FDX earnings call for the period ending December 31, 2024.

FedEx (FDX 1.23%)
Q3 2025 Earnings Call
Mar 20, 2025, 5:30 p.m. ET

Rajesh Subramaniam -- President, Chief Executive Officer, and Director

Thank you, Jeni. I want to start by expressing my heartfelt gratitude to our team members. They delivered a strong peak within a compressed timeline and managed weather events ranging from unprecedented wildfires to severe winter storms. They accomplished this with a focus on safety and customer service, and I am very appreciative of their dedication and success.

Now, turning to our Q3 results. Revenue was up 2%, growing on a year-over-year basis for the first time this fiscal year. Our DRIVE savings continue to build sequentially and we achieved $600 million of savings in the quarter. Taken together, these two factors enabled us to achieve 12% adjusted operating income growth compared to last year.

At Federal Express Corporation, we delivered strong year-over-year results with adjusted operating income up 17% despite significant headwinds from the expiration of the United States Postal Service contract and severe weather events. Weakness in the industrial economy continued to pressure our higher-margin B2B volumes. Similar to last quarter, this dynamic was most pronounced at freight, where fewer shipments and lower weights continue to negatively affect our results, albeit to a lesser extent than last quarter. Considering our B2B mix, we are well-positioned to capture strong incremental flow-through when the industrial economy recovers.

The current environment, however, is adding uncertainty to demand. We continue to work closely with our customers to help them adapt to this evolving market. Our flexible and unmatched global network, digital tools, and data ecosystem enable us to quickly support our customers' needs. With our vast data on cross-border trade, we are uniquely positioned to create more value for our customers as they navigate change.

This includes providing a streamlined clearance experience for customers while helping them comply with regulatory requirements. And through our automated processes, we can clear packages more quickly, better address improperly filed paperwork, and reduce manual work to respond rapidly to our customers' needs while improving our operating efficiency. As a reminder, in terms of our revenues split by geography, we serve an extremely diversified customer base across the more than 220 countries and territories. To put some numbers around this, taking our FY '25 revenue through the third quarter, nearly 75% comes from our U.S.

domestic services. Another approximately 10% of our revenue comes from non-U.S. intra-country or intra-regional services. And from a bilateral U.S.

trade perspective, our biggest single-country exposure represents only about 2.5% of total revenue. Against this backdrop, we remain focused on what we can control. First, Q3 drive savings continued to ramp and were in line with our expectations. We expect to achieve our incremental target of $2.2 billion for FY '25 and our total of $4 billion of our FY '23 baseline.

Second, we are creating a more flexible, efficient and intelligent network. As planned, we resumed network 2.0 conversions following peak. We have optimized five U.S. stations since the beginning of the calendar year and expect to optimize 45 more in Q4.

We are on track to complete the rollout in Canada by the end of April. By the end of FY '25, about 12% of our average daily global volume will flow through network 2.0 optimized facilities. Third, Tricolor is driving better asset utilization as we improve aircraft density and better leverage our surface network. We have a broad range of KPIs that we are tracking to measure our progress.

We're especially pleased that on a year-over-year basis, payloads across our air network are up 9% with a 5% improvement in density. This is a key objective of our Tricolor operating model. Importantly, our progress is leading to positive flow-through on revenue growth from international export freight. Fourth, our planned transition away from the U.S.

Postal Service contract is going well and we are continuing to remove costs associated with the expired contract. Fifth, our freight separation work is underway. John will share more details shortly. And lastly, we are providing our customers with the best-value proposition in the industry.

FedEx Ground and FedEx Home Delivery are faster to more locations than UPS Ground. As we look to the fourth quarter, in light of the uncertain demand environment and higher than previously expected inflationary pressures on our cost base, we are lowering our FY '25 adjusted EPS outlook to $18 to $18.60. John will provide more color on the underlying assumptions. I'm excited about our transformation progress as we continue to integrate our networks, reduce our cost-to-serve, and enable better performance.

Technology remains a key facilitator of our transformation. Last quarter, I shared details on the encouraging improvement we are seeing in Europe. That trend continued in Q3 with our simplified technology platform driving both operational efficiency and a better experience for our customers. This is also leading to the best European service levels we have seen in years, which is driving profitable share growth.

We remain on track to achieve the $600 million in total DRIVE savings from Europe by the end of this fiscal year. In support of our network transformation, last month, we acquired RouteSmart Technologies, a global leader in route optimization solutions. This acquisition allows us to bring in-house a dynamic route mapping solution with a best-in-class algorithm. Our legacy ground business has used this technology with great success, and we are now rolling it out globally.

This will be an important enabler for both Network 2.0 and our global network transformation, helping our team members to work safer and smarter. In closing, I'm proud of the team for their continued success. We navigated many headwinds in this third quarter, including a volatile demand environment, the postal service contract expiration, severe weather events, and inflation. Yet, we still delivered 60 basis points of adjusted operating margin expansion and a 12% improvement in adjusted operating income.