

FedEx Q4 FY26 Earnings Call Transcript – June 23, 2026

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Good afternoon, and welcome to FedEx Corporation's fourth quarter earnings conference call. The fourth quarter earnings release and stat book are on our website at investors.fedex.com. This call and the accompanying slides are being streamed from our website. Today's earnings release includes segment results for FedEx Freight given the separation occurred on June 1, after Q4 FY 2026 ended.

Additionally, as a result of the spin-off, we will not cover FedEx Freight results in detail in our prepared remarks or Q&A session. FedEx Freight will host a separate earnings call on June 25. 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 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 a heartfelt thank you to team FedEx for a very strong finish to FY 2026, a year of tremendous value creation. Each quarter of this fiscal year, we delivered on our financial commitments while supporting our customers with excellence. Our results demonstrate that we are growing revenue in the most premium segments of the global economy.

As trade patterns evolved, we flexed our network to keep supply chains moving. Our network transformation via Network 2.0, Tricolor, and opportunities in Europe is driving better density and efficiency. This progress, combined with a sharp focus on structural cost reduction, enabled us to exceed the \$1 billion transformation-related savings target that we shared at the start of the fiscal year.

And our data and technology advantage is helping us win new business, improve the customer experience, and create new value. The momentum you are seeing across our business is proof that our strategy is working. It's translating to favorable financial outcomes, including very strong free cash flow and FY 2026 results that far exceeded our initial FY 2026 outlook. Our results also surpassed the high end of the revised outlook range we provided in March.

Additionally, we completed the spinoff of FedEx Freight on June 1, positioning both companies for success as separate, focused industry leaders. I want to thank the teams that executed the spin-related work to achieve this milestone, especially given how well they also maintained focus on our day-to-day core operations. I'm confident FedEx Freight is extremely well positioned as an independent company, and I wish John Smith, and the Freight team the very best.

Now, turning to our full year consolidated results on a year-over-year basis. We grew both revenue and adjusted operating income by 8% with significant adjusted operating income growth at Federal Express Corporation, or FEC, partially offset by a decline at FedEx Freight. At FEC, we grew full year revenue by 9%, and adjusted operating income by 17%. With 60 basis points of year-over-year adjusted margin expansion, we delivered a 7.7% adjusted operating margin, the highest margin rate in four years, reflecting the structural improvements we have made to the business.

What also stands out is that we achieved these results despite several significant headwinds, particularly global trade policy changes and the grounding of our MD-11 aircraft fleet. We began safely returning the MD-11s to service last month, working in lockstep with Boeing, the FAA, and the NTSB. I appreciate the efforts of our flight operations, technical operations, and airline safety teams, whose work enabled four MD-11s to resume flight to-date. We expect to have the full fleet back in service before peak.

In Q4, on a consolidated basis, we grew revenue 13%, and adjusted operating income 3%, led by FEC, and partially offset, as expected, by a decline in adjusted operating income at Freight. At FEC, revenue increased 14%, driven by yield and volume strength across almost all of our services. This demonstrates our deliberate strategy to grow in the higher-yielding segments of the market.

Q4 adjusted operating income at FEC increased 13%. The revenue strength I just mentioned offset the impact of higher fuel costs and variable compensation. Against this backdrop, today, we are initiating an outlook for calendar year 2026 as we transition to a December 31 fiscal year end.

Based on our current assumptions, we expect calendar year 2026 adjusted earnings from continuing operations to be \$16.90 to \$18.10 per diluted share. This range implies 20% adjusted EPS growth in the June through December transition year, highlighting the momentum in our business.

We remain firmly on track to achieve our Investor Day commitments for 2029 with clear proof points in the quarter. B2B services drove the majority of our quarterly revenue growth, supporting high profit flow through. I'm especially encouraged by our progress and pipelines in the key healthcare, automotive, aerospace and data center verticals. Brie will share highlights shortly.

We successfully advanced Network 2.0 in Q4. By the end of this month, about 45% of eligible volume will flow through nearly 490 Network 2.0 optimized stations, rising to 65% before peak. At that point, as we have done in the past two years, we will pause implementation until early 2027, helping us set up for a very strong peak.

We remain on track to achieve nearly \$1 billion of Network 2.0 and associated one FedEx savings by the end of this calendar year, and the full \$2 billion by the end of CY 2027. In Europe, we achieved our 12th consecutive quarter of international revenue share gains, driven by our strong value proposition and improving service levels.

Leveraging our US surface playbook in Europe, we recently announced a strategic investment to expand our technologically advanced, and strategically located road hub in Duiven, Netherlands, supporting continued growth in the premium international parcel and freight markets. We believe Europe remains our largest international profit improvement opportunity, and our transformation plans remain on track.

Across the globe, supported by our Tricolor strategy, we continue to see strong international air freight growth as we further increased our share in this \$90 billion global market. You've heard me speak about the strength of our data when transporting more than \$2 trillion worth of goods each year, and delivering nearly 18 million packages each business day.

We have embedded AI into our DRIVE process, enhancing the rigor with which we work. Our data and how we deploy it is helping to drive significant innovation across the company, driving differentiation and improving the customer experience. Our ability to leverage this data has earned us the distinction of being named to Fast Company's Most Innovative Companies list for 2026 for our efforts to reshape global trade, simplify the cross-border experience, and strengthen economic resilience for businesses and consumers worldwide.

Before I close, I want to acknowledge the agreement we recently reached with our pilots on a new contract. This agreement marks a pivotal step forward uniting our team behind a shared strategy for success as we continue to modernize our global operations and transform the business.

Overall, our FY 2026 results demonstrate the power of our unique global industrial network, strong value proposition, and an outstanding execution of our profitable growth strategy which is translating to strong free cash flows and value creation. I have never been more confident on our path ahead, and I'm excited to build on this momentum in the weeks and months ahead.

Now, over to Brie.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Thank you, Raj. I want to commend team FedEx for a year of outstanding execution on our commercial strategy, including a very strong finish to fiscal year 2026. With a focus on premium B2B verticals, and high value B2C, we grew volume and yield every quarter of fiscal year 2026. As a result, we profitably increased revenue by nearly \$7 billion compared to last year, a truly impressive achievement.

We have continued to help our customers navigate a very dynamic and complex environment. The implementation of global trade policy changes, geopolitical unrest in the Middle East, and the IEEPA refund process. In April, we began to file claims with CBP on behalf of our customers. And beginning in August, we will be passing these refunds through to our customers.

Turning now to our Q4 results. FEC revenue was up 14%, supported by yield strength across all services, and volume growth aligned with our commercial strategy. This growth includes a 5-percentage-point benefit from fuel price-driven surcharge revenue. As a reminder, fuel was not a material driver of our adjusted operating income given the higher expense. In Q4, we grew US domestic volume by 3% year-over-year, led by ground commercial and home delivery strength.

Aligned with our deliberate strategy to focus on parts of the market that value our competitive differentiation, ground economy volume declined about 5%, a trend we expect to continue for the remainder of CY 2026. As anticipated, US priority volume continued to grow, with a sequential deceleration in the growth rate as we lapped the onboarding of new healthcare business in Q4 of fiscal year 2025.

International export package volumes were up for the second consecutive quarter, growing 5% year-over-year. We supported changing trade patterns by flexing our network, enabling double-digit international export revenue growth on the Asia-Europe lane within Asia, and US outbound lanes in Q4. Strength in Asia was a key driver of our international priority volume. A 9% decline in international domestic volume is part of our European improvement strategy, where we are intentionally focused on growing higher-yielding cross-border volumes. We continue to win share in the international export freight market, enabled by Tricolor, with average daily pounds up 12% year-over-year.

FEC package yield increased 11% in Q4, while fuel was a meaningful driver, base yield supported by our value proposition and service remained very healthy. In fact, the significant majority of our incremental profit from yield was due to base price increases, demonstrating our disciplined approach to revenue quality.

Within our US domestic services, we grew yield 10%, driven by fuel surcharges, higher base rates, and favorable service mix. International export package yields increased 10%, driven by fuel surcharges, higher weight per shipment due to mix shifts, and favorable currency movements.

We are very encouraged by our progress and retention rates across key high-value B2B and specialized B2C verticals. With our small and medium business customers, fiscal year 2026 was a year of remarkable strength. Our seamless, digitally-enabled experiences complement our loyalty program and physical network well. About 40% of our US micro and small business volume is tendered at retail providing a frictionless touchpoint. And the vast majority of our small and

medium revenue comes from direct shipper relationship on FedEx contracts, not through digital resellers, so we can truly demonstrate our differentiation. This approach supports both revenue quality and customer retention.

As part of our continued focus on the \$80 billion plus healthcare transportation market, earlier this month, we launched FedEx Life Sciences, a dedicated organization supporting the increasingly complex movement of healthcare shipments and strengthening our end-to-end pharma solution. While the formal launch of this organization is new, our capabilities are backed by years of strategic investment in healthcare and life sciences. This includes specialized life science centers across Europe and APAC, dedicated quality resources and the development of global healthcare corridors connecting key markets.

Our value proposition continues to expand, anchored by the recent launch of a temperature-controlled corridor connecting Ireland to our US network. Exiting fiscal year 2026 with nearly \$10 billion in healthcare transportation revenue, I am confident our new suite of life sciences services will further strengthen our ability to support complex, time-critical and highly-regulated healthcare supply chain.

The AI and data center space is an emerging and rapidly scaling growth engine for us, delivering double-digit revenue growth. Rather than a narrow vertical, this space represents a horizontal ecosystem. We are capturing demand across the entire value chain, from traditional hyperscalers to the industrial and power infrastructures that support these massive buildouts.

What differentiates FedEx here is our unmatched responsiveness and our premium capabilities, leveraging network priority, near real-time monitoring and white glove handling. We are getting very positive feedback from our customers on our agility.

As a recent example, a major global technology customer had a last-minute critical need to move multiple pallets of tech infrastructure to the United States. Through seamless cross-regional collaboration, we executed flawlessly. This example is not a one-off. We are seeing these initial time-critical shipments convert quickly into larger, repeatable revenue streams. Looking ahead, we believe continued enhancements to our value proposition and our global air freight portfolio will strengthen our competitive positioning across all our high-value, B2B-centered verticals.

Let's now turn to our revenue outlook for CY 2026 and using a CY 2025 revenue baseline of approximately \$82 billion. We assume current volume and yield trends continue, supporting revenue growth of approximately 11%, including approximately 3 percentage points for assumed fuel price-driven surcharge benefit. This equates to revenue growth of 10% in the June through December transition year. During that period, we expect broad-based growth across services with deceleration in the US domestic growth rate as we lap last year's strength from new business onboarding.

We also expect a low-single digit volume decline within ground economy and high-single-digit decline within international domestic services, given our focus on higher-yielding parts of the market, where customers deeply value the solutions that FedEx can deliver. We expect trends across our international export services to largely be in line with Q4.

Our fiscal year 2026 results demonstrate the strength and durability of our commercial strategy. Congratulations again to our team for delivering outstanding results across the entire globe, supporting our customers with innovation and reliability, growing in key high-value verticals and delivering profitable revenue growth. We believe our value proposition is industry-leading, and it will enable us to sustain this momentum as we continue supporting critical supply chains globally.

Now over to Claude.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

Thanks, Brie. Our Q4 results reflect the consistent execution we have demonstrated all year. We took bold actions to manage capital spending; we executed our business plan to deliver strong adjusted operating income growth. And as a result, we delivered historic levels of adjusted free cash flow. These results demonstrate our momentum toward our calendar year 2029 targets. We continue to unlock significant stockholder value.

On consolidated basis in FY 2026, we delivered \$20.24 in adjusted earnings per share, growing adjusted earnings for seven consecutive quarters. We achieved this while successfully navigating significant headwinds from the global trade environment, variable compensation, the grounding of our MD-11 fleet, and lower FedEx Freight results. Consolidated adjusted operating income improved \$491 million, or 8%, for the full year, despite a nearly \$400 million headwind from FedEx Freight results.

FEC posted higher FY 2026 results year-over-year, with adjusted operating income up \$940 million on almost \$7 billion in revenue growth. The strong flow through to the bottom line demonstrates the powerful operating leverage in our business.

In Q4, on a consolidated basis, we delivered \$6.31 in adjusted EPS, above the high end of our outlook range, driven by FEC. Strong commercial execution and premium verticals that Brie mentioned, paired with transformation-related savings enabled these results.

At FEC in Q4, adjusted operating income increased by \$214 million, 13%. Our adjusted operating income performance was driven by base yield momentum across most services, increased US and international export volume and continued structural cost reductions. These drivers were partially offset by operating expense increases, which included increased variable incentive compensation accruals and direct trade-related costs. Our base yield growth was robust, which, combined with sustained volume growth, shows the underlying health of our financial results.

While a price-driven increase in fuel surcharges drove higher revenue, it was not a material driver of our adjusted operating income for the quarter. FedEx Freight Q4 adjusted operating income fell by \$114 million, and adjusted operating margin declined 570 basis points. As we mentioned earlier, due to the June 1 spin-off, the FedEx Freight leadership team will provide additional commentary around their Q4 results during their earnings call on June 25.

Our fourth quarter results include a non-cash impairment charge of \$23 million related to our decision to permanently retire an additional 10 jet aircraft, including 5 MD-11s. Over the last four years, we have removed a net 34 jet aircraft from our fleet, which is an 8% reduction versus FY 2022. These actions are aligned with our Tricolor, Network 2.0 strategies to drive improved efficiency and density across both our global air network and North American surface operations.

Moving to capital allocation, in FY 2026, CapEx was \$3.8 billion, \$300 million below the outlook we provided in March. CapEx as a percentage of revenue is 4%, the lowest level since FedEx Corporation was formed. As a reminder, we target CY 2029 capital intensity to remain at approximately 4% of revenue. This is a durable trend as we anticipate continuing to leverage our modernized network.

Additionally, FY 2026 is only the third fiscal year in our history where CapEx was lower than depreciation and amortization, a result of our continued capital discipline and network optimization. In FY 2026, we achieved \$4.7 billion in adjusted free cash flow. This is up \$800 million versus FY 2025. This year's free cash flow represents nearly 100% conversion from adjusted net income, another monumental achievement. We are laser-focused on unlocking stockholder value through strong free cash flow generation.

Our free cash flow growth supports our capital returns framework. We recently increased our dividend by 5% after adjusting for the FedEx Freight spin-off, making this the sixth consecutive annual dividend increase. During the remainder of CY 2026, we plan to repurchase up to \$1 billion worth of shares opportunistically as we leverage continued balance

sheet flexibility and free cash flow generation to offset dilution from equity compensation, as discussed at our Investor Day.

As a reminder, we are now transitioning to a calendar year reporting cycle. Today, we will orient our forward-looking commentary to align with this new framework. In CY 2026, we expect CapEx to be approximately \$3.9 billion. We anticipate contributing \$475 million to our pension plan, which was 105% funded as of May 31. We expect robust levels of free cash flow for CY 2026 and are fully committed to realizing our targeted \$6 billion in adjusted free cash flow in CY 2029. Going forward, we will continue a balanced approach to capital allocation across dividends, share repurchases, pension contributions and strategic growth investments.

Now, I'll walk you through our expectations for CY 2026, which includes the five months we've already reported, as well as the June through December transition year. As Brie shared, we are currently planning for consolidated CY 2026 revenue growth to be approximately 11%, including about 3 percentage points assumed fuel price-driven surcharge benefit. We expect this outlook to be supported by continued momentum within base pricing and increased demand for premium B2B and high-value B2C services. This translates to an adjusted EPS range of \$16.90 to \$18.10, with a midpoint of \$17.50. We will finalize CY 2025 adjusted EPS baseline by mid-August, when we release an 8-K filing with our re-casted and re-segmented financials for CY 2024 and CY 2025.

For preliminary comparison purposes, we assume a \$15 CY 2025 adjusted EPS baseline, which excludes FedEx Freight results. Our re-casted financials, including the CY 2025 baseline, reflect continuing operations only and are burdened with stranded costs previously allocated from FEC to FedEx Freight through intercompany charges.

Our CY 2026 adjusted operating income bridge shows the key year-over-year element embedded in our outlook for continuing operations. This bridge reflects adjusted operating income of \$5.8 billion, equivalent to \$17.50 of adjusted EPS, the midpoint of our range. Our assumed CY 2025 adjusted operating income starting point was \$5 billion, which includes approximately \$350 million of stranded costs.

In this scenario, FEC volume-related revenue, net of variable costs, is expected to be a \$600 million tailwind in CY 2026. This is driven by continuation of strong trends we have seen in the first five months of the year, as our commercial team continues to capture increased demand from the most premium verticals of the global economy.

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

Moving to anticipated headwinds, for base expense increase, we assume \$2.6 billion of higher cost year-over-year related to higher wage and purchased transportation rates and other inflationary factors. It also incorporates ongoing structural cost reduction efforts, including savings from our Network 2.0 transformation.

Additionally, we expect variable compensation to be an \$800 million headwind, reflecting our commitment to rewarding employees for their outstanding performance. Context, we have already incurred most of this expected CY 2026 headwind in the first five months of the year. Only \$100 million of this headwind is incremental to the remaining seven months of CY 2026.

We are also assuming a \$200 million headwind from the ratification of our new pilot agreement, and a \$100 million benefit from the removal of stranded costs related to the spin-off of FedEx Freight. Against the \$600 million base of costs that we previously allocated to Freight, we have conveyed approximately \$250 million directly to FedEx Freight. As noted on the CY 2026 bridge slide, we expect to remove about 30% of the remaining stranded costs this calendar year through transition services agreements and cost management.

Regarding the near term, we expect the revenue trends we saw in Q4 FY 2026 to continue into the first four months of our June through December transition year, with US domestic growth rate decelerating as we continue to lap last year's strong trends.

Given the reporting calendar change, our next earnings release on October 28 will cover our June through September 2026 results. In addition to shifting to a calendar year reporting cycle, we are also re-segmenting our results to cover Express, US domestic, Express international and corporate and other. At the midpoint of our CY 2026 outlook range, we expect our seven-month transition year consolidated adjusted operating income to be \$3.8 billion, up 19% year-over-year. We expect the majority of this adjusted operating income fall in Q4, in line with our recent higher peak profitability trends.

We also anticipate strong performance in June based on current trends and note the June 29 effective date of the new pilot contract. We expect both US domestic and international profits to improve year-over-year in the transition period. Transition year assumptions translate to an estimated \$11.30 of adjusted EPS for the June through December 2026 period, representing 20% year-over-year growth. We forecast our CY 2026 average share count to approximate our Q4 FY 2026 average share count.

In closing, our FY 2026 results indicate that our strategy is working. We are on track to achieve our CY 2029 targets. We plan to continue driving profitable growth through our superior value proposition while simultaneously lowering our cost to serve.

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 comes from Chris Wetherbee with Wells Fargo. Please go ahead.

Chris Wetherbee

Analyst, Wells Fargo Securities LLC

Yeah. Hey, thanks. Good afternoon, guys, and appreciate that outlook for EPS, so we can level set the numbers on a calendar basis. But I guess maybe the question is around the relative profitability. So, obviously expecting a pretty decent acceleration in the stubbed seven-month period for the rest of the calendar year. Can you talk a little bit about sort of the costs that maybe were lingering in the last year, I guess, fiscal fourth quarter, and maybe how you see those sort of working their way out as we see that growth re-accelerate over the course of the next several months? Kind of just getting a sense of why the relative growth in fiscal fourth quarter was a bit lower than what we're expecting to see over the coming several months.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

Thanks, Chris, for that question. As we think about – there are two things to think about here. And it's really the – from an overall perspective, the variable compensation headwind we see in the fourth quarter of FY 2026, that really dissipates, that becomes only a headwind of \$100 million in the transition year. But you also have to really rethink about the seasonality. And so, overall, going forward from a calendar year basis, that Q4 will be our strongest seasonal quarter.

And then, in addition to that, just from an overall headwind perspective, we'll have fewer headwinds in that transition year. And the key to remember here is that ongoing base business, the momentum we have in that, that base business, both from a revenue growth and our ongoing cost management, we feel strong about that. And that's reflected in our 19% at the midpoint of the range op profit growth and 20% EPS growth.

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

Thomas Wadewitz

Analyst, UBS Securities LLC

Hi. Yeah. Good afternoon, and thanks for the perspective on things. I wanted to, I guess, get a sense of kind of how much FEC margin improvement are you looking at and – in kind of calendar year 2026. Kind of what's the base look like? What's the improvement look like? And then I don't know if you have a thought on stranded costs. You said that's coming out partially in the calendar 2026. Does that come out fully in 2027 or how do we think about kind of the remaining pieces of \$600 million? So, I appreciate any thoughts on those two. Thank you.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

Yeah, I appreciate the question. First, from a margin perspective, we are confident that the margin in the transition period – both the calendar year and the transition period will improve year-over-year. It'll improve a little bit more year-over-year in the transition year than it does in the calendar year because of the variable comp headwinds in the first five months of the year. But we're confident in margin improvement during that period.

And then on the stranded cost piece, yes, we're confident that we will – going from that starting point of \$600 million, we've already conveyed \$250 million of that in the form of employees and vendor costs from a starting point perspective. And so, the \$350 million starting point in that CY 2025 starting point, we're confident we'll get \$100 million of that out during CY 2026. And then I don't expect to be talking about stranded cost past CY 2027. From an exit rate perspective of CY 2027 is when we're confident, we'll mitigate the remaining stranded cost.

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

David Vernon

Analyst, Bernstein Institutional Services LLC

So, Claude, I just wanted to come back and make sure I understood the cadence here, So \$11.30 from June to December. And as we think about that exit rate accelerating, is that just a function of the timing of the variable incentive comp, or are we seeing an actual acceleration in the underlying results of the business? That's kind of the first part of the question.

The second part of the question around a balanced approach to capital allocation, just given the outsized size of the cash balance right now. Are you and the board or is the management team and the board having any conversations with the board about maybe doing something a little bit less balanced to kind of work some of that cash off?

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

I appreciate the question. I'll go first back to the question about – the underlying momentum of the business is strong. We're confident both on the revenue side and the expense side. Like I said originally on a seasonality perspective, we've got some nuances here. We're actually, you think about it, June – when we report our results in October, it'll include the month of June, which is the last month of the second quarter. It's very strong. It's got 22 operating days. It's got five Mondays. The pilot contract will not have started yet. So, we expect very strong, absolute performance in June. Q3 will just traditionally will be our weakest quarter from an absolute basis, just from a seasonality perspective, but from an underlying year-over-year growth perspective, we're confident in the momentum of the business, driven by both the continued revenue momentum as well as the expense management.

To your question on capital allocation, it's a nice issue to have. We are committed to a balanced approach on capital allocation. This strong cash position does give us flexibility. As I said in my prepared remarks, we increased our dividend by 5% post-spin. And we do plan to repurchase up to 1 billion shares in the remainder of CY 2026. A reminder, we will also use a portion of this cash to fund our investment in InPost, which we expect to close during TY 2026. And as we've said previously, we're committed to using the dividend from the Freight spin-off in a manner consistent with preserving the tax-free nature of the transaction and maintaining a leverage-neutral balance sheet position.

So, I'm not going to give you kind of a detailed playbook beyond CY 2026, but I am excited about the balanced approach, as well as bringing the same level of discipline and rigor to the balance sheet and shareholder returns that we've been delivering operationally and on our P&L. Our goal will be to deploy cash to enhance shareholder returns.

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

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Yeah. Hi. Question for you. The commercial B2B business picked up quite a bit. I think it was up 3.5%. I'm just curious how much of that was sort of tied to macro stuff versus the verticals you're targeting. And I know you touched on AI, was some portion of it, sort of that AI-driven CapEx spending having an impact in that segment? Thanks.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Hi, Jordan, it's Brie. Thank you for the question. You broke up a bit, but I think I got the gist of it, which is essentially what is driving the B2B momentum in the business. I think first and foremost, it's profitable market share. This has been several years in the making where we've been re-pivoting our commercial team to focus on the core B2B and really getting back to our roots as the industrial heartbeat of, quite frankly, the global economy. In the quarter, B2B was the majority of our revenue growth, and actually it was the brightest quarter within the fiscal year from a B2B perspective. We actually saw improvement across all four of our key verticals from a B2B perspective.

Yes, we did like to see some of the wins from an AI and a data center perspective, especially coming out of Asia. Our APAC team is just incredibly responsive and really building momentum there, but it was equally distributed across the base of those verticals. And I will say that we did see some momentum outside of the four key verticals, I do think that there's a little bit of inventory build-up and rebound – and restocking going on, but phenomenal successful quarter. We're really proud of the team.

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

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Hi, good afternoon, and thanks for taking my question. And I don't mean to be in near-term focus here, but just given all the changes in reporting structure, can you guys maybe help us understand how fuel impacted the quarter as well, and how you think about the fuel dynamic going forward, especially if there's any lead or lag in the surcharge? I know that's maybe reset every other week, but maybe you could speak to that. I appreciate it.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

Yeah, no, I appreciate the question. Like, as you said, we feel very confident in the structure of the fuel surcharge. It actually resets every week, not every other week. And so, it's been a very effective tool as prices have gone up during

fiscal – the third and fourth quarter of fiscal 2026, it acted exactly the way it was designed to act. And so, overall, it did not have a material impact on our profit. The increased revenue from that, those higher prices was able to materially offset the increased expense that shows up both in our fuel expense line item as well as our purchased transportation line item, also it is higher because of the fuel from our purchased transportation provider. So, overall, net-net, feel good about the overall impact and our ability to negate that impact. Maybe turn it over to Brie from a demand perspective, but from an expense perspective, we're covered.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Yeah, I think, Claude, you covered it from a demand perspective. I was concerned a quarter ago that we maybe would see some demand destruction. That has not at all been the case. We're growing around the world, and we have seen no impact to demand because of the elevated fuel prices.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Let me just add one thing, just on this fuel issue, if you'd taken the fuel surcharge out, our margin would have been up year-over-year rather than being down year-over-year.

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

Jonathan Chappell

Analyst, Evercore ISI

Thank you. Good afternoon. Brie, you mentioned the exit rate from healthcare-related revenue being nearly \$10 billion at this point. I understand that that's probably the most identifiable TAM and an area of focus for several years. To go back to that AI data center, is there any way to kind of replicate at least some broad-based number on what that market looks like today? And is that kind of a higher growth rate type business or vertical, as you think about the coming years?

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Yeah, great question. So, a couple of things. Yes, we have started to size the total market, but I will tell you what we have found in – and that's why I mentioned in my prepared remark, is more of an ecosystem. You cannot identify customers. Well, you can, you've got the hyperscalers. But in addition to that, what we are seeing is broad-based industrial growth in support of the build-out of these data centers.

I walked into what I thought was an automotive sales call, and it ended up being in data centers because this customer had actually pivoted an entire line to power generation for data centers. And so, it is a little bit hard to categorize and define. What I can tell you is across both our industrial base and the AI base, it is growing. The growth rates are the highest in the – all four of the verticals, I don't think entirely surprising. And we also see that from a commercial response perspective; our team is moving incredibly quickly. This is a market that is changing at a pace I've certainly never experienced. And I really do think this is the moment for FedEx to forge relationships that will benefit us, certainly in the short term, but in many years to come.

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

Scott H. Group

Analyst, Wolfe Research LLC

Hey. Thanks. Afternoon. Can you just give color on timing to sell the FedEx Freight stock? And if – just clarity, in the interim, does the guidance assume include like equity earnings from FedEx Freight? And then just, Claude, on the bridge that you gave that was helpful, that \$3.7 billion of yield, that \$2.6 billion of cost, so call it \$1.1 billion of net, like, price costs, like, what's been realized in the first five months of the year? I just want to understand if price/cost is getting better, worse, similar just as the year is progressing? Thank you.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

No, I appreciate the question. Now, as we've said in our previous filings, we plan to monetize our stake in Freight in a tax efficient manner within 24 months of the spin, as required by the IRS. So, we'll continue to be on track for that, and that's all I can say on that right now.

To your question on the bridge, it really, from an overall perspective, not a significant shift in the core business from a mental perspective, in terms of the five months we've seen and the remaining seven months, pretty consistent, both on the revenue side and the expense side.

Obviously, the timing of the headwinds is where there is a lot of noise, whether it'd be the pilot contract, even the variable comp. But from a core, those first bars on that bridge of the volume, the yield and the base expense, pretty consistent trend across both the first five months and what we expect for the next seven months.

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

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Hey, thanks for taking the question. Brie, maybe you can give us an update on utilization across the network. I know in the past, you said it's pretty tight, especially in the US, but the ground economy volume expected to come down, international, domestic also down assuming that's in Europe. Are things still running pretty tight as you go through Network 2.0? And then just maybe some broader comments on the competition as we expect some of those contracts you guys won during the disruption of the labor market a few years ago. I would expect those will come back up to bid. So, maybe just some few thoughts on what you're seeing and expecting there as well. Thank you.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Sure, sure. Of course. Thanks, Brian. So, I think here in the US market, our network continues to run at very high utilization levels. I think it's really important. And I intentionally put the comments in FedEx ground economy in my prepared remarks, because there was a perception that we were not focused. We are incredibly focused on B2B and high-value B2C. And so, even with the decline, the small decline in FedEx ground economy, you will note that total volume is up and we will continue to optimize the network. So, I feel really good about the position of the network here in the United States.

Again, in Europe, we have a very disciplined growth strategy. We continue to take market share 12 quarters in a row. We really like the momentum we have intra-Europe. And so, we are trading domestic volume for intra-Europe volume, which moves yield and profitability. And we think it's the right strategy, and we are going to continue to optimize the network. Wouter has made significant changes in France with more to come. So, we feel good about that.

From a competition perspective, as you all know, and actually, I think some of you asked me previously if our renewal rate was too high. We run in the mid-90s from a renewal rate. I feel really confident about the partnerships we've built, about our value proposition. And so, when customers come to FedEx, they stay. They stay because they get to experience that value proposition. The speed helps their cart conversion; picture proof of delivery reduces their customer service calls. And I do believe that we have the best commercial support organization. So, I am quite confident in our renewal rates.

And then I guess, finally, it's important to remember that it wasn't like one week that all these accounts came over. It was over a long period of time, and they do renew at different periods. And I guess, finally, we won't be that far off from the next contract period as well.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

And I'll just jump in real quick. I forgot one on Scott's question, he – you asked about the Freight, how we're accounting for that. That is not included in our guidance. So, on an ongoing basis, we will be required each quarter to mark that investment to fair value. And we don't have any assumptions built into our outlook for that.

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

Richa Harnain

Analyst, Deutsche Bank Securities, Inc.

Hi. Thanks. So, I know this question's been asked a couple of times, but just to get some clarity, pricing was very robust on a headline basis, up 11%, but you talked about how 5 percentage points of that was fuel. So, the implied ex-fuel rate kept pace with last quarter's very robust results. Maybe talk to us more about how much of that fuel dynamic weighed on margins. Raj, you just said, if it wasn't for fuel, margins would be up year-over-year.

I'd love to understand and get more details on how much more expansion you would have seen, specifically just trying to square incremental margins of only 8% on very robust mid-teens revenue growth. I know incremental comp was an issue – incentive comp was an issue year-over-year, but FedEx had that last quarter too, and incrementals were a bit higher. Thanks.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

Yeah, I'll take that. And then Raj or Brie can add on. But start with variable comp is the biggest impact of that. But when you think about fuel, the higher fuel revenue does show up in the denominator and so has an impact. It was some, maybe 20-or-so basis points. Wasn't a huge impact, but it would have flipped positive versus the negative it was. But from an absolute basis, variable comp was a bigger impact. But like I said, the key here is from a TY perspective, both the CY and the TY will be improving our margin and improving the margin at a higher rate going forward, and our TY is the momentum we're seeing in the business.

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

Ken Hoexter

Analyst, BofA Securities, Inc.

Hey, great. Good afternoon, Raj, Brie and Claude. Claude is getting a lot of airtime here. So, congrats. Can you dig into – maybe Brie, dig into international? You noted trends are in line the balance of the year versus seeing acceleration. Can

you talk opportunity there in terms of share gains and maybe talk about margins on international versus domestic?
Thanks.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Hi, Ken. Yeah. Happy to talk about international. I'll talk about the top line and then turn it over to Claude, who loves the airtime to talk about margin. First and foremost, I got to give a huge shout-out to our APAC team. As you can imagine, last year was a very tough year for them. They faced the largest headwind from the tariff environment and the de minimis. And we've now had two consecutive quarters of international volume growth, thanks to their determination. They have built incredible momentum, as I mentioned in the data center and AI space, but also leaning into their industrial base out of APAC. It's been really nice to see.

That being said, we're growing around the world. We saw strong momentum from Asia to Europe. As I've mentioned, Europe is now on a run of 12 consecutive quarters of international market share growth. We also saw some really strong results from our US export team. We've been really focused on push-pull and even saw some bright spots from Asia into Mexico. As the world has sort of diversified trade, our team has been incredibly responsive.

I expect those trends to continue right through the TY; I don't see any slowing down from an international volume. And then of course, the same is true from an airfreight perspective. We – it's a very large market, about \$80 billion. We're still a relatively small player, but we've had tremendous response to our Tricolor strategy. And so, I think that that momentum will continue. I'll let Claude talk about margins.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

No, I appreciate it. As we think about the overall guidance that we've given you with both op profit and op margin improving for the transition year, it's pretty evenly split between international and domestic. We'll obviously give you those details when we file our 8-K in mid-August. You'll have the recast financials and be able to build out the models from a comparison purpose. But if we think about it right now, I see both the international and the domestic margins improving. It is important from a seasonality perspective. The absolute number for – will be lower in Q3, particularly for international as Europe slows down in the summer, late summer months.

But overall, from an overall perspective, excited about the momentum and see both international and domestic having absolute profit improvement as well as margin improvement in the transition in the calendar year.

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

Ariel Rosa

Analyst, Citigroup Global Markets, Inc.

Hey, good afternoon. So, it seems like FEC is executing well all the credit in the world to you guys on that, but is there anything that's enabled from an operating standpoint without the Freight segment. How are you thinking strategically about managing the business going forward? And then, are there incremental costs that can come out from here?

And maybe in that context, could you help us understand why June, in particular, was so strong? And then why do we see a little bit of a deterioration, I guess, in that cadence? Or it sounds like there is a deterioration in that cadence as we think about the rest of third quarter. Thanks.

Claude F. Russ

Enterprise Vice President & Interim Chief Financial Officer, FedEx Corp.

I'll start it off and then turn it over for Raj as well. But when we talk about June, the one difference about June, it's strong from both a seasonal perspective from an absolute basis and then has the operating days, the amount of Mondays. But it really is also the pilot contract that we've talked about and show on the bridge. That does not hit until July. And so that weighs on the third quarter.

In addition, we told you in that bridge that the \$100 million of variable comp remains for the transition year, all of that \$100 million will show up in the third quarter. Just from a timing perspective. So, the overall transition year is on the bridge but from a timing of that variable comp. I'll maybe turn it over to Raj from a strategy without Freight perspective.

Rajesh Subramaniam

President, Chief Executive Officer & Director, FedEx Corp.

Yeah. And I would just say that the fundamentals of our business remain strong even through the Q3. It's just these one-offs. But even with that, it's just a normal seasonality. But the – your question about the overarching strategy is very consistent with what you've heard at the Investor Day. We are very much focused on being the heartbeat of the industrial economy focused on premium B2B and high value B2C. And that's exactly what we have done in executing in the last few months, and you can see the results already.

We're obviously in the middle of a huge transformation that's driven by our network transformation, our organizational transformation and digital transformation. Those are well underway. And that's our targets that we set for CY 2029 is a 14% CAGR on the bottom line, and that's what we will accomplish. We also have noted that free cash flow is a very important metric for FedEx, and our target of \$6 billion free cash flow for FEC, by CY 2029, and we remain on target for that. So, it's very exciting time.

We are – we have a lot of upside in our business. We are focused on the core and key fundamentals. And the core Q4 results are very, very strong. And I'm just excited about it. And again, I also want to take one more opportunity to thank team FedEx for delivering such a strong quarter.

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

Stephanie Moore

Analyst, Jefferies LLC

Great. Thank you. Good afternoon. I know that building your SMB portfolio is a key strategy as you think over the next couple of years, as outlined at your Analyst Day. But maybe if you could talk a little bit about your SMB strategy here. It does seem like there is a large competitor, Amazon, that continues to talk about expanding their third-party logistics, SMB fulfillment, and the like. So, a lot of headlines there. Would love to get your thoughts and your ability to compete in the what is very competitive SMB market? Thanks.

Brie A. Carere

Chief Customer Officer & Executive Vice President, FedEx Corp.

Sure. Thanks, Stephanie. First and foremost, I was incredibly proud of our SMB performance all fiscal year, but the team just had a stellar solid momentum in Q4 with double-digit growth. We have the best loyalty program, which even though our overall renewal rates are in the mid-90s, it's even higher in our SMB base. So, these are really sticky, loyal customers. And one of the things that they tell us often that they really appreciate both the digital experience, complemented by our sales team, and that those relationships are sometimes decades long. So, we really do have a lot of great relationships in small and medium business.

To your question about Amazon entering the market, I think first and foremost, we don't see this as a new portfolio or a new value offering. And what we're doing is we're very focused on our strategy. As we've talked about, we are first and foremost focused on the B2B. We have a global network from pickup and delivery around the world, including a parcel and air freight portfolio. The momentum that we have right now is market leading, and the response continues to be really strong. We also, as I've mentioned, have the best visibility portfolio, which really matters to our B2B customers. Their advanced notifications of what is moving through our supply chain. If something does go wrong, that we intervene and that they have an action plan is simply best in market. So, we feel incredibly strong in B2B.

From a B2C perspective, we have the best value proposition in the United States from a B2C perspective. We go everywhere, every day. We have the fastest network. We've got Saturday and Sunday delivery coverage, and then again, picture proof of delivery and estimated delivery time windows. It's fun to sell both B2B and B2C.

And then, I think, finally, going back to that relationship, we have complete goal congruency with our customers. When they grow profitably, we grow profitably. We want to support their business growth, for example, at peak. We just had our most profitable peak ever because we built the right infrastructure to help our customers grow when it matters to their P&L while still improving our own profitability. So, great relationships, goal congruency, and the very best value proposition in the market. So, I feel really good about our momentum.

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.

Thank you, operator. Once again, congratulations to team FedEx for the hard work and outstanding execution through FY 2026. Our strong Q4 and FY 2026 results demonstrate that we are gaining profitable market share in the most premium verticals of the global economy. I'm proud of our momentum as we enter the transition year, and I'm confident in this continued value creation that's ahead of us. Thank you very much.