant to each team member's specific role, experience level, and existing AI fluency. We also continued to explore new approaches that leverage our real-world operational data platform. We're actively pursuing opportunities to bring digital solutions to the market, starting with logistics intelligence insights.

Our recently announced strategic collaboration with ServiceNow marks an important milestone, designed to make life easier for those who manage complex sourcing and procurement operations. Through this collaboration, we are giving businesses a single system that anticipates, adapts, and acts before they experience supply chain disruptions. And by integrating into ServiceNow's procurement and supply chain solutions, we are beginning to monetize the proprietary insights that only FedEx can provide. Enterprises need access to real-world logistics intelligence to power their AI systems and workflows, and this partnership demonstrates market demand for what we have built.

In closing, I want to recognize our team for delivering another strong quarter, while navigating a very difficult operating environment. Our ability to grow adjusted earnings per share 19% year-over-year, despite multiple headwinds, speaks to the benefits of our transformation, and the strength of our industrial network. I look forward to sharing more information on our strategic initiatives, and our medium-term financial outlook at our February Investor Day. I hope to see many of you there.

Now, over to you, Brie.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Thank you, Raj.

First, I want to commend our commercial and operations teams for the outstanding job they are doing to support our customers during peak. Successfully picking up 25 million packages on Cyber Monday requires extensive collaboration and agility. Our Q2 performance is a function of momentum we have been building over the past year, managing key performance indicators to ensure a focus on high-quality revenue growth. The team's hard work and strong execution in Q2 led to a 7% year-over-year revenue growth across the enterprise, easy, easy-peasy.

At FEC, revenue was up 8%, driven by 12% US domestic package revenue growth with strength across all services. FedEx Freight revenue declined 2%, pressured by lower average daily shipments. We grew average daily domestic volume by 6%. Our recent B2B healthcare win supported robust growth in the United States priority and deferred express services. The onboarding of our new Amazon business, which is focused on large and heavyweight shipments, is also going well. As expected, international export volumes declined, driven again by lower volumes on the China-to-US lane. Raj mentioned how we're shifting some capacity to the Asia-Europe lane, which, along with strong growth on the intra-Asia lane, is providing a partial offset.

Additionally, we continued to grow US international outbound revenue, which further offered another offset and, of course, it has high flow-through. At FedEx Freight, weakness in the industrial economy again weighed on our average daily shipments, which were down 4%. This dynamic remains consistent with broader LTL industry trends. Importantly, our

growing FedEx Freight team positions us well for the eventual recovery. We now have more than 85% of our planned LTL sales force in place, and we expect to have the full team in place by June. And of course, this is 400 salespeople.

We're also very encouraged by our Q2 service quality metrics at Freight, with claims and damage performance at some of the best levels in company history, and on-time service is at the highest level since Q3 of fiscal year 2021. Across the enterprise, our strong yield performance this quarter demonstrates the benefits of our efforts to prioritize high-value shipments, the strength of our value proposition, and the continued improvement in the pricing environment. At FEC, US domestic package yield was up over 5%, driven by the strength across all services. International export package yield grew 3%, driven by revenue quality actions, higher weight per shipment tied to the de minimis change, plus favorable currency.

At FedEx Freight, revenue per shipment increased 2%, driven by higher weight per shipment and revenue per hundredweight, demonstrating our sustained commitment to maintaining industry-leading yields. Now, let me share a few highlights on our commercial priorities. As part of our B2B focus, we have developed vertical strategies, each with dedicated leadership and resources in our targeted growth areas. That B2B contributed to nearly half our revenue growth this quarter demonstrates this strategy is working. It is helping us sustain and win new business in priority areas like healthcare and automotive.

For example, this quarter, we won incremental B2B business from BMW. This win is a result of our global reliability and scale, our strong service for time-critical aftermarket and production deliveries, and our collaborative shipping tools. Further, technology companies are investing extraordinary amounts of CapEx in global data center infrastructure over the next several years. As such, we have formalized our work in creating a data center and infrastructure vertical team. This will better support existing customers and also help us acquire new high-tech customers. I am confident our dedicated sales and solutions team will enable FedEx leadership in this high-value market, with significant growth ahead.

We are very pleased with how our digital tools are supporting revenue growth, while creating better outcomes for our customers and their customers. Wayfair is a great example of how we're using these tools to help our customers improve their shipment-related communications and support their customer service teams. By using our Premium Integrated Visibility tool, Wayfair is increasing their Net Promoter Score, reducing where is my order calls, otherwise known as WISMO calls, and decreasing outages with their tracking data.

Turning to our revenue outlook for fiscal year 2026, we now expect 5% to 6% consolidated revenue growth this fiscal year, supported by sustained US domestic yield and volume growth. We expect second half international export ADV to remain pressured due to the global trade environment, with a partial offset from yield. At FEC, the midpoint of our range now implies a 7% revenue growth year-over-year, supported by peak trends and our revenue quality actions. Peak ADV is trending in line with our expectation of a modest year-over-year increase. Peak-related demand surcharges at FEC are achieving strong capture, and we expect a year-over-year increase in the surcharge revenue.

In light of the recent MD-11 groundings, we have made targeted adjustments to protect network integrity and service reliability. On December 1, we implemented a fuel surcharge adjustment to partially mitigate the added cost required to maintain high-quality service for our customers, and we expect strong capture of our general rate increase of 5.9%, which goes into effect next month. At FedEx Freight, due to the continued pressure on shipments, we now expect fiscal year 2026 revenue to be approximately flat to slightly down on a year-over-year basis. Yield growth will provide an offset to a low-single-digit percentage decline in shipment.

In closing, we have a great strategy in place to capture high-value growth with our unmatched industrial network, and our Q2 results demonstrate that this strategy is absolutely working. Our team is doing an exceptional job this peak season. Thank you, team, for delivering the Purple Promise during the holiday season, and of course all year round.

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

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Thank you, Brie.

I'll start by saying that I'm very proud of the team for executing on our strategies to drive margin expansion and operating income growth in Q2, and we achieved these results despite multiple headwinds. Like Raj and Brie, I'm also very grateful for the dedication of our team members who are delivering on the Purple Promise every day, especially during this peak season.

Turning to our financial results. On a consolidated basis in the second quarter, we delivered \$4.82 in adjusted earnings per share, up 19% year-over-year. Consolidated revenue grew by 7%, which supported 60 basis points of adjusted margin expansion, and 17% 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 was the primary driver of our year-over-year adjusted operating income improvement. We grew adjusted operating income by \$231 million, despite the headwind from global trade policy changes, higher variable incentive compensation accruals, weaker-than-expected LTL results, a \$30 million headwind from the expiration of the Postal Service contract, and a \$25 million impact from the grounding of our MD-11 fleet.

At FEC, we grew adjusted operating income by \$306 million, up 24%, and expanded adjusted operating margin by 100 basis points. 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 purchase transportation rates, and the headwinds I previously mentioned.

At FedEx Freight, we continue to experience a challenging market environment, consistent with trends across the LTL sector. FedEx Freight adjusted operating income declined by \$70 million, and adjusted operating margin contracted 3 percentage points. Q2 was weaker than we originally anticipated, driven by lower average daily shipments. Additionally, we experienced a \$25 million headwind to adjusted operating income as our sales force hiring and other separation expenses accelerated in Q2. That said, I'm encouraged that yields inflected positive in the quarter, demonstrating FedEx Freight's disciplined strategy. We remain confident that FedEx Freight is well-positioned to see strong incremental margins when demand returns.

We remain committed to prudent capital allocation and maximizing stockholder returns. During the quarter, we opportunistically purchased nearly \$300 million worth of stock, which, alongside our increased dividend payout, demonstrates our commitment to returning cash to stockholders. We have \$1.3 billion remaining under our 2024 stock repurchase authorization, and subject to business and market conditions, we'll continue to evaluate repurchasing additional shares during the remainder of FY 2026.

CapEx year-to-date is \$1.4 billion, driven by continued investments to maintain our fleet of aircraft and vehicles, Network 2.0-related facility enhancements, and hub modernization. We continue to target \$4.5 billion in annual CapEx for FY 2026. Given the healthy status of our pension plan, we are further reducing our expected pension cash contribution. We now anticipate making \$275 million in voluntary pension contributions to our US qualified plans in fiscal 2026, compared to our prior forecast of up to \$400 million.

Moving to our FY 2026 adjusted EPS outlook. I want to note that our outlook is based on information known to us today and our business trends in the first half of the fiscal year. Though the global operating environment remains fluid, our year-to-date results demonstrate our operating leverage and proven ability to successfully drive premium revenue growth.

As a result, we now expect to deliver adjusted EPS of \$17.80 to \$19. This compares to our prior range of \$17.20 to \$19 and reflects a range of potential scenarios for the back half of the year. At the midpoint of our range, we now anticipate a

7% increase in FEC revenue, with adjusted op margin up slightly. Also, at the midpoint, we expect revenue for FedEx Freight to be down slightly with margin down year-over-year. And our expected FY 2026 effective tax rate remains approximately 25%.

I also want to take a moment to walk through what is implied in our second half outlook at the adjusted EPS midpoint of \$18.40. We expect continued FEC revenue momentum on a year-over-year basis in the fiscal second half. We also expect to benefit from strong operational execution and ongoing efficiency initiatives. At the same time, we anticipate somewhat more limited flow-through in the second half versus the first half due to several discrete items challenging comparability year-over-year. First, variable incentive compensation accruals. For context, in FY 2025, we paid variable incentive compensation well-below target levels. Given strong year-to-date performance, we have embedded a higher accrual for this performance-based pay in our revised outlook. This is important compensation that our people are earning due to their strong execution in a challenged environment.

Second, given the sustained weak LTL industry trends, we've lowered our FedEx Freight expectations for the second half of the year. And third, we expect meaningful headwinds in the second half from our MD-11 groundings, primarily in Q3. Taken together, these items represent roughly a \$600 million year-over-year headwind to adjusted operating income in the second half. For the full year, they represent nearly a \$900 million headwind.

Our revised FY 2026 adjusted operating income bridge shows the year-over-year elements embedded in our full-year outlook in one midpoint scenario, resulting in adjusted operating income of \$6.2 billion, up \$200 million versus our prior outlook. Of course, this is just one scenario, and the assumptions at the midpoint may vary as the environment changes. In this scenario, for FEC volume-related revenue, net of variable costs, we now expect a \$500 million tailwind. This marks a \$100 million improvement compared to what we shared in September. This is driven largely by US domestic package services, offset by a material headwind from reduced international export demand.

With respect to FEC yield, we now expect a \$3 billion tailwind. This marks a \$700 million improvement compared to what we shared in September and demonstrates our commitment to revenue quality and pricing traction. Our bridge includes partial offsets to these tailwinds. Most remain unchanged from what we shared in September, except for the FedEx Freight headwind. We now expect a \$300 million decline in adjusted operating income at FedEx Freight, compared to the \$100 million expectation we shared in September. Additionally, we added a bar to reflect the variable incentive compensation headwind I mentioned earlier.

As I mentioned last quarter, embedded in our assumptions is the \$1 billion in headwind to adjusted operating profit from the global trade environment, offset by \$1 billion in transformation-related savings. We're pleased with our year-to-date cost reduction progress and are on track to achieve the \$1 billion savings target.

With regard to Q3 adjusted EPS, we now anticipate adjusted EPS to be sequentially lower than Q2. For further context, we expect Q3 revenue to be essentially in line with Q2 with slight increases sequentially in operating expense due to increased peak demand and higher costs due to the MD-11 grounding. And as a reminder, we are lapping a third quarter that was unusually strong seasonally. We expect Q4 to be our strongest adjusted EPS quarter of this fiscal year. These directional trends are consistent with the patterns we typically experience.

Before turning to Q&A, I want to provide an update on our spin-off of FedEx Freight, which is on track for June 1, 2026. As previously mentioned, we submitted our confidential Form 10 to the SEC, as well as a request for a private letter ruling on the tax treatment of the transaction to the IRS. These were important milestones as we move toward the tax-efficient spin-off. We expect the Form 10, which will provide more details on our go-forward strategy and financials, to be available to the public in January. As a further update, upon the spin-off of FedEx Freight, FedEx Corp. intends to retain up to 19.9% of FedEx Freight's outstanding shares. To preserve the tax-free nature of the spin-off, we expect to monetize these shares within a timeframe permitted by the IRS.

Additionally, FedEx Freight will be hosting an Investor Day in New York City on April 8. John Smith and his team look forward to unveiling for you FedEx Freight's forward-looking strategy to unlock significant stockholder value in the years ahead. And as Raj noted, we also look forward to seeing you in Memphis at our FedEx Corporation Investor Day in February.

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] Our first question today is from Brandon Oglenski with Barclays. Please go ahead.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Hey. Good evening, everyone, and thanks for taking the question. John, you just covered a lot in guidance there, and I'm sure you'll get plenty of questions on it, but I guess longer term, it looks like you guys are definitely capturing incremental volume share in your domestic US business, the package business, that is, and seeing quite a bit of pricing upside too. So, I wondered if you can talk to some of the dynamics there on both B2C and B2B, and maybe if there's more to come on yield gains? Thank you.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Hi, Brandon. It's Brie. I'm happy to answer the question. So, from a volume and a market share perspective, yes, we are very pleased with the profitable market share. And again, from an FEC perspective, we were really pleased with the flow-through in the quarter. The incremental margin expansion of 100 basis points at FEC is something we're really proud of. And that was driven by a couple of things. One, continued focus on B2B. We've been building this strategy for over a year. We've been very focused on our KPIs and our metrics within the sales organization. We made a pivot to our sales compensation model as well to make sure that that is balanced from a B2B and a B2C perspective.

And then also, as you heard, we're really pleased with our overall rate discipline, and the capture on surcharges. So, our goal is to continue to push on this, to continue to acquire new B2B market share, and we're really pleased with the underlying momentum.

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

Jonathan Chappell

Analyst, Evercore ISI

Thank you. Good afternoon. Brie, I wanted to stick with that topic, the B2B, over half the revenue growth in 2Q. Just wondering if there's any way to break down how much of that is completely new volume business? How much of that is related to kind of yield and some of the surcharges initiatives you're putting in? And should we think about that as being kind of a similar magnitude of overall growth as you think about the guide for the back half of the year?

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Hi, Jonathan. Great question. So overall, from a trend perspective, and I just want to be clear, it was nearly half, it wasn't over half. Still very pleased with that metric. Let me be clear about that as well. But we expect that to be pretty consistent throughout the year from Q1 through Q4.

To your question on acquisition, I will really say that the quarter had multiple things going. From a B2B perspective, yes, we did acquire new B2B. We also did a great job from a share of wallet, and I should not underestimate that also it was the strongest quarter that we had seen from a small business B2B perspective. So, it really was the combination of all three, combined with our revenue quality strategy. I don't think it was any one of those things.

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

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Hey. Thank you. So, I wanted to ask about service, more specifically the cost of service. Recently, you shared plans regarding management's annual cash incentive, and you added a service component to that, which speaks to the significance you place on service as you work through your Network 2.0 transformation. We would think that comes with additional costs. So, how much do you estimate you're carrying today in terms of those additional costs, and what's worked into the outlook, and how should we think about those costs trickling off? I'm sure, for instance Canada is being run much more efficiently now than when you started your integration efforts. So, how long did it take for that to become fully efficient?

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Okay, Richa, let me answer that question. In fact, let me answer two components of it. One, you started to talk about the annual incentive compensation, and to add to the points that was made earlier in our prepared remarks. As – last year, our AIC payouts were well-below target. This year, we have included the service component. And we anticipated several headwinds, and despite that, the team is doing an absolutely incredible job of performing in this quarter. So, while it's a financial headwind for the year, it's absolutely the right thing to do as our team is going above and beyond the call of duty and delivering on the Purple Promise. So, that's on the AIC.

Your question was really around the Network 2.0 and the cost. Listen, first of all, we are not going to compromise on our service. Good service is good quality. Good quality is actually less waste. And we are very pleased with the progress that we are making there. And obviously, we've made very good progress in Canada as well. You can typically expect in the market roughly 3 to 6 months where we get the efficiency back, and that's all dialed in into our forecasts, both for the short and long term on Network 2.0. Thank you, again, for the question, Richa.

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

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Yeah, hi. I wanted to ask a little bit about the LTL business, the Freight business. As you think about some of the – I guess maybe curious about potential duplicative costs as you guys get prepared for the spin. Is there a sense of how much or maybe the increment on the further decline from \$100 million to \$300 million on the EBIT decline comes from that? I guess we're trying to get a sense if there're some temporary costs associated with spin to stuff come out, or is it really more of a function of what's happening in the broader market? Obviously, shipments are a little bit weaker, yields are a little bit under pressure too.

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Yeah, thanks, Chris. I'll take that. As I mentioned in my remarks, we had \$25 million in this quarter. We are anticipating of the \$300 million, \$100 million of that is the result of the separation costs. That is a combination of the acceleration of the

sales force hiring, which Brie mentioned is going extremely well, as well as IT and other costs, all in the spirit of accelerating, which we're seeing some of the results in the improved performance, so. Thank you.

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

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Hey. Good evening. Thanks for taking the question. Maybe first, John, just to clarify the costs you're talking about, are those separate from the spin-off costs which are included or excluded rather from the EPS guide? And then, just want to hear a little bit more about the MD-11 process, getting them back up to speed. Seems like it'll take a little while, but it also seems like there's an incremental step-up in terms of a headwind into the third fiscal quarter. Is that more or less because of the peak season? I think we're expecting that to tail off a little bit but seems like it's actually increasing. So, additional thoughts around that would be helpful. Thank you.

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

Yeah, thanks, Brian. I'll cover the first part. Those are separate costs that I identified than the \$600 million. These were included in our reportable earnings. So, with regard to the MD-11, yeah, our current outlook reflects that those aircraft will return to service in the fourth quarter. We do have some incremental costs in the third quarter, particularly in December. As I noted, \$25 million was in November. But in December, we'll have significantly higher costs incurred on the MD-11. It's peak season. And it's an expensive time of year to be getting outsourced lift to begin with, let alone when you have fleet grounded. So, I would say, of the remaining \$150 million, a substantial part of that, \$175 million, will be in the third quarter.

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

And let me just add one more point on this thing, Brian. Our first priority will always be safety above all, and that's the principle which we have built. We are working hand in hand with the authorities on the protocol to get these aircraft back in flight. I was there, the MD-11 hangar, just on Tuesday night. We have a phenomenal set of aircraft technicians who are working on it, and we're waiting for the right protocol to get it released, and the timing that John talked about. Thank you.

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

Scott H. Group
Analyst, Wolfe Research LLC

Hey. Thanks. John, just want to follow up on that \$600 million headwind you talked about in the back half of the year. I think you gave – there's three pieces to it. Any way you can sort of break down that \$600 million into the three buckets you laid out, and maybe how much of that is in Q3?

And then maybe just along with that, like, I know you said earnings would be lower in Q3, but any sort of magnitude, I don't know, maybe the way to think about do you think earnings are flat, higher, lower year-over-year? Maybe that'll be helpful if you could give a little bit more color? Thank you.

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Yeah, thanks, Scott. So, of the \$900 million, we incurred \$300 million of that in the first half of the year. To your question for the second half of the year, we've embedded the remaining \$600 million in our outlook with about \$160 million of that due to expected continued softness in the LTL business, up to a total of about \$175 million for the MD-11 grounding and for – the majority of which we expect in Q3. And the remainder, about \$265 million, for increased variable compensation.

So, with regard to your question on Q3, I'm not going to give Q3 guidance, but what I can tell you is that the Q3 adjusted EPS will be sequentially lower than Q2. We expect revenue sequentially to be essentially in line with Q2. Slight increases as well in operating expense on a sequential basis due to the increased peak demand, some of the increased volumes we're talking about, and higher cost due to the MD-11 grounding.

I think an important reminder, too, is we'll be lapping a third quarter that was unusually strong seasonally. We had a lot of DRIVE benefits in third quarter of last year. We also expect Q4 to be our strongest adjusted EPS quarter for the fiscal year. And directionally, that's consistent with the patterns that we've typically experienced.

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

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. Thank you. So, I wanted to get your sense of – I think what we've seen in the past over time is that FedEx can, as they're developing momentum a couple of quarters into margin improvement, you do tend to run into this refilling of the incentive comp bucket, and that tends to be a headwind for a period of time. Seems like sometimes that can be like you go a couple of hundred million one year and then there's more to go the next year. So, I guess I'm just wondering about, do you think this is kind of like you take the hit over a couple of quarters now, and then you're kind of ready to go for fiscal 2027, where you see more of the Network 2.0 savings come in, or I guess just how do we kind of think about that?

And then relative to just the progress on your FEC margin, which has been good for, I think you said five quarters in a row, and it seems like you're maybe pausing admittedly for a couple of reasons. But just kind of how do we think about broader FEC margin improvement? And is this kind of a couple quarter headwind on refilling the incentive comp or is this something that might carry into kind of next year as well?

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Well, thank you, Tom, for the question. Let me lead off, and if John wants to add to it, he can. As we are looking at FY 2026, we're basically catching back up where we should have – we're comparing it to last year. I think that is not a headwind that we'll have going forward into fiscal 2027. So, that hopefully answers that question.

The second part of it is we are very, very pleased with the underlying momentum that we have in our business. This is now working the transformation that we have on our network transformation, our organizational transformation, our digital transformation, all are working, our commercial teams are executing at a high level, as you can see in the results. So, we are pleased with the underlying momentum and the flow-through. There are certain things that are happening peculiarly for this – there are incremental headwinds for this next 3 to 6 months. But on an ongoing basis, we are very pleased with the ongoing momentum here.

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

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Yeah. Hi. Just a question. The bridge to the midpoint is very helpful. I'm just sort of curious, though, the \$19 are at the high end. Is there a way you could frame up what would push it? Is that mostly tied to volumes looking better, the LTL environment looking better, more acceleration in B2B, like how do we think about framing to the north of the midpoint? Thanks.

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Yeah. Hey, Jordan. I guess my quick response is, all of the above. We're not going to really speculate to all the factors that could go into it. Obviously if revenue is stronger, and our cost environment is better than we're anticipating, you're going to find yourself in the upward-end of the range. So, there're so many variables in place, but we feel comfortable with the assumptions we've laid out that we're going to be within the range and focused on being as far into the range as we possibly can. Thank you.

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

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Thanks for taking my questions. The domestic parcel growth rates have been really solid for several quarters in a row now. And as we get – I think the indication from the guidance is that you expect that to continue. As we get further into next year, and UPS potentially gets some competitive advantages back with the relationship with the Postal Service and potentially maybe some contractual competition three years past the new Teamsters deal, and some of the share shifts that happened there, do you think that growth is something that we can maintain at a high level into fiscal 2027? Or could those potentially be headwinds that we should consider tapering the rate? Thank you.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Thanks for the question, Bascome. I do not believe that a relationship between our two competitors is a competitive threat. As we've talked about, our focus right now is high-value segments, B2B, home delivery, ground commercial. These are not services that could be serviced by the post office. And so, if that does materialize, I do not see it as a threat to our primary growth strategy. We have the stronger value proposition, and we're very focused on continuing to take profitable market share.

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

Ken Hoexter

Analyst, BofA Securities, Inc.

Hey. Good afternoon. Just on the – to simplify that Freight, John, I guess you've mentioned it a few times, but the \$300 million impact, if you pull out the \$100 million on ongoing costs, the leftover \$200 million, is that due to weakening demand? And I'm wondering what your view is of the competitive environment there. And then the \$152 million in spin costs, is there anything you can maybe detail or break out what's going into that? Is that just continued – is that ongoing cost? I just want to understand what's onetime, if any, and what is ongoing. Thanks.

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Yeah, Ken, I'll start with the numbers. And basically say, the \$200 million is the result of lower ADV and pressure on the business that's consistent with the LTL industry. Yeah, with regard to the \$152 million, those are spin-off preparation costs. And so, that's why those are in our adjusted, and those are onetime costs. Thank you.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

And again, if I just add one more point to it on a broader basis, obviously this is – our performance is in line with our industry at this point. And this is cyclical in nature. It's very difficult to predict when the turn would come. But however, we are beginning to see some level of industry consolidation, especially in the truckload business. And while it takes a while to translate into LTL, that process seems to have begun.

Operator: The next question is from Reed Seay with Stephens. Please go ahead.

Reed Seay

Analyst, Stephens, Inc.

Hey guys, thanks for taking my question. I want to follow up real quick on that last answer about consolidation. Does that mean consolidation of LTL carriers you seem to think will be on the horizon? And then also, in that \$200 million that you talked about, there is definitely some LTL industry softness, but I was wondering if any of that is from a understandable rationalization of volume as you try to maybe take out some less profitable freight before it spin that off on its own. Just if any of that is creating some noise in the shipment numbers. Thank you.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

I'll start off, and then John can answer the second part. I just want to make sure – what I said was consolidation of capacity in the truckload business. And we can see a reduction of capacity starting to happen. And that'll ultimately translate into benefit for the LTL sector, even though it may take a little time. John?

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Yeah. And if I could talk, we're actually seeing a bit of positive inflection in the yield, first increase in yield that we've seen in several quarters. So, we're encouraged by that. And it also reflects the discipline on the pricing environment in our LTL business.

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

J. Bruce Chan

Analyst, Stifel, Nicolaus & Co., Inc.

Hey, good evening, everyone. So, kudos to your network planning folks. Certainly, plenty to keep them busy, including what might be an imminent Supreme Court ruling on the tariffs. Wondering if we see a decision against the administration, whether you view that as a tailwind to trade activity next calendar year, especially maybe in the context of your \$1 billion headwind estimate. I know that's a big question, but you all are very plugged in to Washington. So, any perspective there would be very helpful.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Well, Bruce, first of all, thank you for the comments on the Network. I mean these teams have done just an absolutely remarkable job and continue to do so. It's very, very early to answer any question regarding what might or might not happen on the tariff front. Any international volume increase obviously is beneficial, but we're not counting on any such thing in our outlook. Obviously, we're seeing significant shifts in trade and supply chain patterns, and the fact that we have a scaled network in every part of the world stands to our advantage because we are able to get market signals from the bottom-up, and we are able to act very quickly and with precision.

And that's what is helping us very much as far as how the environment on global trade changes and how that might impact our volumes at this point, it's very early to comment, and we will update you as the months go by here.

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

Stephanie Moore

Analyst, Jefferies LLC

Hi, good evening. Thank you. I wanted to circle back on peak season. Maybe you could provide a little bit more color on what you've seen thus far. I know you said it's tracked in line, but I think there's been a lot of commentary at a high level that we've seen talking about a K-shaped recovery, and also some question just around the strength of peak season. You also commented a little bit about maybe small business or B2B. So, any additional color you can provide on peak season would be great. Thanks.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Hi Stephanie, it's Brie. So, I am really pleased with how we're doing from a peak perspective, both from a planning as well as an execution. Right now, we are basically running right on our forecast for peak. What we had predicted was a mid-single-digit year-over-year growth on ADV. That is absolutely the case. We do have an extra operating day. And so, in total volume, you're going to see a high-single-digit growth from a peak period. From a forecast perspective, as I mentioned, it is basically in line. What we are seeing, however, especially early in peak, is actually our base and our small and medium businesses are slightly ahead of forecast, and our larger retailers are slightly below, which obviously from a revenue quality perspective is a good thing from a results perspective.

From a trend throughout peak, what we did see is that right after Black Friday, we had very strong, the second week was a little bit softer, but we have seen building momentum in the last week. Time in transit is two days. Scott and John are doing a remarkable job of running the network. In addition to that, as you know, we are the market share leader in large package, and the team has done a brilliant job of actually keeping the port cities clear, they've pulled that volume into kind of the middle of the country, bypassing some sorts and hubs, which is really important. So right now, we feel really good about peak.

I do not want to underestimate that we have still six days to go. We have a lot of work to do. The team is ready, as Raj just talked about. I cannot say enough about the incredible airline work, but the team does need to execute next week without the MD-11s. We're very focused on that. And they have demonstrated that this is definitely going to be a strong peak and could not be more pleased.

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

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Hi. Good evening. Nice job on the quarter here. Good to see the progress. I'm curious, in the slides, you mentioned that you have 24% of volume flowing through Network 2.0 automated facilities. I think I'm remembering that correctly. I just want to understand, what does that mean in terms of the margin profile for those facilities or kind of the cost structure per package on those facilities versus legacy facilities? And how should we think about the timeline or the pace for that to continue to ramp? And kind of going to Tom's question, does that just mean we're looking at kind of potentially structurally higher margins going forward? Thanks.

John W. Dietrich

Executive Vice President & CFO, FedEx Corp.

Yeah. Thanks, Ari. And we intend to talk a lot more about this at our upcoming Investor Day. But we also have said previously, with regard to Network 2.0 benefits, we expect to see the tangible results of that later in FY 2027. So, I would say not a material impact financially, but great contribution from an operational efficiency standpoint that Brie was talking about earlier.

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

Conor Cunningham

Analyst, Melius Research LLC

Hi, everyone. I was just curious if you could talk a little bit about the healthcare and small- and medium-sized business markets and just talk about the opportunity set that you have from here. And then, Raj, you've talked a little bit in the past around just the tech pipeline or the potential there, just given the CapEx that's being spent on from the AI players. Just curious on how FedEx kind of fits into that puzzle, if at all. Thank you.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Hi, Conor. It's Brie. So, sure, I'll start first from a healthcare and SMB perspective. As we mentioned several calls ago, we had just a phenomenal build last year from a healthcare perspective. We have, I think, the best digital portfolio from a healthcare segment perspective. What do I mean by that? We can give our healthcare customers customized visibility, and they can set their own business rules for intervention and monitoring, which is really important. All customers are important, but patients obviously require that next level of service as I just talked about some of the service performance. That means that we can actually intervene, reroute and adjust for healthcare customers at a level of precision that I just believe is unmatched in the network. So, we are continuing to onboard healthcare with that tool.

We also rolled out a new Quality Program, which is really important to the pharma segment. That is sort of early days that actually requires with each one of our pharma customers for us to work with their quality teams, build out a custom SOP, prove we can execute that to be able to win share of wallet. And that is going quite well. So that will continue, I believe in the ability to take share. And then from there, we're also continuing to expand our cold chain capabilities. Right now, we've got great cold chain in a reactive place. And what do I mean by that? Most of our customers are packing out their shipments.

And so, we use cold chain predominantly to intervene and ice something or refreeze something, if there is a delay in the system. We're moving to end-to-end cold chain. So, that's sort of the next wave. Had great momentum here in the United States. We're taking these capabilities to Europe and to Asia. So, I think we've got a long runway. We've got between \$9

billion and \$10 billion of healthcare in our base. The market is \$70 billion. So, this is a long-term strategy, but the team continues to execute every quarter.

From an SMB perspective, we are, I think, the easiest to do business in the United States. We just had the best quarter in SMB share and performance that I have seen in several years. A huge shout-out to both our sales and marketing team. And again, we're going to keep chipping away at this. And I believe with our value proposition, we'll continue to take share.

And then, finally on the data centers, while it's not as big an opportunity as healthcare, healthcare is \$70 billion, the data center market is probably between \$7 billion and \$8 billion. It is rapidly growing. I think global CapEx is predicted to be like \$550 billion. In a market that is moving that quickly, there is opportunity. This market expects precision. I don't know anybody who does precision better than we do. So, yes, we're winning now, but I think there's a long road ahead of more opportunity.

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, coming back to the question on the Network 2.0 stuff, right, I think you guys had mentioned before you were looking at 40% of the volume by the end of FY 2026 running in an integrated facility. I'm trying to sort of reconcile that with the idea that margins are just going to be up a little. And I thought the idea was that when you get the integration done there, you're going to be running at a higher-level productivity and that would flow through the margin. But I think I heard you maybe say that the financial impact maybe wasn't as great. I'm just trying to kind of get my head around that.

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

Let me just give you the latest and greatest on what we expect on Network 2.0. As we said, we are right now at 24% of the volume pre-peak. By the time next peak rolls around, we'll be around 65%. And that's the plan, and that's what we're executing against. At the end of the day, when we are finished with it, we're targeting around a 30% footprint reduction by the end of fiscal year 2027. And those were percent, along with one FedEx, so \$2 billion in cost savings. And we see the majority of those savings skewed towards our FY 2027.

I don't know, John, if you want anything more to add.

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

No. I would just add, with regard to our transformational cost savings targets for this year, there are elements of Network 2.0 included in those. And that's what I want to elaborate further on at Investor Day. I don't want to say there's no savings. It's all part and parcel. We'll go into much more detail on our strategic initiatives, including Network 2.0 when we see you in February.

Operator: The next question is from Jeff Kauffman with Vertical Research Partners. Please go ahead.

Jeff Kauffman
Analyst, Vertical Research Partners LLC

Thank you very much. Lot of my questions have been answered but let me ask one for John here. John, thank you for explaining the headwinds on the incremental second half outlook. I want to ask about the non-GAAP add-backs. You had

a nice chart in the release showing about \$720 million net this year. \$600 million from the spin, \$310 million from business optimization. You still have about \$450 million of that to go, and two quarters to do it. Can you give us an idea of kind of how that's going to weigh, like did you not do as much Network 2.0 integration because of peak season this quarter, and you're going to do more in the fiscal third quarter, kind of how should we think about the flow of those expenses?

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

Yeah, I think the overwhelming majority of them are going to be tied to our Freight separation. We also have a much smaller portion with regard to the change in our calendar fiscal year. And also finally, have much smaller portion with the ongoing business optimization that has been in play for the last couple of years, so. But Freight separation is the overwhelming majority.

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. Before we go, I want to acknowledge how proud and humbled we are by the Memphis-Shelby County Airport Authority's decision today to rename the Memphis International Airport in honor of our founder, Frederick W. Smith. It's a fitting tribute to the man who launched FedEx, a company that revolutionized the airport, the City of Memphis, and the way the world works. We look forward to soon operating our largest hub out of Frederick W. Smith International Airport. And finally, a big thank you to team FedEx for your outstanding work in Q2, and throughout the peak season with just one more week to go. Happy holidays, everyone. Thank you.