

## FedEx Corporation (FDX)

**\$125.60** (As of 03/26/20)

Price Target (6-12 Months): **\$133.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

### Summary

Shares of FedEx underperformed its industry in a year's time, mainly due to high expenses and weakness of FedEx Express, the major revenue-generating unit. Evidently, segmental revenues declined 3% in the first nine months of fiscal 2020. Sluggish global trade and industrial production are affecting the Express unit's performance. The coronavirus pandemic is also a setback for the company and hurt its third-quarter fiscal 2020 results. In fact, the company suspended its earnings outlook for fiscal 2020 due to the coronavirus-led uncertainty. However, solid e-commerce growth is a major positive. The buyout of Cargex, that has strengthened its Latin American footprint, is also commendable. Increase in FedEx Ground revenues (up 7% in the first nine months of fiscal 2020) mainly due to residential delivery volume growth are also encouraging.

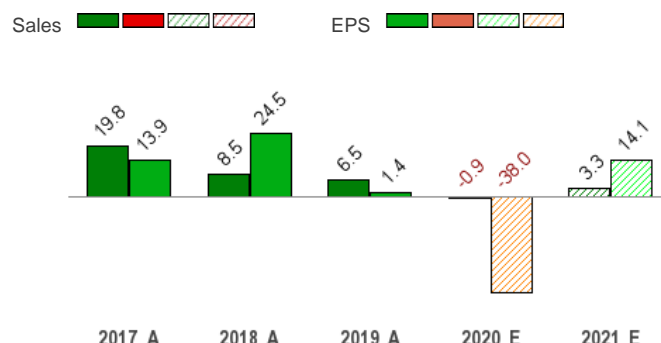
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$199.32 - \$88.69
20 Day Average Volume (sh)	4,238,196
Market Cap	\$32.8 B
YTD Price Change	-16.9%
Beta	1.57
Dividend / Div Yld	\$2.60 / 2.1%
Industry	<a href="#">Transportation - Air Freight and Cargo</a>
Zacks Industry Rank	Top 38% (97 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.4%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	-11.1%
Expected Report Date	06/23/2020
Earnings ESP	-4.7%
P/E TTM	10.5
P/E F1	13.0
PEG F1	1.0
P/S TTM	0.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	17,202 E	17,812 E	17,892 E	18,385 E	71,315 E
2020	17,048 A	17,324 A	17,487 A	17,161 E	69,058 E
2019	17,052 A	17,824 A	17,010 A	17,807 A	69,693 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.87 E	\$2.47 E	\$2.30 E	\$4.08 E	\$10.99 E
2020	\$3.05 A	\$2.51 A	\$1.41 A	\$2.61 E	\$9.63 E
2019	\$3.46 A	\$4.03 A	\$3.03 A	\$5.01 A	\$15.52 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

## Overview

Based in Memphis, TN, FedEx Corporation is the leader in global express delivery services. The company, founded in 1971, provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the FedEx brand.

The company is currently reporting, primarily through the FedEx Express (including TNT Express acquired in 2016), FedEx Ground and FedEx Freight segments. These segments contributed 53.6%, 29.4% and 10.9% respectively to the company's total revenues in fiscal 2019.

FedEx Express offers time-definite delivery to more than 220 countries and territories, connecting markets that comprise almost the entire gross domestic product of the world.

FedEx Express employs approximately 227,000 employees and has approximately 100,000 drop-off locations (including FedEx Office stores and FedEx OnSite locations), 670 aircraft and approximately 90,000 vehicles across the globe.

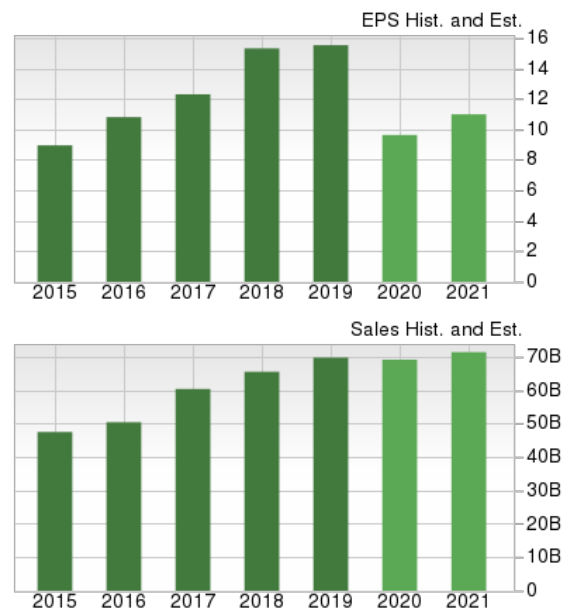
FedEx Ground offers low-cost, day-certain service to any business address in the United States and Canada, as well as residential delivery in the United States through its FedEx Home Delivery service.

FedEx SmartPost is also an offering of the FedEx Ground segment that focuses in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages.

Through the FedEx Freight segment, the company offers less-than-truckload ("LTL") freight services in the United States. The division also offers freight delivery service to destinations in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. At the end of fiscal 2019 (ended May 31, 2019), the segment operated approximately 28,000 vehicles and 373 service centers.

Through the FedEx Services segment, which includes FedEx office and print services, the company offers various services like sales, marketing, information technology, billing and collection.

Moreover, the FedEx Logistics (formerly known as FedEx Trade Networks) operating segment offers services pertaining to customs brokerage, and global ocean and air freight forwarding through FedEx Trade Networks Transport & Brokerage. Notably, results of the FedEx Logistics unit are reported under "Corporate, other and eliminations."



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## Reasons To Buy:

▲ FedEx is being aided by e-commerce growth and a buoyant U.S. economy. In December 2018, the company launched FedEx Extra Hours, a service aimed at boosting the company's e-commerce delivery chain by allowing e-commerce orders to be fulfilled in the evening as well as receive late pickups by FedEx Express. The service is a boon for both online shoppers as well as the retailers. Moreover, due to the exponential growth in e-commerce, FedEx plans to hand off some of its Express packages to its Ground unit for residential deliveries. This new strategy to integrate the two networks for delivery of selective day-definite residential Express shipments will initially be rolled out at Greensboro, NC in March. It will be extended to other markets in phases through the rest of the year.

▲ We are positive on the increase in FedEx Ground revenues (up 7% in the first nine months of fiscal 2020). Residential delivery volume growth has aided segmental results. As FedEx Ground is the second-highest revenue contributor, strong performance of the segment bodes well for the company.

▲ We are positive on FedEx's acquisition of Cargex. The buyout has strengthened FedEx's Latin American footprint. In another decision aimed toward expanding its footprint in Latin America, FedEx Express announced a roundtrip Colombia-to-Miami flight in 2019 to enhance connectivity with the Latin American market.

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Growth in e-commerce is a huge positive for FedEx. We are also impressed by the company's efforts to reward shareholders through dividends and buybacks.

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## Reasons To Sell:

- ▼ The coronavirus pandemic is a huge setback to the company. The pandemic was one of the factors behind the 53.5% decline in the bottom line in the third quarter of fiscal 2020. Management at FedEx is not sure about the duration of persistence of the coronavirus pandemic and its resultant impact on the global economic scenario. In fact, the company suspended its earnings outlook for fiscal 2020 due to the coronavirus-led uncertainty.
- ▼ FedEx's persistent below-par performance on account of weak global economy due to the trade tensions between the United States and China are quite concerning. The slowdown in global economy is affecting its primary revenue-generating segment, FedEx Express, significantly. Even though the situation might improve going forward, particularly due to tariff relief following the signing of the U.S.-China Phase 1 trade deal, significant growth in terms of freight volumes is not expected at least in the near term.
- ▼ With FedEx investing significantly in facility upgrades, capital expenses are on an upswing. Additionally, integration expenses pertaining to TNT Express are perking up costs. Moreover, higher costs at the Ground unit due to expanded service offerings are also limiting bottom-line growth. Notably, segmental operating expenses increased 12% in the first nine months of fiscal 2020.

Weakness in global trade is a cause for concern. Escalated costs at its Ground unit are also worrisome.

## Last Earnings Report

### FedEx Misses on Earnings in Q3

The company's third-quarter fiscal 2020 adjusted earnings (excluding 21 cents from non-recurring items) of \$1.41 per share fell short of the Zacks Consensus Estimate by 8 cents. Moreover, the bottom line plunged 53.5% year over year. Results were hurt by factors like the coronavirus pandemic, weak macroeconomic conditions, higher costs at the Ground unit due to expanded service offerings, loss of business with Amazon, shift to lower-yielding services and a highly competitive pricing scenario.

Quarterly revenues inched up 2.8% year over year to \$17,487 million and also surpassed the Zacks Consensus Estimate of \$17,068.7 million despite coronavirus-related woes. Operating income (on an adjusted basis) plunged 50.9% year over year to \$483 million in the reported quarter due to sluggish global economy and elevated costs. Operating margin (adjusted) also deteriorated to 2.8% from 5.8% in the year-ago period.

Quarter Ending 02/2020

Report Date	Mar 17, 2020
Sales Surprise	2.45%
EPS Surprise	-5.37%
Quarterly EPS	1.41
Annual EPS (TTM)	11.98

### Segmental Performance

Quarterly revenues at FedEx Express (including TNT Express) dipped 1% to \$8,924 million due to 5% decline in freight revenues as a result of the slowdown in global economy and certain other factors. Segmental operating income (adjusted) decreased to \$199 million from \$445 million a year ago. Also, segmental operating margin contracted to 2.2% from 4.9% in third-quarter fiscal 2019, on an adjusted basis.

FedEx Ground revenues rose 11% year over year to \$5,845 million in the period under consideration owing to residential delivery volume growth. Operating income came in at \$355 million, slumping 39% year over year due to 17% increase in segmental operating expenses. Segmental operating margin shrank to 6.1% from 11.1% in the prior-year quarter.

FedEx Freight revenues slipped 1% year over year to \$1,738 million due to softness in volume growth. The segment's operating income increased 16% to \$113 million, driven by lower operating expenses. Moreover, operating margin expanded to 6.5% from 5.5% in the year-ago quarter.

Moreover, the company suspended its earnings outlook for fiscal 2020 due to the coronavirus-led uncertainty.

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## Recent News

### New CFO Named - Mar 9, 2020

FedEx announced that its long-serving chief financial officer (CFO) Alan B. Graf, Jr. intends to retire on Dec 31, 2020. Graf has been associated with the company since 1980. He was promoted in 1991 as the CFO of FedEx's primary revenue-generating unit, FedEx Express. In 1998, Graf was elevated further to assume his current responsibilities, which sees him handling financial operations across the globe including financial planning, treasury, tax, accounting and controls, internal audit, investor relations and corporate development.

Graf will be succeeded by Mike Lenz, the company's incumbent vice president and treasurer. Lenz is also widely-experienced, having served in various capacities since joining the organization in 2005. He has been discharging his present duties since 2012. Graf will execute his responsibilities as the company's CFO until Sep 22, 2020. However, he will continue to be the company's executive vice president and senior advisor through the year-end. From Jun 1 onward, Lenz will become the executive vice president and CFO-Elect. On Sep 22, he will take over from Graf as the company's CFO.

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## Valuation

FedEx shares are down 29.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21% in a year. Shares the Zacks Transportation sector are down 26.3% in a year's time. The S&P 500 index is down 12.8% in the past year.

The stock is currently trading at 11.69X forward 12-month price to earnings, which compares to 11.66X for the Zacks sub-industry, 10.99X for the Zacks sector and 14.92X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.09X and as low as 7.59X, with a 5-year median of 13.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$133 price target reflects 12.38X forward 12-month earnings.

The table below shows summary valuation data for FDX

Valuation Multiples - FDX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12 M	Current	11.69	11.66	10.99	14.92
	5-Year High	20.09	17.89	17.02	19.34
	5-Year Low	7.59	10.96	10.47	14.92
	5-Year Median	13.64	15.5	13.1	17.42
P/S F 12M	Current	0.46	0.84	0.82	2.68
	5-Year High	1.1	1.5	1.41	3.43
	5-Year Low	0.33	0.84	0.82	2.54
	5-Year Median	0.82	1.22	1.21	3
P/B TTM	Current	1.74	9.29	2.35	3.33
	5-Year High	4.31	23.13	4.49	4.56
	5-Year Low	1.26	8.15	2.07	2.85
	5-Year Median	3.12	14.68	3.41	3.63

As of 03/26/2020

## Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



## Top Peers

Atlas Air Worldwide Holdings (AAWW)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
CSX Corporation (CSX)	Neutral
Radiant Logistics, Inc. (RLGT)	Neutral
Union Pacific Corporation (UNP)	Neutral
United Parcel Service, Inc. (UPS)	Neutral
XPO Logistics, Inc. (XPO)	Neutral
C.H. Robinson Worldwide, Inc. (CHRW)	Underperform

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	FDX Neutral	X Industry	S&P 500	AAWW Neutral	AVH Neutral	UPS Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>F</b>	<b>A</b>
Market Cap	32.81 B	628.41 M	18.50 B	628.41 M	85.08 M	85.66 B
# of Analysts	11	2	13	2	1	12
Dividend Yield	2.07%	0.00%	2.35%	0.00%	9.98%	4.05%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>D</b>	<b>B</b>
Cash/Price	0.06	0.07	0.07	0.19	5.35	0.07
EV/EBITDA	13.54	5.87	11.16	-75.85	179.32	12.02
PEG Ratio	0.97	1.29	1.74	NA	NA	1.49
Price/Book (P/B)	1.74	1.62	2.44	0.35	NA	26.03
Price/Cash Flow (P/CF)	4.38	3.77	9.87	1.37	0.28	9.60
P/E (F1)	12.33	12.21	15.29	3.64	NA	12.89
Price/Sales (P/S)	0.47	0.24	1.93	0.23	0.02	1.16
Earnings Yield	7.67%	7.76%	6.47%	27.43%	-110.68%	7.76%
Debt/Equity	1.66	1.66	0.70	1.33	-7.87	7.37
Cash Flow (\$/share)	28.66	6.69	7.01	17.63	3.61	10.39
<b>Growth Score</b>	<b>B</b>	-	-	<b>B</b>	<b>F</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	11.78%	10.50%	10.85%	8.06%	NA	9.22%
Proj. EPS Growth (F1/F0)	-37.94%	2.90%	2.89%	26.81%	55.47%	2.77%
Curr. Cash Flow Growth	-2.30%	4.64%	5.93%	-3.18%	-40.50%	4.64%
Hist. Cash Flow Growth (3-5 yrs)	9.78%	19.15%	8.55%	15.30%	NA	7.12%
Current Ratio	1.21	1.11	1.23	0.58	0.63	1.11
Debt/Capital	62.37%	70.51%	42.57%	57.02%	99.87%	88.06%
Net Margin	-0.50%	1.63%	11.64%	-10.70%	-19.50%	5.99%
Return on Equity	17.05%	17.05%	16.74%	6.85%	-110.89%	156.11%
Sales/Assets	1.06	1.06	0.54	0.47	0.61	1.37
Proj. Sales Growth (F1/F0)	-0.91%	0.00%	2.37%	4.58%	-6.04%	4.14%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>A</b>	<b>D</b>	<b>C</b>
Daily Price Chg	6.16%	5.59%	6.21%	6.42%	3.00%	5.59%
1 Week Price Chg	4.15%	-0.82%	-16.96%	28.10%	-50.00%	-0.82%
4 Week Price Chg	-9.48%	-6.13%	-15.70%	-4.98%	-73.32%	10.57%
12 Week Price Chg	-19.02%	-22.85%	-23.67%	-12.69%	-77.21%	-14.57%
52 Week Price Chg	-29.40%	-34.43%	-13.99%	-49.79%	-74.63%	-9.54%
20 Day Average Volume	4,238,196	982,726	4,286,768	1,162,919	559,966	8,070,322
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	-0.51%
(F1) EPS Est 4 week change	-11.12%	-2.48%	-2.28%	37.39%	-612.50%	-2.01%
(F1) EPS Est 12 week change	-11.82%	-3.08%	-3.22%	66.96%	-330.30%	-3.08%
(Q1) EPS Est Mthly Chg	-24.10%	-16.59%	-1.60%	-111.11%	NA	-2.19%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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