ACCOUNTING

EXECUTIVE SUMMARY

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Introduction

FedEx is an American global courier delivery service headquartered in Memphis, Tennessee that was founded in 1971. It is a leading player in the delivery space and is known for its worldwide air express freight.
It was born out of an idea by an undergraduate student- Fredrick Smith in 1965. The idea was to come up with a system for overnight delivery of goods.
FedEx today consists of - FedEx express, FedEx ground, FedEx Freight and FedEx services. These entities are collectively managed under the FedEx brand. The FedEx express segment has been the most profitable of all its product categories. [1]

United Parcel Service (UPS) is the world's largest package delivery company and a provider of supply chain management solutions headquartered in Sandy Springs, Georgia.
It owes its origins to the American Messenger company which was founded by James Casey and Claude Ryan in Seattle
UPS is a formidable leader in the less than truckload industry in the United States. UPS has a strong presence in the US and Europe. UPS works through three different business segments - US Domestic Package, International Package and Supply Chain & Freight.[2]

Strengths, Weaknesses, Opportunities and Threats [3][4]

FedEx	UPS
STRENGTHS •Network in more than 220 countries and more than 290,000 employees worldwide •Best use of technology	**STRENGTHS** •Servicing more than 200 countries and territories with approximately 4,00,000 employees worldwide •Advanced supply chain
WEAKNESSES •Since it's a competitive segment, market share growth is limited	**WEAKNESSES** •Since it's a competitive segment, market share growth is limited •Heavy dependency on the local economy
OPPORTUNITIES •Inorganic growth •Growing need for transportation	**OPPORTUNITIES** •Looking East: Target emerging markets like China and India •Tap into online shopping giants
THREATS •Increasing operating costs •New technologically advanced player	**THREATS** •Increasing operating costs •New technologically advanced players

Key Future Trends that Drive this segment [3][4]:

1. **Emergence of regional players –** Regional players like OnTrac and Eastern connection are providing cheaper and faster delivery options. They also have the regional advantages that are indigenous to a given area.
2. **Growing e-commerce industry** – The ecommerce industry is a major growth driver in the courier and delivery services space. The growth in e-commerce in various other economies is also a key driver.
3. **Newer delivery models being experimented -** While players like both FedEx and UPS use the conventional method for delivery, new players like Google, Uber and Amazon are experimenting with more innovative methods of delivery like drone delivery which might give them an advantage over conventional players.

Key Competitors in this segment

1. **DHL**: DHL was established in 1969 by Adrian Dalsey, Larry Hillblom, and Robert Lynn. It is an international shipping, courier, and packaging service.
2. **TNT:** On a daily basis, TNT Express delivers close to one million consignments ranging from documents and parcels. The company offers road and air delivery services in Europe, the Middle East and Africa, Asia-Pacific and the Americas.
3. **USPS:** The United States Postal Service, also known as the Post Office, U.S. Mail, or Postal Service, often abbreviated as USPS, is an independent agency of the United States Government responsible for providing postal service in the United States

Streets position and Expectation

E-commerce growth:

FedEx and UPS have long been known as stocks with prospects closely tied to economic growth, and the downgrading of growth expectations in 2016 is obviously a negative. In second-quarter results (delivered at the end of 2015), FedEx management predicted U.S. real GDP growth of 2.6% for 2016 with industrial production forecast to grow 1.9%. Fast-forward to current expectations, and FedEx has lowered its 2016 U.S. GDP growth forecast to 2.1%, with industrial production forecast to be just 0.3%

UPS managed to maintain its full-year guidance by increasingly growing strong in business-to- consumer (B2C) e-commerce- based deliveries - a very convenient trend helping to offset weakness from declining growth in industrial production. It's something that should help bolster FedEx's results, too[24].

Ground margin growth:

In its third quarter, FedEx Ground's operating margin declined to 12.6% from 16.5% in the same period last year. Part of the reason for the margin decrease was the extra cost of servicing e-commerce growth. As we have already seen with UPS results, e-commerce demand continues to grow strongly, so FedEx CFO Alan Graf's expectation for Ground to return to mid-teens margins in the fourth quarter could be challenged.

Moreover, relatively higher B2C growth (compared to B2B, business-to- business) could also pressure margins at FedEx Ground.

International growth:

UPS has managed to grow its operating profit in double digits for the last five quarters. UPS achieved this largely through investing in network efficiency increases, while benefiting from moderate economic growth. All of this augurs well for FedEx's planned takeover of European-based TNT Express.

The TNT deal is not one without execution risk, but UPS' success in its international segment suggests FedEx could achieve its planned productivity savings from the TNT deal.

Fuel surcharge impacts:

vs.

UPS and FedEx have been making pricing initiatives in order to maximize profitability and influence customer behavior and handling surcharges for oversize packages. Thus UPS increased its base rate by 2% for e-commerce deliveries, and the U.S. domestic segment saw a revenue increase of 3.1%. However, lower fuel surcharges are reducing reported growth rates. For example, excluding the impact of fuel surcharges, U.S. domestic segment revenue would have grown 4.3%. At some point the drag from fuel surcharges will diminish but for now it's still reducing headline growth figures, although the long-term impact is arguably negligible[26].

Risks

(The risks have been taken from the SEC filing for UPS and FedEx from the latest annual report)

Common risks

1. General economic conditions, both in the U.S. and internationally, may adversely affect our results of operations.
2. We face significant competition which could adversely affect our business, financial position and results of operations.
3. Our business is subject to complex and stringent regulation in the U.S. and internationally.
4. Strikes, work stoppages and slowdowns by our employees could adversely affect our business, financial position and results of operations.
5. We are exposed to the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities.
6. Changes in exchange rates or interest rates may have an adverse effect on our results.
7. If we are unable to maintain our brand image and corporate reputation, our business may suffer.
8. A significant privacy breach or IT system disruption could adversely affect our business and we may be required to increase our spending on data and system security.
9. Severe weather or other natural or manmade disasters could adversely affect our business.
10. We make significant capital investments in our business of which a significant portion is tied to projected volume levels.

    Forecasting the capital investment needed in delivery and logistic business is critical because of the very nature of their business. The capital investment needed is of a large order since they are directly used to acquire aircrafts, facilities, technologies, etc. which is used for existing business operations and future expansion. A failure to properly forecast the capital needed could lead to over or under utilization of assets leading to a negative impact on their financial results.
11. We derive a significant portion of our revenues from our international operations and are subject to the risks of doing business in international markets.

Since UPS & FedEx have a diversified global operating market, the risks associated with operating in different environments cannot be ascertained easily. These risks include, volatility in certain geographical markets, changing economic, political and social environments, laws related to international business with countries which have tight trade policies with respect to the U.S.

12. Employee health and retiree health and pension benefit costs represent a significant expense to us.
13. We may be subject to various claims and lawsuits that could result in significant expenditures. UPS and FedEx may be subjected to claims and litigations due to the nature of their business. In addition to usual business lawsuits related to labor and employment, these claims or litigations could arise because of environmental liability, property damage, and other matters. The cost and adverse effect of such litigations could have a negative impact on the business operation of these companies.
14. We may not realize the anticipated benefits of acquisitions, joint ventures or strategic alliances. If the companies consider any acquisitions or strategic alliances in the future, the anticipated benefits of which may depend on the successful integration of the two businesses, effective evaluation of the entity to be acquired and any liabilities that it may bring along.

Risks for UPS

1. Changes in our relationships with our significant customers, including the loss or reduction in business from one or more of them, could have an adverse impact on us.
   UPS has maintained that their revenue is not heavily (> 10%) dependent on a single customer. Although this is a healthy factor, UPS goes on to mention that they could face growth challenges during a specific quarter (quarter containing the holiday season) of the year. This is because customers who are highly active during that quarter could challenge UPS to provide pricing concessions, improve service standard thereby increasing operating cost, or sever business relations by introducing their own shipping and distribution capabilities.
2. Increased security requirements could impose substantial costs on us and we could be the target of an attack or have a security breach.

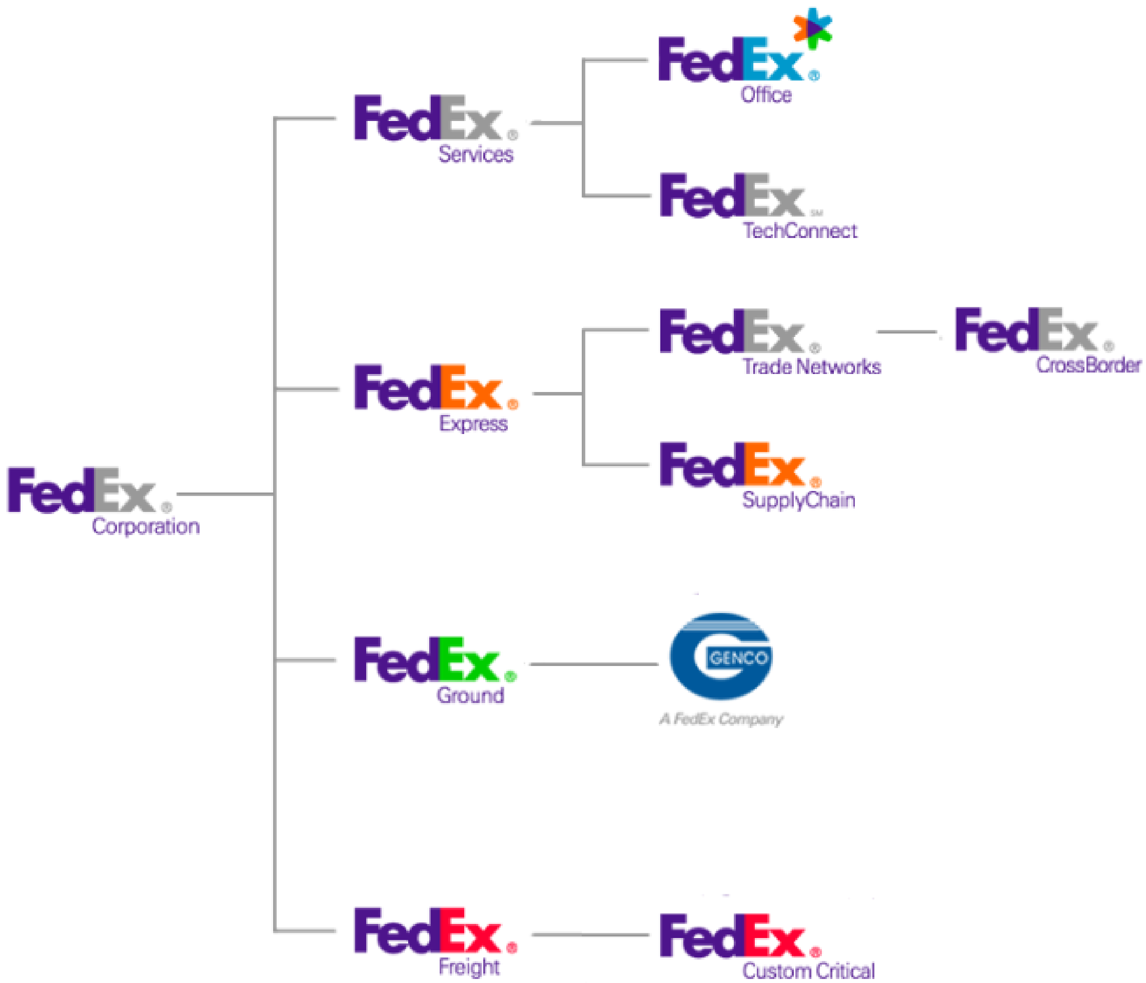
3. We may be affected by global climate change or by legal, regulatory or market responses to such a potential change.
4. We are subject to changes in markets and our business plans that have resulted, and may in the future result, in substantial write-downs of the carrying value of our assets, thereby reducing our net income.
   UPS forecasts a negative impact on their net income due to an increase in depreciation and amortization charges of their fixed and intangible assets. Such impairments could arise out of changes in business strategy, economic or market conditions, and regulations.
5. Insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.
   UPS uses a combination of self-insurance and high-deductible insurance programs to prepare against the risk of cargo loss, business interruption, personal injury, property damage, etc. Their financial condition and results of operation might suffer if the number of severity of such risks increases. Not being able to self-insure against these risks might land them in a position where the insurance cost could spiral upwards.

Risks for FedEx

- FedEx Ground relies on owner-operators to conduct its line haul and pickup-and-delivery operations, and the status of these owner-operators as independent contractors, rather than employees, is being challenged
- They may not be able to achieve their profit improvement goal by the end of 2016.
- The transportation infrastructure continues to be a target of terrorist activities.
- The regulatory environment for global aviation or other transportation rights may impact the operations.
- The business may be adversely impacted by disruptions or modifications in service by the USPS as USPS is a significant customer and vendor of FedEx.

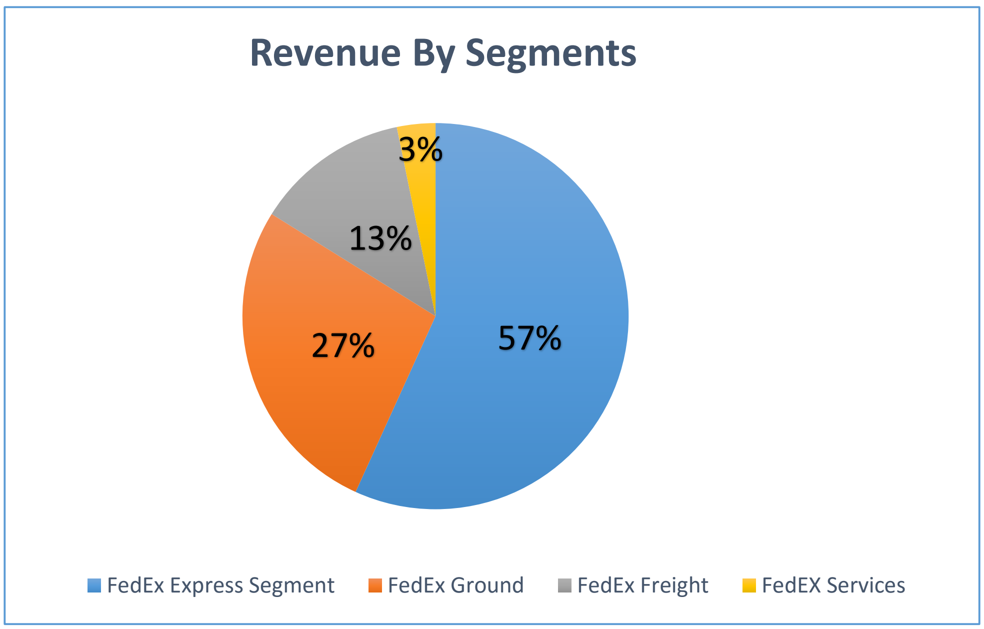
Business segmentation

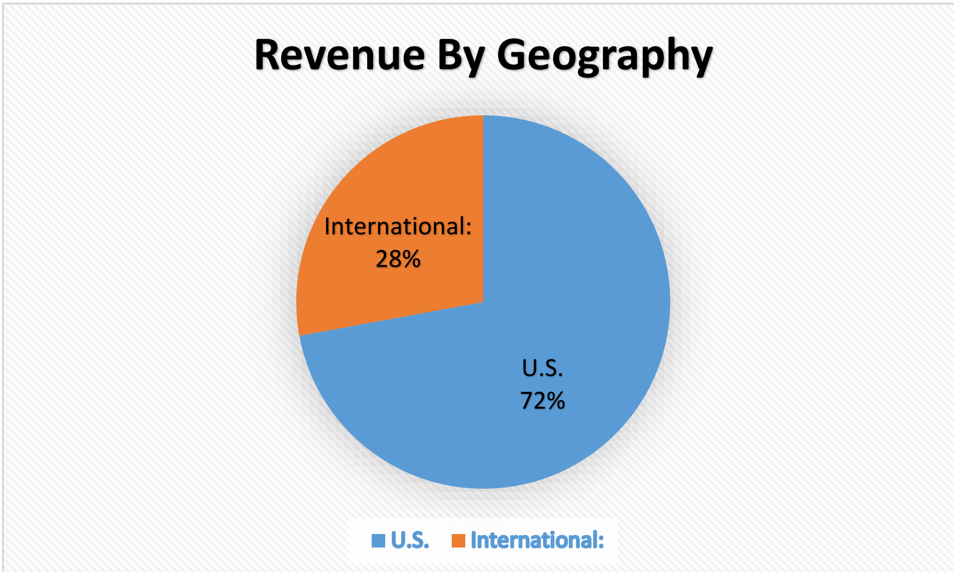
FedEx Business Segments[11]

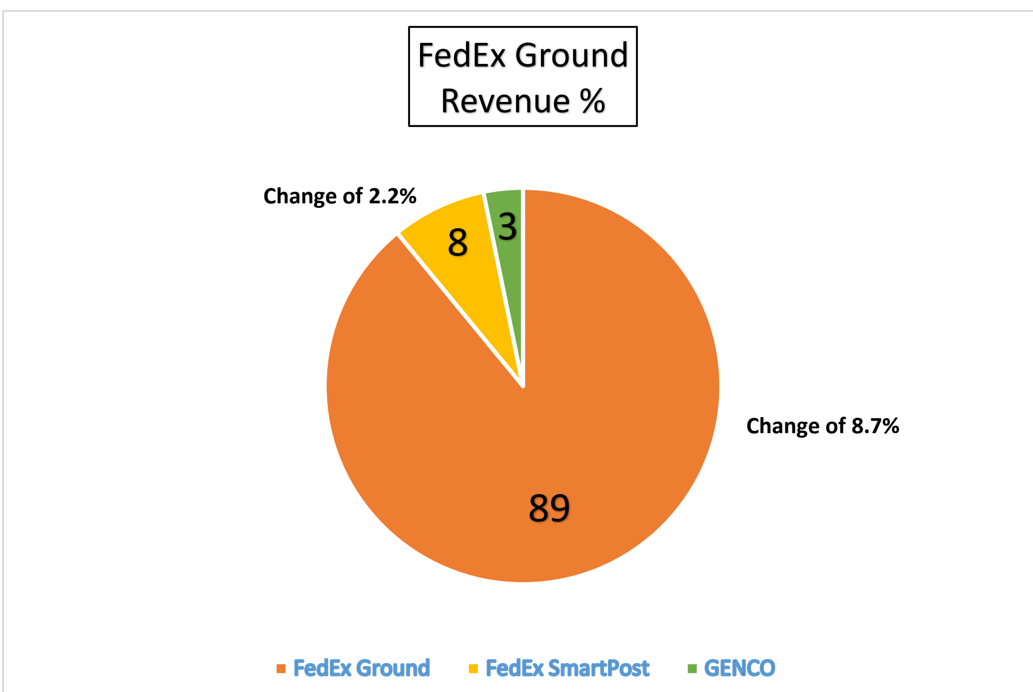


1. FedEx Services – This business group was formed in 2000 and it incorporates the FedEx Office and FedEx TechConnect businesses. It provides solutions for global supply chains, e-commerce, and data management services to its customers.
2. FedEx Express – This business is the first service that was provided by the company. It includes time-sensitive, air-ground express services. This business group was formed in 1971. Today, it has a strong network across 220 countries and territories globally. It incorporates FedEx Trade Networks and FedEx Supply Chain businesses.

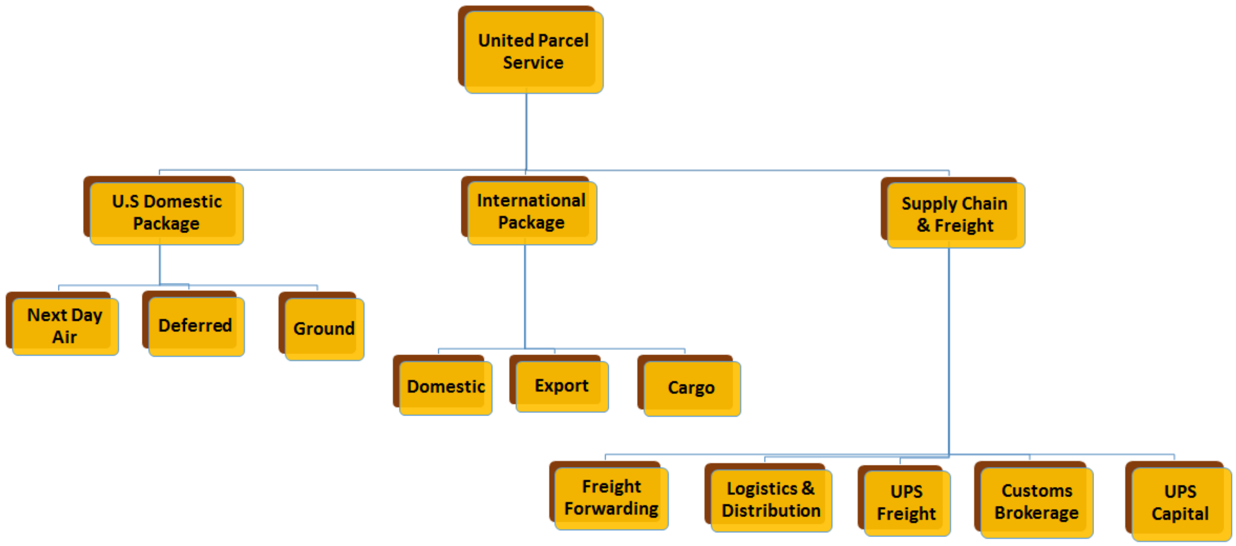
3. FedEx Ground – Formed in 1985, this segment provides its customers in the US and Canada with reliable business-to- business and residential delivery services through FedEx Home Delivery and FedEx SmartPost.
4. FedEx Freight – This business segment provides LTL (less-than- truckload) shipping services across the US, Canada, Mexico, Puerto Rico, and the Virgin Islands. It incorporates FedEx Custom Critical and was formed in 2001. It has the fastest published transit times across any nationwide LTL service.




Revenue By Geography
International:
28%
U.S.
72%
U.S.
International:


FedEx Ground
Revenue %
Change of 2.2%
8
3
Change of 8.7%
89
FedEx Ground
FedEx SmartPost
GENCO

UPS Business Segment

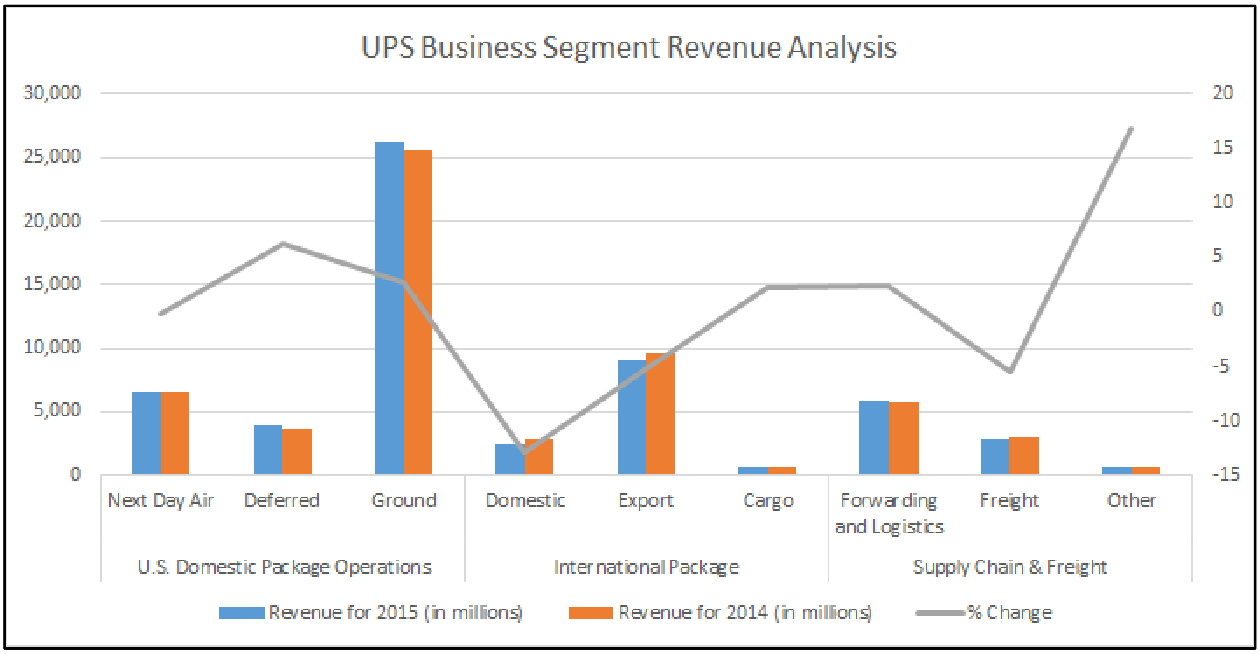


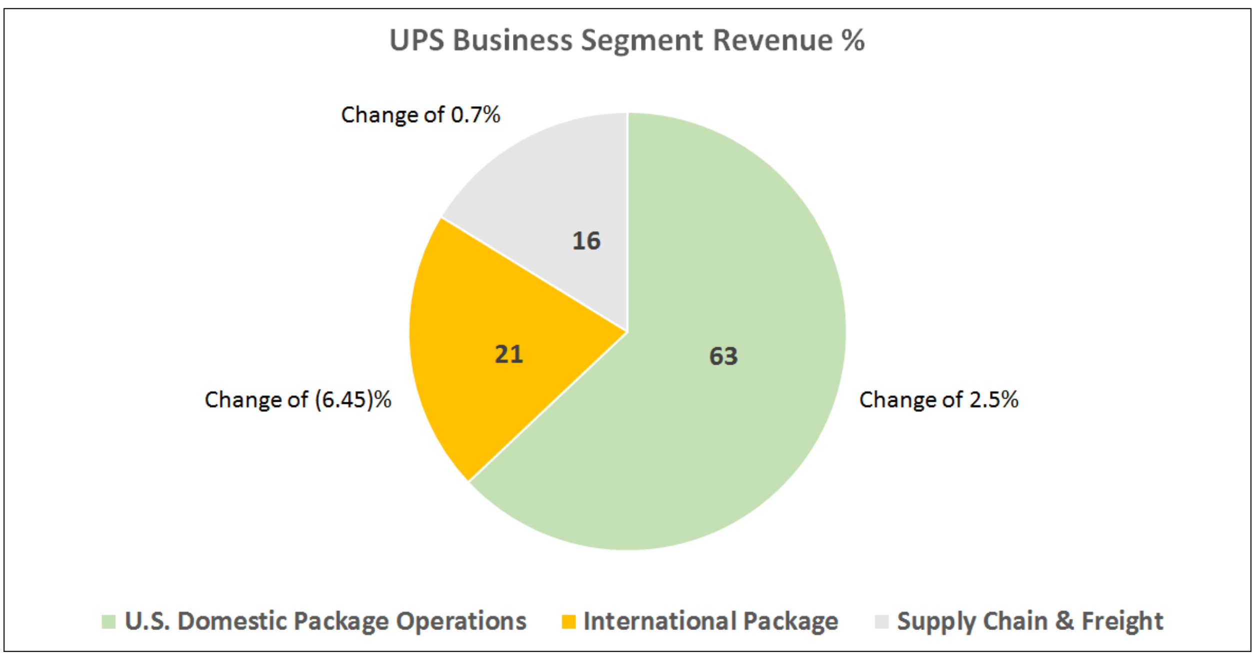
UPS reports its business into three segments [9][30] as follows -

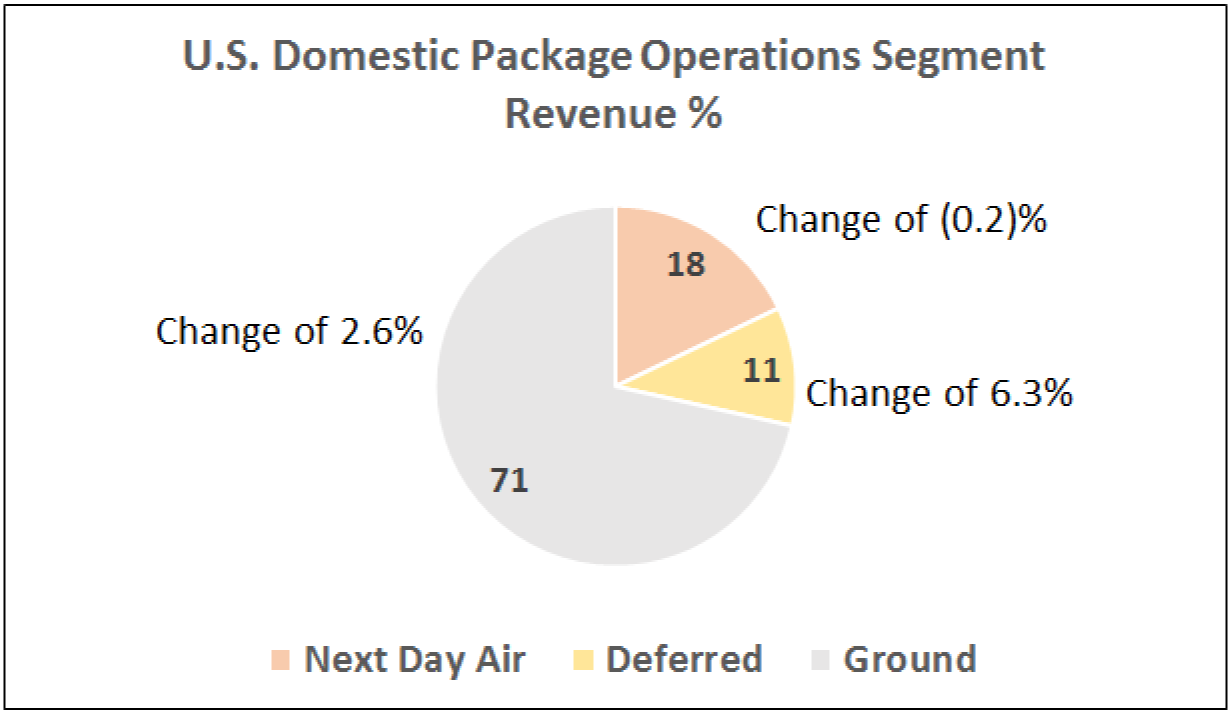
1. US Domestic Package - It is the largest courier service in the US . The segment that has the highest share in the revenue mix as shown before and is clearly the winning product. It involves the time sensitive delivery of letters, documents and packages across the US. Even under the domestic package segment there are three different product categories that are offered- Next day air, deferred and ground. Of these three different options that are available, ground offers the highest revenue.
2. International Package - This segment was founded in 1975 when UPS first forayed outside the US. It then entered West Germany. The company's global small package operations offer time-bound delivery services for express letters, documents, small packages, and palletized freight through air and ground services. The company faces stiff competition from players like TNT Express, Deutsche Post, Royal mail and Singapore post. Under this division, the time sensitive options include- Express plus, Express and Express saver. When the customer is not time sensitive, the services offered are UPS Worldwide Expedited guaranteed day-definite service

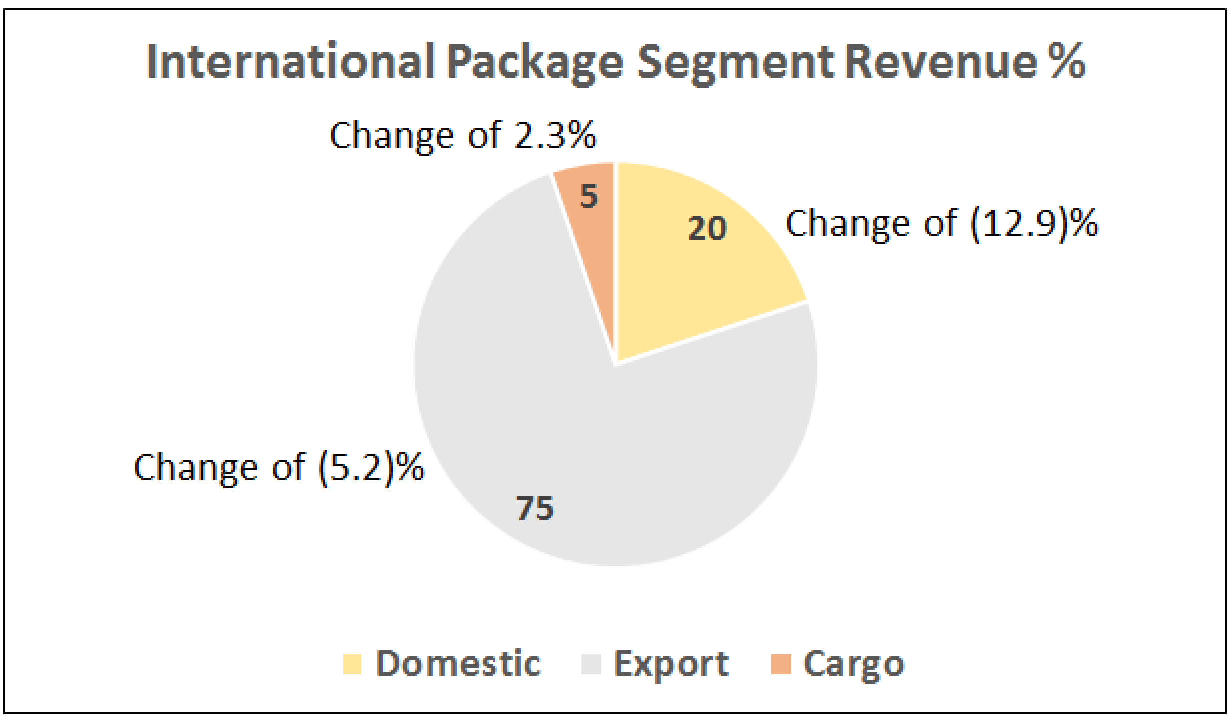
option. Under this service, the company delivers parcels in two to five business days in more than 220 countries.

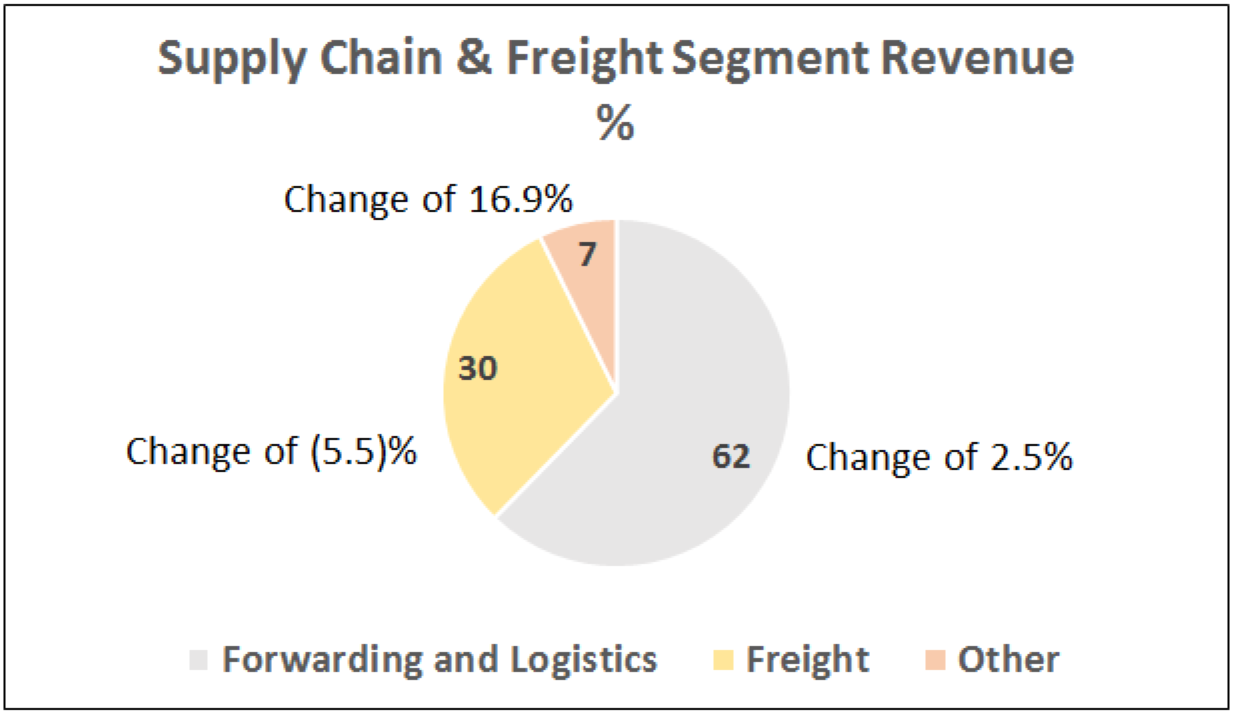
3. Supply Chain & Freight- United Parcel Service's (UPS) Supply Chain and Freight segment includes forwarding and logistics services, UPS Freight, truckload freight brokerage, and financial services through UPS Capital. UPS Freight offers a variety of LTL (less-than-truckload) and TL (truckload) services to customers in North America. The company acquired Coyote Logistics in 2015. Coyote Logistics is a US-based truckload freight brokerage company. UPS gained large-scale truckload freight brokerage capability through this acquisition.
    - UPS Logistics offering includes:
        - Distribution services are rendered through a worldwide network of distribution centers. These centers handle the goods from receiving to storage and order processing to shipment.
        - Post-sales services provide support to merchandise once it is installed or delivered in the. This includes four primary services: Critical Parts Fulfillment; Reverse Logistics; Test, Repair, and Refurbish; and Network and Parts Planning.
        - UPS Mail Innovations provides the delivery of lightweight parcels and flat mail to worldwide addresses from the US.
        - UPS Express Critical offers a variety of urgent global transportation options tailored to suit UPS's core services. The Express Critical service provides solutions to fill the gaps for late cut-offs, weekends, and holidays.
    - Customs brokerage includes:
        - UPS is the world's largest customs broker by the number of shipments processed annually. The company offers customs clearance, trade management, and international trade consulting services. United Parcel Service, through UPS Capital, provides financial, insurance, and payment services to customers for risk protection and optimizes the use of cash in the supply chain. [9]


UPS Business Segment Revenue Analysis
30,000
25,000
20,000
15,000
10,000
5,000
0
20
15
10
5
0
-5
-10
-15
Next Day Air
Deferred
Ground
Domestic
Export
Cargo
Forwarding and Logistics
Freight
Other
U.S. Domestic Package Operations
International Package
Supply Chain & Freight
Revenue for 2015 (in millions)
Revenue for 2014 (in millions)
% Change


UPS Business Segment Revenue %
Change of 0.7%
16
21
63
Change of (6.45)%
Change of 2.5%
U.S. Domestic Package Operations
International Package
Supply Chain & Freight


U.S. Domestic Package Operations Segment Revenue %
Change of (0.2)%
18
Change of 2.6%
11
Change of 6.3%
71
Next Day Air
Deferred
Ground

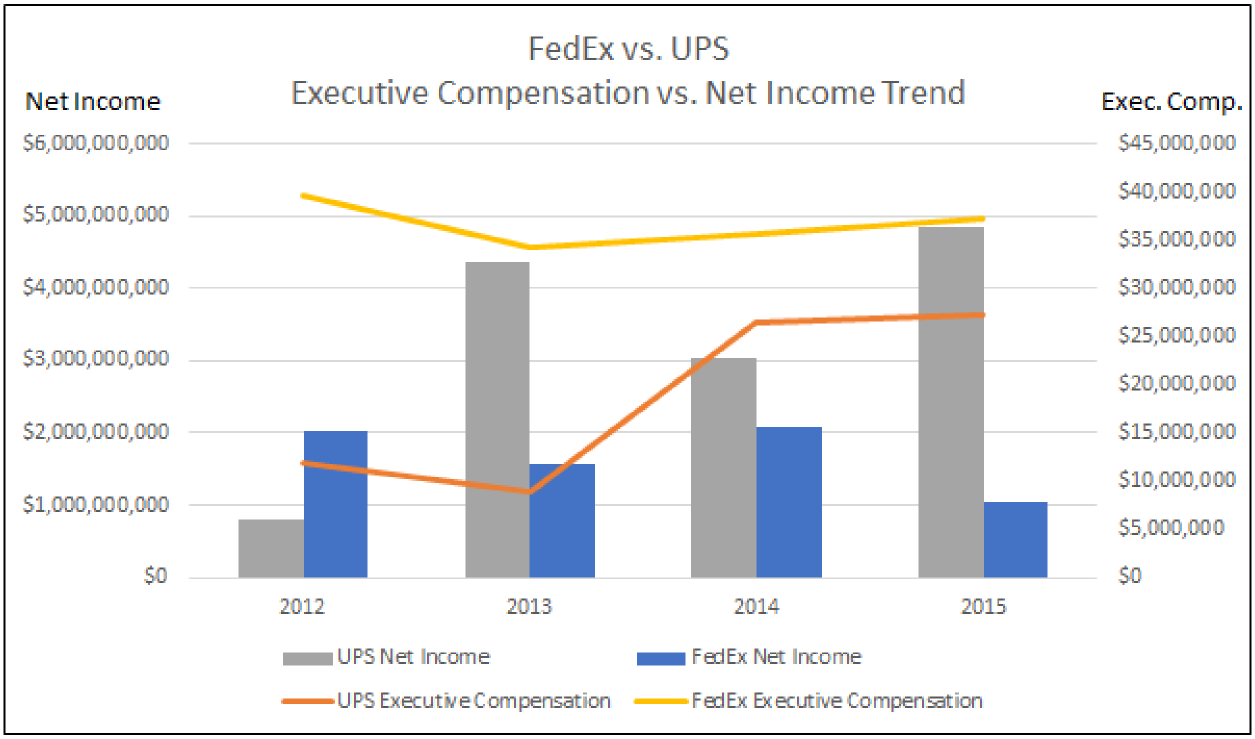

International Package Segment Revenue %
Change of 2.3%
5
20
Change of (12.9)%
Change of (5.2)%
75
Domestic
Export
Cargo



Executive compensation structure

A comparison of the executive compensation structure between FedEx and UPS with respect to their corresponding net income [1] shows how the performance of each company related to the compensation [2] handed out to their executives. Since the executives are responsible for the company's performance, their compensation should be impacted in the same manner. By comparing data since 2012, we can say that UPS tries to alter their executive compensation structure based on the income the company generates. UPS has been trying to match the trend in net income while deciding on the executive compensation for the year gone by.

vs.



Summary of most recent earnings call

FedEx[11][15]

- Strong quarter with adjusted earnings of $2.51 per diluted share up year-over-year more than 23%. Adjusted consolidated operating margin increased to a healthy 9.2% versus 8.3% last year.
- In the Express segment, revenue decreased 1% as lower fuel surcharge and unfavorable currency exchange rates more than offset yield growth. U.S. domestic package volume grew by 2% driven by growth in overnight packages. U.S. domestic revenue per package increased 1% despite lower fuel surcharges.
- FedEx International Economy volume grew 2% while FedEx International Priority volume decreased 3%. International export revenue per package decreased 5% as lower fuel surcharges and unfavorable currency exchange rates negatively impacted yields.
- FedEx Ground revenue increased 30% in the quarter. FedEx Ground average daily volume grew 11% in Q3, primarily driven by growth for demand for residential deliveries related to e-commerce. FedEx Ground revenue per package increased 8% year-over-year in Q3 due to the

recording of SmartPost revenues on a gross basis and higher base rates, partially offset by lower fuel surcharges

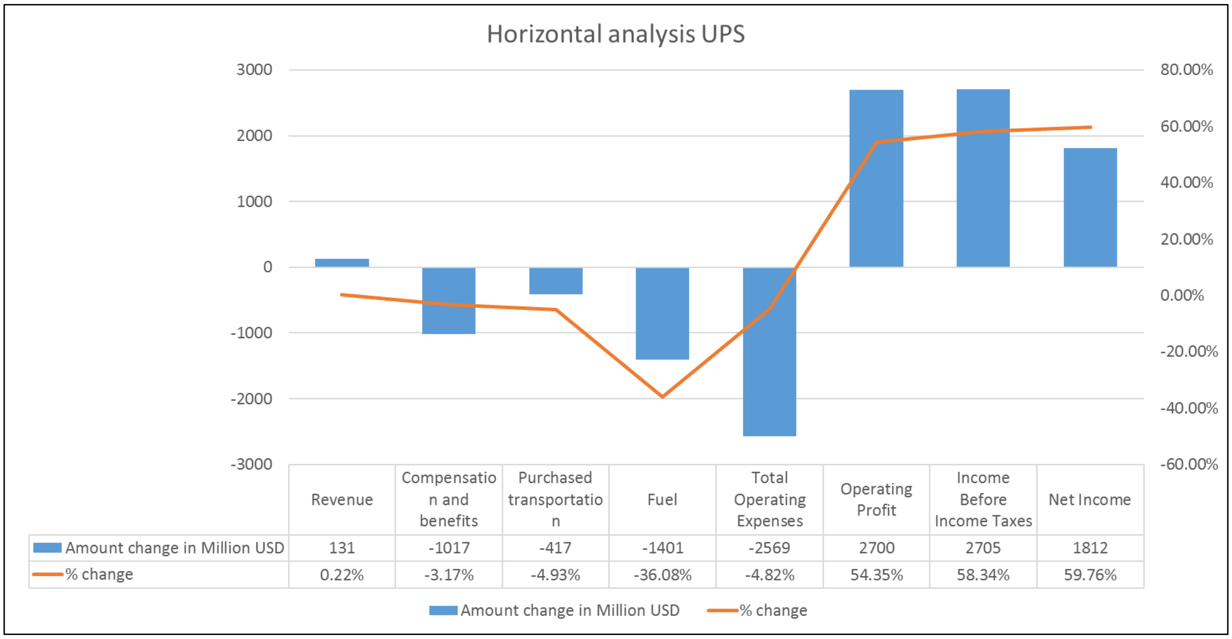
- FedEx Freight increased revenue 1% as LTL shipments increased 7% and revenue per shipment declined 4%.
- Liability recognized for the net expected loss related to settlement of 19 cases and certain other pending independent contractor related proceedings of $204 million, or $0.46 per diluted share.

UPS (Earnings call of Q1 2016) [6][7]

- Strong quarter with diluted earnings per share of $1.27, a 13% increase year-over-year.
- There was an increase of 3.2% in total revenue at $14.4 billion over the same quarter last year. The slump in revenue growth can be attributed to lower fuel surcharges and currency exchange rates.
- The focus on improving operational efficiency and network capacity through the use of technology can be seen by the deployment of technology improvements such as the accelerated deployment of our On Road Integrated Optimization and Navigation system - "ORION".
- Cash flows through the company was as follows -
  - Generated $2.7 billion in cash through operations and $2.2 billion in free cash flow
  - Paid dividends amounting to $670 million
  - Repurchased 6.8 million shares for approximately $680 million
- For the U.S. Domestic segment, the total revenue increased 3.1% over the first quarter of 2015, to $9.1 billion.
- For the international package segment, revenue was down 1.9% due to lower fuel surcharges
- Supply Chain and Freight revenue increased by more than 10% to $2.4 billion as a result of the acquisition of Coyote Logistics in the third quarter of last year.

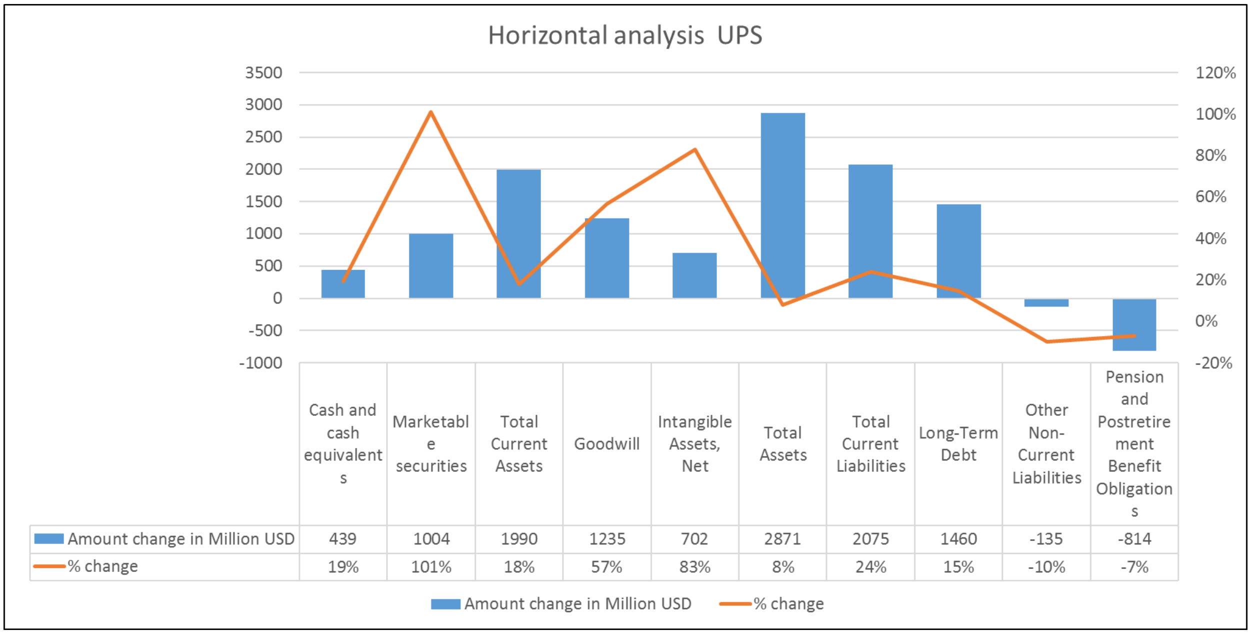
Horizontal Analysis

The following is the Horizontal Analysis [20,21,22]



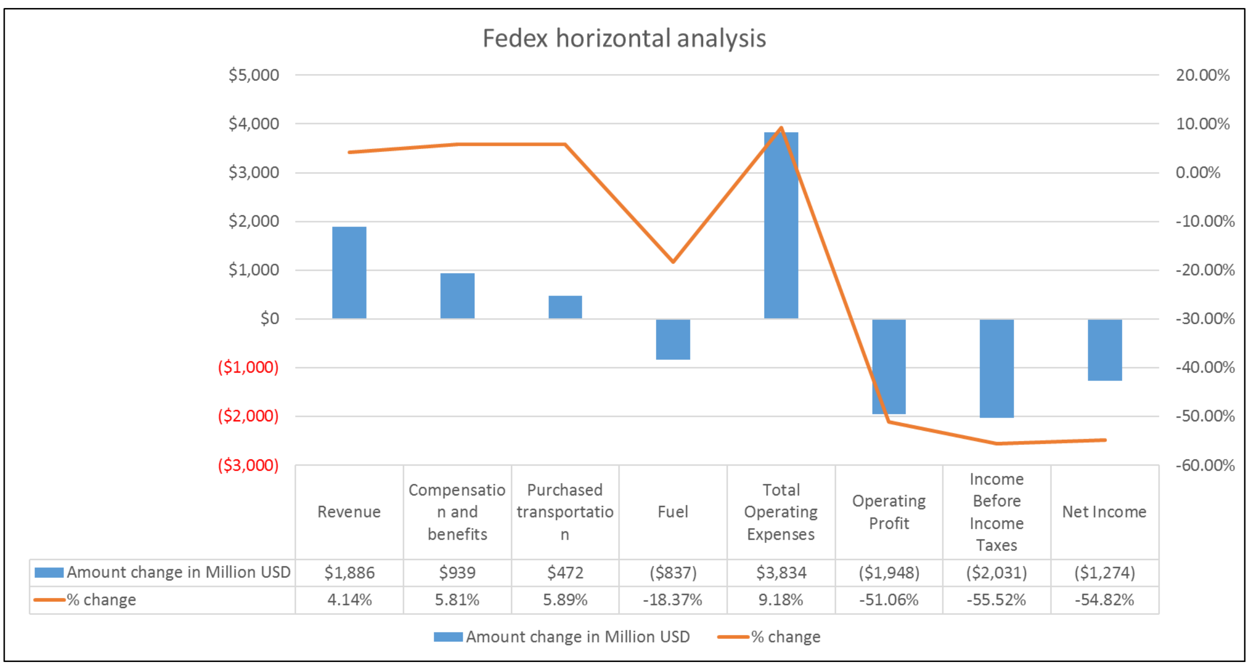
Even though the income of UPS has just increased over $ 100 million there is a huge increase in operating profit because of decrease in operating expenses like fuel, purchased transportation and compensation. The reduction of fuel price is clearly reflected here. The decrease in purchased transportation is because of lower fuel surcharges have been passed down to UPS and increased currency value. The compensation is lower in 2015 due to mark to market adjustment in 2014.

vs.



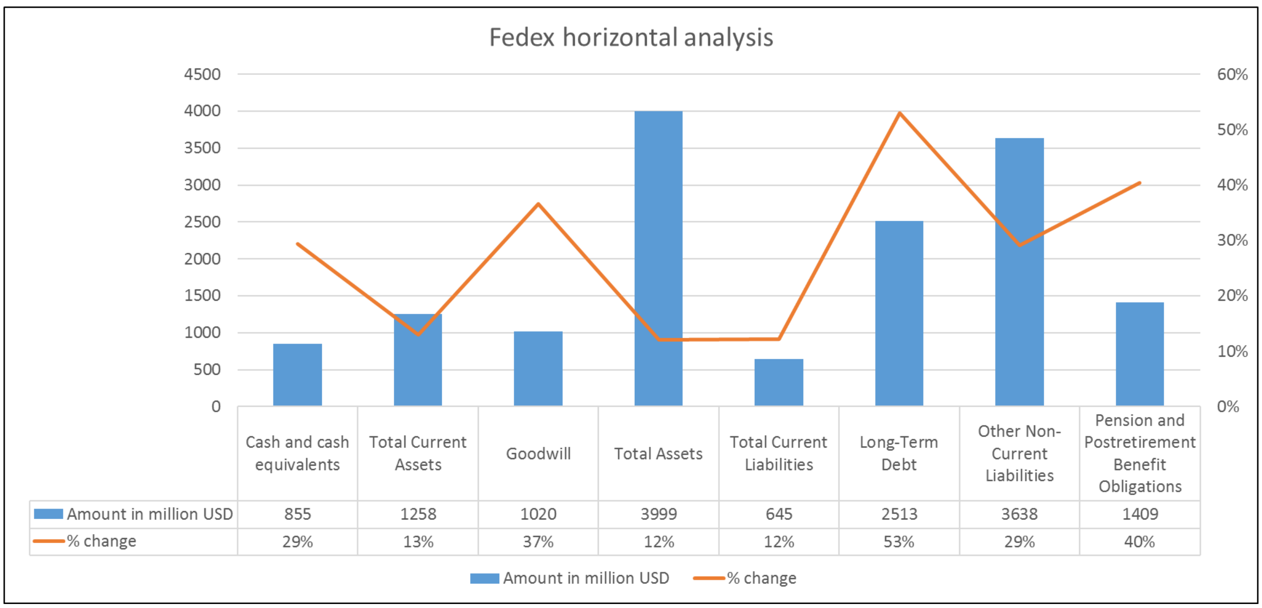
	Cash and cash equivalents	Marketable securities	Total Current Assets	Goodwill	Intangible Assets, Net	Total Assets	Total Current Liabilities	Long-Term Debt	Other Non-Current Liabilities	Pension and Postretirement Benefit Obligations
Amount change in Million USD	439	1004	1990	1235	702	2871	2075	1460	-135	-814
% change	19%	101%	18%	57%	83%	8%	24%	15%	-10%	-7%

There is an increase of total current assets and amount is more or less balanced by increase in current liabilities.



	Revenue	Compensation and benefits	Purchased transportation	Fuel	Total Operating Expenses	Operating Profit	Income Before Income Taxes	Net Income
Amount change in Million USD	$1,886	$939	$472	($837)	$3,834	($1,948)	($2,031)	($1,274)
% change	4.14%	5.81%	5.89%	-18.37%	9.18%	-51.06%	-55.52%	-54.82%

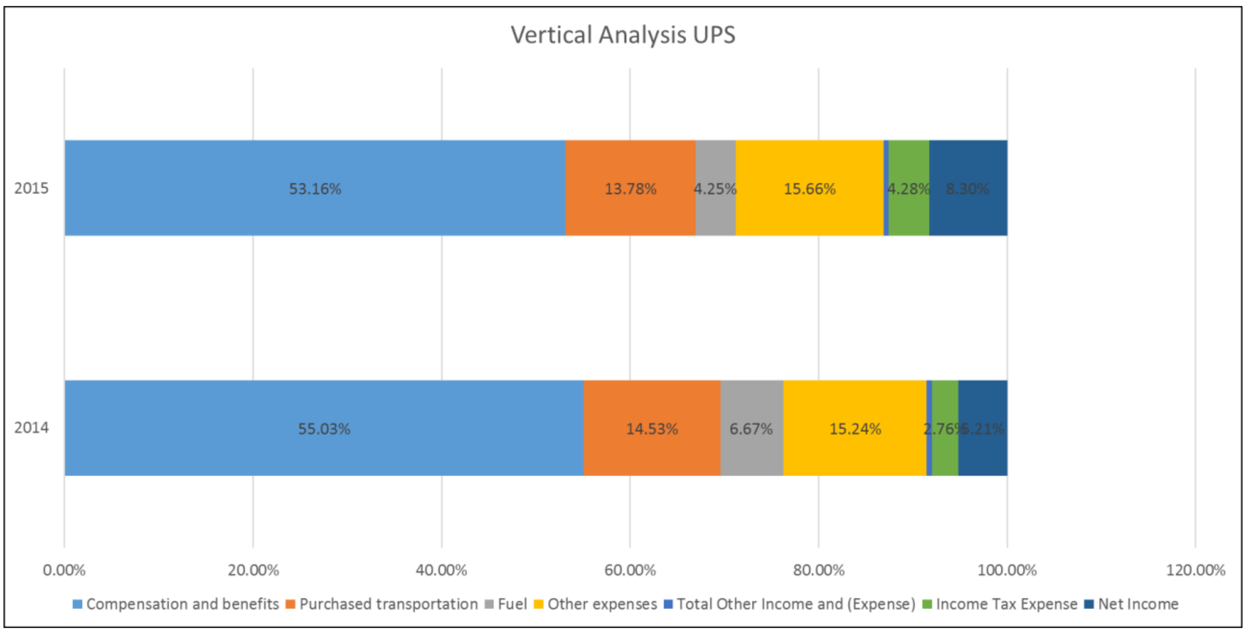
FedEx case here is exactly opposite of UPS even though the operating income has increased by nearly $1.88 billion the net income has gone down due to increased operating expenses. The purchased transportation has been increased because use of private transportation. The total operating expenses have increased because Our operating expenses for 2015 include a $2.2 billion loss ($1.4 billion, net of tax) associated with our mark-to-market pension accounting as described above. In addition, we recorded charges of $276 million ($175 million, net of tax) associated with the decision to permanently retire and adjust the retirement schedule of certain aircraft. FedEx should be more careful in future in controlling expenses.



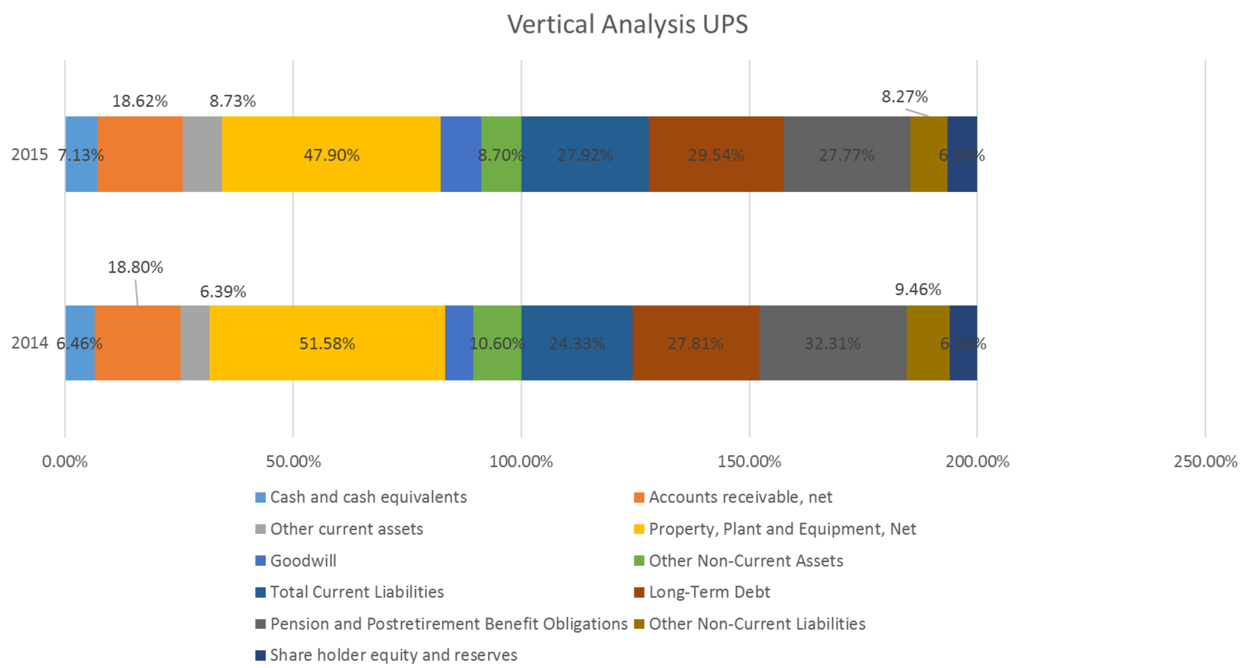
Major increase cash might for TNT acquisition. The increase of goodwill is because of acquisition like Genco and Bongo. Not all increase in current assets is funded by current liabilities.

Vertical Analysis

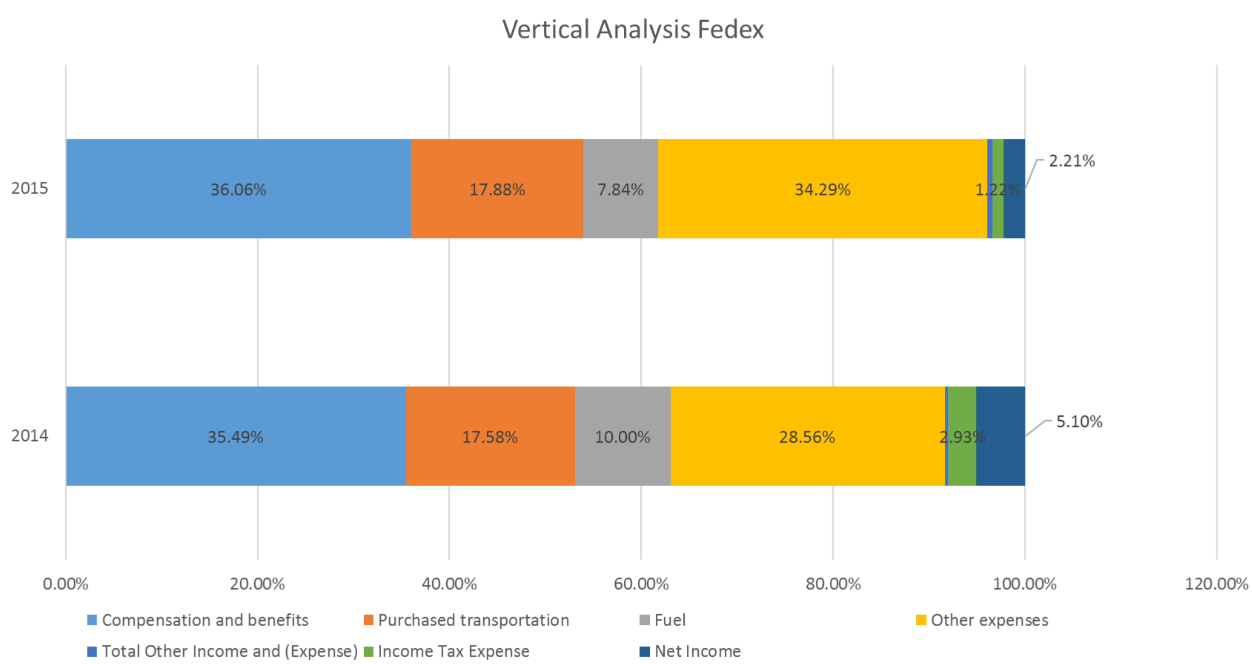
The following is the Vertical Analysis for FedEx and UPS[20,21,22]



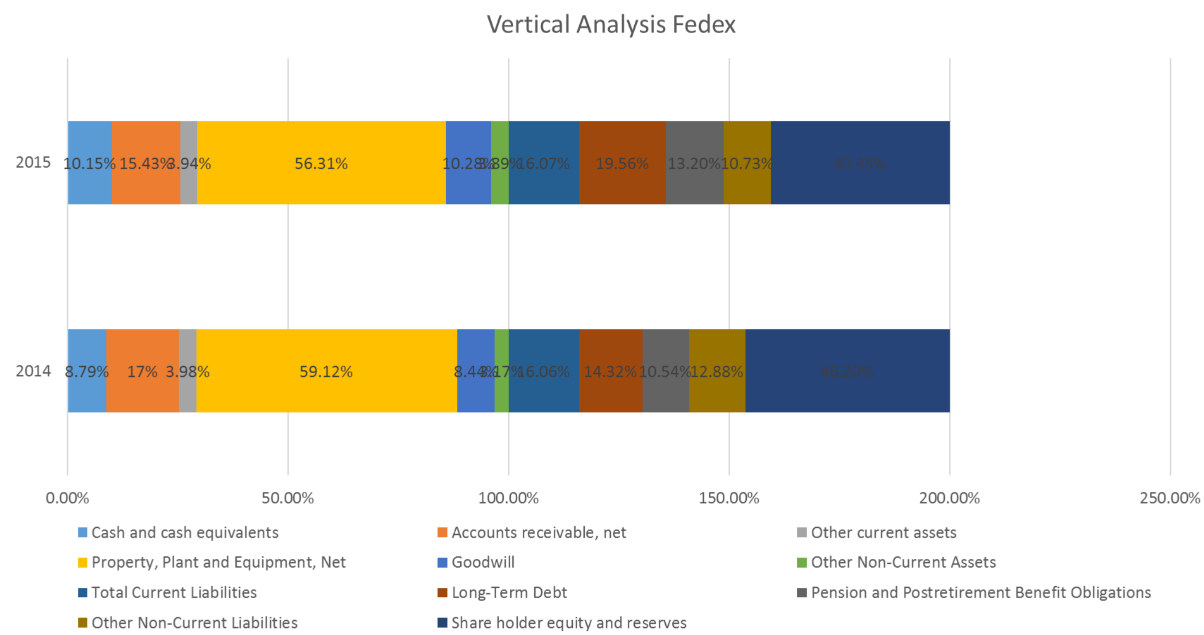
The total operating expense have come down from 91.47% to 86.86% in which fuel from 55% to 53.16% fuel from 6.6% to 4.25%, purchased transportation from 14.53% to 13.78% which resulted NI increased from 5.21% to 8.3%.This a very good sign from UPS.



The increase in good will and intangible assets is because of acquisition of Poltraf ,Parcel Pro, Inc. Insured Parcel Services division of G4S International Logistics ("IPS") Coyote.



When compared to UPS the percentage of FedEx compensation is less. As there is an increase in all the operating expenses the net income NI from 5.1 to 2.21.



Increase cash might for TNT acquisition. The increase of goodwill is because of acquisition like genco and bongo. Reduced earnings and reduced and increased debt is due to recent acquisitions.

Key ratios

We have analysed the following Key ratios [23][27][28]

Liquidity ratios

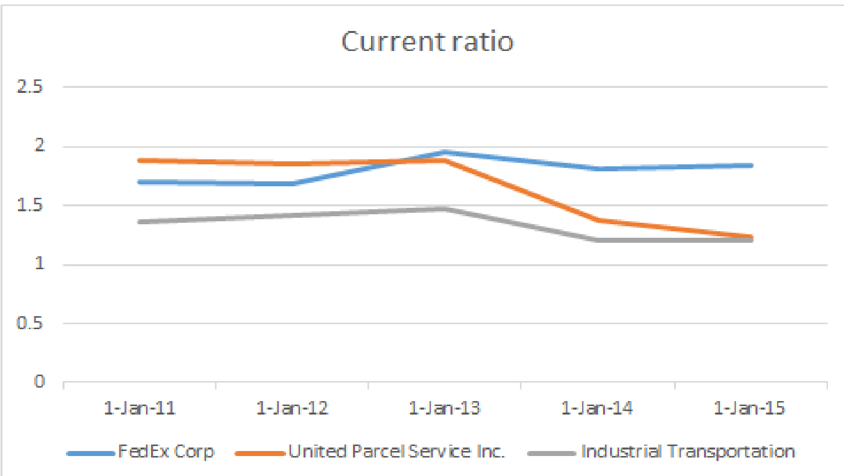
Current ratio:

The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the next year. The current ratio is calculated by dividing current assets by current liabilities.

The current ratios of FedEx has been increasing when looked overall whereas UPS it is on a downward trend. UPS in recent years has reached the industry average where as FedEx has moved higher from the industry average which is a good sign. We feel that excess liquidity should be used in investments to generate ore returns rather than using in daily activities.

vs.

Current ratio	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx Corp	1.84	1.82	1.96	1.69	1.4
United Parcel Service Inc.	1.23	1.3	1.88	1.86	1.89
Industrial Transportation	1.21	1.21	1.47	1.42	1.36



Cash ratio	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx Corp	0.63	0.55	0.86	0.53	0.48
United Parcel Service Inc.	0.44	0.38	0.74	0.94	0.66
Industrial Transportation	0.5	0.44	0.7	0.7	0.53

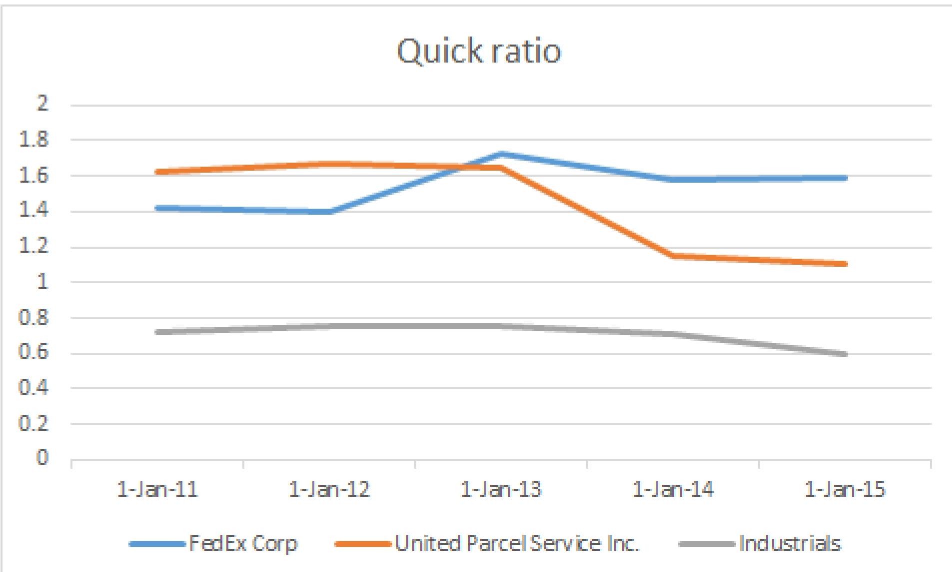
Quick ratio:

The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets that can be converted to cash within 90 days or in the short-term. The quick ratio is calculated by adding cash, cash equivalents, short-term investments, and current receivables together then dividing them by current liabilities.

The quick ratio of both the companies is reflecting the same trend as of current ratio. Both these companies have higher than the industry average so they are very much in safe zone.

FedEx vs. UPS

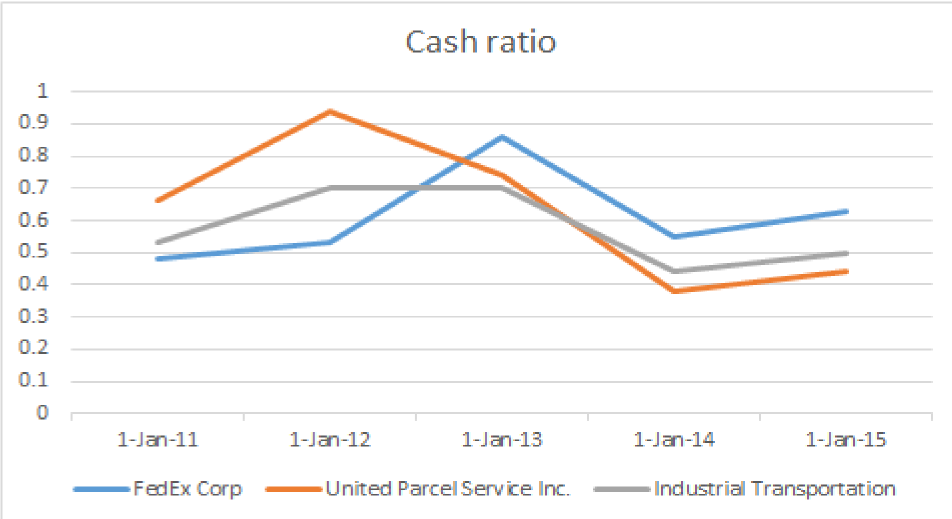
Quick ratio	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx Corp	1.59	1.57	1.73	1.4	1.42
United Parcel Service Inc.	1.11	1.15	1.65	1.67	1.62
Industrials	0.6	0.71	0.76	0.75	0.72



Cash ratio

The cash ratio or cash coverage ratio is a liquidity ratio that measures a firm's ability to pay off its current liabilities with only cash and cash equivalents. The cash ratio is much more restrictive than the current ratio or quick ratio because no other current assets can be used to pay off current debt--only cash.

Except for one year both the companies have cash ratio above the industry average which is a good sign.



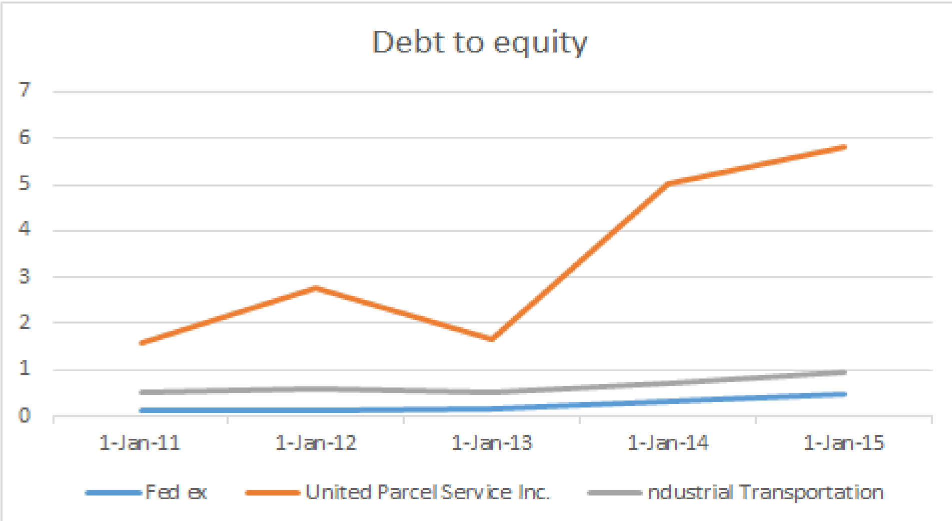
Interest coverage ratios

Debt to equity

The debt to equity ratio is a financial, liquidity ratio that compares a company's total debt to total equity. The debt to equity ratio shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

FedEx consistently has lower debt to equity ratio so it clearly wins in this ratio

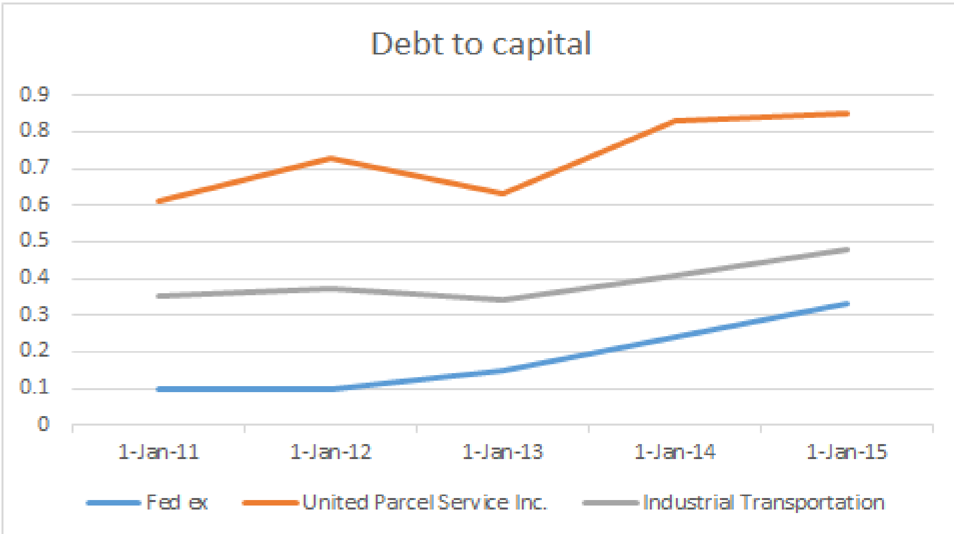
Debt to equity	**31-May-15**	**31-May-14**	**31-May-13**	**31-May-12**	**31-May-11**
Fed ex	0.48	0.31	0.17	0.11	0.11
United Parcel Service Inc.	5.8	5.04	1.68	2.77	1.58
Industrial Transportation	0.94	0.7	0.52	0.6	0.53



Debt to capital

The debt-to-capital ratio is a measurement of a company's financial leverage, calculated as the company's debt divided by its total capital. Debt includes all short-term and long-term obligations. Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt.

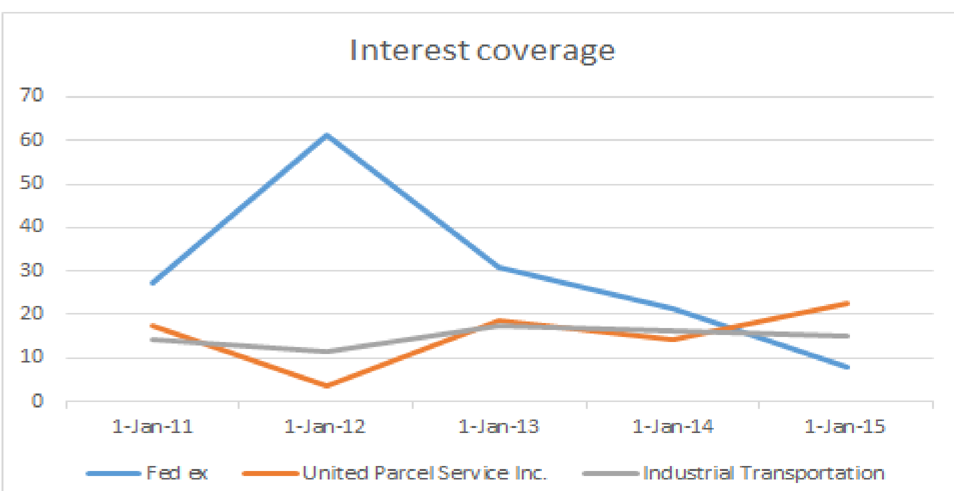
Debt to capital	**31-May-15**	**31-May-14**	**31-May-13**	**31-May-12**	**31-May-11**
Fed ex	0.33	0.24	0.15	0.1	0.1
United Parcel Service Inc.	0.85	0.83	0.63	0.73	0.61
Industrial Transportation	0.48	0.41	0.34	0.37	0.35



Interest coverage ratio

The interest coverage ratio is a financial ratio that measures a company's ability to make interest payments on its debt in a timely manner. The interest coverage ratio formula is calculated by dividing the EBIT, or earnings before interest and taxes, by the interest expense. Here is what the interest coverage equation looks like.

Interest coverage	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
Fed ex	7.92	21.56	30.94	61.4	27.34
United Parcel Service Inc.	23.5	15.04	19.73	3.69	19.89
Industrial Transportation	14.88	16.15	17.37	11.65	14.23

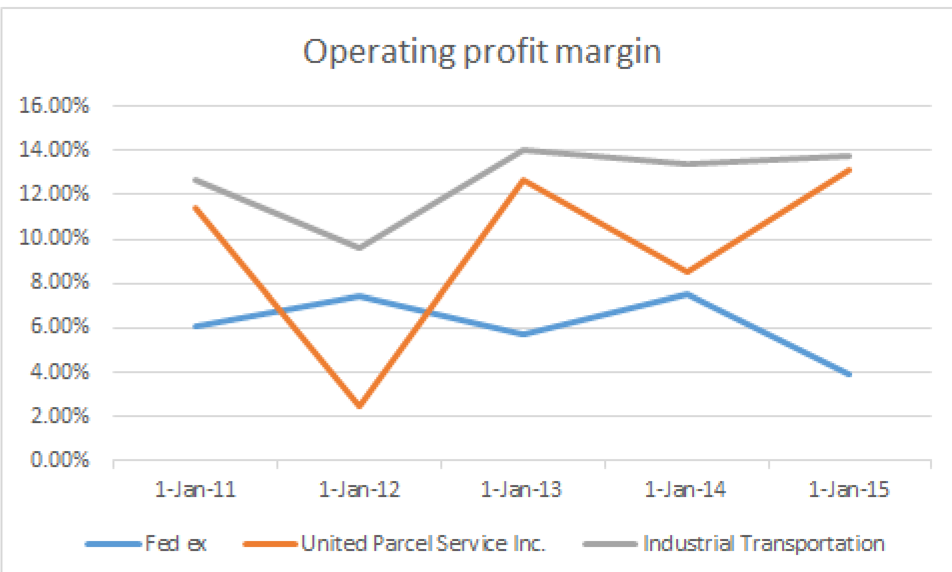


Profitability ratios

Operating profit margin

Operating margin is a margin ratio used to measure a company's pricing strategy and operating efficiency. It is calculated by dividing operating income by net sales

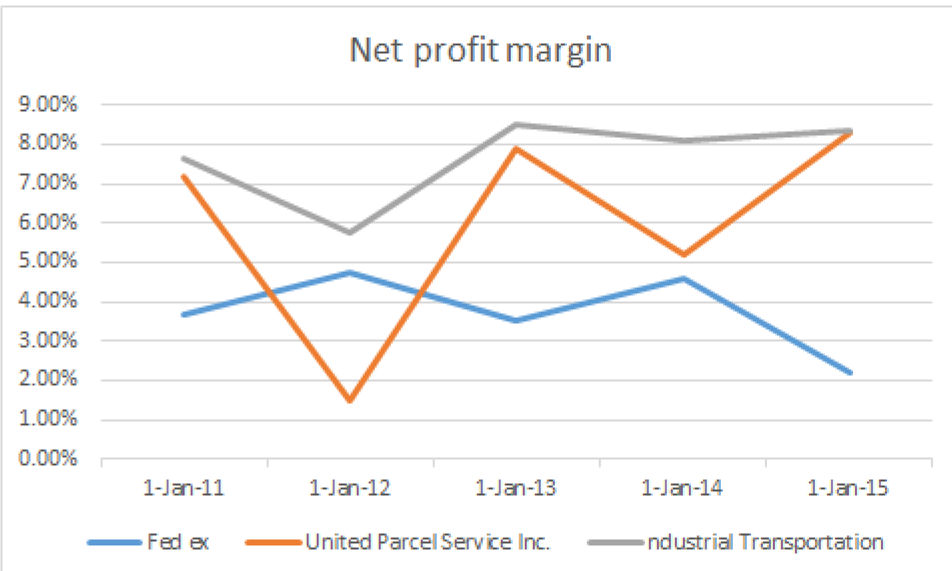
Operating profit margin	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
Fed ex	3.93%	7.56%	5.76%	7.46%	6.05%
United Parcel Service Inc.	13.14%	8.53%	12.69%	2.48%	11.45%
Industrial Transportation	13.78%	13.43%	14.00%	9.58%	12.67%



Net profit margin

Net margin is the ratio of net profits to revenues for a company or business segment - typically expressed as a percentage – that shows how much of each dollar earned by the company is translated into profits.

Net profit margin	**31-May-15**	**31-May-14**	**31-May-13**	**31-May-12**	**31-May-11**
Fed ex	2.21%	5.10%	6.10%	4.76%	3.69%
United Parcel Service Inc.	8.30%	5.21%	7.89%	1.49%	7.16%
Industrial Transportation	8.36%	8.07%	8.48%	5.76%	7.63%

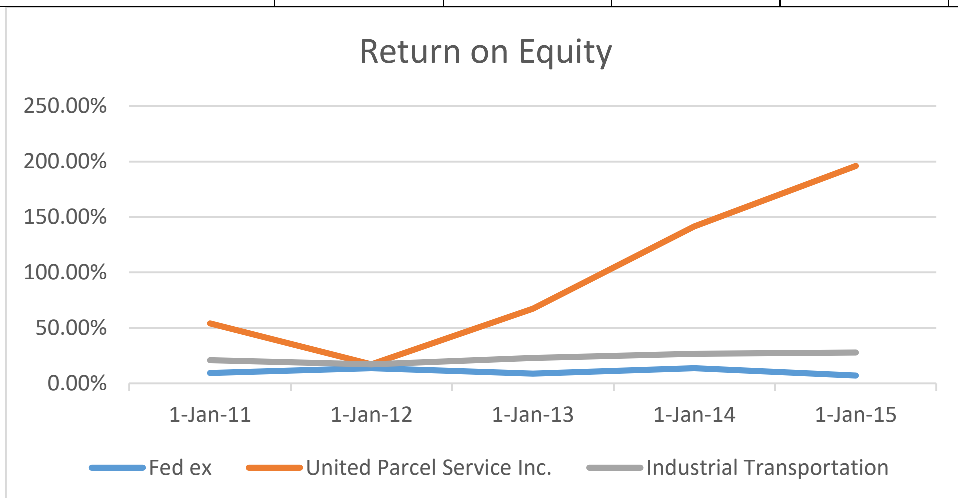


Return on Equity

Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on Equity	**31-May-15**	**31-May-14**	**31-May-13**	**31-May-12**	**31-May-11**
Fed ex	7.00%	13.73%	8.97%	13.80%	9.54%
United Parcel Service Inc.	196.11%	141.62%	67.53%	17.34%	54.07%

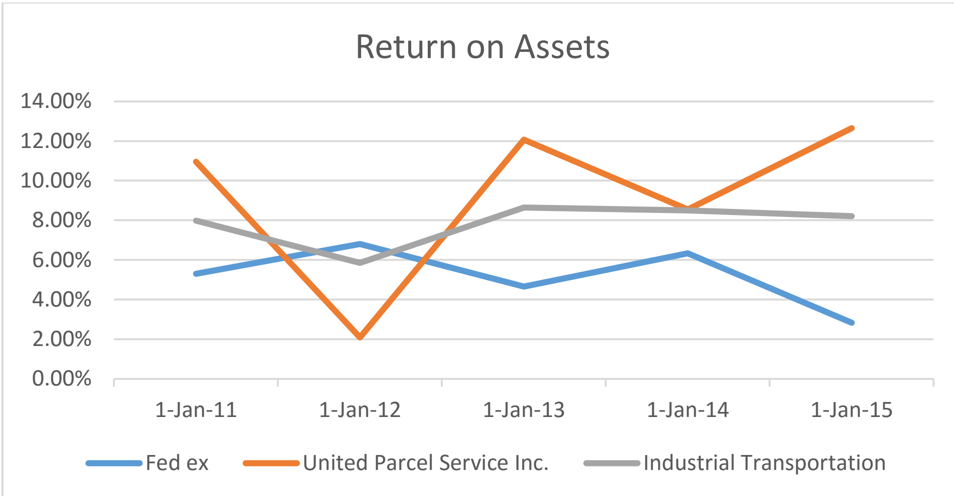
Industrial Transportation	27.95%	26.70%	22.89%	17.28%	20.93%



Return on Assets

The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period. The return on assets ratio formula is calculated by dividing net income by average total assets.

Return on Assets	**31-May-15**	**31-May-14**	**31-May-13**	**31-May-12**	**31-May-11**
Fed ex	2.83%	6.34%	4.65%	6.80%	5.30%
United Parcel Service Inc.	12.64%	8.55%	12.07%	2.08%	10.96%
Industrial Transportation	8.21%	8.50%	8.64%	5.85%	7.98%

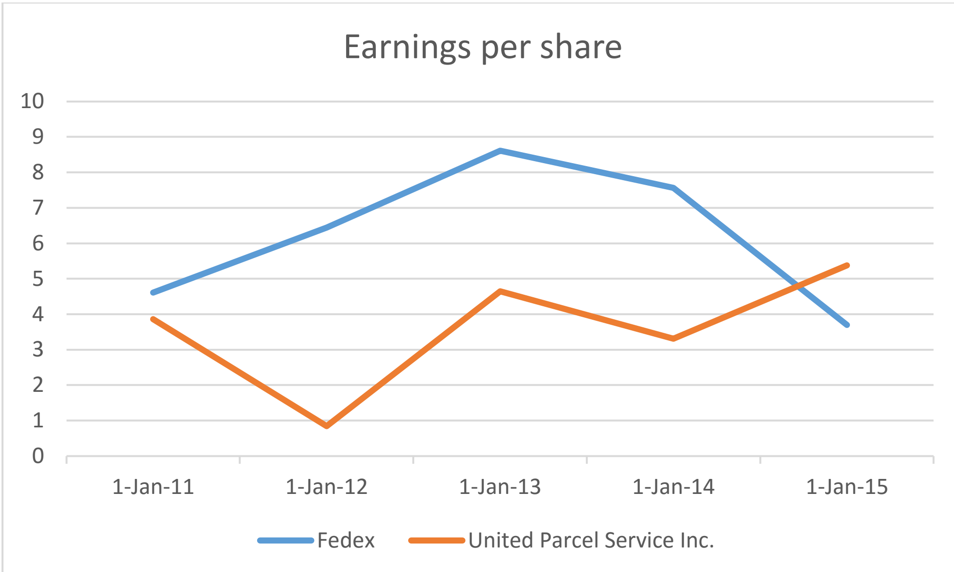


Earnings per share

Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year.

Earnings per share or basic earnings per share is calculated by subtracting preferred dividends from net income and dividing by the weighted average common shares outstanding.

EPS	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx	3.7	7.56	8.61	6.44	4.61
United Parcel Service Inc.	5.38	3.31	4.65	0.84	3.86

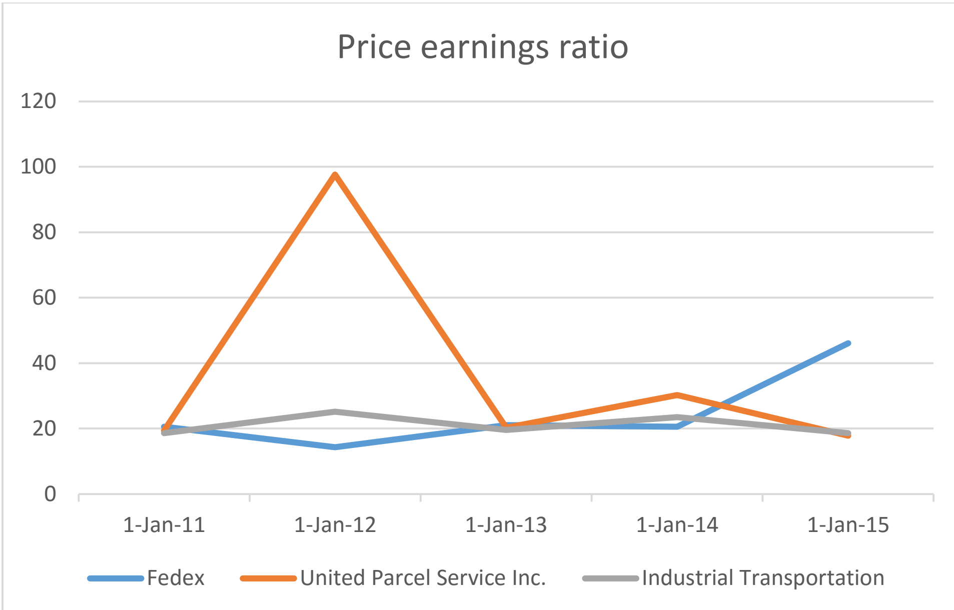


Price to earnings (P/E)

The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio can be calculated as: Market Value per Share / Earnings per Share

Price to earnings (P/E)	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx	46.06	20.56	21.03	14.32	20.54
United Parcel Service Inc.	17.84	30.28	20.22	97.65	19.35
Industrial Transportation	18.59	23.5	19.54	25.12	18.62

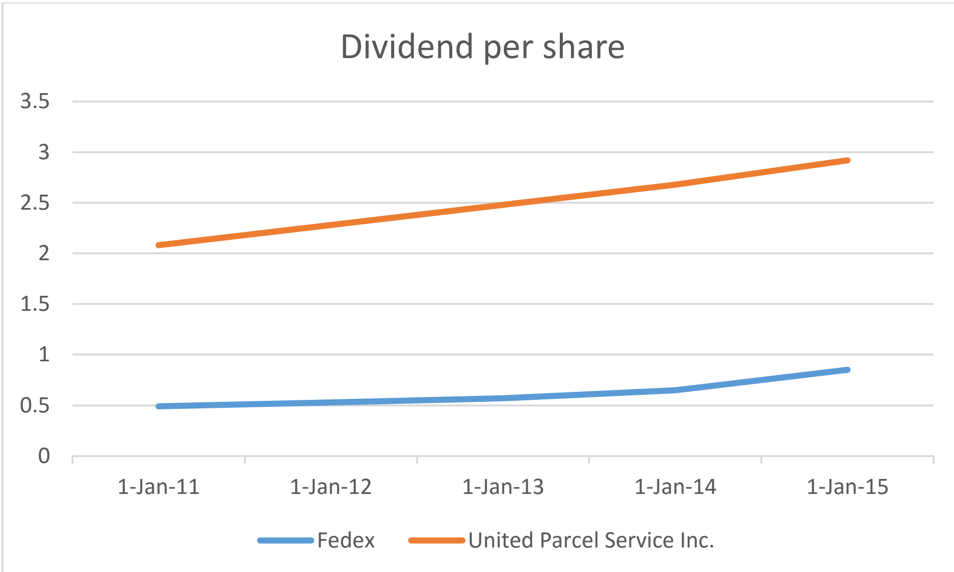
FedEx vs. ups



Dividend per share

Dividend per share (DPS) is the sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

Dividend per share	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx	0.85	0.65	0.57	0.53	0.49
United Parcel Service Inc.	2.92	2.68	2.48	2.28	2.08

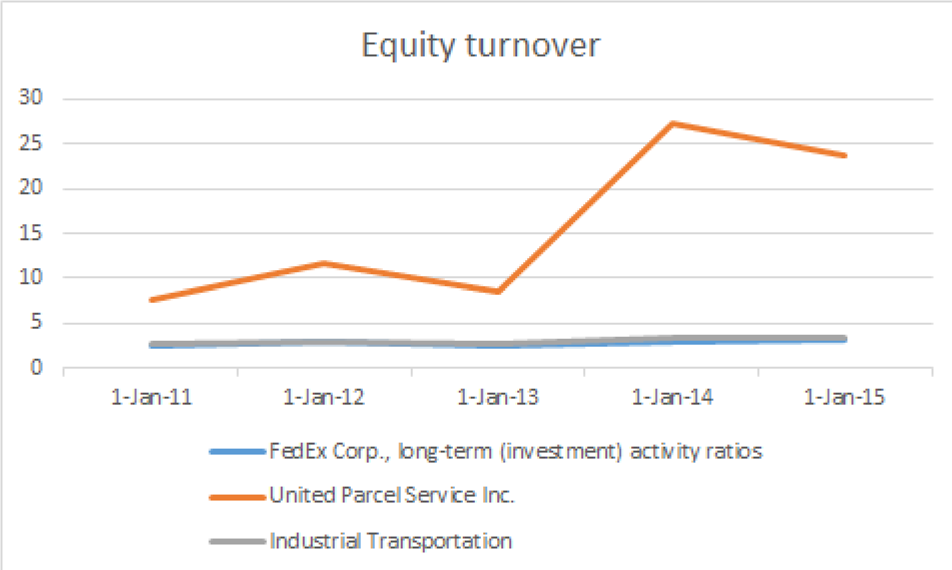


Long term ratios

Equity turnover ratio

This ratio measures a company's ability to generate sales given its investment in total equity (common shareholders and preferred stockholders).

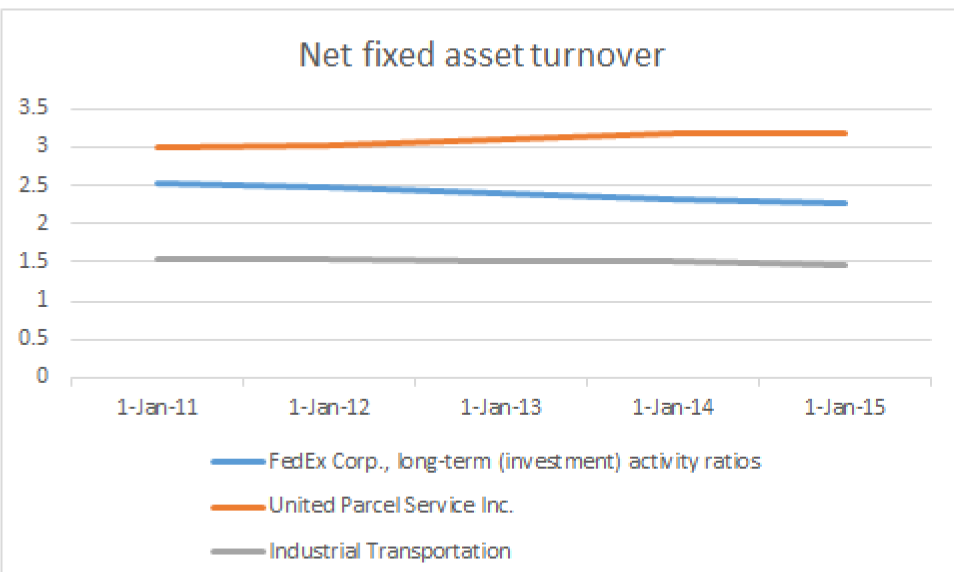
Equity turnover	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx	3.17	2.98	2.55	2.9	2.58
United Parcel Service Inc.	23.63	27.2	8.56	11.63	7.55
Industrial Transportation	3.34	3.31	2.7	3	2.74



Net fixed asset turnover

This ratio is similar to total asset turnover; the difference is that only fixed assets are taken into account.

Net fixed asset turnover	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx	2.27	2.33	2.4	2.47	2.53
United Parcel Service Inc.	3.18	3.19	3.09	3.02	3.01
Industrial Transportation	1.45	1.52	1.52	1.53	1.53

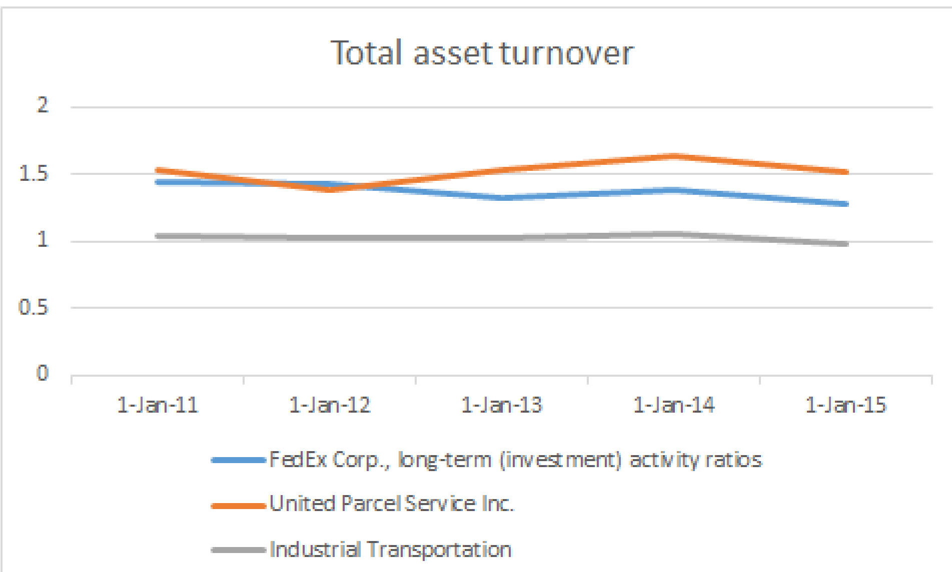


FedEx vs. ups

Total Asset Turnover

This ratio measures a company's ability to generate sales given its investment in total assets. A ratio of 3 will mean that for every dollar invested in total assets

Total asset turnover	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
FedEx	1.28	1.38	1.32	1.43	1.44
United Parcel Service Inc.	1.52	1.64	1.53	1.39	1.53
Industrial Transportation	0.98	1.05	1.02	1.02	1.04

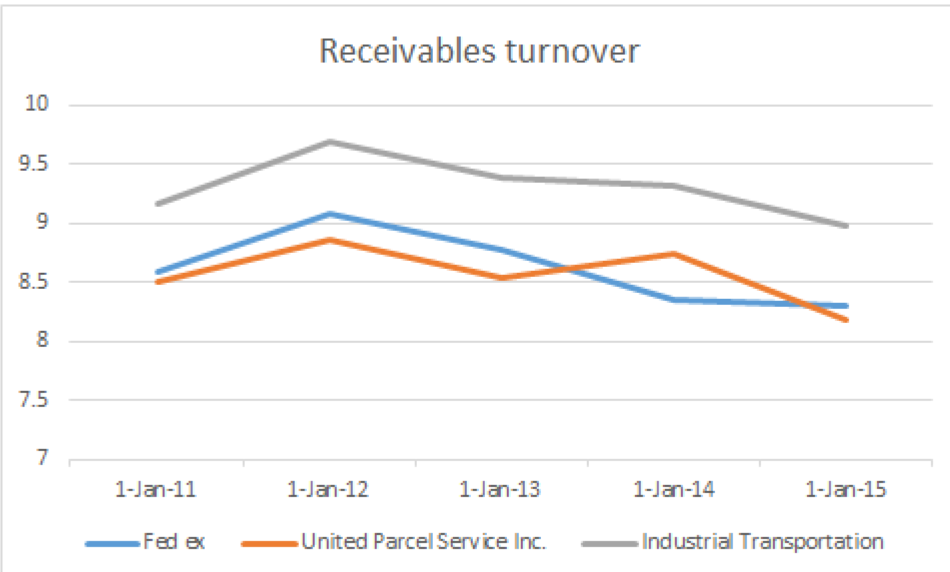


Operating ratios

Receivables turnover

An accounting measure used to quantify a firm's effectiveness in extending credit and in collecting debts on that credit. The receivables turnover ratio is an activity ratio measuring how efficiently a firm uses its assets.

Receivables turnover	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
Fed ex	8.3	8.35	8.78	9.07	8.58
United Parcel Service Inc.	8.18	8.74	8.53	8.86	8.5
Industrial Transportation	8.98	9.31	9.39	9.69	9.16



Payables turnover

The accounts payable turnover ratio is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. Accounts payable turnover ratio is calculated by taking the total purchases made from suppliers and dividing it by the average accounts payable amount during the same period.

Payables turnover	31-May-15	31-May-14	31-May-13	31-May-12	31-May-11
Fed ex	8.22	8.65	8.75	9.77	8.38
United Parcel Service Inc.	5	5.36	5.53	5.96	5.87
Industrial Transportation	6.37	6.77	6.98	7.44	6.92

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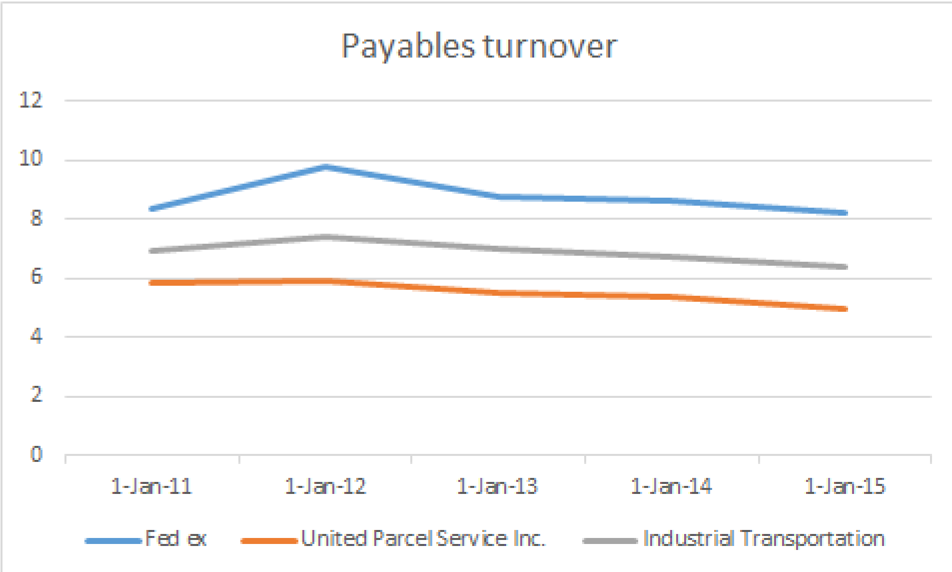

Discussing position on the value of each company

Net profit margin: UPS and FedEx are both below the sector averages. Both the companies have fluctuating net profit margins except for one year FedEx has higher profit margins but UPS is the more stabilized one as FedEx this year has 2 billion in extraordinary items in health insurance and mark to market so it is very less. Over all FedEx has fared better in this ratio.

Net Profit Margin FY 2015	
FedEx	**UPS**
2.21	8.30

Earnings per share: It is the monetary value of earnings per outstanding share of common stock for a company. It measures performance from the perspective of investors and potential investors. It shows the amount of earnings for every shareholder in the company. It is an indicator of the potential return on investments in a company. It is fluctuating for UPS with a large dip in Jan 2012. This was mainly due to change in the pension plan as perceived. The values are around 5. However for FedEx this ratio has been in the range from 4. The change in their base pricing and profit improvement measures are expected to come as remedial measures to improve the EPS in the near future. So, both are close competitors.

Earnings per share FY 2015	
FedEx	**UPS**
3.7	5.38

Price earnings ratio: It is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The lower the better. The P/E ratio for FedEx has increased by 124% over the past five years whereas the ratio of UPS has reduced by 8%. We can see that UPS has fared well in this parameter when compared to FedEx. The company with a lower ratio is considered a better as it indicates that the stock is not overvalued. So with UPS's P/E ratio around 19 and FedEx's P/E ratio bordering around 45, FedEx comes as a better choice.

Price Earnings Ratio FY 2015	
FedEx	**UPS**
46.6	17.84

Dividend Per Share: Dividend Per Share indicates how profitable a company is over a fiscal period. It also signals that company is financially stable and performing well in its current market condition. If we look at the graph it clearly indicates that the Dividend per share is always increasing compared to the previous years for both the companies FedEx and UPS.

This increase in DPS signals that the management team is confident in the company's future profits. The ratio of UPS is always higher than FedEx, making UPS the preferred choice if the investor is keen on Dividends. This increase in DPS signals that the management team is confident in

FedEx vs. UPS

Dividend Per Share FY 2015	
FedEx	**UPS**
0.85	2.92

Return on Assets: ROA is an indicator of how profitable a company is relative to its total assets. It shows how efficiently the management is using its assets to generate earnings.

Return on assets for FedEx has been declining since 2003. It was around 8.3 and has been gradually falling and now is close to 2.5. This means that the management isn't using its assets very well. While on the contrary is you see UPS, the ROA has been around 12.64.

This indicates that UPSs management is using its assets well, making UPS the clear winner in this regard.

Return on Assets FY 2015	
FedEx	**UPS**
2.83	12.64

Cash flows: FedEx is investing more heavily as a proportion of their net income to the point of exceeding their cash flow from operations to fund their acquisition. In order to make up for the cash flow shortfall, FedEx has had to reissue new debt The TNT acquisition is a key highlight in this regard . UPS on the other hand has consistent strong cash flows from operations, which it uses for dividend payments and large stock repurchase.

By comparing the cash flow statements and ratios, it is clear that both firms are growing. But UPS appears to be a more stable and established firm, with better operating cash flows which allow for - working capital, long-term asset investments and consistent equity sharing with stockholders. However, FedEx is not far behind. FedEx is a company with great growth potential and is strategically growing inorganically by expanding its roots across the world. The acquisition of TNT marked the entry into Europe. So, if an investor is looking for a strong investment choice in the long term, with great growth potential, FedEx is definitely the better option.

Position as a creditor

Debt to Equity: Debt to equity or DE ratio is an important ratio to understand the financial risk associated with a company. The lower the value of this ratio, the more stable the company is financially. We have seen that the DE ratio for UPS has worsened from 2013 to 2015. The DE value for UPS in 2015 was 5.8. Whereas for FedEx, the ratio stood at 0.48. This indicates that UPS is considered more risky than FedEx for creditors. The ratio also suggests that UPS is currently being funded more by creditors than investors.

Debt to Capital: This ratio helps creditors in identifying whether a company is financing its operations through equity or debt. We can infer that the higher the value for this ratio, the higher is its debt when to its equity. Ideally, the value of this ratio shouldn’t be either too high or low. The value of this ratio should signify that the company has financed its operations in a balanced manner. For UPS, this ratio has increased from 0.61 to 0.85, over the past five years, which is alarmingly high and is nearly 80% more than the industry average (0.48). They should seriously consider their debt positions and take steps to reduce it. Whereas for FedEx it has marginally increased for the past five years from 0.1 to 0.33 and is in line with the industry average. This shows that FedEx is in a better position than UPS in terms of financial leverage.

Interest coverage ratio: This ratio gives a creditor insight into whether a company can afford to take additional debt and make interest payments for it. Ideally, this ratio should be higher than 1 to indicate that the company is making enough money to make payments in the future for the debt taken. When we looked at FedEx and UPS, we gathered that both these companies have a positive value for this ratio. For the year 2015, UPS and FedEx had an interest coverage ratio of 23.5 and 7.92 respectively. This indicates that both the companies will be able to make payments for any additional debt.

From the creditor perspective, we not only looked at the ratios but also the business environment, while making our decision. We feel that even though the growth opportunities are equally high for both UPS and FedEx, the financial risk associated with lending money to UPS would be high as well. Therefore, we choose to pick FedEx over UPS as a creditor who wishes to lend money.

FedEx vs. UPS

Other Salient Information

- Merger of TNT Express and FedEx [3][4][5].

The merger of TNT Express and FedEx would come as a huge blow for UPS since it tried to acquire TNT Express, a Dutch company, in 2012. The deal did not proceed in 2012 because of opposition from EU regulators on the basis that a merger of the then ranked No. 3 (TNT Express) and No. 2 (UPS) would be harmful to the competition. In 2015, when FedEx presented a merger proposal to TNT Express, UPS asked the European Union court to reverse the ruling which prevented it from the Dutch company. If the deal does go through, FedEx is sure to gain market share in Europe and also boost its profits.

- Succession planning for Frederick W. Smith, founder, chairman, president, and CEO of FedEx [8].

FedEx was founded by Frederick W. Smith, who has built the entire FedEx brand and continued on as the chairman and CEO till today. It was his visionary ideas which has brought FedEx to where it stands today. Even at the age of 72, he has still not given any concrete plans about who will succeed him at the helm of the company that he has driven from inception. Any company which has been managed by a single co-founder will find it difficult to accept a new successor and his/her ideas about the way forward.

- Competition from large retailers pursuing their own distribution mechanism [10].

The rapid adoption of e-commerce over the past decade has positioned UPS for long-term growth in the transportation and logistics industry. However, large retailers are simultaneously trying to create their own distribution mechanism. In fact, companies such as Amazon and Wal-Mart are aggressively pursuing the usage of drones to cut out the service currently being offered by UPS.

Conclusion

As per our analysis and discussion, we feel that both UPS and FedEx are uniquely positioned for growth in the coming years. Some of the numbers do favor UPS, but as we learnt in class, we need to look at numbers in conjunction with business acumen. Therefore, when we think about long term investment, we feel that FedEx would be a better company to invest in.

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