FedEx Q4 FY24 Earnings Call Transcript – June 25, 2024

Jenifer Hollander
Vice President-Investor Relations, FedEx Corp.

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 where the replay and slides will be available for about one year. 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 release and filings with the SEC.

Today's presentation also includes certain non-GAAP financial measures. Please refer to the Investor Relations portion of our website at fedex.com for a reconciliation of the non-GAAP financial measures discussed on this call to the most directly comparable GAAP measures.

Joining us on the call today are Raj Subramaniam, President and CEO; Brie Carere, Executive Vice President and Chief Customer Officer; and John Dietrich, Executive Vice President and CFO.

Now, I will turn the call over to Raj.

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

Thank you, Jeni. Our fourth quarter performance marks strong end to a year of successful execution. We delivered year-over-year operating profit growth and margin expansion in every quarter of FY 2024. We lowered our capital intensity, reaching our FY 2025 target of less than 6.5% a year early. With lower CapEx and higher free cash flow, we returned nearly $4 billion to stockholders, and we meaningfully improved our return on invested capital.

The entire industry faced a challenging demand environment in FY 2024. Our team focused on what we could control and, as a result, we delivered full-year earnings towards the higher end of our original guidance range, up 19% year-over-year on an adjusted basis. We did this despite a decline in revenue compared to our initial growth expectations.

We also advanced our network transformation, continuing to roll out Network 2.0 and finalizing the transition to one FedEx, which went into effect June 1. We did all of this while maintaining an intense dedication to serving our customers, a relentless pursuit of innovation and an unwavering commitment to our People-Service-Profit culture. Our transformation journey will continue in FY 2025, as we build on the team's outstanding progress.

Now, turning to the quarter in more detail. At the enterprise level, revenue growth inflected positive this quarter as expected. While we saw modest yield improvement and signs of volume stabilization across segments, we have not yet seen a notable increase in demand. Continued execution of DRIVE, alongside effective expense management, enabled year-over-year improvements to adjusted operating income, margins, and earnings per share.

Let me pause here to acknowledge and provide context around the team's tremendous Q4 and full-year results. Ground delivered its highest adjusted operating income in company history for both the fourth quarter and the full year. At Freight, fourth quarter operating income increased despite significant demand weakness. In fact, because of our strong fourth quarter performance, Freight ended fiscal year 2024 with full-year operating margin equal to last year's all-time high. Adjusted Express operating margin increased sequentially in the quarter but declined year-over-year as expected. We continue to take action to unlock the full profit opportunity that exists in this business.

DRIVE continues to change the way we work at FedEx. We achieved our target of $1.8 billion in structural cost-out in FY 2024, with approximately $500 million from air network and international, $550 million from G&A, and $750 million from surface network. In our air network, structural network transformation and reduced flight hours drove the Q4 savings. Within G&A, we realized procurement savings by centralizing third-party transportation, sort equipment, and outside service contracts.

For surface network, we continued to maximize the use of rail. As part of that effort, Freight now handles nearly 90% of the drayage volume, up from about 25% just one year ago. Looking ahead, we are firmly on track to achieve our target of $4 billion of savings in FY 2025 compared to the FY 2023 baseline.

Let me spend a moment on Europe where we are executing on the $600 million FY 2025 DRIVE savings target, we have shared previously. I would like to thank Karen Reddington for her more than 27 years of service at FedEx, most recently as our Europe regional president. A couple of weeks ago, Karen announced her impending retirement. We wish her all the very best.

Wouter Roels, who is an exceptionally seasoned and experienced executive, will become our Europe regional president on July 1. Wouter has been leading our Europe DRIVE domain since its 2022 inception. I'm confident that under Wouter's leadership, the team will continue to advance DRIVE initiatives to support improved performance.

John, Brie, other FedEx executives, and I were in Europe visiting the team just last week. Our team members there are working with rigor to execute on our efficiency plans, and our performance improved on a year-over-year basis. In the fourth quarter, route optimization, improved thought processes, and productivity gains led our Europe DRIVE domain savings. Key actions are already underway for FY 2025. I left the continent encouraged by our progress and with even more conviction in the opportunity ahead.

On June 1, we reached an important milestone in our transformation, what we call one FedEx. This is the consolidation of FedEx Express, FedEx Ground, and FedEx Services into Federal Express Corporation. There are many benefits. This foundational step improves efficiency and reduces cost, allows our teams to move with speed, and makes it easier for our team members to manage their FedEx careers.

In Q4, we also continued to roll out Network 2.0, including the launch in Canada, our largest market yet. In the first half of FY 2025, we will complete the Canada transition and optimize dozens of additional locations in the US. We expect to significantly pick up the pace into FY 2026.

Importantly, even as we streamline our structure, we are maintaining our strong service levels, and we continue to offer the widest portfolio of services with the most compelling value proposition for our customer. Our integrated portfolio offering is a long-term driver of sustained profit improvement and a key enabler of our Tricolor network design.

We also continue to leverage data to create a more flexible, efficient and intelligent network. In November of 2023, we began introducing a new tool to our contracted service providers in the US to track and drive improvement across key operating metrics tied to demand, safety, service, and productivity. This tool is a common platform that we plan to scale globally, providing insights and enabling outcomes that are beneficial to FedEx, our contracted service providers, and our customers.

Across the 65% of service providers currently using the platform, it's already driving service and safety improvements, which are translating into cost savings. Real-time visibility tools like this are critically important, as we start to flow packages across our network, irrespective of service offerings.

Our FY 2024 results create a strong foundation as we kick off the new fiscal year. In fiscal 2025, we will continue to execute on our transformation strategy and expect to deliver adjusted EPS growth of 12% to 24%. John will provide more detail on our outlook and the underlying assumptions shortly.

With the recent completion of the FY 2025 planning process, we have turned our focus to the next phase of our long-term stockholder value creation plans. As a part of this work, our management team and the Board of Directors, along with outside advisors, are conducting an assessment of the role of FedEx Freight in our portfolio structure and potential steps to further unlock sustainable shareholder value. We are committed to completing this review thoroughly and deliberately by the end of the calendar year. We will conduct this assessment while continuing to focus on customers, team members, and the safety of our operations.

Before I close, I want to thank our FedEx team members for their continued commitment to our customers and their focused execution in FY 2024. I'm truly excited about the value creation opportunities in front of us as we continue to win profitable share, execute on our structural cost initiatives, and leverage the insights from the vast amount of data we compiled from moving more than $2 trillion worth of goods every single year.

We are firmly on track to achieve our $4 billion FY 2025 DRIVE cost savings target compared to the FY 2023 baseline. We expect another $2 billion to follow from Network 2.0. Our Tricolor strategy will improve the efficiency and asset utilization of the entire FedEx system. We expect to continue lowering our capital intensity, improving ROIC, growing free cash flow, and delivering significant returns to stockholders. We have a clear line of sight to achieving 10% adjusted operating margin on $100 billion revenue. I have never been more confident in our future, as we create the world's most flexible, efficient, and intelligent network.

With that, let me turn the call over to Brie.

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

Thank you, Raj, and good afternoon, everyone. I want to congratulate our team on their outstanding Q4 and full-year performance. Our service and speed advantages continue to attract customers in high-value industries and segments. With this focus on profitable growth, we have continued to gain market share both in the United States and around the world. We are very pleased to see revenue growth turn positive in the fourth quarter with volume stabilization and modest yield improvement.

Let's review fourth quarter top line performance by segment on a year-over-year basis. At FedEx Ground, revenue increased 2% on a 1% increase in yield and a 1% increase in volume, driven by Ground Commercial. At FedEx Freight, revenue increased 2%, driven by higher yields. Average daily shipments increased slightly. At FedEx Express, revenue in the fourth quarter was flat, with package yield up 2%. While positive, yield growth was pressured by a tapering of international export demand surcharges and an increasing mix of deferred services. International yields were also pressured by an increased capacity in the global air cargo market.

Turning now to monthly volume trends during the quarter. Volumes continued to stabilize. In US domestic package, year-over-year volume declines continued to moderate. International export package volume increased 8% in the quarter, driven by International Economy, largely consistent with the monthly trends we saw last quarter. Our continued focus on reliable service at Ground drove volume improvement in Ground Commercial.

FedEx Freight shipments inflected positive as the quarter progressed as we lapped last year's demand softness. As we previously announced, our contract with the United States Postal Service will expire on September 29. Until then, we will continue to meet our service commitments. We expect volumes to be near contract minimums, consistent with what we saw in the fourth quarter. After the expiration of the contract, we will implement adjustments for our operations and network that will drive efficiencies and create more flexibility.

Similar to last quarter, the pricing environment remains competitive but rational. During the fourth quarter, we continued to grow yield as we focused on profitable growth and revenue quality. At Express, package yield increased 2%, driven by higher US domestic package yield, partially offset by international export yield pressure. At FedEx Ground, yield increased

1%, driven by Home Delivery and Ground Commercial. Our value proposition is translating to increased Ground Commercial market share gains, which positively contributed to our yield.

And at FedEx Freight, revenue per shipment was up 1%, driven by a continued focus on revenue quality as we grew share in the most attractive parts of the market. This was Freight's strongest yield performance since the third quarter of fiscal year 2023.

In light of the overall pricing environment, I am very pleased to report that we had a very strong US domestic capture rate on the 5.9% GRI in January. We recently announced fuel surcharge table increases across our services, which should also benefit yield in fiscal year 2025.

We continue to enhance our portfolio and value proposition to drive profitable growth. Our world-renowned brand, the breadth of our network, and our strong reliability along with our digital portfolio are winning the hearts and the minds of customers around the world.

A few commercial highlights I would like to share. We are very proud of our healthcare portfolio. Last year, as part of our commercial DRIVE focus, we increased focus on this attractive segment and experienced great results. We have over $1 billion of healthcare-related revenue that comes from customers who utilize FedEx Surround. The FedEx Surround platform provides insights to help our customers monitor and solve their supply chain challenges.

Surround gives customers real-time visibility into their shipments by combining information about the package with external data such as weather to predict delivery timeliness and mitigate the risk of disruption.

Another critical element of our healthcare strategy is our ability to demonstrate our high reliability and our ability to meet customer quality agreements. The quality agreement is essentially a customized standard operating procedure for critical healthcare shipments. In fiscal 2024, we signed new quality agreements for customers tied to over $500 million in revenue. As we expand our healthcare portfolio, we'll continue to focus on high-value areas like clinical trials.

Earlier this month, in the Netherlands, we opened our first European Life Sciences Center. This state-of-the-art cooling facility is the sixth of its kind in our global network, offering an end-to-end supply chain solution for temperature-sensitive medical storage and transport.

In addition to the tremendous work with our healthcare customers, our e-commerce portfolio is the most robust in the market. We have the best speed, coverage, and capabilities. Picture Proof of Delivery was a great new feature to improve customer confidence. We recently launched our Picture Proof of Delivery APIs. These APIs enable our customers to expose Picture Proof of Delivery within their own branded notifications and websites. This quarter, we signed several new pricing agreements with large retailers for our new Picture Proof of Delivery API. This is a great differentiator and represents what will be the first of many wins for our new fdx platform.

Looking ahead, in fiscal year 2025, we expect the demand environment to moderately improve as we move through the year. Currently, we expect US domestic parcel and LTL volumes to continue to improve, with the year-over-year increase growing as the year progresses.

International air cargo demand from Asia accelerated in early May and is stronger versus previous expectations. We expect year-over-year growth to be driven by e-commerce and low inventory levels. Shippers are facing tightened capacity both in air and sea freight services. Red Sea disruptions have further exacerbated shipper challenges from Asia to Europe. These conditions should bring strength to the overall air freight yields from Asia.

In closing, I am very confident in our outstanding team, our strong value proposition, and our new digital solutions. These will continue to power our success as we build on our momentum in fiscal year 2025.

And with that, I'll turn it over to John to discuss the financials in more detail.

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

Thanks, Brie. For fiscal year 2024, we delivered $6.2 billion of adjusted operating profit which is nearly a $900 million or 16% year-over-year improvement, adjusted operating margin expansion of 110 basis points, and adjusted EPS up 19%. This is a very strong result in a year where revenue was down 3% or nearly $2.5 billion.

We also reduced our capital intensity and achieved our CapEx to revenue target of 6.5% or less a year ahead of schedule. And with the continued strong cash flow and lower capital intensity, we returned nearly $4 billion to stockholders. These results reinforce that our transformation efforts are taking hold and demonstrate our commitment to creating value for our shareholders.

Taking a closer look at our Q4 consolidated performance on a year-over-year basis. Adjusted operating income increased by over $100 million and adjusted operating margin expanded by 40 basis points. At Ground, the team delivered another strong quarter. Adjusted operating income increased by $133 million, and adjusted operating margin expanded by 130 basis points. This was driven by continued progress on DRIVE, increased yield, lower self-insurance costs, and commercial volume growth.

At Freight, operating income increased by $58 million and operating margin improved by 220 basis points driven by higher yield. Freight's continued focus on revenue quality and cost management has enabled improved profitability despite the soft demand environment.

As directionally expected, adjusted operating income at Express fell by $92 million in the quarter and adjusted operating margin was down 90 basis points. Express results were pressured by lower international yield, higher purchased transportation costs due to the launch of our Tricolor initiative, and a headwind from annual incentive compensation. DRIVE cost reductions and higher US domestic package yield partially offset these pressures.

With respect to Europe, earlier this month, we announced a planned reduction in the size of our European non-operational staffing to further support Express profit improvement. We expect $125 million to $175 million in annualized benefit beginning in FY 2027, with tailwinds starting later in FY 2026. Decisions like these are never easy but are a necessary step to improve profitability in the region.

In addition to our segment results, our fourth quarter results include a non-cash impairment charge of $157 million relating to our decision to permanently retire 22 Boeing 757 aircraft from our US domestic network along with 7 related engines. These actions, coupled with the previously announced retirement of 9 MD-11s in the quarter, resulted in the permanent removal of 31 jet aircraft from our fleet in FY 2024. This reflects our strategy to continue to rightsize our air network capacity with demand and unlock additional operating efficiencies.

Now, turning to our outlook for fiscal year 2025. Our adjusted earnings outlook range for the year is $20 to $22 per share. Let me talk through our key assumptions and variables. Starting with revenue, we expect low- to mid-single-digit growth, driven by improving trends in US domestic parcel and international export demand.

The primary factors that will ultimately determine our revenue growth are the rate of yield expansion, the pace of global industrial production, and growth of domestic e-commerce. We expect FY 2025 yields to benefit from both improved base rates and increased fuel surcharges. And consistent with what we have seen over the past year, we're anticipating a pricing environment that is competitive but rational. On the expense side, we remain committed to aggressively managing our cost structure, including the incremental $2.2 billion benefit tied to DRIVE.

I'll walk you through the puts and takes in our FY 2025 operating profit bridge in a moment, but at the business level, in fiscal year 2025, we expect the newly combined Express, Ground and Services segment, now called Federal Express, to be the larger driver of FY 2025 adjusted income and margin improvement. And we expect FedEx Freight margins to be up modestly year-over-year due to both yield and volume growth.

I'd also like to provide some color on our quarterly cadence in light of the US Postal Service contract expiration at the end of September. We anticipate headwinds from the expiration of that contract to begin in the second quarter starting in October with this headwind lessening in the second half as we aggressively reduce our Postal Service-related costs, including our US domestic air network costs.

Turning to other aspects of our outlook, our estimated effective tax rate for the full year is approximately 24.5% prior to mark-to-market retirement plan adjustments. We're also forecasting $560 million of business optimization costs in FY 2025 associated with our transformation.

Our operating income bridge shows the operating profit elements embedded in our full-year outlook. By way of illustration, we're using adjusted operating profit of $7.2 billion, equivalent to $21 of adjusted EPS, the midpoint of our outlook range.

To get to $7.2 billion of adjusted operating profit, we're now assuming revenue, net of variable cost and continued inflationary pressures is up $100 million; U.S. Postal Service contract termination results in a $500 million headwind; international export yield pressure of $400 million as demand surcharges diminish and mix continues shifting toward our deferred services; and two fewer operating days in the year decreases profitability by $300 million, and as a side note, we have not experienced this adverse calendar dynamic since fiscal year 2001. And lastly, performance-based variable compensation increases by $100 million.

DRIVE, however, will more than offset these pressures, delivering an incremental $2.2 billion in structural cost savings. As a result of all of these factors and at the midpoint, we would expect fiscal year 2025 adjusted operating income to increase by approximately 15% year-over-year.

In FY 2024, we remained focused on reducing our capital intensity, increasing ROIC, and continuing to provide increased stockholder returns, all while maintaining a strong balance sheet. Capital expenditures for the quarter were $1.2 billion, bringing year-to-date CapEx to $5.2 billion, which is a decline of nearly $1 billion compared to last year. We delivered ROIC of 9.9%, which is an increase of 120 basis points from last year's 8.7%, and we'll continue to focus on improving ROIC, and it is now a significant element of our long-term incentive program.

Consistent with our goal of increasing stockholder returns, we completed $500 million of accelerated share repurchases in the fourth quarter, bringing our total share repurchases for the fiscal year to $2.5 billion. This is $500 million above our plan that we came into the year with. For the full year, we also generated $4.1 billion in adjusted free cash flow, which is up about $500 million year-over-year.

Looking ahead to FY 2025, we anticipate capital spend of $5.2 billion, which will again be down year-over-year as a percentage of revenue. And we'll work by prioritizing our capital toward optimizing our network as part of Network 2.0 and further enhancing our fleet and automation to improve operating efficiency. And we remain committed to decreasing aircraft CapEx to approximately $1 billion in FY 2026.

Due to improved earnings and CapEx discipline, we expect to further grow adjusted free cash flow. This will enable us to deploy $2.5 billion in stock repurchases in FY 2025, including a planned $1 billion of repurchases in Q1.

As previously announced, we are also enhancing our stockholder returns by increasing our dividend by 10%, and this is on top of the 10% increase we implemented in FY 2024. Lastly, we're planning for $800 million of voluntary pension contributions to our US qualified plans, and these plans continue to be well funded and were at the 98.6% funding level at fiscal year-end.

Finally, a quick update on our segment reporting changes. Now that we have successfully completed the consolidation of Express, Ground, and Services into Federal Express Corporation, I'm pleased to announce that our reportable segments in FY 2025 will be Federal Express and FedEx Freight with no changes to Corporate and Other. FedEx Freight will include FedEx Custom Critical, which was previously included in FedEx Express. We're making this change to Freight due to the business synergies between Custom Critical and Freight.

Our new segment structure reflects our commitment to operating a fully integrated air and ground Express network. And let me be clear. Notwithstanding the consolidation of Express and Ground, optimizing our Express services and associated cost, including the cost of our global air network, remains critical to our profit and return objectives. This consolidated structure will support one FedEx and Network 2.0 objectives and will provide a more flexible, efficient, and intelligent network as one FedEx. We'll continue to provide service-level volume and yield detail, and we plan to share a revised statistical book in late August, which will include our recast results for FY 2023 and FY 2024.

Overall, I want to acknowledge and thank the entire team for their efforts in delivering these strong FY 2024 results and improving profitability despite a very challenging demand environment. I'm also really inspired by their commitment to achieving even stronger results in FY 2025 and beyond as we continue to deliver on the Purple Promise.

With that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: And we will now begin the question-and-answer session. And our first question today will come from Daniel Imbro with Stephens, Inc. Please go ahead.

Daniel Imbro
Analyst, Stephens, Inc.

Hey. Good afternoon, everybody. Thanks for taking the question. Maybe I want to ask on the Express side. So, margins obviously came in at 2.6% for the year. I think obviously it's been volatile. But with the cost progress in Europe, the USPS contract shift, and then just other moving factors in the core business, can you talk about how you expect those margins to trend both in the near term and then as we move through fiscal 2025? Raj, you gave a little bit of color, I think, on some of the USPS headwinds and timing, but any more detail there and quantifying that would be helpful. Thanks.

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

Yeah, thank you, Daniel, for that question. Let me start and then John can fill in on some of the details here, too. Firstly, we are sequentially improving our performance in our Express services. It remains a top priority for me and the entire team, and we're taking multiple actions here. Firstly, we're aligning capacity with demand, as we already heard, we moved 31 aircraft from our jet fleet in Q4.

As I have mentioned to you in some detail last time we spoke, I talked to you about Tricolor. That's a fundamental restructuring of our network. It does two things. One, it improves our density, it improves our asset utilization and expands margins. And secondly, because of reduction of cost to serve, it puts us in a position to profitably take share in the premium Freight segment.

Next, as I have mentioned in my remarks, we will improve our European performance. Our DRIVE commitment is to improve $600 million over FY 2023 baseline, and that's a critical part of how our Express services get better in FY 2025. And then, finally, we are taking active efforts to make sure that our global SG&A is streamlined. We are extremely confident that we can continue to unlock significant value in our Express services business.

Now, let me turn it over to John to add more detail.

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

Yeah. No, thanks, Raj. And I think you covered it very well. We were pleased to see the sequential improvement in our margins but recognize we have more to go. I will also add there is a significant sense of urgency as well. DRIVE is heavily focused on the Express business and, as Raj mentioned, this is going to be a key part of our margin expansion as we go forward here. And we'll look forward to updating you along the way.

Operator: And our next question will come from Scott Group with Wolfe Research. Please go ahead.

Scott H. Group
Analyst, Wolfe Research LLC

Hey, thanks. Afternoon. So, in the bridge, the $500 million postal headwind for the year, how much of that is in Q2, and what do you think that should mean for sort of like the quarterly earnings cadence? And I guess ultimately, how much of the revenue decline with the post office do you think you can fully offset over the next few quarters?

And then, if I may, just a separate topic. Raj, can you just talk about like the puts and takes of why you would or wouldn't go ahead with an LTL spin? Thank you.

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

So, thanks, Scott. And I'll start with regard to the $500 million. We haven't laid out the spread of where it's going to impact us the most. What we can say is we've got a pretty good hold on what those costs are. We're going to be aggressively going after them beginning in Q2 and it's going to flow into Q3, and those aggressive mitigation efforts should start to really take hold in Q3 and beyond. And look forward to keeping you posted on that.

And, Raj, I'll turn it over to you on the other question.

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

Yeah, Scott. At this point, all I'm going to say is that the assessment of FedEx Freight in the company's portfolio structure is well underway. We'll do this analysis thoroughly, deliberately, and when we have something to communicate on this, we'll of course do so. Thank you, Scott.

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

I'm sorry. I guess I didn't touch your revenue question on that part and, as you can see from our outlook, we are looking to year-over-year improve our revenue, so that's part of our plan as well as we go forward.

Operator: And our next question will come from Chris Wetherbee with Wells Fargo. Please go ahead.

Chris Wetherbee
Analyst, Wells Fargo

Hey. Thanks. Maybe kind of just a follow-up again. On the LTL piece, Raj, just want to get a sense, does this include a spin or sale of the assets? Just want to make sure we understand that all opportunities or potential is on the table.

And then, I guess, John, maybe thinking about that kind of revenue cadence I guess, how do you think that sort of plays? I guess that's the piece I'm looking at as the first step in the bridge on the revenue side, how that sort of plays out. Obviously, you have the big dip in revenue relative to USPS starting in 2Q. Just want to get a sense of kind of how to think about that over the course of the year.

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

Okay. Let me start and then give it to John. Honestly, at this point, I'm not going to say much more on this topic than what I've already said. As I said, we are looking at the FedEx Freight in the company's portfolio structure and we'll do the analysis and we'll come back to you when we have something to say.

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

And so, I'll touch on the cadence. Well, we're not going to give quarterly guidance by segment, but for your modeling purposes, we're anticipating normal seasonal trends to hold steady in FY 2025 Q1. I will note that Q2 will be impacted by a couple of events, including the impact of the US Postal Service contract termination as well as Cyber Monday moves from Q3 of last year to Q2 of this year. And we'll look forward to keeping you – I'm sorry, the other way around, from Q3 to Q2 – Q2 to Q3, I'm sorry.

Operator: And our next question will come from Conor Cunningham from Melius Research. Please go ahead.

Conor Cunningham
Analyst, Melius Research LLC

Hi everyone. Thank you. Just in the context of your revenue assumptions, just curious if you could frame up some of the moving parts. Just maybe on when you expect volumes to inflect positive and then just any of the – and this just doesn't seem like a macro-driven plan, but just any of your assumptions around the macro environment, what you need to see there to kind of see volumes perk up. Thank you.

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

Sure. Thanks, Conor. It's Brie. From a macro perspective, we are expecting sort of moderate improvement as we work our way through this fiscal year. As we look at kind of the sub-segments of our business, from a B2B perspective, we are forecasting the overall B2B market to be around 2% growth. E-commerce will be ahead of that, as we have just seen. E-commerce reset is somewhat done when we just looked at e-commerce as a percentage of retail in calendar year Q1. We actually were up 1% year-over-year. So, we do like the fundamentals from an e-commerce perspective that will help us here in the United States and around the world.

And then from an air cargo perspective, we are looking at the growth in the market around 4%. So, as we work through the year, we do expect there to be modest improvement. We are forecasting that we will have to take some small market share in our profitable target segments, and we feel really good about the plan as we move forward through the year.

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

I'll just add one more point here just to make sure. We will obviously monitor this demand very, very carefully and we'll make adjustments as needed. I would just point out on our tremendous execution in fiscal year 2024 where we drove significant bottom line growth despite a lack of any revenue growth.

Operator: And our next question will come from Ken Hoexter with Bank of America. Please go ahead.

Kenneth Hoexter
Analyst, BofA Securities, Inc.

Great. Thank you. Good afternoon. So, Raj, lots to digest here, and thanks for all the detail. Maybe just thoughts on the integration of the networks, your early take on how that's proceeding, and I don't know if it's for you or John or Brie, but your $20-$22 range, maybe thoughts on what's the upside/downside within that range from the midpoint. Thanks.

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

Thank you. Let me start and then John can weigh in on this. Again, appreciate the question. We are very pleased especially with the execution and transition to one FedEx which delivers multiple benefits. Firstly, it's more efficient by reducing overlapping costs. But more importantly, it's much more effective and we are an organization and makes it also easier for our team members to manage their careers much better.

On the Network 2.0, we continue to make significant progress in this regard. In one of the biggest markets, obviously, the one was Canada, and in first half of fiscal year 2025, we'll complete the Canada transition and then we expect to significantly pick up the pace into FY 2026. John?

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

Yeah, thanks, Raj, and hey, Ken. Look, on the guidance, as always, we continue to take a very thoughtful and methodical approach, and there are a number of factors we take into account. And as Brie mentioned, we expect a modest improvement in the demand environment in FY 2025 and supporting our revenue outlook of a low- to mid-single-digit percentage increase, as we noted. And that will be driven by improving trends at US domestic parcel and international export.

And while headwinds remain and we have lined those out in our bridge, we continue to focus on aligning our costs across the enterprise with expected volume and are focused on executing on revenue quality strategy. We're going to be focused on DRIVE. I would direct your attention to the right side of that slide, the $2.2 billion focused on DRIVE and controlling those things within our control, and that's going to be critical for us to deliver on this guidance.

Operator: And our next question will come from Brandon Oglenski with Barclays. Please go ahead.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Hi. Good afternoon. And maybe if I can just follow up from Ken's question there, Raj, on Network 2.0 and the integration, I think investors are pretty excited about this, but also concerned that there could be network disruption. I mean, if we just looked across 20 or 30 years of transportation network integration, it always hasn't gone all that well. We can look no further than TNT. So, what are you guys doing from a systems perspective and maybe like a physical network and facility, pickup and delivery line haul perspective that mitigates some of those risks, and what are the lessons learned thus far?

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

Well, I'll start first and then maybe Brie can comment on it. Absolutely, we are making sure that our customer experience actually gets better, and we now have a very rigorous process through DRIVE. The rigor and discipline that we have established on multiple projects that's associated with this is very critical. So, we will follow this very carefully and rigorously and make sure that our customer experience gets better as we go through this process.

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

The only thing that I would add, Brandon, is when we looked at Network 2.0 is we've given ourselves time. From a pace perspective, we have built in the right cadence so that if we do need to pause, we can. We haven't needed to. I think that's really important, the rigor and the planning and the technology and the tools that Scott Ray and John have, have worked.

Service is good. And, in fact, as I've mentioned previously, this also solves our single pickup feature of service which has been just a huge opportunity for us to move forward from small business acquisition. So, I feel really good. Service is the strongest in the market at FedEx. FEC, I guess I have to say moving forward, and I feel really good about the domestic network right now.

Operator: And our next question will come from Tom Wadewitz with UBS. Please go ahead.

Thomas Wadewitz
Analyst, UBS Securities LLC

Yeah, good morning or good afternoon. Day's gone by quickly. Let's see. Wanted to see if you could give – I know you talked a little about some of the factors in DRIVE. Wanted to see if you could give a little bit more maybe on Europe. I think some of the cost savings you announced, the headcount reductions come a couple years out, not in fiscal 2025 or they ramp in 2026 and more so in 2027. Can you give just a little more perspective on the changes in Europe and just how important the $600 million improvement in Europe is to the overall DRIVE? Thank you.

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

Yeah, thanks, Tom. It's John. Yeah, the $600 million is very important to DRIVE and it's one of our top priorities. As Raj mentioned, we were all just in Europe last week meeting with the team, the leadership, not only there to support them, but also to stress the urgency of how important this is, and we're looking at every aspect of our operation in Europe.

There will be new leadership as well and we're going to continue to focus not only on the commercial side but some operational efficiencies, including the network. There's also opportunity now that we're in Network 2.0, full swing of implementation to leverage the expertise that John Smith and his team bring on the US side which is where we're very strong to work in coordination with our team in Europe. Something that's been done in the past, but we're really taking it to the next level. So, I think all those things are key and we're serious about the $600 million and we'll look forward to updating you on our progress in the other main categories. Thank you.

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

Yeah. And, Tom, the point that John just talked about is very important. I think the biggest opportunity that we have in Europe is the intra-Europe theater, and that is ground-based. And we have a significant amount of interaction now between the management teams and between Wouter and Scott Ray, for example, and everyone below that. And also, we have now established KPI dashboards that very much provide real-time visibility on package flows to improve service and reduce costs. So, a lot of work going on here, very excited about what we can make happen.

Operator: And our next question will come from Jon Chappell with Evercore ISI. Please go ahead.

Jonathan Chappell
Analyst, Evercore ISI

Thank you. Good afternoon. John, you pointed to the right side of the bridge again on the $2.2 billion. I think maybe some of the debate is, is that $2.2 billion gross or net? It feels like you're saying it's both. How much of that is truly in your control kind of independent of everything else going on in the macro environment and even the yield environment?

And I guess the other part of it would be if the non-heroic demand even doesn't play out the way that you've kind of expected it to, are there other kind of variable cost levers to pull? Or is this strictly just more of a structural DRIVE cost initiative for fiscal 2025?

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

Sure. Thanks, Tom. Yeah, the $2.2 billion is structural in nature. So, from our perspective, that is all within our control. And to the extent the macro environment doesn't cooperate, we're going to keep at it. The $2.2 billion includes projects that are in motion now, and as I've said in prior calls, some of our programs are going to over-deliver. Some may under-deliver, but the pipeline is constant. So, we're going to adapt aggressively not only to the plans that are in place, but also to the change in the demand environment as well.

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

And, Jon, look no further than what we did in FY 2024.

Operator: And our next question will come from Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Yeah, hi. Afternoon. Question, so the low- to mid-single-digit revenue growth that you talked about for the year, is there a way to think about the blend between the yield and volume? Is it 2% and 2%, something along those lines? And then, just sort of along those lines, I think you gave some color around B2B volumes of – where demand is up 2% or so. I'm just sort of wondering, with retailers maybe doing more of this just-in-time focus these days, does that sort of play into B2B and fast-cycle logistics companies like FedEx? Thanks.

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

Yeah, great question, Jordan. So, as we think about this year's revenue plan, you will see it be largely volume-driven, and it will be driven from a deferred and an e-commerce perspective. As we have just mentioned, we do think e-commerce is going to outpace the B2B growth.

To your point, from a speed perspective, we are actually seeing the speed conversation elevate in the market, especially with what we would consider sort of your Tier 1 or your household brand. From a competition perspective, we are absolutely increasing that conversation. Actually, there is increased demand from a speed perspective within it. So, I hope that gives you a little bit more clarity, but we do see volume moving throughout the year.

Operator: And our next question will come from Brian Ossenbeck with JPMorgan. Please go ahead.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Hey, good afternoon. Thanks for taking the question. So, Brie, maybe just to follow up on the demand environment, can you tell us what you expect from peak season and how the planning and integration visibility, I guess more importantly, is going with the major shippers relative to prior years, where it's been a little bit harder to get maybe the right information and the right assets in place?

And then, John, can you just give us any sense – I know you don't want to give quarterly guidance, but any sense in terms of how the DRIVE $2.2 billion will roll out throughout each quarter this year? Thanks.

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

Thanks, Brian. So, from a peak season perspective, we had a really phenomenal peak last year. That's going to be hard to top, but if there's a team that can do it, it's John. From a collaboration and an insight, we are actually getting further integrated with our largest retailers. So, we have even better information than we have ever had.

So, from my perspective, I think from an asset and in alignment with capacity this peak, I can't control the weather, nor can John Smith. He can do a lot of things, but he can't control the weather. But I do feel really good going into peak, and in fact, we have taken all of our peak best practices from the United States, and we are expanding them around the world. We just had an incredible hot sale in Mexico domestic as an example. So, I feel pretty confident about peak season.

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

Before John goes, I just want to make sure that in terms of the volume growth, what we are expecting is low-single-digit volume growth for the year.

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

Yeah. And with respect, Brian, to your question on DRIVE, the $2.2 billion we are committed to that. And as I said, a number of plans are already in place. We talked about the $600 million for Europe. The majority of the savings will come from the surface network and our legacy Express operations as we're looking to optimize our processes and improve efficiencies there. And G&A, IT, and procurement will be key drivers for the savings. I know you asked about the timing of that, but we look forward to keeping you updated as these plans solidify and as the year progresses.

Operator: And our next question will come from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors
Analyst, Susquehanna Financial Group LLLP

Yeah. So, for the investment community, it's very clear to see the potential benefits of separating the less-than-truckload business, just looking at multiples and investor favorability there over the last three or four years. What do we miss when looking at the other side of that? What do you lose? What are you thinking about as the offset that – when you make that decision over the next six or so months? Thank you.

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

Bascome, as I have said before, I'm not going to comment too much more on this. We have already said historically about what value FedEx is part of the network. We'll do the full analysis. And again, like I said, it's going to be very thorough. And when we have something to talk about, we will definitely communicate it.

Operator: And our next question will come from Ravi Shanker with Morgan Stanley. Please go ahead.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Thanks. Good afternoon, everyone. Just want to confirm that the headcount reductions in Europe, were they part of DRIVE? I mean, given that you're going to see the benefit of that in FY 2027, just wondering if that was incremental. And also, kind of when you think of the actions you're taking right now, how much of that is commercial kind of operating kind of revenue-driven versus actual cost cutting in Europe? Thank you.

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

So, it's certainly in line with the DRIVE philosophy and because some of the benefits are going to flow beyond the DRIVE FY 2025 period, but we haven't included it in that number, and it truly is cost take-out. These are non-operational positions, and we look forward to keeping you posted.

Operator: And our next question will come from David Vernon with Bernstein. Please go ahead.

David Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Hey, guys, and thanks for the time. So, Raj, I hate to come back to the same topic again, but when you were with us a few weeks ago here in New York, you were sounding like it was a little bit more of you're moving in the direction anyway of more closely integrating some of the Freight stuff with the Tricolor network strategy. So, my question for you is really kind of what's changed in the thinking in the last couple weeks, like what's the impetus for the decision to do a review here?

And secondly, as you think about what that review will mean, are there any downstream implications for that Tricolor network strategy that we should be thinking about?

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

Well, David, thanks for the question. As we have heard from several investors and analysts in this regard and obviously, we take input from our shareholders very, very seriously and so this is the right time in our natural planning calendar. As far as Tricolor goes, no changes. We're moving on ahead. Thank you.

Operator: And our next question will come from Stephanie Moore with Jefferies. Please go ahead.

Stephanie Moore
Analyst, Jefferies LLC

Hi. Good afternoon. Thank you. Maybe a question for Brie here. You noted you're pleased by the pricing capture that you've been able to achieve as noted in light of the current pricing environment. Can you maybe talk a little bit about what you're seeing in the current pricing environment from a competitive standpoint or overall rationality? Thanks.

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

Sure. Thanks, Stephanie. So, from a market perspective, it absolutely is competitive. That's nothing particularly new in this market. So, it's competitive, but it's rational. I think our team has been very disciplined. We have absolutely been able to maintain the yield increases that we captured in CY 2022 and CY 2023 and then built on there.

I think it's also really important to note that we're very focused not just on total yield, but getting yield in the right place where we need it. So, for example, I think our team is doing the very best in the market at getting peak surcharges. I should have said that when the peak question just came up. The team has done a really good job in getting the increase we need to deliver an amazing peak where we do have to expand capacity.

The same goes to rural coverage as well as large packages. So, yes, it's competitive, but I think the team is doing a really good job of navigating kind of market share, profit market share growth with getting the right yield for the right package and working really, really closely with the operation. So, I'm incredibly pleased.

Operator: And our next question will come from Bruce Chan with Stifel. Please go ahead.

Jizong Bruce Chan
Analyst, Stifel, Nicolaus & Co., Inc.

Hey, thanks, and good afternoon everyone. Lots of good and interesting stuff happening here, but maybe just switching gears a little bit. We've got some elections coming up and just curious how big of an issue tariffs have been as part of your customer discussions to date and maybe more specifically just given your commentary, Brie, around China e-commerce, you've got a couple of big direct e-comm customers, can you just maybe remind us of how big they are right now as a percentage of your book and what's maybe the risk to volumes here if there is a change in trade policy?

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

Sure. I'll start with the last question, and then I'll certainly turn it to the boss to talk about the overall tariff situation. So, from an e-commerce perspective, yes, e-commerce is the largest driver of intercontinental out of China, but actually around the world both domestically and internationally. We are really proud of how diversified our revenue base is.

Yes, we have a great relationship with all of the major e-commerce players out of China, but the benefit of those customers is that they're really large and so we can partner with them to find the right solutions, what makes sense for us as well as what makes sense for them. No one carrier can serve their entire needs and I think we found a very productive and profitable relationship and again I do want to emphasize very diversified base. Thanks.

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

And on the broader point here, the trade as a percentage of GDP has essentially flat-lined since about 2016. So, we've been operating in this environment sometime. Now, it's important to note that the trade patterns are fundamentally shifting and the good news for FedEx is our network, we are here, there and everywhere, and we get the intelligence from the market at the ground level.

That is - you know, we are a referendum on a global supply chain every single day. And so, because of that, we are able to react very quickly, much faster than manufacturing can move. And so, the supply chain pattern changes, actually works in our favor in many ways because the only companies that have established networks that connect all these countries can actually do these things.

So, for example, when our manufacturing moves to Mexico, we have a significant presence in Mexico and the United States. In fact, on our competitive set, we are the only one who can say that with conviction. So, while we see the overall trade trends flatten out, there are opportunities as supply chain patterns change and, again, our established networks that we have in place and the digital tools that we now have makes us very compelling.

Operator: And this will conclude 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. Before we wrap, I want to congratulate Rob Carter once again on his upcoming retirement after more than 30 years of dedication and service to FedEx. I also want to take this opportunity to welcome Sriram Krishnasamy into his expanded role as Chief Digital and Information Officer effective next week.

In closing, I'm extremely proud of our FedEx team for a strong end to a year of incredible performance. Margin expansion and operating profit growth for four consecutive quarters despite revenue decline in three of those quarters is a tremendous achievement. I'm excited about the opportunities ahead as we continue to focus on enhancing our profitability and stockholder returns, while providing outstanding service for our customers. Thank you very much.