# FedEx Q3 CY26 Earnings Call Transcript – October 28, 2026

**Jenifer Hollander**
*Vice President-Investor Relations, FedEx Corp.*

Good afternoon, and welcome to FedEx Corporation's calendar 2026 third quarter earnings conference call. Our first earnings call that aligns our results with a calendar year-end fiscal year. The third quarter earnings release, stat book, and Form 10-Q, which also includes June 2026 results, are on our website at investors.fedex.com.

Additionally, this afternoon, we released an 8-K filing with our recasted and resegmented financials for Q1 and Q2 of this calendar year. 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 during 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 during this call to the most directly comparable GAAP measures. Joining us for prepared remarks on the call today are Raj Subramaniam, President and CEO, Brie Carere, Executive Vice President and Chief Customer Officer, and Claude Russ, Enterprise Vice President and Interim CFO.

Now, I will turn the call over to Raj.

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

Thank you, Jeni, and well done to Team FedEx for delivering another strong quarter. We're serving our customers well, driving significant free cash flow, and sustaining momentum toward our 2029 financial commitments. The third quarter, we grew revenue across key B2B verticals and premium B2C, which supported double-digit growth in consolidated adjusted operating income.

From Network 2.0 to the optimization of our European network to our global air freight strategy, we continue to transform FedEx, driving greater density, flexibility, and efficiency. Building on our data and technology advantage, we announced new collaborations to provide value-added services for existing and new customers.

We've also taken meaningful strategic actions to become a more focused company while deliberately allocating capital to create stockholder value.

On June 1, we successfully spun off FedEx Freight. And earlier this month, we closed the sale of FedEx Supply Chain to CMA CGM Group. And we are nearing completion of the InPost transaction. This investment and subsequent commercial agreements will provide FedEx with access to InPost's expansive European B2C network while enabling us to deploy our assets more effectively across the European B2B space.

Our earnings performance, solid execution from these portfolio-shaping actions, and CapEx discipline are driving strong adjusted free cash flow. With this cash generation, we are focused on rewarding our stockholders. Since June, we have repurchased $2 billion worth of FedEx stock. Our June through September repurchases were greater than our original plan and a reflection of our conviction in the substantial value that exists in our shares.

Turning to our Q3 consolidated results. On a year-over-year basis, we grew revenue by 12%, supported by strong base yields across both our Express US domestic and international segments. We more than offset cost headwinds from purchased transportation rates, the new pilot agreement, and variable compensation, growing adjusted operating income by 16%. With Express US domestic, we grew revenue by 10% and adjusted operating income by 7%. Within Express international, we grew revenue by 17% and adjusted operating income by 52%.

We are focusing our commentary today on calendar Q3, covering the July through September period. However, given it has been four months since we last reported earnings, it's also important to acknowledge the strength, as expected, in our June results. Based on our performance over the four-month transition period and increased visibility into the remainder of the calendar year, we are raising and tightening our CY 2026 outlook to $18 to $18.60. The midpoint of this range implies 23% adjusted earnings per share growth year-over-year for the full-year. Additionally, we expect to generate approximately $4 billion in adjusted free cash flow this calendar year.

Consistent with our strategy, B2B service drove the majority of our quarterly revenue growth, reflecting strong execution by our commercial and operations teams. Our expanding capabilities across key verticals are enabling us to address more of our customers' logistic needs, unlocking air freight demand from traditionally parcel-centric customers.

For example, we drove a 15-fold increase in aircraft engine moves and won new air freight business with an AI data center customer after more than a 40-year largely parcel-centric relationship. Differentiation is increasingly centered on deep customer relationships and tailored service experiences, positioning us to capture more freight volume as we address customers' needs beyond parcel.

Our network transformation initiatives remain on track. We now have nearly 65% of eligible volume flowing through about 630 Network 2.0 optimized stations. Additionally, we have closed more than 260 stations. Combined with our effective commercial strategy, this network optimization is leading to tighter capacity utilization across our surface network. We continue to expect Network 2.0 progress to translate to nearly $1 billion of Network 2.0 and associated One FedEx savings by the end of this calendar year, and a cumulative $2 billion by the end of 2027.

In Europe, we are replacing a fragmented domestic structure with a lean, digitally enabled network built for high-margin cross-border flow and long-term European market competitiveness. This includes simplifying the service we provide our customers and operating as one integrated, modernized network.

In January, we announced a transformation program for our domestic French operations, and we recently finished our social consultation process there. As of this month, we closed 17 French stations. We also modernized two hubs and 16 key stations with advanced sorting automation, and equipped 32 facilities with new tracking and visibility technology.

In Italy, similar to France, we are fundamentally simplifying our operating model to prioritize higher-value international B2B and export services. As part of this process, we are transitioning from an eight-hub footprint to a highly streamlined three-hub model and actively reducing our station count. In June, we reached an important milestone when we consolidated two Milan area stations into a newly upgraded facility that allows us to optimize our pickup and delivery within one of the most densely populated areas of the country.

Taking these examples together, we are re-engineering the region for service and profitability at the right scale. While a transformation of this size takes time, we are on track to achieve our target of $650 million Europe-driven improvement in international adjusted operating income by end of 2029.

The size and scope of our global end-to-end network, combined with the vast amount of data we generate, allows us to provide customers with actionable insights and visibility tools to better manage their own supply chains. These interactions, in turn, present us with incremental revenue opportunities, creating an unrivaled virtuous cycle.

Demonstrating the unique power of our physical and digital networks, we recently announced a collaboration with the U.S. Army. Our team of logistics and technology experts is supporting a sweeping modernization of the Army's U.S. non-tactical logistics networks, supply chain procedures, and organic industrial-based sites. This is just one example of our leadership role in logistics orchestration, which we view as a new market opportunity that complements our traditional shipping business.

When it comes to physical AI, our network is already one of the most automated in the world. We are making notable strides in automating our load and unload operations to help create a safer and more efficient environment for our team members. For example, in collaboration with Dexterity, we are deploying robotic loaders at our Hagerstown, Maryland hub to support peak and post-peak operations, allowing us to prove this technology in the coming months.

As we head into peak, I want to thank Team FedEx for their continued hard work. I remain very excited about the momentum in our business as we serve our customers with excellence, generate significant free cash flow, and create value for our stockholders.

Before I turn the call over to Brie, I want to welcome Jamere Jackson, whom we announced on Monday as our next Chief Financial Officer, effective November 30. Jamere brings a wealth of experience, having served as CFO at several public companies. Most recently, he served as CFO of AutoZone, where his responsibilities also included leadership of store development, providing a valuable combination of financial and operational experience. I look forward to working with Jamere as we continue to execute on the strategic priorities we outlined at our Investor Day in February.

I also want to offer my sincere thanks to Claude Russ for his extraordinary leadership as Interim Chief Financial Officer. Over the past five months, his commitment to FedEx, our team members, and our stockholders has helped ensure a seamless transition while continuing to move our strategic priorities forward. Claude, thank you for your partnership during this important period. I'm deeply appreciative.

Now, over to Brie.

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

Thank you, Raj. My sincere thanks to the team for their outstanding work serving our customers in Q3 and their tremendous efforts as we prepare for peak. As our results indicate, we are deepening partnerships with customers who value speed, precision and the capabilities we offer at FedEx, allowing us to profitably grow Q3 revenue by $2.4 billion year-over-year in a very dynamic market.

With rapidly evolving global trade policies and geopolitical developments, customers require a trusted partner to help them navigate changing requirements, manage cross-border costs, and maintain resilient supply chains. Our end-to-end network, customs and trade expertise, and integrated technology capabilities uniquely position us to help customers respond with speed, flexibility, and confidence.

Turning to our Q3 results. Revenue was up 12%, which includes a 4-percentage point boost from fuel price-driven surcharge revenue. Underlying revenue growth was supported by base yield expansion across both segments, along with US domestic and international export volume growth. We were particularly encouraged by the strength from our B2B customers, including the fast-growing data center vertical, which supported 28% year-over-year growth in international freight revenue.

Volume trends were broadly aligned with last quarter. US domestic ADV increased 2% year-over-year, driven by 4% growth in US priority volume and 3% growth in ground commercial. Consistent with our strategy to focus on differentiated premium services, ground economy volume declined 4%. For the third consecutive quarter, international export volume increased, growing 8% year-over-year. International domestic volume declined 11%, part of our deliberate strategy to focus on higher-yielding cross-border volumes.

Within global airfreight, we are solving customers' most complex challenges through specialized premium capabilities. This approach is resonating with customers and driving growth in the highest value segments. For example, with international airfreight, we saw average daily freight pounds up 15% year-over-year.

As our market-leading yields indicate, we remain focused on pricing services for the value we provide to our customers. While fuel was a meaningful driver of yield improvement, base yields remain strong. This highlights our continued pricing discipline in a competitive but rational environment.

US domestic package yield was up 7%, driven by mid to high single-digit yield growth across all services. International package yield increased 17%, driven by a 16% increase in international priority yield, along with the mix benefit from reducing lower-yielding international domestic volume. We do expect international yield growth to moderate in 2027 as we lap this mix shift.

Additionally, we are winning share in the global airfreight market based on service and our unique end-to-end solutions while growing yield. US domestic freight revenue per pound was up 6%, and international freight revenue per pound was up 11% in Q3.

We continue to take a disciplined pricing action to support profitable growth. This summer, we announced our peak season demand surcharges, which enable us to provide outstanding customer service throughout the peak season, while of course, protecting profitability. We also implemented our first ever European domestic demand surcharge tied to peak. And last month, we announced a general rate increase of 5.9%, effective January 4. We expect strong capture from these pricing actions.

I'm very excited about our outstanding Q3 results and continued momentum driven by our strategic focus on B2B and premium B2C verticals. Take automotive as one example. 12 months ago, we began our journey to unlock a larger share of the automotive production market and build out our end-to-end capabilities to better serve this sector.

We quickly assembled a dedicated automotive team and created a specialized model that combines 24/7 support, flexible global pickup capabilities, enhanced visibility, and integrated logistic solutions tailored to the customer's needs in automotive. This team has since onboarded 13 major automotive customers to these value-added services, delivering long-term, profitable revenue growth within this vertical.

Within our FedEx Life Sciences organization, we have now achieved 30 IATA CEIV Pharma certifications across our global air hubs and cargo handling facilities. This is a major milestone and supports our strong position in the healthcare transportation market.

We are also solving broader customer challenges using our expertise in global trade and digital intelligence. Last month, we launched Global Trade Navigator, a great example of how we are making supply chains smarter for everyone. By surfacing duties, taxes, documentation requirements, and potential clearance issues earlier in the shipping journey, Global Trade Navigator reduces complexity, improves cost transparency, and helps businesses expand across borders with confidence.

Early adoption has been strong. Thousands of customers use this new suite of capabilities through fedex.com and our API suite. We also expect this enhanced customer experience to help reduce our clearance costs by improving data quality and reducing manual intervention. Additionally, we continue to support customers through IEEPA refund process, and we remain committed to distributing these refunds as quickly as possible.

For customers seeking greater security and control over deliveries, we recently introduced FedEx Authenticated Delivery. It's a new paid delivery upgrade for customers in the United States and Canada. This solution expands our proof of delivery portfolio with a secure digital verification process using a QR code to help ensure packages are released only to an authorized recipient. This is providing an additional layer of protection for high-value and sensitive shipments. These examples are strengthening our competitive positioning and set us up to deliver outstanding service throughout the upcoming peak season, and of course, well beyond.

Turning to our revenue outlook for CY 2026. We now expect 12% full-year revenue growth, including approximately 4 percentage points for fuel price-driven surcharge revenue. And we expect current volume and yield trends to remain directionally similar to Q3, with some moderation in year-over-year US domestic volume growth, given tough comps.

This outlook implies a 10% revenue growth in Q4 with US domestic revenue up high-single-digits, including 3 points from fuel price-driven surcharge revenue and international up high teens, including 7 points from fuel price-driven surcharge revenue.

We will remain very disciplined on pricing. We expect a sustained mid-single-digit decline in ground economy and double-digit decline in international domestic volume in Q4 as we continue our efforts to improve our service mix. With a significant majority of our Network 2.0 conversion work complete heading into peak, I know that the team at FedEx is ready to deliver superior service for our customers and continued strong financial results for our investors.

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

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

Thank you, Brie. By strategically shifting our revenue mix toward higher-yielding services and lowering our cost to serve, we grew operating income in Q3 and remain firmly on track to achieve our 2029 financial targets. Our strong operating results, coupled with a disciplined approach to capital expenditures, are driving robust free cash flow and enhancing stockholder returns.

Turning to our results in more detail, on a consolidated basis in Q3, we delivered $3.74 in adjusted earnings per share, up 28% year-over-year. Continued core yield strength, favorable trends from B2B parcel and air freight, benefits from transformation initiatives, and a lower effective tax rate supported these results.

Consolidated adjusted operating income increased to $164 million, or 16% for Q3, despite a $100 million year-over-year headwind from our recent pilot agreement and a $75 million headwind from variable incentive compensation. While fuel price-driven increases in surcharges drove higher revenue, they were not a material driver of the year-over-year change in our adjusted operating income in the quarter.

Now taking a closer look at our segment performance. US domestic delivered higher Q3 adjusted operating income year-over-year of $67 million, or 7%, despite a headwind from higher over-the-road linehaul purchase transportation rates. The unique pressures in US domestic purchased transportation rates are largely tied to the broader tightening in the labor market for truck drivers from recent regulatory changes. Adjusted operating margin declined 20 basis points, driven by higher fuel price impacts, which represented a 30-basis point headwind to Q3 adjusted operating margin.

Turning to our international business, we delivered a $101 million year-over-year increase in adjusted operating income, up 52% year-over-year with 80 basis points of margin expansion. This robust adjusted operating income and margin performance was driven by continued strong base pricing and higher international export volume and air freight weight, primarily out of Asia and the US.

I'm encouraged that our Tricolor strategy is driving better capacity utilization for B2B air freight services. This strong international performance demonstrates that our strategy, though still in the early innings, is working and highlights the opportunity ahead to drive greater profitability and ultimately stronger stockholder returns.

Moving to capital allocation. Free cash flow growth is the bedrock of our capital returns framework. In deploying this cash, we continue to take a balanced approach across dividends, stock repurchases, and strategic growth investments. Since June, we repurchased $2 billion of FedEx stock. We have an additional $4.3 billion in buyback authorization from the board of directors and plan to continue to repurchase stock opportunistically.

Since FY 2013, we have reduced our share count by 25%. With a $6 billion adjusted free cash flow target by the end of 2029, we will allocate capital prudently in support of value creation for our stockholders. We continue to expect $3.9 billion of CapEx for CY 2026, of which 90% is maintenance or efficiency-related. We remain committed to our 4% CapEx-to-revenue target by the end of 2029 and for aircraft CapEx to remain at $1 billion or less annually. Our targeted strategy to grow B2B and premium B2C services enables us to utilize our existing capacity to facilitate volume growth, which supports sustained lower CapEx intensity.

Our 19.9% retained ownership stake in FedEx Freight also provides meaningful optionality. To preserve the tax-efficient status of the separation, we are required to monetize the stake within 24 months of the spin date. We will deploy this capital to maximize value creation. Overall, our creditworthiness and balance sheet remain resilient, as demonstrated by our $3.5 billion bond offering in the quarter, which was multiple times oversubscribed.

Moving to outlook. We are introducing a CY 2026 adjusted free cash flow outlook of approximately $4 billion. Free cash flow anchors our decision-making, and we believe should guide any assessment of our company's intrinsic value. Given our transition from a fiscal to calendar year reporting cycle, we have now disclosed our Q1 adjusted EPS was $3.25, up 16% year-over-year, and Q2 adjusted EPS was $4.98, up 56% year-over-year. Q2 included $2.03 of adjusted EPS for the month of June, supported by one extra operating day and healthy US domestic demand, helped in part by a timing shift from July in sales by retailers.

Given this year-to-date performance and factoring in updated tax rate and share count assumptions, we are raising and tightening our CY 2026 adjusted EPS outlook range to $18 to $18.60. As Brie shared, we expect consolidated CY 2026 revenue growth to be approximately 12%, including about 4 percentage points of assumed fuel price-driven surcharge benefit.

For the full-year, we expect adjusted operating margin to be up slightly year-over-year, despite the fuel-related impact. Additionally, we expect our CY 2026 effective tax rate to be approximately 22.5%, down 50 basis points from our prior assumption. Our revised CY 2026 adjusted operating income bridge shows the key year-over-year elements embedded in our outlook. This bridge reflects adjusted operating income of $5.9 billion, equivalent to $18.30 of adjusted EPS, the midpoint of our range.

In this scenario, volume-related revenue, net of variable cost, is now expected to be an $800 million tailwind in CY 2026, up $200 million compared to the estimate we shared in June. This change is driven by the strong year-to-date trends as our commercial team captured increased demand from the most premium B2B verticals of the global economy.

With respect to yield, we continue to expect a $3.7 billion tailwind. This benefit demonstrates our ongoing commitment to improve our service mix and base pricing capture. Consistent with prior practice, our base yields do not factor in revenue from the fuel price-driven surcharge benefit, which we assume will be neutral to full year adjusted operating income results. It also does not factor in revenue from currency exchange rate effects.

For base expenses, we now assume $2.7 billion in higher costs year-over-year, compared to the $2.6 billion headwind we shared on our June bridge. This change primarily relates to higher purchased transportation rates. As a reminder, this bar continues to embed higher wage rates and other inflationary factors, as well as the ongoing structural cost reduction efforts, including savings from our Network 2.0 transformation.

I will note that our yield versus base expense increase assumptions represent a 100-basis point spread, which signals our focus on revenue quality and rigorous cost management.

We continue to expect variable incentive compensation to be an $800 million headwind, reflecting our commitment to rewarding employees for their outstanding performance. We are still anticipating a $200 million headwind from our new

pilot agreement. Additionally, we are pleased with our progress towards removing stranded costs related to the FedEx Freight spin-off and continue to forecast a $100 million benefit by the end of CY 2026.

Our embedded Q4 adjusted EPS range is $6.03 to $6.63. Results will depend upon yield, service mix and continued traction on cost reduction initiatives, which are highly correlated with peak season demand. While we expect consolidated adjusted operating income to be up year-over-year, we anticipate several transitory headwinds that will pressure our results, including $130 million tied to higher over-the-road linehaul rates, which shows up in purchased transportation, $100 million due to our recently ratified pilot agreement, and $80 million in aircraft maintenance expense.

For international, we forecast Q4 adjusted operating margin expansion year-over-year. We expect Q4 adjusted US domestic operating margin to be down moderately year-over-year due to higher purchased transportation rates I just mentioned and the continued fuel impact. Importantly, we believe this pressure is transitory. And as we look to 2027, we forecast full-year adjusted US domestic operating margin to be up year-over-year. We expect our CY 2026 Q4 average share count to be approximately 238 million shares.

In closing, our business results and decisive actions to drive stockholder value in the quarter signal our confidence in the value creation opportunity ahead. Our strategy is sound, and I'm confident in our continued execution.

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 comes from Richa Harnain with Deutsche Bank. Please go ahead.

**Richa Harnain**
*Analyst, Deutsche Bank Securities, Inc.*

Hey. Thanks, everyone, for the time. So maybe we could start with one for Brie. Brie, you discussed competitive, but still strong pricing environment. I'm not sure if you can unpack that some more. How much was the fuel tailwind to headline yields? How much was core up? I know you said 12% revenue outlook for the year assumes a 4-percentage point boost from fuel, but curious what it was in Q3?

And then, on the year-over-year improvement, very impressive EPS growth, but margins in the domestic market did stall a bit in the quarter. Claude, it sounds like there were some headwinds from linehaul rate and PT that are creeping into Q4 as well, but talk about how much those were? And you made a comment that 2027 margins could be still up year-over-year. We can look forward to that in the domestic market. Just like how should we expect them to roll off and what are some offsets we can look forward to in 2027? Thank you.

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

Richa, thank you for the question. I'll cover pricing, and then I'll turn it over to Claude to answer the second part of your question. I think from a headline perspective, we continue to see that calendar year 2026 has an improved pricing environment over calendar year 2025. It is competitive, but rational. From a yield perspective here in the United States, we were very pleased with the base yield growth, which was about half of our year-over-year yield growth in the domestic mix. Of that half, the vast majority of it was actually base yield.

We did benefit a little bit from some self-help in the mix. And what do I mean by that? We have consciously focused on premium e-commerce. So, when you look at the home delivery and ground economy volume mix, it's really important to

understand that the ground economy volume was down 4%, and that was intentional as we really lean into the premium. So, we feel really good about the domestic pricing environment.

When you look at the international export yield increase, it was also really strong. About half of that was fuel. Of the other half, you've got two primary factors. One was we saw a great mix shift, both incremental volume coming out of Asia; and then, again, a focus away from international domestic towards intra-Europe and international Europe volumes. So, we think the market is competitive, it's improved over 2025, and we feel really good about the overall performance from the team. Claude?

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

No. Thanks, Brie, and then thanks for the question. I mean overall, as Brie said, very pleased with our Q3 results that If you think about year-to-date, both our overall margin, our domestic margin and international margin were all up September year-to-date. I did call out a few things in my prepared remarks about the transitory nature of a couple headwinds.

First and foremost, for Q3, the domestic margin would have been up, except for the fuel surcharge. And in addition, we had the $100 million headwind from our pilot agreement. We had $75 million from variable compensation, and we started to see the higher purchase transportation rates that I've talked about. Those will accelerate into Q4.

I think it's important to note that about 70% of our over-the-road linehaul miles are provided by either FedEx employees or contracted service providers. The remaining 30% is split between rail, and then a little over 10% is over the road. That's really the miles that we're talking about here. So, while not a huge portion of the overall miles, due to the labor market conditions we talked about, those rates really started going higher as we got into Q3, and we expect that to have a bigger impact during peak in Q4. But we have both operational and commercial levers as we get into CY 2027 to address that. So, we're confident both in our overall margin expansion as well as our US domestic margin expansion plans for CY 2027.

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

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

Hey, thanks. Evening. Appreciate you taking the question. Maybe this is for Raj. I know new CFO won't quite be there for another month or so. But clearly, there's a good amount of dry powder on the balance sheet from all the strategic and tough decisions you guys have been executing on the last couple of years. So maybe you can walk us through some of the options you have for monetizing the stake in FedEx Freight?

And then also how you would consider the leverage profile of the business going forward. Would you consider ramping up some of the – maybe taking on some additional debt to potentially further fund the buyback? Thank you.

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

Thank you, Brian. I really appreciate the question. Firstly, as I've mentioned in my remarks and you heard throughout, that we are focused significantly on our free cash flow. And we are targeting about $4 billion of free cash flow this calendar year. And as you know, our goals for CY 2029 have a $6 billion free cash flow, and this is being driven by our performance on our core business. That is what is driving it.

And so, we are excited about that because it now gives us a lot more optionality for us. And we have an opportunity to now significantly focus our efforts on our capital allocation. And we're going to have a North Star of making sure that we

create a lot of value for our stockholders, even as evidenced by our $2 billion buyback in this quarter, which is higher than we originally had communicated.

So, we have a lot of opportunities as you look ahead, and this is going to be an important consideration. And I'm going to let Claude just weigh in on Freight monetization and other things, but the principle is clearly that we now have the optionality now to make sure that we reward our stockholders.

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

No, appreciate it, Raj. As we said before, to preserve the tax-efficient status of the separation, we're required to monetize the stake within 24 months of the spin date. And whereas Raj said, we're going to deploy that capital to maximize shareholder value. That as I said last quarter, really, that under Raj's leadership, we're bringing the same level of discipline and rigor to the balance sheet and shareholder returns that we've been delivering operationally and on the P&L. And we'll continue to deploy cash to enhance shareholder returns.

**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, I want to just dig into the fourth quarter guide a little bit more. So, over 20% earnings growth for the year, I guess fourth quarter implies closer to like high single-digit growth. I know you're talking about some transitory headwinds in Q4. Can you just like help us understand why pilot costs and purchased transportation are transitory? So, like ultimately what I'm trying to figure out like is this high single-digit exit run rate? Is that the right way to think about 2027? Or do you think like the earnings growth rate re-accelerates more like what we saw for the full-year?

And then if I can just, Raj, just one like a separate just bigger picture question. Like, now that we can do more of like an apples-to-apples comp versus UPS. Like their international margins were 15% in Q3. They're talking about 20% in Q4. You guys were at 4%. Like, what are we doing to like meaningfully close this gap over time if we can?

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

Thanks for the question. I'll start on the fourth quarter, and then turn it over to Raj. I mean first and foremost, we're assuming continued strong international margin expansion. The headwinds we've talked about are primarily on the US side. And I've talked about the purchased transportation, that being $130 million, which is significantly higher than the Q3 impact. And we believe that we have levers to minimize that over time in CY 2027. So, we would expect higher growth rates in 2027 and more flow-through.

We also have the $100 million pilot agreement. We're also, from a timing perspective, we have – we recognize aircraft maintenance expense as we induct the engines and do that aircraft maintenance, and we have a big hit of $80 million in Q4. So, the combination of those things gets us, if you were to exclude those, our base expense increases are up about 4% with yield growth, excluding fuel and FX, to be about 4.6%. So, a positive spread of 60 basis points.

And then further from a range perspective, I think it's important to note that we're talking at the midpoint of the range. One other piece of information I want to give you is that the midpoint of the range aligns with our transition year 2026 business plan. And so, as we exceed the midpoint of the range, we will incur additional variable compensation expense. And so, it could be up to $100 million of additional variable compensation expense at the top of the range. And obviously that headwind in CY 2026 will abate and not be a headwind in CY 2027. So that's just a little more color on why some of these Q4 and even Q3 will not repeat in CY 2027 from a headwind perspective.

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

And Scott, on your question on international, clearly that is our upside opportunity for FedEx. And we are absolutely committed to driving profitable growth in the international segment, as demonstrated by our stellar Q3 performance of 17% revenue growth and 52% operating growth year-over-year. And we are well positioned to achieve our committed target of 8% operating margin in CY 2029.

Now key to our strategy is winning across a broad base of industry verticals, healthcare, aerospace, defense, automotive, and AI data centers, which is exactly what is happening. And as was pointed out earlier, our execution of our Tricolor network is very strong as we continue to increase flexibility, reliability, and density in a very, very dynamic world.

Now any path to substantial success for international runs through Europe. And we have made good progress in Europe, driving significant growth over the last three years. In that sense, our network utilization in Europe is quite strong, which now gives us leverage. So, our strategy in Europe is threefold. Firstly, to reduce structural costs. Our target is to reduce our Italy domestic capacity by 20%, UK domestic capacity by 30%, and France by 40%.

The second part of our strategy is to improve the mix. Given the network utilization, we are now focusing our commercial teams on driving more intercontinental and intra-European volume and reducing lower-yielding intra-country volume. You will note that the intra-country volume is down 11% in Q3. And further, we will continue to target a more B2B mix in Europe.

And then thirdly, we will leverage the InPost commercial relationship so we can focus our attention on B2B by leveraging a best-in-class partner for B2C. We are early innings in this journey and on track to achieve the $650 million in operating profit improvement in Europe by CY 2029, majority of which will be cost reduction. And one final point, the international margin of 8% in CY 2029 is only a waypoint. We look forward to driving into double-digit margin territory from there. Thank you.

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

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*

Hey, great. You talked about the full-year US domestic margin up year-over-year in 2027. Maybe any thoughts on stranded costs from FedEx Freight or Supply Chain or any additional costs we see coming through from the rest of the Network 2.0? I guess just trying to see the ramp that we can see going forward. I think that's a lot of concern given the state of or I guess the fourth quarter outlook you've provided. Thanks.

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

No, appreciate it. I'll start with that. With the Freight stranded costs, as I talked about last quarter, we started the year with the $350 million starting point. And we have done a good job this year and are confident we're going to end this year at that $250 million. As I said last quarter, we will make significant progress in reducing the $250 million during CY 2027 from an exit rate perspective. So, I wouldn't take that as a complete tailwind in 2027. But as I said last quarter, would not expect to be talking about the stranded cost past 2027, and certainly it's not assumed as extra cost in our CY 2029 targets.

If I look beyond the Freight stranded costs, we're confident as you talked about, we're absolutely on track from a Network 2.0 perspective to get the $2 billion by the end of CY 2027. And then overall, we would expect the variable comp to not be a headwind in CY 2027. So, I'll just reiterate, obviously not here to give an exact number. Talk about 2027, we're still working through that plan, but we are committed to both overall and segment margin expansion in CY 2027.

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

**Chris Wetherbee**
*Analyst, Wells Fargo Securities LLC*

Hey. Thanks. Good afternoon. Maybe if we could think a little bit about the early pieces of the bridge for 2027. Obviously, you guys have talked about Network 2.0, which I think is another $1 billion in 2027. Raj, you just mentioned a couple of times the $650 million for improvement in international, Europe specifically. I don't know how much of that kind of shows up in 2027?

And then maybe to round it all out, I guess, Brie, as you think about that longer-term volume target you guys laid out through 2029, is 2027 a better year for volume growth? It seems on the international side, there's some decent tailwinds that have started to pick up here. Not exactly sure how you think about the domestic piece, but maybe sort of putting all those together, if you can give us some rough sense of how that might play?

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

Yeah. I'll start and then turn it over to Brie. I've talked about a lot of the items. A couple additional items that I'll add is, you got to remember, we'll still have the pilot contract in the first-half of CY 2027, so that headwind will abate in the second-half. Also, if you look all the way to Q4 of next year, we'll have one less operating day. So that will be another $150 million-plus headwind. And then, like I said, variable comp will not be a headwind in CY 2027.

But with that, I'll turn it over to Brie to talk the second part.

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

Sure. Thanks, Claude. So right now, we are committed to our 4% growth, beyond CY 2026 that we discussed in the February Investor Day. I want to be clear that 4% is excluding any fuel surcharge, so that really is core growth. 4% is 2% volume, 2% yield. We want to do about 50% or more in B2B. And we really want to stick to that right now because it allows our commercial teams to stay disciplined. It allows us to focus on the highest end of the market, which as you just saw, we are doing quite well.

We grew commercial ground volume much faster than our primary competitor in the overall market. It allows us to lean into the premium end of gas, the premium end of healthcare, and the AI and data center market. So right now, we're going to stay the course with that 4%, but I'm extremely pleased that the team is beating that right now with just incredibly disciplined execution.

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

**Ariel Rosa**
*Analyst, Citigroup Global Markets, Inc.*

Hi, good evening. Brie, maybe you could discuss the peak expectations and just kind of how things are shaping up from a macro standpoint. As you go out and have conversations with customers, both domestically and internationally, what they are saying? Are they optimistic? Are there concerns about kind of fuel prices denting demand? Just give us a little bit of sense of kind of that dynamic there. Thanks.

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

Sure. Great question. As we look into Q4, we talked about this, that we are expecting about 10% revenue growth. We are expecting sort of high-single digit here in the US. So Q4 versus Q3 from a year-over-year perspective is slightly lower. I do not think that's an indication of the macro, but more that we are lapping a very strong Q4 onboarding from last year. When we're talking to our peak customers, a couple of – our customers as we're planning for peak a couple of things. Our top 30 customers drive about 35% of our peaking factor here in the United States.

In general, they are forecasting about a 2% average daily volume growth for peak, and that's specific to the peak period, which is sort of Black Friday through Christmas. It's important to note that we have one extra day in November, so that's great for retailers and it's great for our peak demand. SMB and our small business is actually really strong as well. And so, that is a bright spot. We're really pleased to see that in Q3, SMB grew faster than our large customer segment. I will admit a big part of that is execution. They're growing faster than market, but also remarkably resilient. So, as we head into peak, despite the high fuel surcharge, the US consumer seems resilient. Both large and small customers seem to be able to pass on the fuel to-date.

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

And if I can, just add one more line to that. As we have seen moderate volume growth, we expect a strong service peak and a strong profit peak. Thank you.

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

**David Vernon**
*Analyst, Bernstein Institutional Services LLC*

Hey. Good afternoon, team. Raj, I wanted to ask you about the domestic margins. Obviously, you got a little bit of headwind from fuel and some of the variable stuff Claude had mentioned. But as you kind of step back and look at the progress on Network 2.0 relative to a market where yields are pretty good, volume is okay, are you where you want to be in terms of the rate of change in domestic margins as we end the year? And then, as you think about that final 35%, can you give us some sense for when that closes or what are the factors that help you to get that last chunk of the network switched over, and whether there's any backend savings around the whole Network 2.0 effort in 2027 we should be thinking about?

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

Thank you, David. Yes, I'm very excited about the progress that we are making on Network 2.0. It's just one of the most incredible accomplishments and execution that I have seen in recent history in this company. And to answer your top-line question, 100% we're convinced that we are going to improve our US domestic margins in 2027 and then on beyond. And we are seeing some temporary factors that we are now dealing with.

Specifically, towards Network 2.0, we have made really good progress. We've done – obviously, finished Canada, which we already talked to you about. We've finished large US metro markets like Dallas, San Francisco and, most recently, Phoenix and Washington, D.C. In the next phase, we will tackle after peak, Los Angeles, Charlotte, and Oklahoma City.

So, as we enter peak with 65% of our eligible off-peak ADV running to the Network 2.0 model, that'll be a new thing for FedEx. So, we are excited to see how that plays out. We have closed more than 260 facilities and would have optimized nearly 630 stations as – we've done it already.

So, we are very excited about the progress we're making in Network 2.0, strong execution. We're targeting $1 billion of savings in 2026, and a cumulative $2 billion by 2027. This will have a great, strong opportunity to improve margins in US domestic business in 2027 and then ongoing from there. Thank you.

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

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

Thank you. Good evening. Raj, obviously, a big focus on free cash flow, and I'm sure everybody wants you to use all of it to buy back stock. But you made a lot of transitions here between the spin and then InPost and now selling Supply Chain solutions. When you look at the verticals where you're really trying to focus through 2029, are there any holes in the business or areas of opportunity where you can invest some of this free cash flow, either for volume growth or accretion as opposed to just capital return?

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

Yeah. Thank you, Jon, for that question. Yes. This is obviously some of the key consideration sets in how we deploy our capital in this environment. Our portfolio is more or less fully intact. The physical portfolio is more or less there. We have targeted two things here and there that might add to it. But I think the great news for FedEx is that we have a scaled global network already in place, and we have the physical and the digital intelligence that is increasingly more and more valuable in a very dynamic environment.

So yes, there may be some things here and there that we need to close off, but our portfolio is largely complete, and especially for the ones that we are targeting, whether it's healthcare, automotive, data center, or AI data center business, aerospace, defense, I think the fundamental is to have a strong physical network in place, which we already have.

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

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

Yeah, hi. So, appreciate all the comments on the domestic margin and the improvement for 2027, but I don't know if you could help sort of pull it all together and talk about when that inflection might come? I mean is that like a first half, a second half event as some of these costs roll off? And I apologize, I don't know if you mentioned sort of high level, is there another sort of step-up coming on the international front given the strong results this quarter? Thanks.

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

I'll start with that. No, we absolutely just like, we expect international margin to expand in Q4 year-over-year and would expect international margin to absolutely improve across CY 2027. We're in the middle of our planning stages right now, and so I'm not going to give you the timing for CY 2027, but look forward to discussing that with you on our Q4 call.

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

**Thomas Wadewitz**
*Analyst, UBS Securities LLC*

Yeah. Good afternoon, and nice to see the continued momentum and the price and quality of business. Wanted to ask, I think it's for Claude, or maybe Raj too, but we're seeing kind of a broader, unfortunately thematic cost pressure

environment in transport, right. I think it's most pronounced in truckload, but you see driver, I mean you see brokerage too, right, like insurance costs going up a lot. I think driver pay going up a lot. You identified that as a pressure in some of your linehaul. How much do you think that that kind of continues?

And I guess within your linehaul drivers, if they're contractors, I mean there's still – those contractors still have to hire drivers, right, that are doing linehaul. So, I'm just wondering, is that something that you have confidence is kind of inflation decreases? Or is this more like, hey, it's just kind of structural, we got to deal with this and elevated inflation rate continues, so we just got to keep getting a lot of rate? So, I guess broader thoughts on that, because it does seem thematic across the industry.

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

Well, let me start and then I'll have Claude weigh in after that. At the high level here, when there's tightening in capacity because of reduction in the driver capacity, it's actually going to be good for our industry when it's all said and done. It's a matter of timing. And we experienced these incremental cost pressures and especially as Claude pointed out, 10% of the capacity is what we are really talking about. But we have levers to pull here, whether it is how we balance out over time the use of this capacity or how we start to incorporate these costs into the pricing models, which will then reflect into the pricing and revenue quality initiatives.

So, I think it'll start to – at a highest level, having shorter capacity – or smaller capacity is good for the industry and revenue quality will match that. So, with that, I'll just turn it over to Claude.

**Claude F. Russ**
*Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.*

No, appreciate it, Raj. And that's the key point there, that over time, this is helpful for us and we'll manage to this. And the good thing is we'll have both commercial and operational levers to manage this down, and we're confident we can do that.

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

**Brandon R. Oglenski**
*Analyst, Barclays Capital, Inc.*

Hi, good evening. Thanks for taking the question. I want to come back to the B2B subject because I guess if we listen to the conference call yesterday, your main competitor, that's also a focus of them focusing on premium verticals and B2B growth. So, I guess, how do you rate Brie, and I know we spoke about this on the pricing side, but just generally, B2B competition, especially in the domestic US market looking into 2027? Thank you.

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

Yeah. So, thank you for the question. I think first and foremost, we're excited about the opportunity. It's a really large total market. When we look at the market that we're operating in, it's more than a $600 billion market globally. We've targeted four key verticals that represent over $130 billion. And right now, we're really excited, as Raj mentioned earlier, about our position in this market and our existing value proposition.

In Q3, we saw strength around the world. 60% of our revenue is B2B. In the Q3, we grew. More than 60% of the revenue was – continued to be in B2B, and we saw strength and execution across the board. We had double-digit healthcare growth. In particular, as you guys know, we have long been the market leader in med tech here in the United States. We've gone after pharma, and it's growing double digits. So, the team's very focused in executing there.

From an AI and a data center perspective, we are the market leader out of Asia on the powerful side, and we're leveraging those relationships. The strength in AI and data center vertical was the fastest-growing segment that we had. We've also seen a resurgence in automotive. As we just talked about a year ago, we said we needed to do better there, and the team performed and got high-single-digits in automotive, which is tough to do right now because it is not one of the booming markets that we are seeing right now.

So, I think it's a couple things. We've got a unique value proposition. When we compete against anyone outside of the top two integrators, we have our end-to-end network that they simply do not have. We have a brand that opens doors and means security, which matters for all of these verticals. It especially matters for AIDC. And we have an organization that is customer and solution-oriented. That is just in our DNA, and it shows up time and time again. And I think the results that we just put on the board here globally, and also it's important to note, we did grow B2B here in the US, ground commercial is up, priority is up. So strong execution, and I think you can expect it next quarter and right through CY 2027.

**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 Q3 results demonstrate our ability to deliver strong financial results while supporting our customers. With the peak season ahead of us, I want to thank Team FedEx for their relentless hard work and dedication. The momentum we have established positions us well to deliver for our customers, create value for our stockholders, and generate significant free cash flow both this year and beyond. Thank you very much.