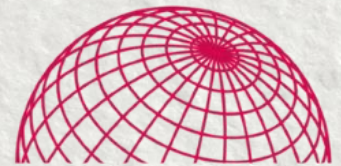


Can FedEx Hit \$300 Again?



Valuation Master Class



CASE STUDY

VALUATION MASTER CLASS

by

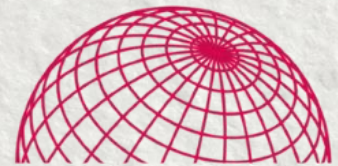
A. Stotz

INVESTMENT
RESEARCH

What's interesting
about **FedEx** is that its
margin is half of its
main competitor **UPS**



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CASE STUDY

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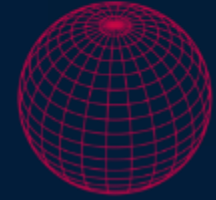
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INVESTMENT
RESEARCH

REMEMBER

This is NOT investment advice
or a recommendation.





VALUATION MASTER CLASS

by *A. Stoltz* INVESTMENT RESEARCH

Sector: Industrials

Global courier and logistics company with a US market share of around 37%

Market cap: US\$48bn

Current price: US\$204

Value estimate: US\$247

Upside/ (Downside): 21%



3 things to know about this company:

- Weak demand squeezes volume requiring price increases to keep revenue on track
- Accelerating cost-cutting program makes margin expansion key catalyst
- Reducing capital spend could help to improve shareholder returns

Revenue breakdown 2022 (other 5%)



Express 49%

Priority overnight deliveries in the US (within few days internationally)



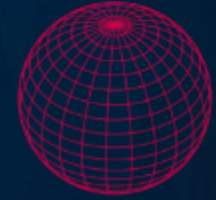
Ground 35%

Low-cost shipping service that delivers to small and medium sized businesses and households



Freight 10%

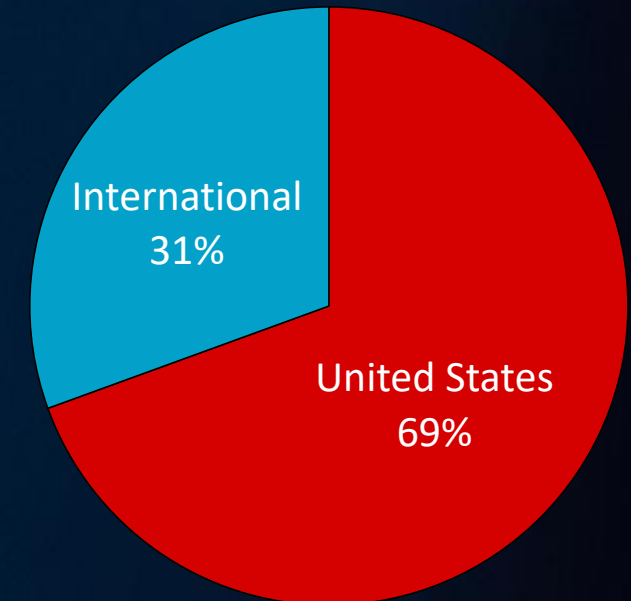
Shipment of heavy, less-than-truckload, and bulky items across all distances



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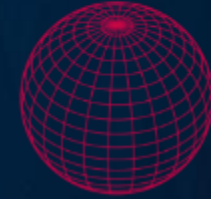
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Andrew Stotz, PhD, CFA



My framework for forecasting free cash flow growth potential

NOPAT
Investment



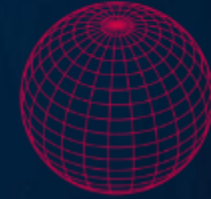
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My framework for forecasting free cash flow growth potential

NOPAT	Revenue
	Costs
Investment	Capital



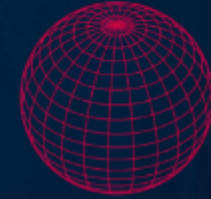
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Andrew Stotz, PhD, CFA

My framework for forecasting free cash flow growth potential

	Driver	Relevant stories
NOPAT	Revenue	Price
		Quantity
	Costs	
Investment	Capital	



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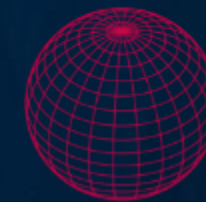
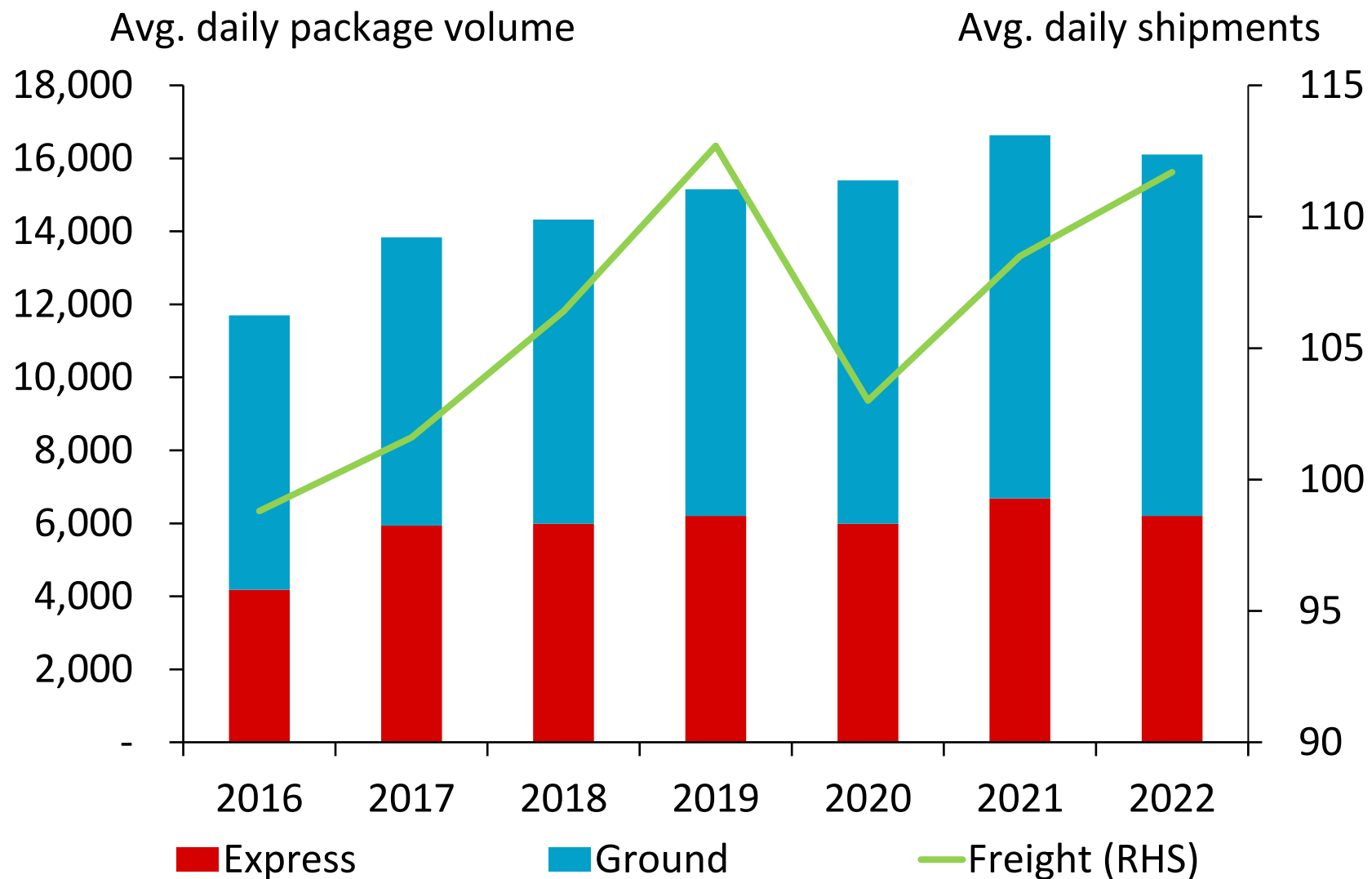
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Andrew Stotz, PhD, CFA

The background of the image is a dense, repeating pattern of light blue, three-dimensional-looking rings or circles. These rings are scattered across the entire frame, overlapping each other in various orientations and positions, creating a complex, textured effect. The lighting on the rings gives them a slight depth, with some appearing to be in front of others.

Quantity

Story I: Weak demand squeezes volume requiring price increases to keep revenue on track



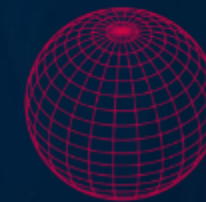
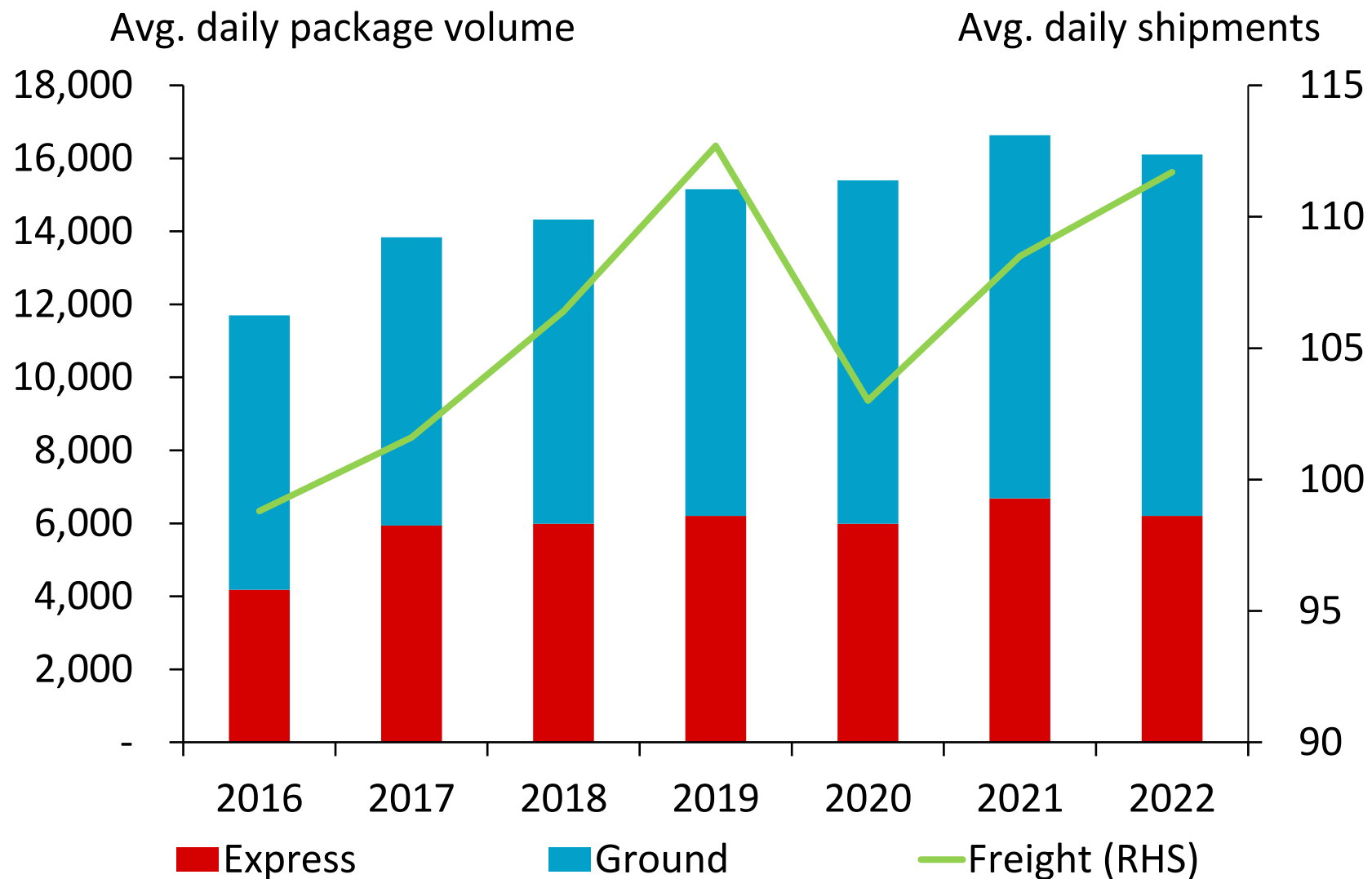
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Andrew Stotz, PhD, CFA

- This chart shows average daily package volume of both express and ground shipments from 2016 to 2022
- And on the right-hand scale it shows freight volume as measured by average daily shipments

Story I: Weak demand squeezes volume requiring price increases to keep revenue on track



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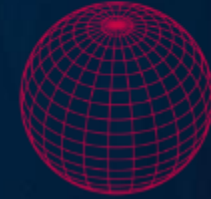
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Andrew Stotz, PhD, CFA

- Over the past 6 years, FedEx was able to expand its avg. daily volume of Ground and Express services from 12,000 to 16,000 packages
- Its freight segment (green line) has recovered to pre-pandemic levels and stands at 112 daily shipments

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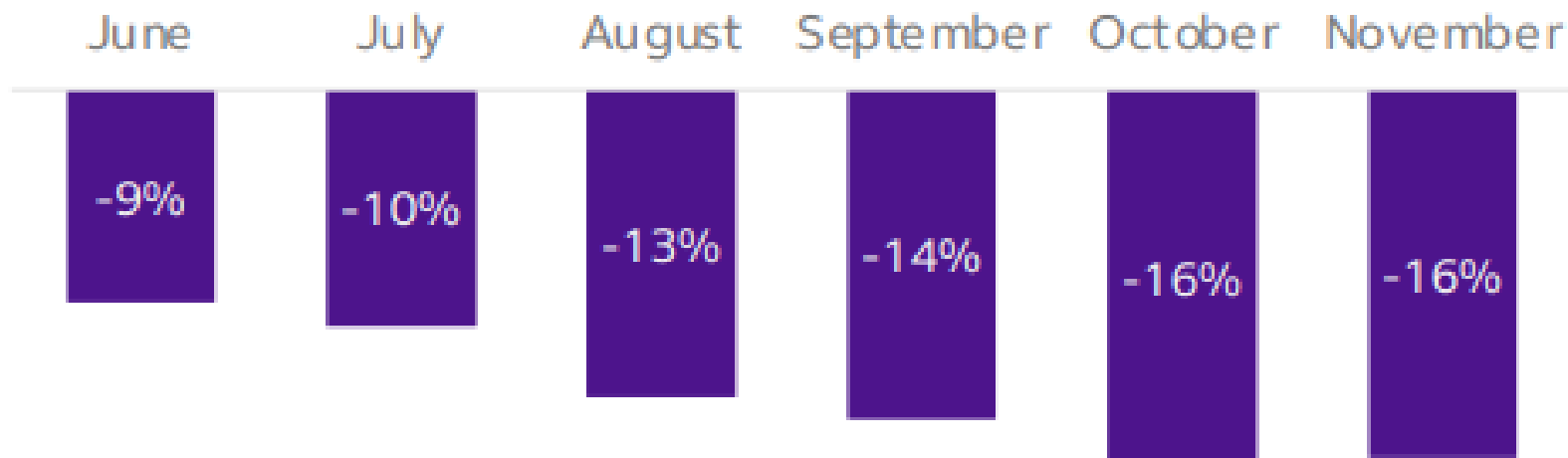
Story I: Weak demand squeezes volume requiring price increases to keep revenue on track



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FedEx Express U.S. Domestic Package year-over-year



Andrew Stotz, PhD, CFA

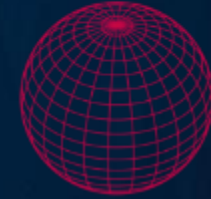
- However, the YoY comparison of the recent months shows that volume started to decline
- For example, domestic Express packages volume was down 16% in Nov'22
- The management expects weak demand throughout 2023 as well

This is not a recommendation nor investment advice.

Price

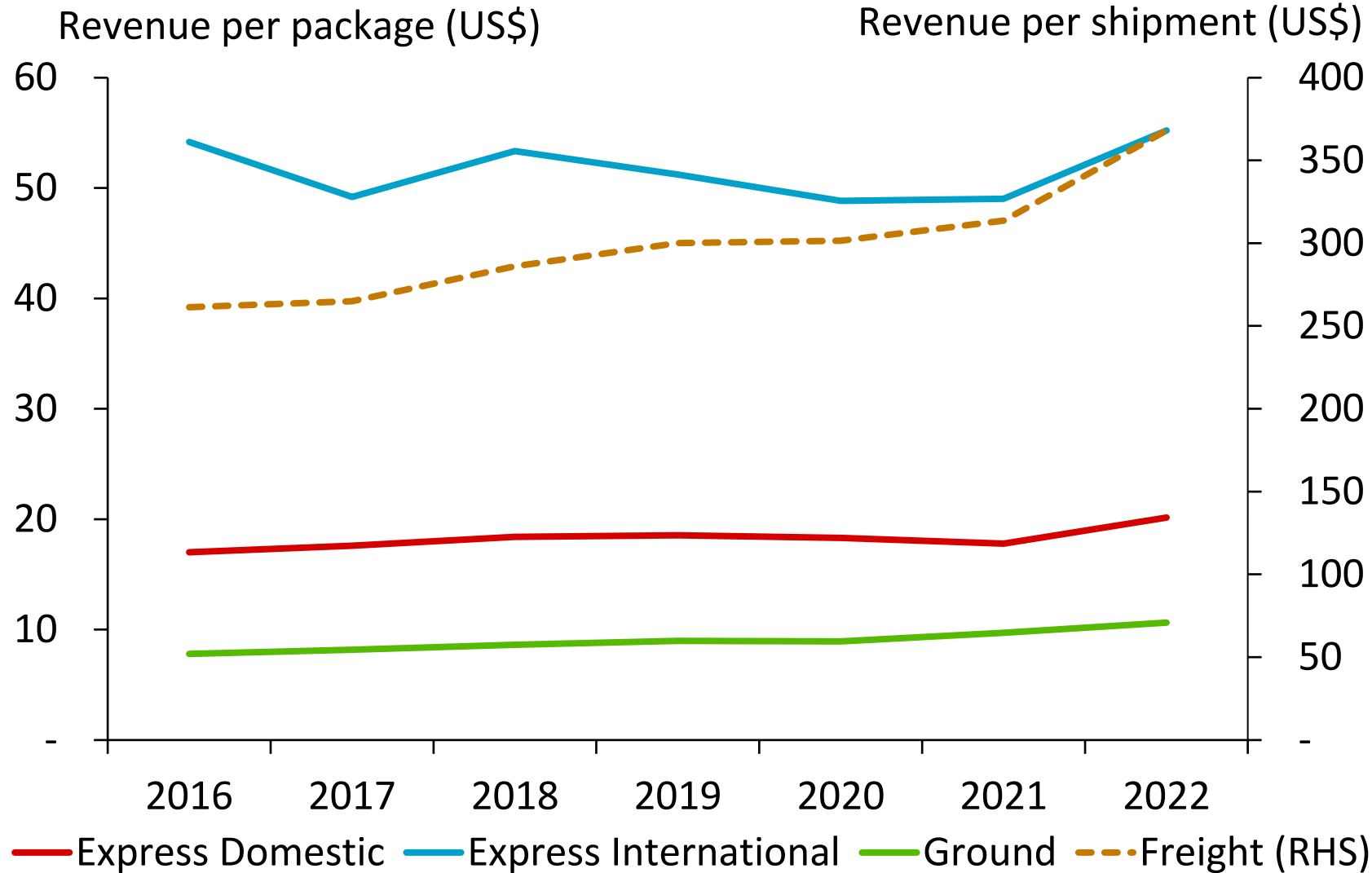


Story I: Weak demand squeezes volume requiring price increases to keep revenue on track



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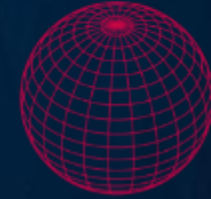
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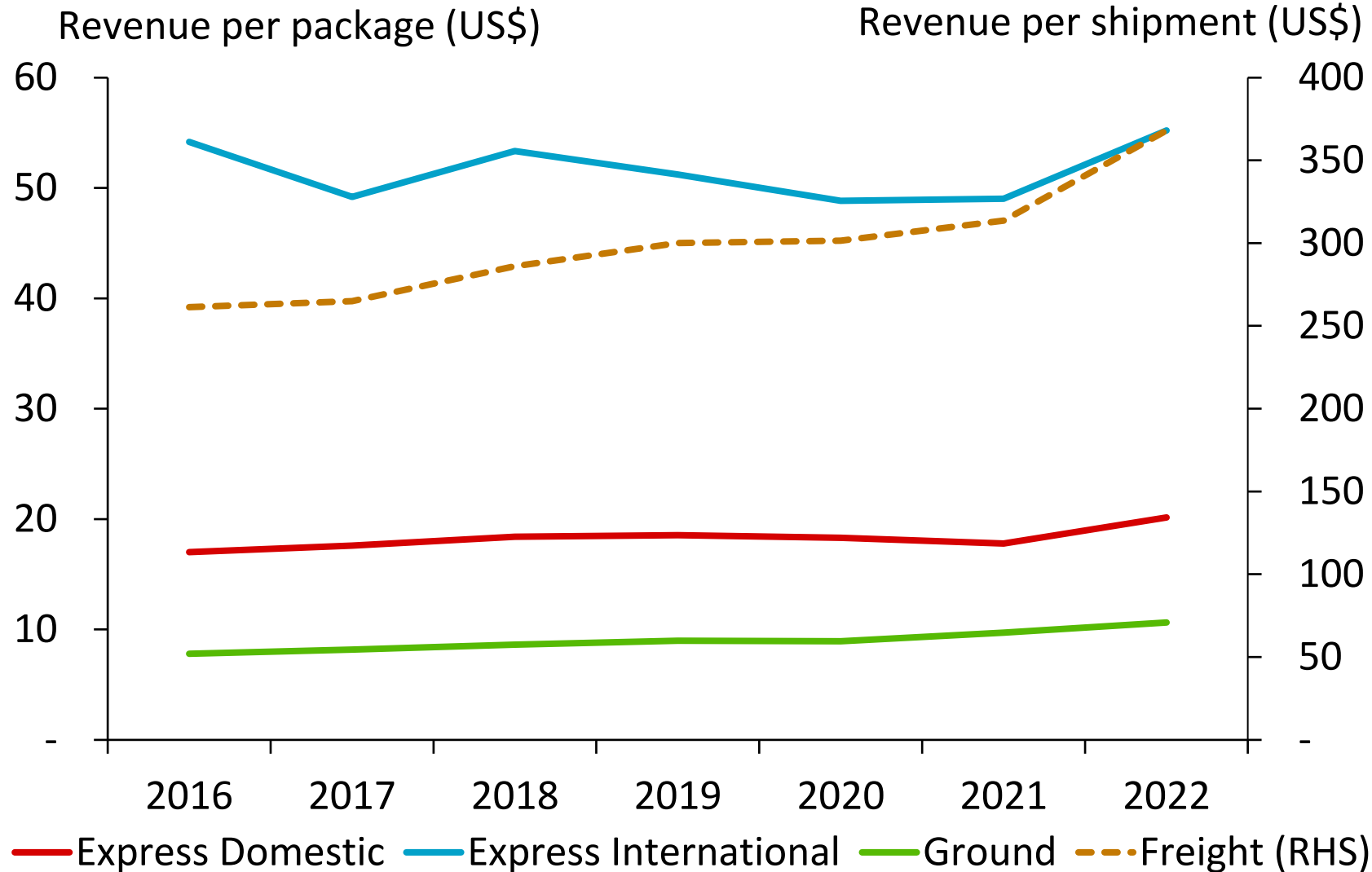
- This chart shows the revenue per package for Express Domestic and International as well as Ground from 2016 to 2022
- On the right-hand scale it shows revenue per shipment for Freight shipments

Story I: Weak demand squeezes volume requiring price increases to keep revenue on track



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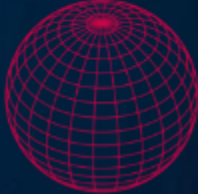
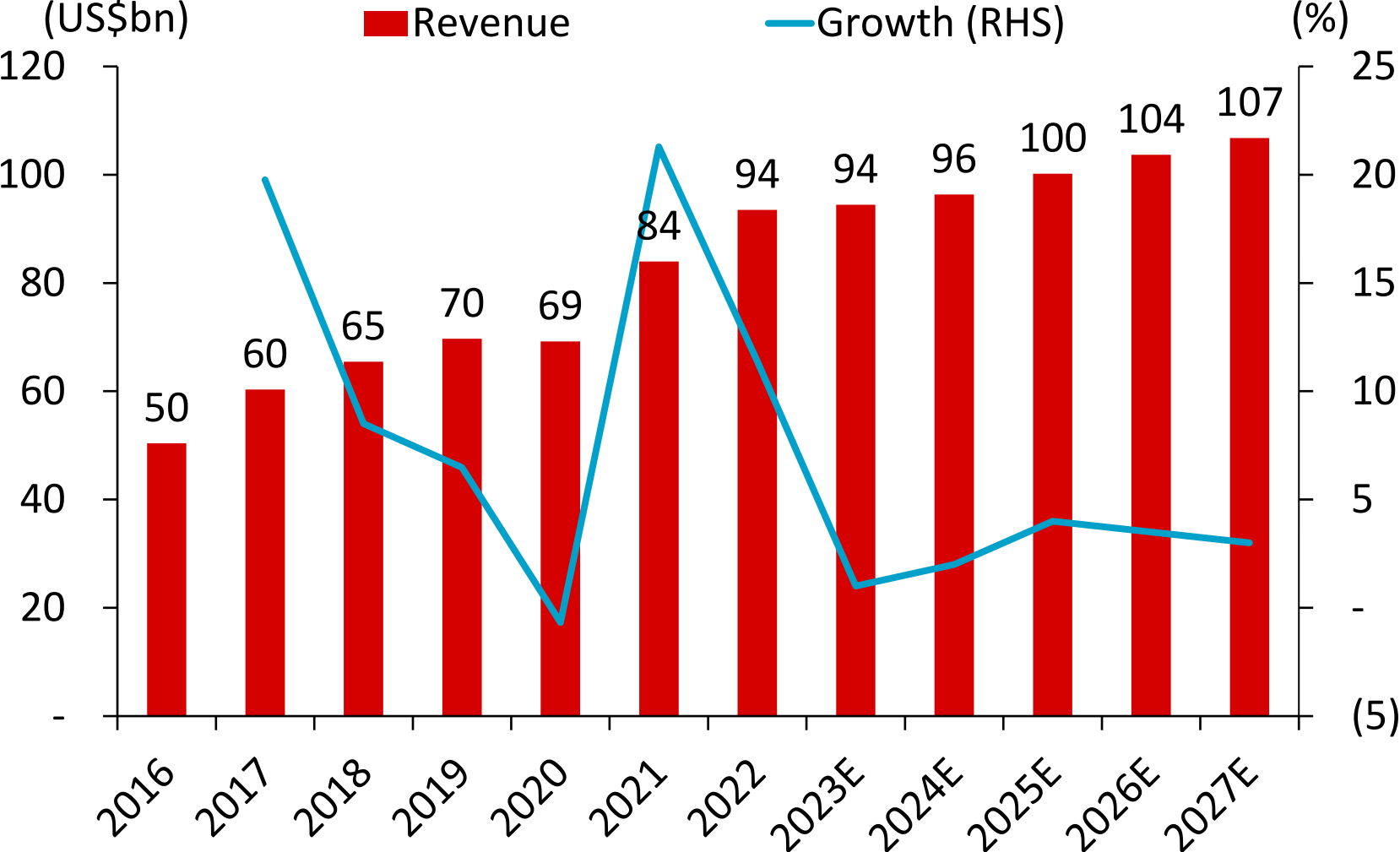


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- The avg. revenue per package has been mostly stable and flat among all transportation methods
- Only freight rates saw good consistent hikes
- Though, in 2022, FedEx raised the prices of ground and express services to offset inflation effects

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Expect sluggish 3% growth going forward




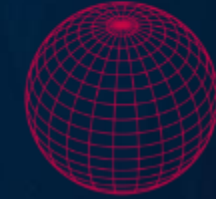
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My framework for forecasting free cash flow growth potential

	Driver	Relevant stories
NOPAT	Price	Rate increases and surcharge implementation to offset weaker expected volume
	Quantity	Slowdown in economic activity translates into lower delivery volume
	Costs	
Investment	Capital	

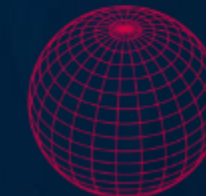
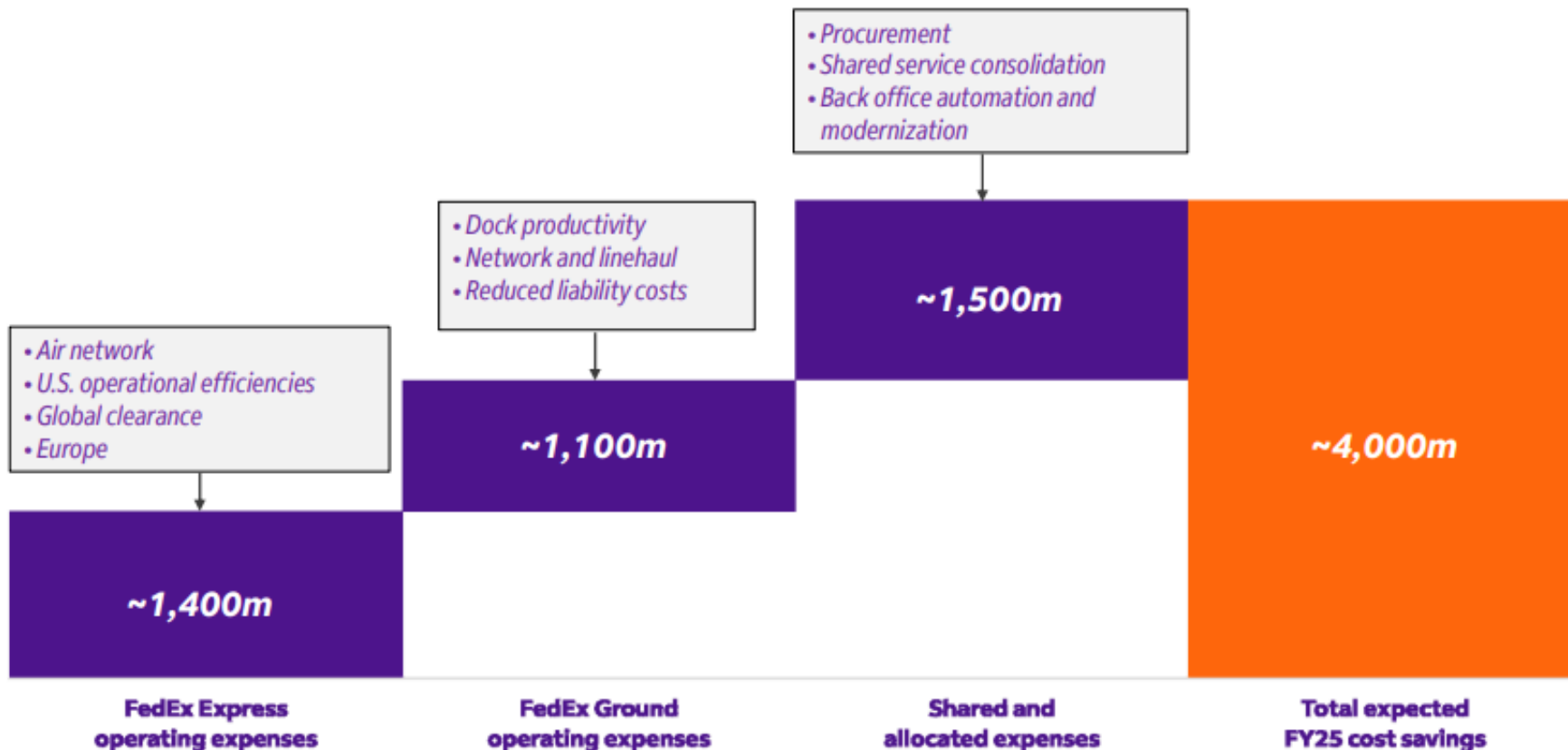


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Andrew Stotz, PhD, CFA

Story II: Accelerating cost-cutting program makes margin expansion key catalyst



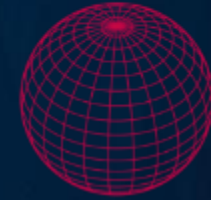
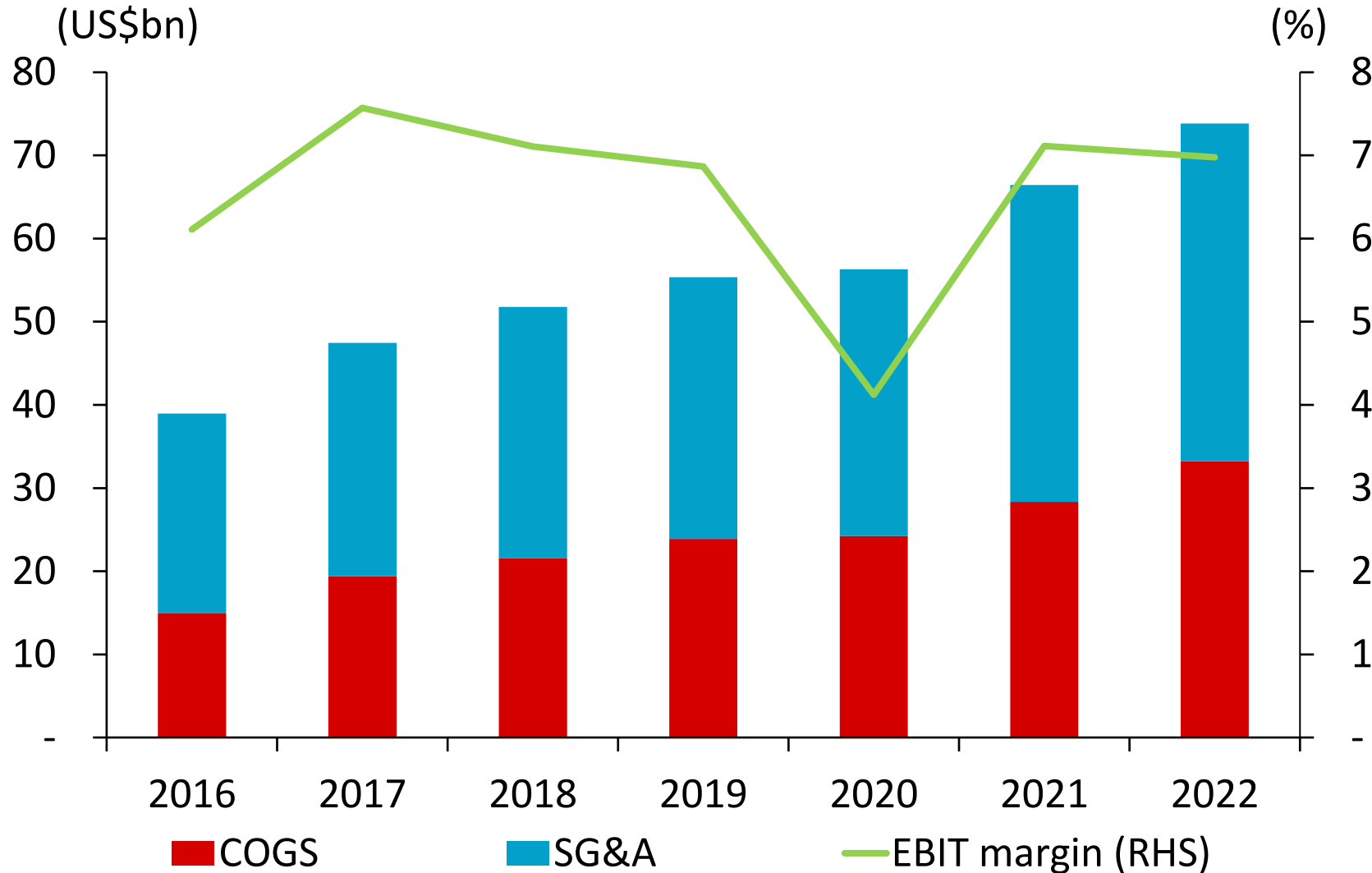
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- FedEx management has proposed a plan to cut US\$4bn in operating costs by 2025
- For its Express segment, it aims to improve the air network by cutting inefficient routes and reducing flights

Story II: Accelerating cost-cutting program makes margin expansion key catalyst



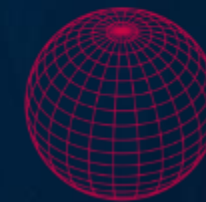
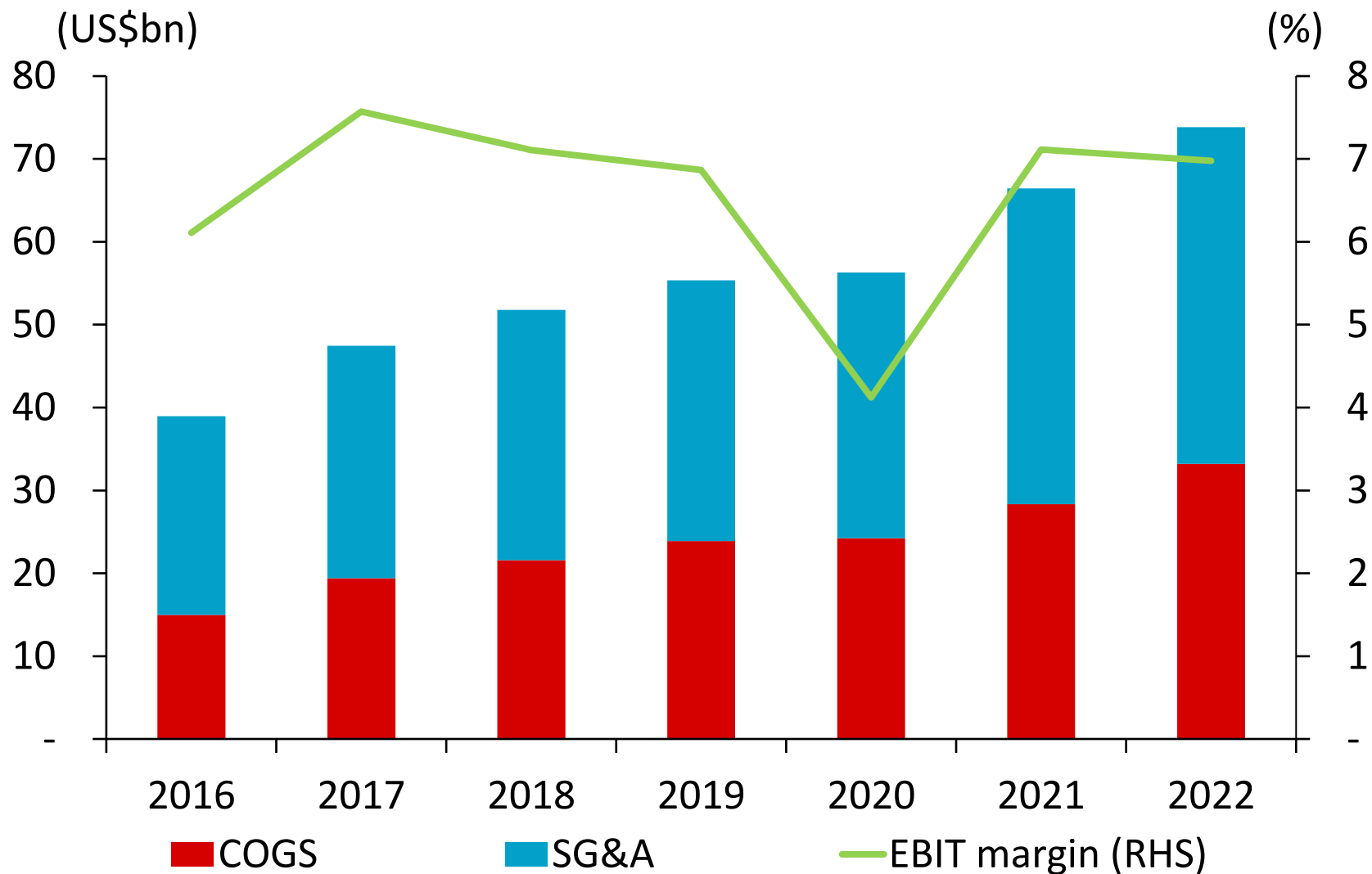
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- In this chart we look at the two largest costs for FedEx, that's cost of service and SG&A expenses from 2016 to 2022
- On the right-hand scale, we show EBIT margin

Story II: Accelerating cost-cutting program makes margin expansion key catalyst




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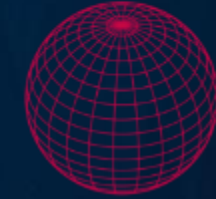
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Andrew Stotz, PhD, CFA

- The EBIT margin has been stable, ranging between 6-8%, except for 2020 when it got cut nearly in half
- Its main competitor, UPS enjoys a 13% operating margin
- Hence, there is room for FedEx to improve

My framework for forecasting free cash flow growth potential

	Driver	Relevant stories		
NOPAT	Revenue	Price	Rate increases and surcharge implementation to offset weaker expected volume	↑
		Quantity	Slowdown in economic activity translates into lower delivery volume	↓
	Costs	COGS	Flight reductions and focus on higher-margin products	↑
		Opex	Reduce workforce and cut back on spending	↑
Investment	Capital			

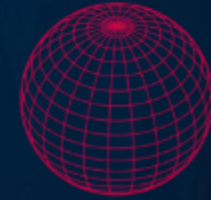
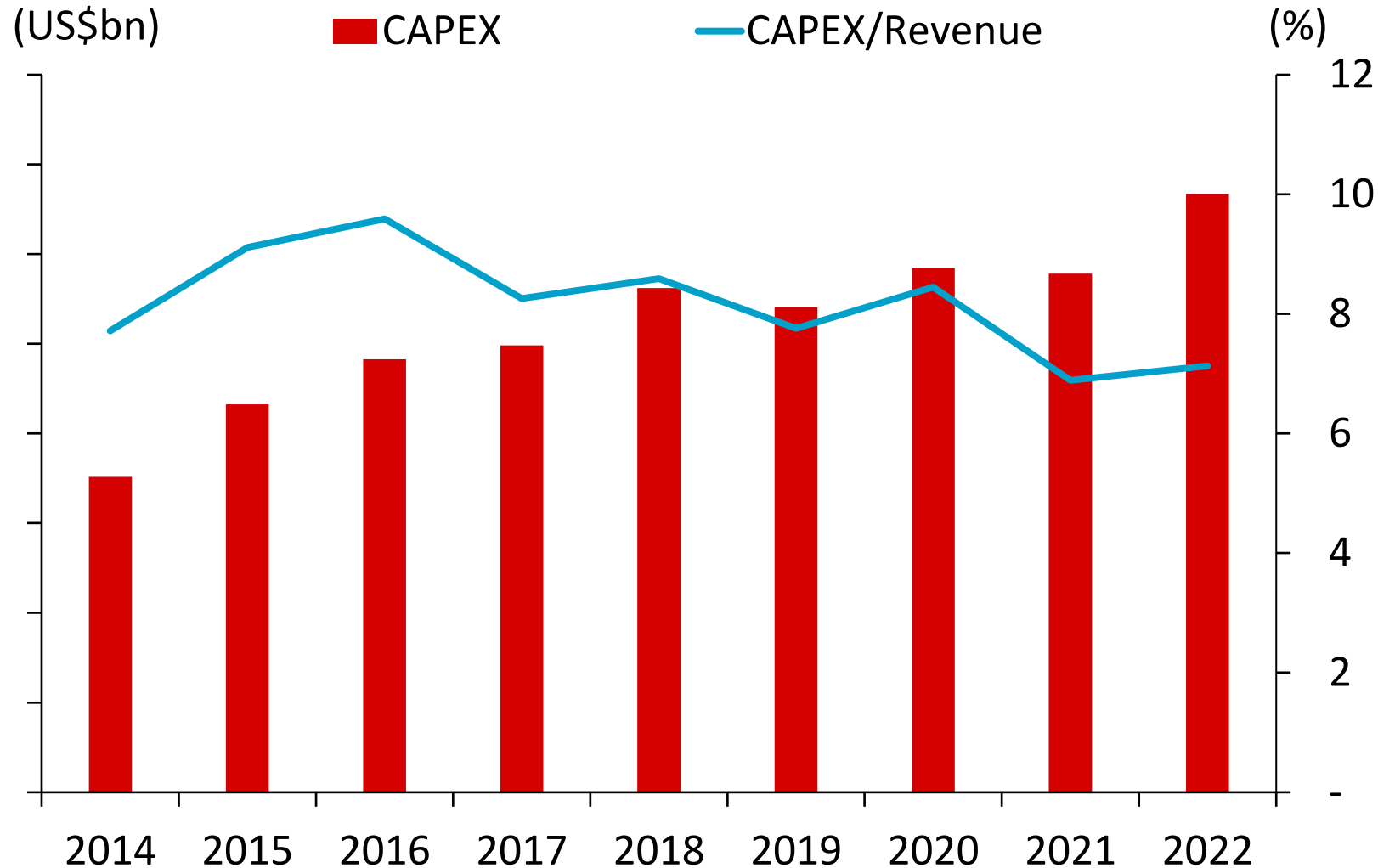


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Andrew Stotz, PhD, CFA

Story III: Reducing capital spend could help to improve shareholder returns



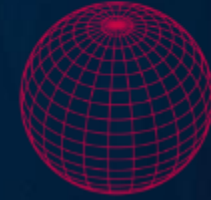
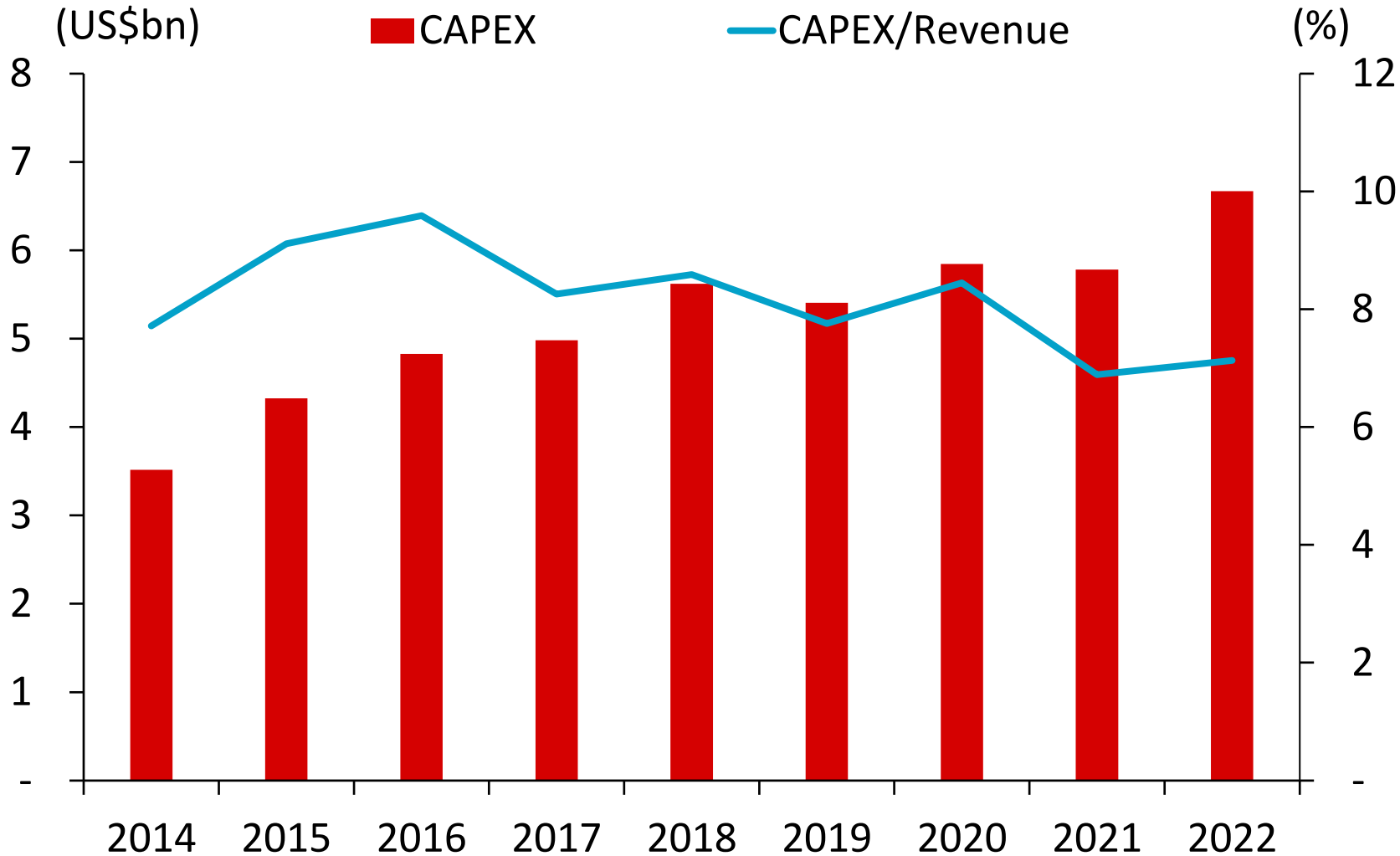
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- This chart shows total capital expenditures from 2014 to 2022
- And on the right-hand scale, we show CAPEX as a percent of revenue

Story III: Reducing capital spend could help to improve shareholder returns



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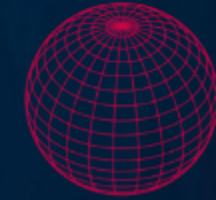
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- Over the past 9 years, FedEx's CAPEX/revenue averaged 8.2%
- However, it started to show a declining trend in line with the company's mission to employ capital more efficiently
- The goal is to bring it down to 6.5% by 2025

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My framework for forecasting free cash flow growth potential

	Driver	Relevant stories		
NOPAT	Revenue	Price	Rate increases and surcharge implementation to offset weaker expected volume	↑
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		Opex	Reduce workforce and cut back on spending	↑
Investment	Capital	NWC	No significant changes expected	→
		CAPEX	Capital-intensive business, but potential to become more efficient	↑



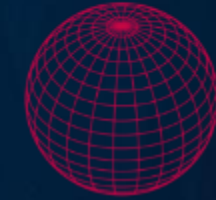
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My framework for forecasting free cash flow growth potential

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	Costs	COGS Flight reductions and focus on higher-margin products
		Opex Reduce workforce and cut back on spending
Investment	NWC No significant changes expected	
	CAPEX Capital-intensive business, but potential to become more efficient	
FCF	Strong	Moderate Weak



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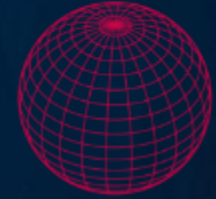
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Valuation

Simplified valuation

	Base Year	2023	2024	2025	2026	2027	Terminal year
Revenue growth rate		1.0	2.0	4.0	3.5	3.0	2.0
Revenues	93,512	94,447	96,336	100,190	103,696	106,807	108,943
EBIT margin	7.0	7.2	7.4	7.6	8.0	8.5	8.5
EBIT (Operating income)	6,523	6,777	7,105	7,590	8,296	9,079	9,260
Tax rate	21.9	21.9	21.9	21.9	21.9	21.9	21.9
NOPAT	5,094	5,293	5,549	5,928	6,479	7,090	7,232
- Chg. in invested capital		468	944	1,541	1,403	1,244	904
FCFF		4,825	4,605	4,386	5,076	5,846	6,328



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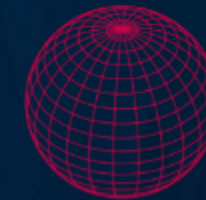
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- We first forecast free cash flow to the firm

Simplified valuation

	Base Year	2023	2024	2025	2026	2027	Terminal year
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FCFF		4,825	4,605	4,386	5,076	5,846	6,328
Sales to invested capital ratio		2.0	2.0	2.5	2.5	2.5	
Invested capital	38,306	38,774	39,718	41,259	42,662	43,906	
ROIC	13.3	13.7	14.0	14.4	15.2	16.1	16.0
Cost of capital		9.0	9.0	9.0	9.0	9.0	9.0
Cumulated discount factor		0.9	0.8	0.8	0.7	0.6	
PV(FCFF)		4,427	3,876	3,387	3,596	3,800	



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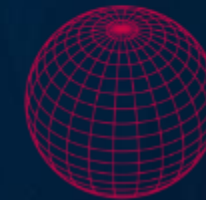
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🌐 We then discount this by our estimated weighted average cost of capital

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PV (CF over next 5 years)		19,085					
PV (Terminal value)		58,755					
PV of operating assets		77,841					
- Debt		20,467					
- Minority interests		-					
+ Cash		6,897					
Value of equity		64,271					



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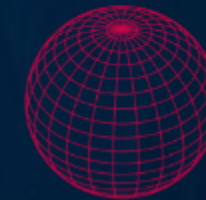
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- We then calculate the value of the operating assets of the business
- And remove net debt and other items to arrive at our value of the equity

Simplified valuation

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PV (Terminal value)		58,755					
PV of operating assets		77,841					
- Debt		20,467					
- Minority interests		-					
+ Cash		6,897					
Value of equity		64,271					
Number of shares		260					
Estimated value /share		247.2					
Price		204.0					
Upside / (downside)		21					



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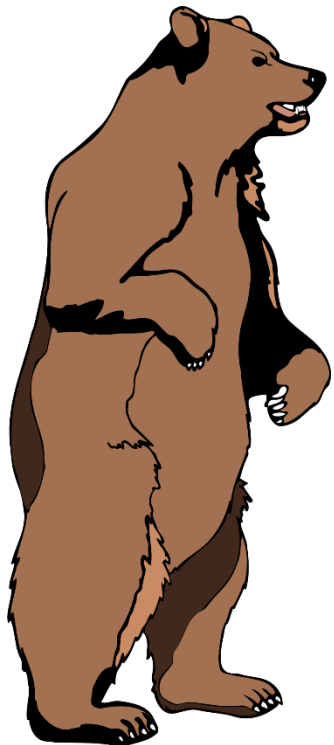
Finally, we divide this by the number of shares to arrive at our value estimate per share

Value estimate

Bear

US\$208

(Upside 2%)



Base

US\$247

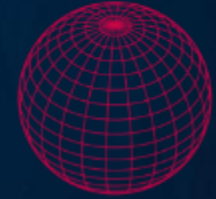
(Upside 21%)



Bull

US\$300

(Upside 47%)



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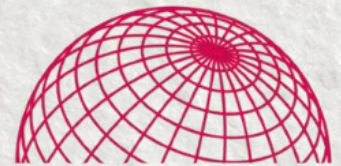
- Our base case valuation is US\$247 or a 21% upside
- For our bull case we use an 8%, rather than 9% WACC to get our US\$300 valuation with a 47% upside
- The bear case assumes a WACC of 10%

This is not a recommendation nor investment advice.

Can FedEx Hit \$300 Again?



Valuation Master Class



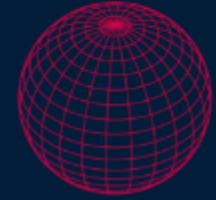
CASE STUDY

VALUATION MASTER CLASS

by

A. Stotz

INVESTMENT
RESEARCH



VALUATION MASTER CLASS

by *A. Stoltz* INVESTMENT RESEARCH

Sector: Industrials

Global courier and logistics company with a US market share of around 37%

Market cap: US\$48bn

Current price: US\$204

Value estimate: US\$247

Upside/ (Downside): 21%



3 things to know about this company:

- Weak demand squeezes volume requiring price increases to keep revenue on track
- Accelerating cost-cutting program makes margin expansion key catalyst
- Reducing capital spend could help to improve shareholder returns