



UConn Student Managed Fund

FedEx Corporation (NYSE: FDX)

NOVEMBER 2, 2021

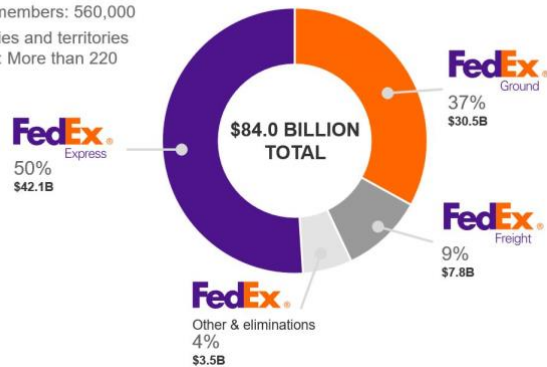
Target Price: 287.60 **Market Cap (\$B):** \$62.6 **P/E Ratio (TTM):** 13.3 **Current Price:** \$235.51 **Dividend Yield:** 1.27%
EV/EBITDA: 9.7 **Stop loss:** \$188.00 **Beta (5Y):** 1.14 **EBITDA Margin:** 14.9% **52 Week High/Low:** \$216.34/\$319.90
ROIC: 11.2% **Gross Margin:** 21.38%

Company Overview

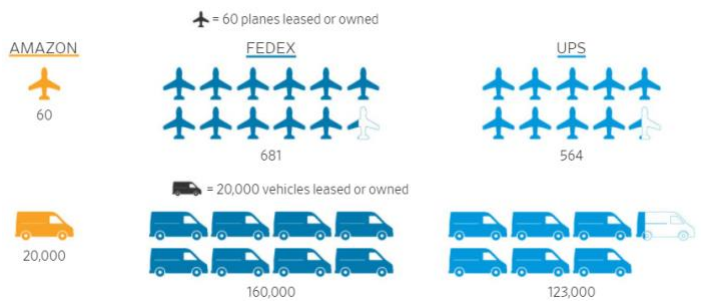
FedEx Corp. provides a portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently, and managed collaboratively, under the FedEx brand. The Company's segments include FedEx Express, FedEx Ground, FedEx Freight and FedEx Services. The FedEx Express segment offers a range of the United States domestic and international shipping services for delivery of packages and freight; covering every U.S street address, and more than 220 countries and territories. The FedEx Ground segment provides business and residential money-back guaranteed ground package delivery services, 7 days a week The FedEx Freight segment offers less-than-truckload (LTL) freight services. The FedEx Services segment provides its other companies with sales, marketing, information technology, communications, customer service and other back-office support. In addition, integrates the technology and services customers need including solutions for data management, sales, marketing, & E-commerce.

FY21 revenue in %

Team members: 560,000
 Countries and territories served: More than 220

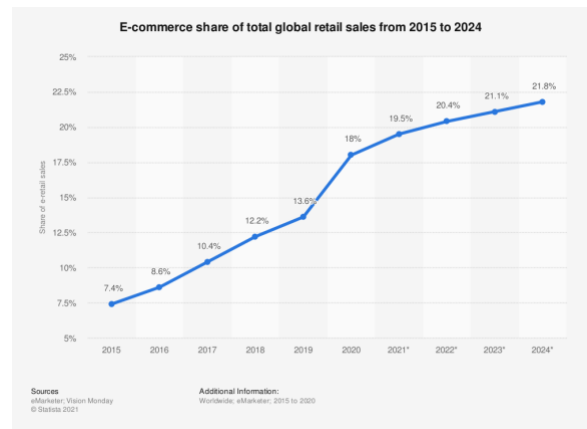


Existing infrastructure for shipments



Industry Outlook

The parcel industry is highly competitive. There are four major players in the United States that currently have 99% of the market share: FedEx, UPS, Amazon and USPS. The parcel industry has high barriers to entry as a considerable amount of infrastructure and human capital are required to operate an efficient delivery network. In 2020, there was a 27% increase in parcels shipped year-over-year. 18% growth is forecasted for 2021 and a 11% CAGR is forecasted through 2026. E-commerce is a key drive of the industry's growth. E-commerce accounted for 18% of total global retail sales in 2020, up from 7.4% in 2016. Even as COVID-19 lockdown restrictions ease, e-commerce's share of total sales is expected to increase to 21.8% by 2024. Consumers in the industry are placing a higher priority on speed. 25% of consumers surveyed would pay a "high premium" for faster delivery service and this share is expected to grow as it is mostly young consumers.



Investment Thesis

FedEx Corporation's focus on strategic acquisitions and partnerships in technology, software, and robotics will increase profitability and margins over time. In 2016 FedEx acquired TNT Express for \$4.8B. This acquisition will expand FedEx visibility in the European market while expanding the existing FedEx portfolio and reshape the global transportation and logistics industry. FedEx also acquired ShopRunner in 2020, furthermore driving expansion into the e-commerce market, with a multi-year collaboration with Microsoft, Adobe, and Salesforce. FedEx has a favorable market position to benefit from the rapidly growing e-commerce industry. FedEx has the greatest number of planes and vehicles when compared to competitors UPS and Amazon. FedEx successfully accommodated the record 39% surge in e-

commerce sales from the start of the COVID-19 pandemic. Lastly, FedEx is focused on capital investments that will improve cost margins long-term. 16 automated facilities to be built before the end of the year to accommodate peak season, and commitments to purchase 35 and 33 aircrafts in 2022 & 2023 respectively.

Investment Risk

An immediate risk for FedEx is a tight labor market. FedEx is urgently trying to hire enough staff to get through the holiday peak shipping season. A long-term risk for FedEx is Amazon Logistics. Amazon has invested \$60bn per year to develop a delivery service that can compete against FedEx and UPS.

Financial Performance

In 2021, FedEx delivered full-year operating income of \$5.9 billion (margin of 6.9%), compared to 2020 net earnings of \$2.8 billion (net earnings margin of 4.1%). FedEx benefited from unprecedented growth in e-commerce which was partially offset by the pandemic-led weakness in its business-to-business volumes. FedEx Express, FedEx Ground and FedEx Freight segments posted 32%, 27% and 38% growth, respectively. In Q1 2022, FedEx saw a tight labor market put pressure on its margins. However, During the same quarter, revenue per package rose 15% for the Express unit and climbed 10% for the Ground unit. FedEx's Freight unit saw both volume and yield increase, helping the unit increase operating margins to 17.3% from 15% a year earlier

Breakdown	TTM	5/31/2021	5/31/2020	5/31/2019	5/31/2018
> Total Revenue	86,641,000	83,959,000	69,217,000	69,693,000	65,450,000
> Cost of Revenue	68,360,000	66,005,000	55,873,000	54,866,000	50,750,000
Gross Profit	18,281,000	17,954,000	13,344,000	14,827,000	14,700,000
> Operating Expense	12,433,000	11,981,000	10,492,000	10,041,000	9,450,000
Operating Income	5,848,000	5,973,000	2,852,000	4,786,000	5,250,000
> Net Non Operating Interest Inc...	-717,000	-741,000	-617,000	-529,000	-510,000
> Other Income Expense	1,394,000	1,442,000	-566,000	-3,602,000	-387,000
Pretax Income	6,525,000	6,674,000	1,669,000	655,000	4,353,000
Tax Provision	1,427,000	1,443,000	383,000	115,000	-219,000
> Net Income Common Stockhold...	5,087,000	5,220,000	1,284,000	539,000	4,566,000

Valuation Assumptions & Key Financials

We recommend a BUY rating for FDX based on a target price of \$287.60 per share. This target price reflects a 22% margin of safety based on its closing price of \$235.51 on October 29, 2021. We calculated the WACC as 6.48%, assuming a terminal growth rate of 2.5% and a 7.5x exit EV/EBITDA.

Perpetuity Growth Method	
Terminal Year Free Cash Flow	3,983
WACC	6.48%
Perpetuity Growth Rate	2.50%
Terminal Value	102,669
Present Value of TV	76,205
(+) Present Value of Free Cash Flows (@ WACC)	13,388
(-) Current Enterprise Value	89,593
(-) Total Debt	20,879
(+) Preferred Stock	-
(+) Cash and Marketable Securities	7,087
(-) Equity Value	75,801
Shares outstanding	266
Estimated Value per Share (USD)	285
Current Price (USD)	236
Estimated Upside	50
MOS	21%

Terminal EBITDA Method	
Terminal EBITDA at year 2025	13,669
WACC	6.48%
Exit Enterprise Value / EBITDA	7.5
Terminal Value	102,520
Present Value of TV	76,094
(+) Present Value of Free Cash Flows (@ WACC)	13,388
(-) Current Enterprise Value	89,482
(-) Long Term Debt	20,879
(+) Preferred Stock	-
(+) Cash and Marketable Securities	7,087
(-) Equity Value	75,690
Shares outstanding	266
Estimated Value per Share (USD)	285
Current Price (USD)	236
Estimated Upside	49
MOS	21%

ESG Considerations

FedEx is investing in pragmatic solutions through a \$100 million donation to help establish The Yale Center for Natural Carbon Capture, tasked with using technology to take carbon out of the atmosphere. In addition, FedEx is committed with a goal to achieve carbon-neutral operations by 2040, and investing in partnerships like Nuro, in creating a fully autonomous electric delivery vehicle.

FedEx Corp FDX Morningstar Rating

Rating as of Oct 25, 2021

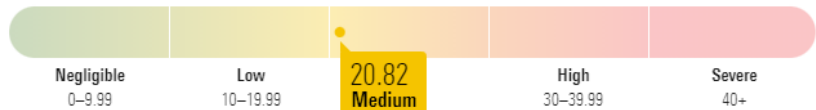
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Sustainability

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

3 Significant

Incidents: Operations, Business Ethics, Employee, Customer

Top 3 Material ESG Issues

Human Capital
Overall

Carbon
Own Operations

Occupational Health & Safety
Overall