Equity Research

SPROTT STUDENT INVESTMENT FUND

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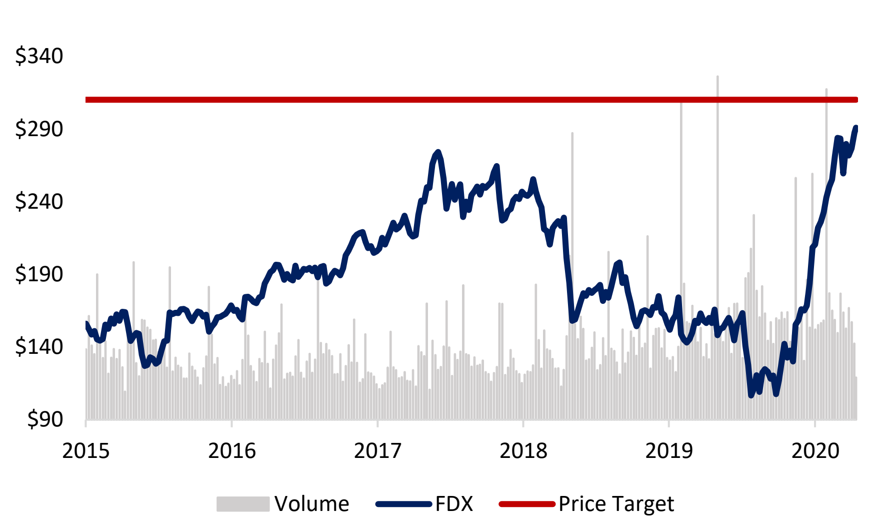
FedEx Corporation – BUY



NYSE: FDX

Target Price **$310.18**

Inside this Report	
☑ Initial Research	☐ Updated Research
☐ Price Target Change	☐ Rating Change

Investment Thesis

- ***E-commerce as a percent of U.S. retail sales is expected to grow at a rate of 2% per year***
  The United States is expected to have 100M daily deliveries by 2023. This growth in e-commerce is going to drive revenue growth in FedEx Ground, Express and Freight and will help the company improve margins through increased delivery volume.

- ***Complete integration of TNT into FedEx Express will allow FedEx to grow compete with smaller government subsidized businesses***
  The integration of TNT will let FedEx compete better with smaller government subsidized delivery companies. FedEx's superior network will allow them deliver packages quicker and at a lower price which should translate into an increase in European market share.

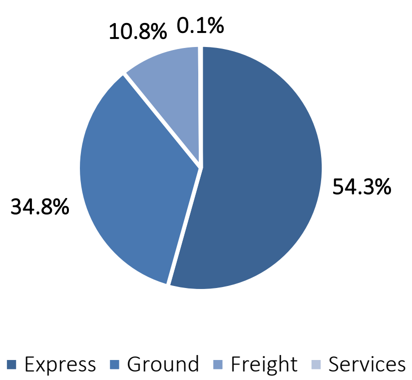
- ***Short Term Shortage of Air-cargo Space***
  The decrease of commercial air travel has decreased the about of air cargo space. This poses as an opportunity for FedEx over the next year to charge higher prices and also create new international relationships which is FedEx's most profitable business.

Key Financial Data	
Market Cap	$76.9B
S&P Credit Rating	BBB
Debt to Equity Ratio	195.40
Price to Earnings	25.88
EV/EBITDA	7.52
Dividend Yield	0.89%
Operating Margin	3.49%
Return on Assets	2.01
Revenue Growth – 1yr	6.5%

Company Overview

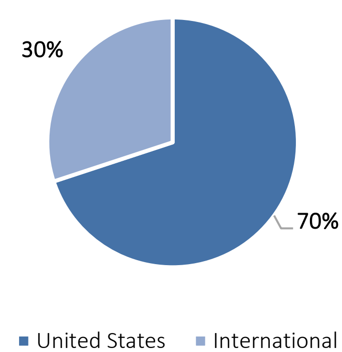
FedEx Corporation is a package and freight delivery company that operates in multiple countries and territories. The FedEx operates through their integrated global network of approximately 680 aircraft and 183,000 vehicles. FedEx Corporation operates through five subsidiaries which are FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, and TNT. FedEx express is the largest source of revenue generating 50% of sales. This business segment is the world's largest express transportation company which delivers packages and freight to over 220 countries. FedEx Ground compliments FedEx express by offering small package ground delivery, and business to consumer deliveries. FedEx Freight is about 10% of revenue and offers "Less than Truckload" (LTL) services which is where FedEx groups together multiple smaller shipments into one truckload. Finally, there is the FedEx Services segment which offers sales, marketing, technology support, and back office functions

Figure 1: FedEx Revenue Split (2020)



Source: Bloomberg

Figure 2: FedEx Revenue by Geography (2020)



Source: Bloomberg

Segment Overview

FedEx & TNT Express

The business segment offers domestic and international shipping services for packages and freight with the main goal of connecting markets. In the U.S, FedEx offers 3 services which are FedEx First Overnight, FedEx Priority Overnight, and FedEx Standard Overnight. Same day services are also available everyday throughout the United States. The difference between three offerings is simply the time the package will arrive the next day (morning, afternoon, and evening).FedEx Express (Express) is the world's largest air-freight carrier and accounts for 54% of FedEx's revenue[2]. Most international shipping options have delivery times in between 1-5 business days to the 220 countries FedEx services[1].

FedEx acquired TNT Express (in 2016 for $4.8B which was part of a plan to increase FedEx's global footprint in Europe and Asia Not only has the acquisition increased revenues, but once fully integrated (in 2022) it will help improve costs, assist with gathering information, and create a more efficient last mile of deliver within Europe. The integration process has been slower than expected due to a Cyber-attack in 2017 and a slowdown in the European economy. The main implications of the cyber-attack was that TNT client information was stolen and it forced FedEx to quicken the integration processes (especially on the IT side of things) which resulted in the cost of integrating more than doubling the estimates of $800M to $1.7B by end of fiscal year in 2021[3]. The integration process has not bettered by the COVID-19 (COVID) pandemic; however, FedEx expects to complete the final phase of international air network interoperability to be completed by early 2022. Once the acquisition is fully integrated it will shift TNT from a headwind to a tailwind for the company. Pick-up and delivery cost will decrease and put FedEx in a position to gain market share in Europe as originally planned.

FedEx Ground

FedEx Ground is a leading provider of business and residential ground package delivery services. Overnight services are available to almost 100% of both the Canadian and United States population.[4] Additionally, FedEx Ground offers Home Delivery to 100% of the United States and offers lighter package business to consumer deliveries through their SmartPost business.[1]SmartPost started off a smaller segment within FedEx Ground that delivers less time sensitive items for businesses to any address in the US. During 2020 SmartPost has almost been fully integrated into the Ground network and it will be fully complete by early 2021.[2] Currently, the main goal for FedEx Ground is to increase operational efficiency through various automation systems and data analytics. This is currently being done in warehouses and sorting facilities where a system of conveyor belts, scanners, and other autonomous devices handle millions of packages daily. Specifically, FedEx rolled out their SenseAware ID through all businesses in September of 2020. It is a senor-based logistics device that uses Bluetooth Low Energy to keep track of all packages the entire time they are within FedEx Facilities.[3] This helps conveyer belts and automated sorting devices make decisions as fast as possible. Additionally, FedEx Ground has updated their fleet of truck with route optimization technology called Dynamic Route Optimization technology. This allows drivers to gather real time information on traffic conditions to not only make that delivery but future deliveries more efficient.[4] This is mainly to improve the last mile of delivery which is contracted out to the United States Postal Service (USPS) as well. Further on this note, FedEx Ground fully transitioned to their Independent

[1] FedEx Annual Report 2020 Pg. 3
[2] FedEx Annual Report 2020 Pg. 14
[3] FedEx Annual Report 2020 Pg. 4
[4] FedEx Annual Report 2020 Pg. 3

Service Provider (ISP) agreement. This has been done considering recent legal issues where FedEx drivers were arguing that they were employees and not contractors. The ISP system requires each contractor to have a minimum of 5 routes or 500 deliveries. The other main benefit of this system is that it requires Ground and Home delivery routes to overlap which will result in great efficiency for FedEx. The main benefits of this change are that it has forced smaller contractors out of FedEx's business and will increase stop density. Because it is more expensive to buy 5 routes vs. 1 it will result in more capable contractors working for FedEx which will in theory help efficiency. Compared to the old system where there was no set number of routes required the ISP system will greatly increase stop density within metropolitan areas.[5]

FedEx Freight

FedEx Freight is a business segments tailored to individuals or businesses that have LTL packages. It operates off a distance and package density pricing system which primarily operates in the United States and Canada but also delivers to Mexico and the Virgin Islands. A package's density is calculated by using the following formula (package's weight / (package's cubic inches/1728)). This done because the denser the package the cheaper it is to ship. There is more of a focus on how much space a package will take in the truck rather than the weight. FedEx Freight will bundle multiple packages to create a "truckload" which will then be delivered. FedEx Freight offers a priority and economy service which gives customers the option between speed and cost savings for whatever their needs. The most recent develop in FedEx Freight is their new Direct service which will service the e-commerce market for the delivery of heavy or bulky items to home and businesses alike.[6] This is because FedEx Ground does not deliver over 150lbs. FedEx expects the segment to be fully up and running early in 2021.

Industry Analysis

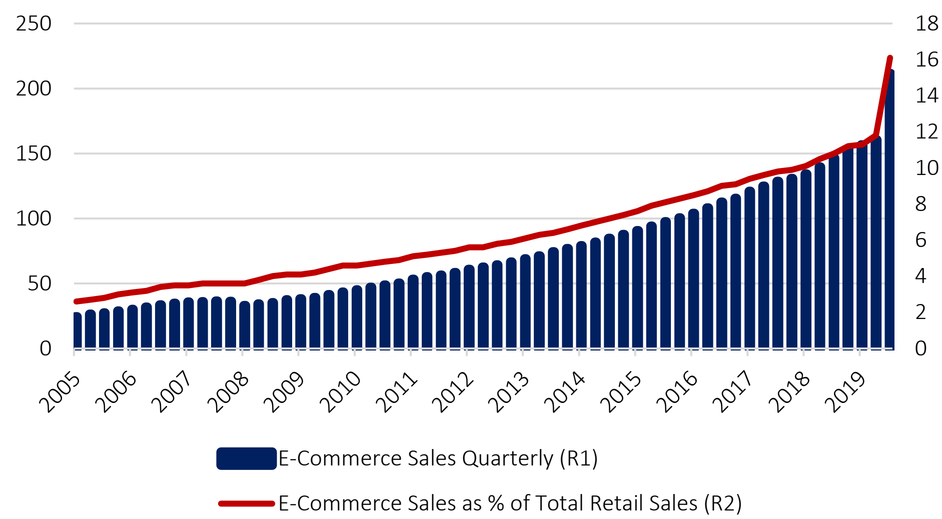
Industry Overview

In the past the parcel delivery businesses used to deliver a lot of letters, notes, documents, and other things besides large packages. However, the internet has changed this because it has made it much easier to send this information in an email or text message. The internet has also caused an increasing number of the global population to shop online.[5] This increase in e-commerce business is the next big opportunity for parcel companies such as FedEx. In the United States UPS currently has about 59% market share which competes with FedEx Ground and Express.[6] FedEx and UPS are currently competing for e-commerce business and improving their operating efficiencies so that they

[5] Packing & Shipping Service Franchises, Griffin Holcomb 2020.
[6] Packing & Shipping Service Franchises, Griffin Holcomb 2020
Bloomberg Intelligence: Technology Key for Next Round of Transformation at FedEx and UPS.

do not sacrifice their margins in the process. E-commerce sales as a percent of total U.S. retail sales has doubled from 8% in 2016 to 16% in 2020.[7] There are some estimates that forecast e-commerce making up 22% (up from the current 16%) of global retail sales by 2023.[8]Currently UPS & FedEx use the USPS for the last mile of delivery. This means that the USPS picks up packages from FedEx locations and then delivers the packages to individual homes. The last mile of delivery is very expensive as there are more frequent stops and it is a less efficient process. The rapid increase in e-commerce sales has created a problem for parcel companies because consumers have become accustomed to fast delivery for free or very little charge.

Figure 3: E-commerce Sales as a Percentage of Total Retail Sales



Source: BI: Technology Key for Next Round of Transformation at FedEx and UPS.

Less time sensitive packages are often shipped internationally in excess commercial aircraft storage. However due to the COVID -19 pandemic, commercial air travel has significantly decreased this volume. Freighter capacity now accounts for 66% of total air capacity on the Trans-Atlantic, 59% for the Trans-Pacific, and 80% on the Europe to Asia compared to pre COVID-19 volumes of 33%, 59%, 50% respectively.[9] Additionally, many industry experts expect airline capacity to recover over multiple years. Raytheon Technologies CEO expects commercial air travel to reach 2019 levels around 2023.[10] This puts companies with excess cargo space in a strong position to capitalize on the current situation.

[7] Bloomberg Intelligence: US Census E-commerce Sales Adjusted Percent of Total Retail Sales
[8] Statista.com E-commerce share of total global retail sales
[9] FedEx Q1 2021 Earnings Call
[10] Raytheon Q2 Earnings call; Bloomberg Intelligence

Industry Forces

Competitive Rivalry - High

Some of FedEx's main competitors in Courier Services are the United Parcel Service, Deutsche Post, and Royal Mail. In the United States where (70% of revenue is for FedEx) the main competitor is UPS. Internationally their main competitors are UPS, Deutsche Post (primarily based in Germany), Royal Mail which is based in the UK, and smaller government subsidized postal services located throughout Europe. Deutsche Post's parcel segment consist of about 25% of revenue and they control about 60% of the market in Germany.[8] Deutsche post earns approximately 30% of total revenue in Germany, 30% in the remainder of Europe, and 40% combined in North America and the South Pacific.[9]

Given that FedEx and UPS are directly competing against one another it means that they must charge close to the same price. As well the services they offer are not very different, so, the two companies compete on speed, price, and convenience. A great example of this is FedEx's OnSite business where FedEx has partnered with 14,000 Walgreens across the U.S. to set up package pick up and drop off sites inside the stores.[11] This has recently expanded to Dollar General, Albertsons, and Kroger's. This makes it easy for customers to pick up their packages because it can be done while they are shopping and there are less missed deliveries if a customer is not home to sign for a package.

Currently FedEx is reducing their use of the USPS and is trying to create an efficient supply chain by moving as many packages as they can. In 2019 FedEx took back 2M daily deliveries from the USPS. This allows them to achieve a lower cost per package and increases the overlap between Home, Ground, and Onsite deliveries. UPS management has taken a "better not bigger" strategy and has taken over the contract with Amazon. Amazon makes up 11.6% of UPS consolidated revenues[12] but has some of the lowest margins which is the same issue FedEx was faced with. FedEx has started to take the opposite approach and an "anti-amazon stance" focusing on other retailers they can help get exposure to e-commerce sales. FedEx is attempting to create efficiencies by shipping as many packages as possible by creating relation and fine tuning the process as they go.[10]

Threat of New Entry – Low

The threat of new entrants into the industry is very low. The reasoning for this is because UPS, FedEx, Deutsche Post, and other parcel companies have developed large international networks. These networks consist of relationships with businesses, aircraft, freight trucks, warehouses, sorting facilities, data analytic software and they have been developed over a very long time. It is these elaborate networks that allow them to operate efficiently with sustainable margins. It would be very expensive and very difficult for a new company to come into the industry and try to create what these companies have in a short period of time.

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[11] FedEx Annual Report 2020 pg. 16

[12] UPS 2019 Annual report Pg. 10

Buyer Power - Moderate

There are two different customers that parcel delivery companies service. Firstly, they provide services for individuals that are shipping and returning items. Secondly, they deliver packages for business to the end user or other businesses. Starting off with individuals who are shipping items have very low buying power. FedEx and their competitors such as UPS have very similar pricing structure due to the high level of competition between the two companies. Both companies charge based on weight, size, and distance the package is being sent. There are additional charges for tracking services as well as index fuel surcharges, “peak time” charges, and even an additional charge has been added due to the COVID-19 pandemic. All of this shows that parcel companies pass along a lot of their expenses to the customer and they pay for the service regardless because unless they are going to take it across the country/world themselves there are not many other options. However, as far as an induvial is concerned it does not matter whether it is a FedEx or UPS truck that delivers the package, so the two companies have to be careful what they charge.

The businesses that use FedEx and UPS delivery services develop more of a relationship with delivery companies. This is because they need parcel delivery companies to deliver to get products to their customers and parcel companies need package volume. The amount of power a business has is directly related to how many packages they ship a week. A great example of this is that FedEx used to have a delivery contract with Amazon that UPS now holds. Both companies have very little buying power in this contract because Amazon provides a lot of business. This gives Amazon the ability to pay lower rates and force the delivery companies to accept free returns from their prime users. Other large companies like Amazon are focused on customer satisfaction and a big part of that is that many of their customers now expect fast and reliable shipping for free or next to no cost. This means that the surcharges are not passed on to the customer anymore and some of the additional expenses are now split between the delivery company and the business. This leads into the next issue which is that parcel delivery companies are only able to achieve good margins when their trucks are full. Any excess space on a truck or plane increases the cost per package. This means that if a large company provides a lot of business, they can bully parcel companies into taking a lower price and to absorb more of the surcharges.

Smaller to medium sized business have less pricing power because they do not bring as much busines as larger corporations such as Amazon or other big box retailers. To deal with this there is a relationship that is forming between many small-medium sized businesses. This allows them to compete with larger companies because it becomes more economical for delivery companies to partner with them and it also allows them to get more involved with the e-commerce business. While they do have less pricing power than larger companies, I would argue that they are more important to FedEx and UPS than Amazon is. It is a much friendlier relationship as both the delivery company and the businesses have something to gain and need to work with one another.

Growth and Risk Analysis

Growth Outlook

Increase in e-commerce business will drive demand for parcel companies like FedEx

Increase in e-commerce growth means that there is increased demand for parcel delivery companies. The COVID-19 pandemic has accelerated this process as many companies across North America and the world have had to rely on e-commerce sales due to mass store closures. Daily package delivery levels were expected to reach 100M by 2026 and that has now been pushed up to 2023[13]. Additionally, e-commerce sales are now up to 16% of U.S. retail sales as of June 2020. This is double the 2016 value of 8%. E-commerce growth is expected to be driven by small & medium businesses to large retailers. This is expected to drive revenue growth in FedEx Ground and will increase margins as FedEx starts to realize the synergies, they have been investing in over the past few years.

Complete integration of TNT into FedEx Express allows for more growth opportunities in Europe

TNT complete integration into FedEx's networking will provide FedEx Express more exposure to the European market and will drive future growth. The acquisition is expected to be fully integrated in 18 months which will be during FY 2022. In Europe, main competitors are Deutsche Post and government subsidized parcel companies. FedEx will be able to use their large international network and data analytics that smaller government parcel companies do not have to create greater efficiencies in the European market to beat competition.

Opportunity to capitalize on distribution of COVID-19 Vaccines and form new relationships while companies build new supply chains

Due to the COVID-19 pandemic there has been an increased demand for cargo space on planes as commercial air travel has decreased. This is creating more demand for parcel delivery companies with international air freight networks such as FedEx Express. This puts FedEx express in a strong position to build relationships and their European network as commercial air travel recovers. As well Express's global network will let FedEx capitalize on the distribution of the Covid-19 vaccine. Competitors like UPS are also able to benefit however they do not have the same volume of containers for medical deliveries and they lack the same air freight capacity that FedEx has.

[13] FedEx 2021 Q1 Earnings Call

Major Risks

Risk of additional unplanned CapEx on integrating TNT

The TNT acquisition has caused a lot of issues for FedEx in the past and has cost 900M more than expected and the integration of the company is still not complete. Currently FedEx and their competitors are trying to cut back on CapEx after many intensive years of capital expenditure to manage the increase in e-commerce. Should TNT require any unplanned CapEx this could pose a threat for FedEx as they are entering a time when they expect to be able to cut back and use cash for other purposes.

Failure to improve operating margins

Growth in e-commerce sales is a large opportunity for FedEx however it requires the company to operate at a high capacity to be able to maintain margins. FedEx has invested a lot into data analytic software, autonomous warehouses, and new routes to make B2C deliveries profitable. If FedEx has misjudged or is unable to realize these investments to the degree, they expect then the increase demand driven by e-commerce will hurt FedEx's financial performance. Additionally, there is also lot of pressure from big retailers to charge lower and lower delivery fees which puts pressure on FedEx. In the current environment there is not a lot of margin for error.

Customer international expansion

As companies start to grow and open new locations/warehouses to create a more efficient supply chains it will decrease the distance packages will need to travel. This poses as a risk for FedEx as a major part of their pricing model is the distance the package is traveling. As well there are many fixed costs associated with shipping a package. This combined with the lower rates (due to the lower distance) will pressure FedEx's margins.

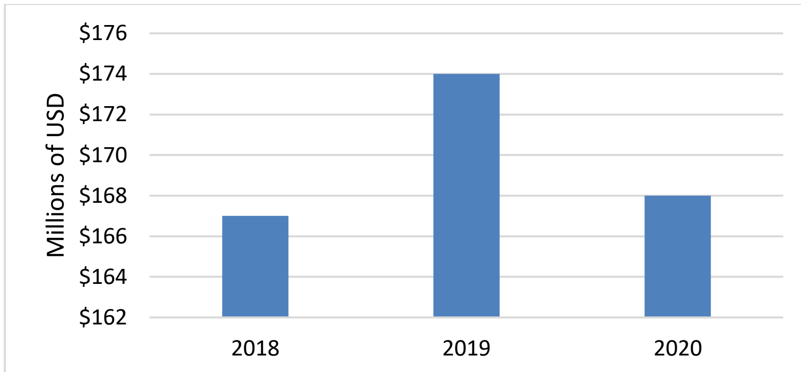
Uncertainty of future leadership

CEO Fredrick W. Smith has been the CEO of FedEx since the company was known as Federal Express in 1973. He is now 75 years old and there is a risk of new management when Fed decides to step down. I am sure there are other people who know the inner workings of the company, but it was Fred that disrupted the parcel delivery industry by introducing aircraft and has been running the company ever since. I worry that new management may not have his same outlook and constantly try to position FedEx to capitalize on the future economy.

Management

The CEO of FedEx is Frederick W. Smith who founded Federal Express in 1973 and is now 75 years old. Frederick Smith revolutionized the logistics and transportation industry by using aircraft to deliver time sensitive products such as medicine, electronics and so on. [14] FedEx incorporated in 1997 to serve as the holding company for Express, Ground, Freight, and services.[15]

Figure 5: Stock Based Compensation



Source: 2019 Proxy Statement

Management is compensated two ways. One is through stock option plans and the other is through a restricted stock plan. Stock option vesting requirements are determined by the Compensation Committee and the vesting period is anywhere from 1-4 years and expire after 10 years. However, approximately 82% of the options have vesting periods of 4 years[16]. Restricted stock is awarded to only key employees and is awarded at market value and expires ratably over 4 years. [17] This is a very similar reward program to their others in the Industry such as UPS who has stock options and restricted stock options with vesting periods anywhere from 0-4 years in length. However, FedEx's inside ownership is 7.73% of shares outstanding compared to UPS's 0.03%. It should be noted that 7.44% of the FedEx inside owned shares belong to CEO and founder Frederick W. Smith[18]. Additionally, in July of 2020 CFO and Vice president of FedEx Alan B. Graf was paid a 575,000 cash bonus for how he managed the COVID-19 pandemic and the company's response[19]. These are unprecedented times however the fact none of the bonus was tied to stock and there was no vesting period is very strange.

[14] FedEx.com FedEx History
[15] FedEx 2020 Annual Report Pg. 1
[16] FedEx 2020 Annual Report Pg. 128
[17] FedEx 2020 Annual Report Pg. 128
[18] Bloomberg Intelligence: FedEx Inside Ownership Summary
[19] FedEx 2020 Annual Report

Figure 6: Senior Management Compension

Employee Compensation	Year	Base Salary	Bonus ($)	Stock Awards	Option Awards	Non-Equity Compensation	Change in Pension Value	Other	Total
F.W Smith	2020	1,175,473	0	0	7,404,485	0	1,843,623	702,218	11,125,799
	2019	1,373,561	0	0	7,747,212	6,302,000	0	539,201	15,961,974
	2018	1,342,212	0	0	7,134,484	7,656,161	0	532,541	16,665,398
A.B Graf Jr.	2020	1,132,607	0	749,366	918,497	0	1,871,091	645,119	5,316,680
	2019	1,106,851	0	736,911	961,299	1,883,750	3,412	645,135	5,337,358
	2018	976,920	0	1,019,453	885,398	2,735,889	0	894,874	6,512,534
R. Subramaniam	2020	968,301	137,500	1,141,852	1,570,283	0	549,340	787,593	5,154,869
D.F Colleran	2020	872,565	62,500	967,863	1,194,511	0	649,482	679,864	4,426,785
R.B Carter	2020	870,170	0	749,366	918,497	0	1,551,328	616,568	4,705,929
	2019	850,384	0	736,911	961,299	1,883,750	948,822	582,380	5,963,546
	2018	825,616	0	637,463	885,398	2,472,299	816,295	638,434	6,275,505

Source: FedEx 2020 Annual Meeting of Stockholders Compensation

Financial Statement Analysis

Figure 7: Financial Condition Ratios

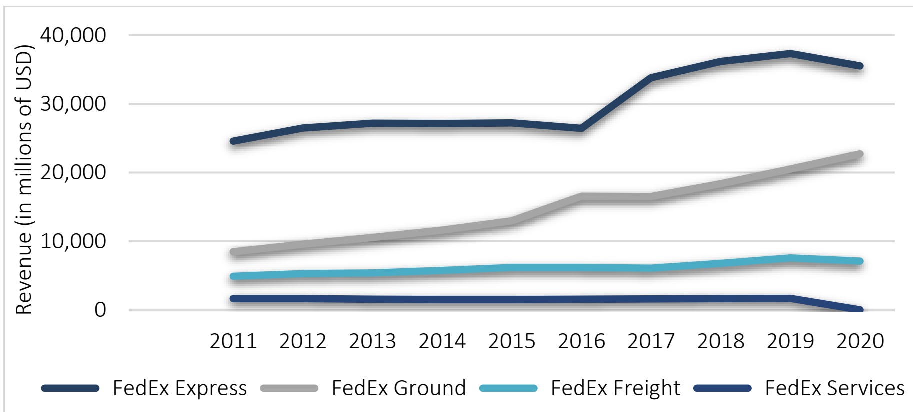
Financial Condition	2015	2016	2017	2018	2019	2020	2021
Profitability							
EBITDA Margin	9.4%	11.3%	13.3%	11.3%	11.2%	12.6%	13.0%
Operating Margin	3.9%	6.1%	8.4%	6.5%	6.4%	3.5%	8.2%
Profit Margin	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%	6.4%
Gross Margin	22.6%	23.5%	22.8%	21.5%	21.3%	19.3%	22.0%
EBIT Margin	3.9%	6.1%	8.4%	6.5%	6.4%	3.5%	8.3%
Key Ratios							
Current Ratio	1.74x	1.5x	1.59x	1.39x	1.45x	1.58x	1.69x
Total Debt to Total Equity	48.48x	99.84x	92.89x	85.42x	99.01x	197.44x	195.4
Dividend Payout Ratio	21.62x	15.22x	14.21x	11.7x	126.48x	52.8x	
EV/Sales	1.11x	1.08x	1.04x	1.22x	0.80x	0.95x	1.24x
EV/EBITDA	11.73x	9.50x	7.81x	10.80x	7.10x	7.52x	10.22x
Return on Assets	3.0%	4.4%	6.3%	9.1%	1.0%	2.0%	2.44%
Return on Common Equity	6.9%	12.6%	20.1%	25.8%	2.9%	7.1%	9.49%
Return on Invested Capital	11.8%	12.1%	9.0%	10.9%	17.6%	4.0%	4.66%

Source: Bloomberg

Financial Condition Commentary

Many of FedEx's margins such as their EBITDA, operating, EBIT, and gross margin have been trending downward over the past 4 years. This has been because FedEx has been investing heavily in their networks and new facilities. It has taken FedEx a couple of years to start realizing the facility improvements and there needed to be more parcels moving through the system. As demand for e-commerce has picked up the margins have started to improve in 2020 and in 2021 as well which is a good sign.

Figure 6: Revenue Growth by Segment



Source: Bloomberg

Revenue growth at FedEx has been primarily driven by Express and Ground. Express has seen growth as the integration of TNT has improved however less favorable economic conditions in Europe has slowed down Express growth. As for Ground the constant and steady increase of e-commerce has increased the number of packages being delivered. As well, FedEx is taking back packages from the USPS and they are starting to integrate Express and Ground deliveries more and more which has increased Ground revenue.

Valuation

Discounted Cash Flow

In the model most of the revenue growth is driven by the favorable environment for Express, the integration of TNT and then the increase in e-commerce business is reflected in Ground's revenue growth of 13% trailing downwards to 11% in 2025. FedEx has shown improvements already in operating margins due to the investments the company has made so cost of sales was forecasted out at 75% which is in line with recent years and then decreased to 73% by 2025 which is in line with the mean and median of the past 6 years.

In the base case total revenue growth from YoY from 2021-2025 is between 6.54% to 7.26% which is less than the average revenue growth over the past 4 years. I believe that the base revenue estimates are also on the conservative side given that FedEx has had less than favourable conditions in the past and has better days ahead of them.

For the DCF, the WACC was built from the beta of industry peers and then unlevering the beta using industry averages to then lever it back up with FedEx's Debt/Equity ratio. This resulted in a WACC of 5.93% which is in line with industry estimates for FedEx. As for the EV/EBITDA multiple chosen, the industry median and average were 11.15 and 11.26, respectively. To account for the fact FedEx has a lower multiple than this (around 8.8) an exit multiple of 10 was used. This all resulted in an equity value of 81,268 and an implied share price of $310.18.

FedEx Corporation - Discounted Cash Flow Valuation

Case Chosen	***Base***					
	2021E	**2022E**	**2023E**	**2024E**	**2025E**	**CV**
12 Months Ending	*05/31/2021*	*05/31/2022*	*05/31/2023*	*05/31/2024*	*05/31/2025*	*05/31/2025*
EBIT(1-Tax)	2,522	2,832	3,446	4,105	4,833	4,863
Depreciation	4,086	4,199	4,340	4,508	4,705	4,894
(Inc) Decrease In NWC	328	(184)	(215)	(218)	(269)	(59)
Less Cap Ex	4,796	5,109	5,480	5,870	6,297	6,423
Unlevered Free Cash Flow	**2,141**	**1,738**	**2,091**	**2,525**	**2,972**	**3,275**
Discount Period	*0.5*	*1.5*	*2.5*	*3.5*	*4.5*	*4.5*
PV of Free Cash Flows	**2,080**	**1,594**	**1,810**	**2,064**	**2,292**	**2,526**

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Valuation Summary

Case	Base
WACC	5.94%
CV Growth Rate	2.0%
EBITDA Multiple	10x
Exit Multiple	
Terminal EBITDA	11,417.17
Terminal Value	$114,172
Discounted Terminal Value	$88,065
PV of Free Cash Flows	$9,839
Enterprise Value	**$97,905**
Cash	$4,881
(Debt)	$21,518
Equity Value	**$81,268**
Diluted Shares Outstanding	262
Implied Price per Share	**$310.18**
Upside (Downside)	**8.2%**

Sensativity Tables

		Dicount Rate					
		5.00%	**5.50%**	**6.00%**	**6.50%**	**7.00%**	**7.50%**
Exit Multiple	**8x**	254.8294	248.4367	242.2062	236.133	230.212	224.439
	9x	289.8163	282.6836	275.7321	268.956	262.351	255.911
	10x	324.8032	316.9305	309.258	301.78	294.49	287.383
	11x	359.7901	351.1774	342.7839	334.603	326.629	318.854
	12x	394.777	385.4243	376.3099	367.427	358.767	350.326
	13x	429.7639	419.6712	409.8358	400.25	390.906	381.797
	14x	464.7508	453.9181	443.3617	433.073	423.045	413.269

Investment Recommendation

Buy, Price Target $310.18

Investment Positives

E-commerce as a percent of total U.S. retail sales has doubled from 8% to 16% since 2016 and it is expected to continue growing at a rate of about 2%a year. FedEx has positioned themselves to capitalize on the increase of e-commerce business through the integration of the Express and Ground networks as well as investing in autonomous warehouses and route optimization for the last mile of delivery.

Strong revenue growth in FedEx Ground business and expansion of OnSite pick and drop off locations will facilitate package deliveries. As well the integration of certain Freight and Express packages into Ground's network will help improve margins and efficiency.

Once TNT is fully integrated in the Express network, I believe it will put FedEx in a very strong position to compete with other smaller parcel companies in Europe. FedEx's network is superior to smaller government subsidized companies and once TNT has an optimized last mile of delivery in place, I believe that the price and speed FedEx offers will give them an advantage over European competition.

Investment Negatives

FedEx's environment is a highly competitive one. They directly compete with UPS and if UPS is better able to manage their margins and increase in e-commerce, they will be able to offer a better price for a better service. This could have large implications in the U.S. market where 70% of FedEx's revenue is earned.

As companies open more depots and warehouses through the U.S. and the rest of the world it decreases the distance a package will travel to get to its destination. While FedEx's focus has been on making the last mile of delivery as profitable as possible their most profitable business is Express.

Over the past four years as e-commerce business has increased and FedEx made investments to adapt to thing change operating margins, gross margins, and EBIT margins have been trending downwards. This is a combination of poor economic conditions in Europe and the usage of expensive USPS contracts. FedEx has reached a point where margins are starting to improve such as their EBITDA margin and they are delivering large amounts of packages and the number is only expected to grow. If FedEx is unable to improve margins going forward it is a large risk for the business.

Catalyst for Recommendation Change

If margins do not start to show improvement by 2022, I would suggest that the expectations set by management should be questioned and it would be worth looking into why numbers are not improving with the increase of e-commerce business.

As well if e-commerce trends do not continue to grow or return to pre-COVID-19 levels than I would recommend a revaluation of the model as most of the growth in the Ground business segment has been driven by increased e-commerce business.

Overall, we feel that the positives of investing right now outweigh the negatives of investing and that is why our final recommendation is a Buy.

Disclaimer

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Appendix A
Pro-forma Financial Statements

Figure A1: Consolidated Income Statement

Fedex Corporation - Consolidated Income Statement									
Case Chosen									
						Forecast			
	2018A	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**CV**
12 Months Ending	*05/31/2018*	*05/31/2019*	*05/31/2020*	*08/31/2021*	*05/31/2022*	*05/31/2023*	*05/31/2024*	*05/31/2025*	
Revenue									
Express	36,172	37,331	35,513	36,578	37,676	38,994	40,359	41,772	42,607
Ground	18,395	20,522	22,733	25,688	28,771	32,223	35,768	39,702	40,496
Freight	6,812	7,582	7,102	7,528	8,055	8,861	9,835	10,917	11,135
Service	1,650	1,691	22	22	22	22	22	22	22
Corp Elimations	2,421	2,567	3,847	3,962	4,081	4,204	4,330	4,460	4,549
Total Revenue	**65,450**	**69,693**	**69,217**	**73,779**	**78,605**	**84,304**	**90,314**	**96,873**	**98,810**
Cost of Sales	48,253	51,513	52,258	55,334	58,561	62,385	66,381	70,717	72,131
Depreciation	3,095	3,353	3,615	4,086	4,199	4,340	4,508	4,705	4,894
Gross Profit	**14,102**	**14,827**	**13,344**	**14,359**	**15,845**	**17,579**	**19,425**	**21,451**	**21,785**
Selling and marketing	0	468	0	*0*	*0*	*0*	*0*	*0*	*0*
Other Operating Expenses	9,830	9,893	10,927	11,067	11,791	12,646	13,547	14,531	14,822
Operating Income	**4,272**	**4,466**	**2,417**	**3,292**	**4,055**	**4,934**	**5,878**	**6,920**	**6,963**
Interest Expense Net	510	529	617	662	657	632	613	583	583
Other Non Operating Expenses (Income)	(591)	3,282	131	99	122	148	176	208	209
Earnings Before Tax	**4,353**	**655**	**1,669**	**2,531**	**3,276**	**4,153**	**5,089**	**6,129**	**6,172**
Income Taxes (Return)	(219)	115	383	531	917	1,163	1,425	1,716	1,728
Net Income	**4,572**	**540**	**1,286**	**1,999**	**2,358**	**2,990**	**3,664**	**4,413**	**4,444**
Earnings Per Share									
Basic Shares Ourstanding	267	262	261	261	260	259	258	257	256
Earnings per Share	$16.79	$2.06	$4.92	$7.66	$9.07	$11.55	$14.20	$17.17	$17.36
Diluted Shares Outstanding	272	265	262	263	262	261	260	259	258
Diluted Earnings per Share	$16.79	$2.03	$4.90	$ 7.60	$ 9.00	$ 11.46	$ 14.09	$ 17.04	$17.22
Dividends Paid									
Dividneds Paid	535	683	679	1,040	1,226	1,555	1,905	2,295	2,311

Figure A2: Consolidated Balance Sheet

FedEx Corporation - Consolidated Balance Sheet									
Case Chosen									
					Forecast				
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	CV
12 Months Ending	*05/31/2018*	*05/31/2019*	*05/31/2020*	*08/31/2021*	*05/31/2022*	*05/31/2023*	*05/31/2024*	*05/31/2025*	
Check	OK	OK	OK	OK	OK	OK	OK	OK	OK
Days in Year	365	365	366	365	365	365	366	365	
Assets									
Total Assets									
Cash, Cash Equivalents	3,265	2,319	4,881	5,998	5,339	4,471	4,515	3,811	4,583
Accounts & Notes Receiv	8,481	9,116	10,102	10,797	11,504	12,338	13,181	14,177	14,461
Inventories	525	553	572	607	643	685	727	776	792
Other Short Term Assets	1,070	1,098	828	879	930	991	1,052	1,124	1,146
Total Current Assets	**13,341**	**13,086**	**16,383**	**18,282**	**18,416**	**18,484**	**19,475**	**19,888**	**20,981**
PPE	55,121	59,511	78,941	83,737	88,846	94,326	100,196	106,493	112,916
Depreciation	26,967	29,082	31,416	35,502	39,701	44,041	48,549	53,254	58,147
Net PPE	**28,154**	**30,429**	**47,525**	**48,234**	**49,145**	**50,285**	**51,647**	**53,239**	**54,768**
Goodwill	6,973	6,884	6,372	5,066	5,043	5,000	4,987	4,914	4,977
Intangible Assets	480	416	322	300	322	322	322	322	322
Deferred Tax Asset	1,263	1,340	1,347	1,436	1,530	1,641	1,758	1,885	1,923
Misc Long Term Assets	2,119	2,248	1,588	1,588	1,588	1,588	1,588	1,588	1,588
Total Non-Current Assets	**38,989**	**41,317**	**57,154**	**56,624**	**57,628**	**58,836**	**60,302**	**61,949**	**63,578**
Total Assets	**52,330**	**54,403**	**73,537**	**74,906**	**76,044**	**77,320**	**79,777**	**81,836**	**84,559**
Liabilities and Shareholders Equity									
Accounts Payable	2,977	3,030	3,269	3,471	3,673	3,913	4,152	4,436	4,525
Other Payables	5,308	5,019	5,101	5,416	5,732	6,106	6,480	6,922	7,060
Short Term Fiancing Lease	*0*	*0*	*51*	0	0	0	0	0	0
Short Term Operating Lease	*0*	*0*	*1,923*	0	0	0	0	0	0
Current Portion of LTD	*1,342*	*964*	*0*	0	0	0	0	0	0
Total Current Liabilities	**9,627**	**9,013**	**10,344**	**8,887**	**9,405**	**10,019**	**10,632**	**11,358**	**11,585**
Long Term Borrowings	15,172	16,555	21,518	21,518	20,325	18,762	18,015	16,328	16,328
Long Term Financing Lease	71	62	434	0	0	0	0	0	0
Long Term Operating Lease	0	0	12,195	12,195	12,195	12,195	12,195	12,195	12,195
Accrued Liabilities	1,784	1,899	2,104	2,209	2,320	2,436	2,557	2,685	2,820
Pension Liabilities	2,187	5,095	5,019	5,350	5,700	6,113	6,549	7,024	7,165
Deferred Compensation	0	0	0	0	0	0	0	0	0
Deferred Revenue	121	99	0	0	0	0	0	0	0
Deferred Tax Liability	2,867	2,821	3,162	3,370	3,591	3,851	4,126	4,425	4,514
Other Long Term Liabilities	1,085	1,102	466	975	975	975	975	975	975
Total Non Current Liabilities	**23,287**	**27,633**	**44,898**	**45,617**	**45,105**	**44,331**	**44,417**	**43,633**	**43,996**
Total Liabilities	**32,914**	**36,646**	**55,242**	**54,504**	**54,510**	**54,351**	**55,049**	**54,990**	**55,581**
Shareholders Equity									
Common Stock	32	32	32	32	32	32	32	32	32
Additional Paid in Capital	3,117	3,231	3,356	3,356	3,356	3,356	3,356	3,356	3,356
Treasury Stock	(7,978)	(9,289)	(9,162)	(9,162)	(9,162)	(9,162)	(9,162)	(9,162)	(9,162)
Retained Earnings	24,823	24,648	25,216	26,176	27,308	28,743	30,502	32,620	34,753
Other Equity	(578)	(865)	(1,147)	0	0	0	0	0	0
Total Equity	**19,416**	**17,757**	**18,295**	**20,402**	**21,534**	**22,969**	**24,728**	**26,846**	**28,979**
Total Liabilities and Shareholders Equity	**52,330**	**54,403**	**73,537**	**74,906**	**76,044**	**77,320**	**79,776**	**81,836**	**84,560**

Figure A3 Consolidated Statement of Cash Flow

FedEx Corporation - Consolidated Statement of Cash Flow													
Case Chosen	***Base***												
				Historical							**Forecast**		
	2014 A	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**CV**
12 Months Ending	*05/31/2014*	*05/31/2015*	*05/31/2016*	*05/31/2017*	*05/31/2018*	*05/31/2019*	*05/31/2020*	*08/31/2021*	*05/31/2022*	*05/31/2023*	*05/31/2024*	*05/31/2025*	
Cash From Operating Activites													
Net Income	2,324	1,050	1,820	2,997	4,572	540	1,286	1,999	2,358	2,990	3,664	4,413	4,444
Depreciation	2,587	2,611	2,631	2,995	3,095	3,353	3,615	4,086	4,199	4,340	4,508	4,705	4,894
Non Cash Items	126	1,413	1,223	(687)	(1,950)	3,189	3,373	(35)	(35)	(42)	(42)	(50)	(16)
(Inc) Dec In AR	(516)	(392)	(199)	(556)	(1,049)	(873)	(1,331)	(695)	(706)	(834)	(843)	(996)	(283)
(Inc) Dec in Other	(257)	684	233	181	6	(596)	(1,846)	1,059	558	661	668	776	240
Cash From Operating Activites	**4,264**	**5,366**	**5,708**	**4,930**	**4,674**	**5,613**	**5,097**	**6,413**	**6,374**	**7,115**	**7,955**	**8,849**	**9,278**
Cash From Investing Activities													
Change in Fixed and Intang	(3,515)	(4,323)	(4,828)	(4,981)	(5,621)	(5,407)	(5,846)	(4,774)	(5,131)	(5,480)	(5,870)	(6,297)	(6,423)
Cash From Divesture	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from Acq of Subs	(36)	(1,429)	(4,618)	0	(179)	(66)	0	0	0	0	0	0	0
Cash from JV's	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Investing Activities	0	0	0	0	123	0	0	0	0	0	0	0	0
Cash from Investing Activities	(3,551)	(5,752)	(9,446)	(4,981)	(5,677)	(5,473)	(5,846)	(4,774)	(5,131)	(5,480)	(5,870)	(6,297)	(6,423)
Cash from Financing Activities													
Dividends Paid	(187)	(227)	(277)	(426)	(535)	(683)	(679)	(1,040)	(1,226)	(1,555)	(1,905)	(2,295)	(2,311)
Cash from (repay) Debt	1,743	2,486	6,478	1,108	1,442	1,027	4,008	517	(675)	(949)	(134)	(961)	227
Cash (Repurchase) of Equity	(4,256)	(883)	(2,539)	(172)	(690)	(1,379)	61	0	0	0	0	0	0
Other Financing Activites	(19)	(27)	(51)	18	10	(4)	(9)	0	0	0	0	0	0
Cash from Financing Activities	**(2,719)**	**1,349**	**3,611**	**528**	**227**	**(1,039)**	**3,381**	**(523)**	**(1,901)**	**(2,504)**	**(2,040)**	**(3,256)**	**(2,084)**
Effect of Foreign Exchange Rates	(3)	(108)	(102)	(42)	72	(47)	(70)	0	0	0	0	0	0
Net changes in Cash	(2,009)	855	(229)	435	(704)	(946)	2,562	1,117	(659)	(869)	44	(704)	772
Cash Paid for Taxes	766	1,113	991	377	189	371	36	0	0	0	0	0	0
Cash Paid for Interest	131	201	321	484	524	617	639	662	657	632	613	583	583