A. Mickey Foster - VP
Investor Relations, FedEx Corp.

Good afternoon, and welcome to FedEx Corporation’s first quarter earnings conference call. The first quarter earnings release, stat book, and earnings presentation slides are on our website at fedex.com. This call and the accompanying slides are being streamed from our website where the replay and slides will be available for about one year. Written questions are welcome via e-mail. Our e-mail address is ir@fedex.com. When you send your question, please include your full name and contact information. Preference will be given to inquiries of a long-term strategic nature.

I want to remind all listeners that FedEx Corporation desires to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act. Certain statements in this conference call such as projections regarding future performance may be considered forward-looking statements within the meaning of the Act. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

For additional information on these factors, please refer to our press releases and filings with the SEC. Please refer to the Investor Relations portion of our website at fedex.com for a reconciliation of the non-GAAP financial measures discussed on this call to the most directly comparable GAAP measures.

Joining us on the call today are Fred Smith, Chairman; Dave Bronczek, President and Chief Operating Officer; Alan Graf, Executive Vice President and CFO; Chris Richards, Executive Vice President, General Counsel and Secretary; Rob Carter, Executive Vice President, FedEx Information Services and CIO; Don Colleran, Executive Vice President, Chief Sales Officer; Raj Subramaniam, Executive Vice President, Chief Marketing and Communications Officer; David Cunningham, President and CEO of FedEx Express; Henry Maier, President and CEO of FedEx Ground; and Mike Ducker, President and CEO of FedEx Freight.

And now, Fred Smith will share his views on the quarter.

Frederick W. Smith
Chairman & CEO, FedEx Corp.

Thank you, Mickey. Good afternoon to those on the call, and welcome. The TNT Express cyberattack and Hurricane Harvey posed significant challenges to our operations in the first quarter. I’d like to thank the FedEx team for its extraordinary support of humanitarian relief efforts and our teams’ commitment to the Purple Promise, which simply states, “I will make every FedEx experience outstanding.”

I strongly believe FedEx will emerge from the cyberattack as an even stronger, more resourceful company. And I’d like to thank the thousands of FedEx team members who worked tirelessly to remediate the TNT system’s problems and take care of our customers.

We’re confident of our prospects for long-term profitable growth, and we reaffirm our commitment to improve operating income at FedEx Express segment by $1.2 billion to $1.5 billion in fiscal 2020 versus fiscal 2017. Our overall goals remain to increase earnings, cash flows, returns, and margins.

I’d like to make two points about expected FY 2018 performance. Absent the cyber terrorist attack on TNT Express, our annual guidance likely would’ve remained unchanged. And, second, FedEx Ground operating profit is anticipated to exceed FY 2017’s. We appreciate those who e-mailed questions prior to the call, and we’ll cover as many strategic topics as possible based on this input.

Alan, Rob and Dave, respectively, will address the effects of the cyberattack in greater detail. Raj will discuss the economy, pricing, and the upcoming peak season. Alan will then come back on and conclude with prepared comments with a deeper look at the first quarter FY 2018 guidance and other financial and operating results.

Let me note that today is the last earnings call for Chris Richards, our EVP, General Counsel and Secretary, who will be retiring at month’s end. We’ll miss her untrrning work ethic and in-depth knowledge that helped make her 33 years of service to FedEx invaluable. Thank you, Chris. Mark Allen, Senior Vice President, Legal and International General Counsel at FedEx Express will succeed Chris, as previously announced.

Alan?

Alan B. Graf, Jr.
CFO & Executive Vice President, FedEx Corp.
Thanks, Fred. Good afternoon, everyone. On June 27, our TNT Express global operations was one of many global companies to be hit by a new strain of malware. Rob will cover the specifics of the attack and recovery next, but the attack resulted in a significant business interruption and financial impact. As a reminder, effective June 1, 2017, we moved to one reporting segment for our FedEx Express and TNT Express businesses, the FedEx Express segment.

We estimate the cyberattack reduced FedEx Express first quarter operating income by approximately $300 million or $0.79 per diluted share. The net impact of the cyberattack on Q1 operating income was predominantly lost revenue, much of which dropped to the bottom line due to the fixed cost nature of the TNT network. Also, we incurred incremental third party costs related to the recovery effort.

Reduced international earnings from the cyberattack also increased our effective tax rate for the quarter. Based on all these factors, we analytically determined the net impact on operating income to be approximately $300 million. Because the net impact was primarily related to revenue transactions that did not occur, the financial effects of the cyberattack are reflected in our adjusted earnings.

Because our intra-European domestic businesses recovered more quickly, the impact from lost revenues was and continues to be more heavily weighted towards our higher-yielding, international shipments, resulting in a more pronounced impact on profits. We are now focused on finalizing the restoration of certain key customer-specific specialized solutions and systems in time for the peak season.

Incremental expenses were associated with IT infrastructure enhancements, additional staffing and overtime to recover volumes, and additional provisions for service failures. These expenses were partially offset by lower purchased transportation expenses due to lower volumes.

While significant progress has been made on restoration of our operations and IT systems, TNT revenues, volumes and profits remain below pre-attack levels. As we look ahead to the remainder of FY 2018, we expect to experience ongoing, but diminishing financial impacts from the cyberattack in the form of lower revenues and higher investments to further improve and strengthen our IT infrastructure.

The expected ongoing impacts from the cyberattack are reflected in our updated guidance for FY 2018. Despite the significance of the impact of the cyberattack on our results, we reaffirm our commitment to improve operating income at the FedEx Express segment by $1.2 billion to $1.5 billion in FY 2020 compared to FY 2017.

With that, I will turn it over to Rob and rejoin later in the call to discuss our quarterly results in detail and our fiscal 2018 guidance.

Rob?

Rob B. Carter
Executive Vice President, Information Services and Chief Information Officer, FedEx Corp.

Thanks, Alan. The TNT systems were impacted by a new strain of malware that attacked a vulnerability in Microsoft Windows. Like the attack experienced by many other global companies, the attack on the TNT systems originated in Ukraine from specific tax preparation software.

This was not an ordinary cyberattack. We believe that this attack was the result of a nation-state targeting Ukraine and companies that do business there. It is widely believed that these were weaponized cyber tools that were stolen from the U.S. government. Of note, the attack was completely contained to TNT and did not impact any FedEx systems or those of our customers. In addition, all of our customers can be assured that there was no loss of customer data to third parties.

From the onset, our global IT teams have been working tirelessly to rebuild the TNT technical environment to be more resilient. As a result, the TNT security posture is much improved. Leveraging every available resource, we’ve restored the TNT systems to a near-normal state with virtually all critical systems up and available. We are now focused on the restoration of certain key customer-specific solutions and systems. We expect these IT capabilities to be restored by the end of September, enabling business-as-usual operations with full capabilities across all customer segments.

At the time of the attack, there was already work underway to replace TNT legacy systems with FedEx technology. In the wake of the attack, these efforts have been accelerated. We’ve hardened all of TNT’s servers and workstations, introduced additional network security controls, rebuilt active directory, and have started enhancing the segmentation of the TNT network.

We operate integrated transportation networks that are dependent on our global IT systems to operate efficiently. The recovery and restoration of TNT Express’ global operations and IT systems has included every facility, hub and depot. Many systems that were not
impacted by the virus were also fortified and rebuilt to ensure additional focus on security. Our diligent and purposeful approach across a global network reaching more than 200 countries has added time to the recovery.

Our business, operational and IT teams are converting adversity into advantage by revisiting our integration strategy. Integration efforts will be expedited. This will enable us to reduce dependency on TNT legacy systems and will also broaden services and capabilities through our powerful combined networks.

Based on the accelerated integration schedule, as well as the introduction of newer, more secure technology, there may be an increase in integration spending on technology. We continue to refine our integration plans and, as a result, the timing and amount of integration expenses and capital investments in any future period may change as we implement our plans.

I want to extend my deepest gratitude to the IT teams that have worked around the clock to restore the TNT systems and make them more secure in the process. I also want to thank my business partners who’ve worked side-by-side with IT teams to get the business up and running again. And, most importantly, I want to thank our customers for their trust and confidence. We are using the crisis to emerge stronger than ever.

Now, Dave will add his perspectives.

David J. Bronczek
President & COO, FedEx Corp.

Okay. Thank you, Rob, and good afternoon, everyone. Given the discussion around the impact of the cyberattack on TNT, I thought it very important to point out the underlying fundamentals of the FedEx Express business remain very strong. In particular, international export package revenue for the segment grew 4% in the quarter after absorbing the impact of the cyberattack. And we have made significant progress on the recovery of the TNT business and IT systems.

Immediately following the attack, we implemented contingency plans that leveraged our global networks to minimize the impact to customers, including transporting TNT Express packages within the FedEx Express network.

Key assets in the recovery have been the FedEx air network and the TNT European road network, which have allowed us to retain a significant portion of our TNT customer base. These networks are the cornerstones for growing our business and will be leveraged as we return our volumes to expected levels.

I’m very pleased to announce that our core shipping services are back in place with all TNT Express depots, hubs and operating facilities. These milestones would not have been possible without the exceptional teams that have been working on them. I’d like to thank all of our team members around the world for their amazing resilience, extraordinary efforts, and dedication to restoring our operations in all of our systems.

Our operational teams remained focused on serving our customers and have made a critical decision in the first 24 hours after the attack, to keep our doors open for business despite being reduced to manual processes for pickup, sort and delivery. Since then, we have returned to near-normal operations with the restoration of our pickup and delivery systems, courier handheld technology, and intra-regional air networks.

In addition, we remain focused on our base business as we executed three key initiatives during the quarter that enhanced our service capabilities. First, we launched a new 777 intercontinental flight, our around-the-world eastbound flight. Next, the 757 service new flight from Stansted, England, to Geneva, Switzerland. And probably, most importantly, we accelerated the completion of key upgrades of our Liège hub in Belgium.

From a customer perspective, our teams are executing a detailed, thorough, and customer-focused plan, targeting and restoring customer volumes to our expected levels. This plan includes leveraging our senior officer team on sales calls to instill confidence with customers so that we can fully meet their expectations.

Our service levels within Europe have been restored to pre-crisis levels. And in August, this past month of 2017, our service levels were actually above those a year ago in August of 2016. Tremendous work by the operations team.

With strong service levels and operations returning to near-normal capabilities, our focus now shifts to finalizing the restoration of certain key customer-specific solutions and their systems. We expect these IT capabilities to be restored by the end of this month, enabling business-as-usual operations with full capabilities across all customer segments just in time for peak shipping.
Our planning and execution work on the integration of FedEx Express and TNT continued in the first quarter despite the cyberattack. Country integrations continued with executions launched in key markets around the world such as the UK, China, and Poland. Recovery of the cyberattack required us to pursue solutions to stabilize the business and leverage FedEx Express’ capabilities.

These actions highlighted additional and expanded opportunities for accelerating our integration plans. Our initial plan called for the sequential integration of pickup and delivery networks followed by the integration of air and ground networks. However, we instead are running these aspects of the integration now concurrently.

Additionally, we revised our integration plan targets and their opportunities in several key areas. Expansion and acceleration of volume flows between the respective FedEx and TNT air and road networks by leveraging FedEx network pickup and delivery technology. This expansion and acceleration allows us greater ability to move volume through the lowest cost networks much faster. Next, accelerating migration of FedEx clearance operations and systems, retiring dozens and dozens of legacy TNT applications.

Accelerating the combination of FedEx and TNT sales forces, coupled with faster migration of customers to FedEx solutions, where the value proposition is aligned and rationalization of the product portfolio is sped up. And accelerating rationalization of back office systems, including much more aggressive retirement of the TNT IT systems. Certain high-cost systems and applications will not be restored.

These changes to our integration plan and the opportunities identified are not only expected to reduce risk, but also accelerate the value; in certain cases, avoid high-cost solutions to knit legacy TNT and FedEx systems together.

Our updated integration plan further confirms that integration synergies will be realized through an optimized pickup and delivery operation, the operation of one integrated global express network, improvement of the efficiency of staff functions and, of course, through revenue growth. We continue to be extremely confident in the long-term value of this acquisition for our shareholders, for our customers and, of course, for our team members.

So as a result of this crisis, we have emerged stronger. We remain laser-focused on delivering the Purple Promise to our customers. The IT environment at TNT Express is more secure. And with operational capabilities near-normal and service at pre-crisis levels, we are now positioned to meet the needs of our customers in advance of the upcoming peak shipping season.

So, in conclusion, let me take a moment to commend our team members who provided outstanding service and delivered desperately needed relief during the recent hurricanes in Texas, Florida, and the Caribbean.

FedEx has a robust contingency planning and disaster recovery capabilities. We have a philosophy of focusing on our people first, ensuring our team and their families are safe. Not only is this the right thing to do, but it allows us to resume operations and quickly assist communities and their recovery efforts.

Through preparedness and leveraging the power of our network, FedEx was able to position relief supplies and equipment in Texas and Florida to immediately support recovery operations when the storm has passed. And the vast majority of our network in Texas and Florida was back, up and operational within 24 hours of the storm’s end.

Our FedEx team flew a relief mission to Miami just this past Friday that included $11 million of relief: generators, water, medical supplies, and food. These are moments when the best of FedEx is on full display. And I commend our team members that have done a great job in Texas, Florida and the Caribbean and, in fact, all around the world over the last several weeks.

With that, I’m going to turn it over to Raj.

Rajesh Subramaniam
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

Thank you, Dave. I’d open with our economic update and outlook, discuss our revenue performance, and the business conditions in each segment, and provide some commentary on broader industry trends and enhancements to the FedEx portfolio.

As you can see on the slide, we continue to see moderate growth in the global economy. Our CY 2017 U.S. forecast is mostly unchanged and reflects solid consumer spending and a rebound in industrial activity. Internationally, recovery in capital spending is supporting higher global GDP growth and driving the best trade volume growth since 2011.
The next few slides show details of revenue, volume and yield performance by transportation segment. I’ll just cover some additional information in my remarks. Suffice it to say, we remain focused on pricing strategies that allow us to grow volumes and increase yields across the portfolio.

For our U.S. domestic Express business, yield per package excluding fuel surcharge increased 4% in the first quarter due to our continued focus on revenue quality. Our international yields now include TNT and we have restated numbers for the prior year to reflect this as well.

FedEx international export package revenue increased 4% year-over-year in Q1 despite being negatively impacted by the cyberattack at TNT. We are seeing the best year for global trade in years. Excluding fuel and exchange rate impact, yields were up slightly. The Ground volume and yields also grew as e-commerce continues to drive volume growth. Excluding fuel, yield per package increased 4% driven by commercial services.

At FedEx Freight, revenue per LTL shipment increased 5% driven by our revenue quality efforts. Excluding the impact of fuel surcharge revenue, revenue per LTL shipment was up 4%.

Yesterday, we announced our intention to increase rates by 4.9% for Express, Ground and Freight in January. We’ll also implement other changes, including dimensional weight pricing on FedEx SmartPost packages.

Now, let’s talk about peak. The FedEx team, consisting of more than 400,000 dedicated team members, are busy preparing for the peak holiday shipping season. We expect, once again, to see record volume through our global network with multiple days more than doubling our average daily volume.

In order to deliver exceptional service during this busy time, FedEx is increasing hours for some employees. And we expect more than 50,000 team members will be hired across the FedEx operating companies for peak. We’ve already begun filling positions within our Express and Ground networks, and believe we are well-positioned to successfully deliver the holidays once again.

This year, we took a surgical approach to the way we manage peak surcharges by focusing on two things: oversized packages and pricing programs for the small number of large retail and e-tail customers that drive the surge in peak deliveries. FedEx will not apply holiday season surcharges except for packages that are oversized, unauthorized or require additional handling. The pricing programs for large customers are designed to provide incremental capacity during peak, while including some protection for FedEx if they come in below volume projections.

By focusing on these two areas and applying the peak oversized package surcharge during the entire peak season, we expect to capture incremental revenue. And our approach appropriately aligns revenue with our incremental peak investments without burdening our millions of loyal small business customers with a holiday delivery residential surcharge. We are beginning a national marketing and sales campaign to ensure customers are aware of our peak pricing, and we expect profitable volume gain and brand loyalty benefits.

This season, consumers will also see a dramatic increase in access to FedEx pickup and drop-off services as a result of the significant growth in FedEx OnSite across the country, including nearly 8,000 newly added Walgreens locations. At online shopping stores, especially during the holiday season, we are pleased to work with Walgreens to offer this convenient solution to our customers and are excited to work together to reach the significant milestone by October 31. We believe we are well-positioned for another successful peak season, and look forward to helping the holidays arrive once again for our customers around the world.

Let me now turn the call over to Alan for his remarks. Alan?

Alan B. Graf, Jr.
CFO & Executive Vice President, FedEx Corp.

Thank you, Raj. Our first quarter adjusted EPS was $2.51, compared to an adjusted $2.82 last year. The $2.51 reflects the estimated negative impact of $0.79 from the TNT Express cyberattack and $0.02 from Hurricane Harvey.

Results benefited from higher base rates at each of our transportation segments. However, those benefits were more than offset by reduced revenue and increased expenses resulting from the TNT Express cyberattack, TNT Express integration expenses, higher costs at FedEx Ground, a higher tax rate, and the impact from Hurricane Harvey. Results benefited from lower incentive compensation accruals.

Last quarter, we said we would recast the FY 2017 adjusted numbers to include the TNT intangible asset amortization expense, that the prior year adjusted results would be comparable to our FY 2018 adjusted results. Therefore, the Q1 FY 2017 adjusted EPS of $2.82 now includes the TNT intangible asset amortization expense.
Express segment operating income declined due to the estimated $300 million impact of the cyberattack on TNT. Our as-reported results included $88 million of integration expenses for TNT Express. Despite the significant challenges this quarter, FedEx Express was able to improve base rates, grow international volume, and continue to manage costs.

Ground’s operating income increased 3% due to the benefit from revenue growth and lower incentive compensation accruals. Continued network expansion and staffing costs, higher purchased transportation expenses, and increased self-insurance reserves drove the margin decline for the quarter.

As Fred already mentioned, we expect FedEx Ground’s FY 2018 operating income and cash flows to exceed those of FY 2017. FedEx Ground continues to grow significantly, and there are several key considerations that we focus on to continually increase operating income as we grow. The first is customer mix. We’ve long recognized that FedEx Ground does not yet have our fair share of small and medium customers despite our industry-leading speed advantage. And we have recently accelerated our efforts to increase our small and medium customer volume.

Second is residential versus commercial mix. There are additional costs and significant operational considerations for delivering residential packages. We had a significant increase in demand from two large e-commerce customers during the first quarter.

Obviously, a shift in residential mix in any one quarter affects profitability. As you’ve seen in recent announcements, we are focused on sending pricing strategies that ensure that we are compensated appropriately for the outstanding service we provide, including generating appropriate yields for large customers with heavy residential mix.

Finally, given the traffic mix considerations I just outlined, we recognize that expenses are currently too high for the mix of customers and residential packages that we’ve experienced. And we are taking steps to reduce costs in many areas to align with current business mix and market conditions.

We are taking the steps necessary to continue to drive higher operating income and cash flows over the long-term, increase capacity appropriately, and provide outstanding industry-leading service at FedEx Ground.

We also continue to build our network of convenient drop-off and pickup locations. This provides added delivery options for our customers and creates opportunities to reduce residential delivery costs.

As Raj mentioned, one of the exciting things we are working on is significantly expanding the number of FedEx retail locations, so that customers can conveniently access our services. We have 55,000 locations in our retail convenience network, including 8,700 that offer customer package pickup and low-cost alternatives for residential deliveries.

This network includes: nearly 700 FedEx Ship Centers; close to 2,000 FedEx Office locations, some of which are located inside Wal-Mart Stores; nearly 6,000 FedEx OnSite locations where customers can drop off and pick up packages such as Walgreens, Kroger and Albertsons; 5,600 FedEx Authorized ShipCenters which are third-party pack-and-ship stores; 1,500 Office Depot/OfficeMax locations; and approximately 40,000 drop boxes.

By the end of October, FedEx will be in nearly 8,000 Walgreens locations. The entire Walgreens chain nationwide will offer FedEx pickup and drop-off services, all of which is new this calendar year and supports our e-commerce growth strategy. In fact, by peak shipping season, 80% of the U.S. population will be within nine minutes of a FedEx Hold location.

Now, turning to Freight, where results were outstanding. Freight’s operating income increased 30%, primarily due to the benefit from higher LTL revenue per shipment. Freight reported an operating margin of 10%, up an impressive 190 basis points. At Freight, we are modernizing our technology and focusing on revenue quality, which we believe will continue to provide very good results.

Now, looking finally at FedEx guidance. We project adjusted earnings to be in the $12.00 to $12.80 per diluted share range for FY 2018 before year-end mark-to-market pension accounting adjustments, TNT Express integration expenses, and certain first quarter FedEx Trade Networks legal charges, driven by continued improvement in base pricing and volume growth. Absent the cyberattack on TNT, as Fred said and I would like to iterate, annual guidance likely would have remained unchanged.

During the remainder of FY 2018, we will continue to execute our TNT integration plans. The integration process is complex as it spans over (sic) 200 countries and involves combining our pickup and delivery operations at a local level, our global and regional air and ground networks, and our extensive operations, customs clearance, sales and back office information technology system.
The integration is expected to be completed by the end of FY 2020. We expect the aggregate integration program expense, including the restructuring charges at TNT, over the four years to be approximately $800 million and expect to incur approximately $350 million of these costs during FY 2018.

We do continue to refine our integration plans, however, particularly in light of the recent cyberattack at TNT Express. As a result, the timing and amount of integration expenses and capital investments in any future period may change as we implement our plans. The expectations for FY 2018 that I’ve outlined are dependent on fuel prices, the pace of growth in the global economy, particularly in U.S. industrial production, and the recovery of lost volumes resulting from the TNT Express cyberattack.

As mentioned on the call last quarter, our Q1 tax rate was higher than Q4’s rate; and at 39.3%, it was also higher than Q1 of last year. We are expecting our FY 2018 effective tax rate to be 33% [Note: Correction from 35% as misstated on the call] to 36% on a GAAP basis, exclusive of any mark-to-market adjustments. However, there is both risk and opportunity to this effective rate range, and the rate will also vary from quarter to quarter as tax benefits and costs related to the TNT integration are recognized.

Our total capital expenditure forecast remains at $5.9 billion in FY 2018. Again, we reaffirm our commitment to improve operating income at our FedEx Express segment by $1.2 billion to $1.5 billion in FY 2020 versus FY 2017.

Now, I will turn the call over to Fred to begin the question-and-answer session. I said 200 companies instead of countries. We are in 200 countries. Thank you, Fred.

**QUESTION AND ANSWER SECTION**

**Frederick W. Smith**
*Chairman & CEO, FedEx Corp.*

Okay. We’ve got a number of questions. First one, back to Alan. Is FedEx considering taking out insurance in order to mitigate the cost potential of future attacks? That came from Matthew Troy of Wells Fargo. Alan?

**Alan B. Graf, Jr.**
*CFO & Executive Vice President, FedEx Corp.*

Matthew, for a number of years we have examined the cyber insurance market. For a long period of time, it was very thin, didn’t cover a lot of things that a company would look to cover, much more related to personal information and things of that note. However, as a result of this attack, of course, we are re-examining where the market is. We think it’s getting deeper. And we are going to go out and see if there’s something that we can develop that would add protection for our company at a reasonable price.

**Frederick W. Smith**
*Chairman & CEO, FedEx Corp.*

Next question comes from David Ross of Stifel. Did Hurricane Harvey and Hurricane Irma hurt operating performance due to airport closures? Or does clean-up relief demand end up making up for some of those headwinds? I think we covered some of that. But, Dave, you and Raj may want to comment on it.

**David J. Bronczek**
*President & COO, FedEx Corp.*

Yes. I’ll comment on it. Obviously, we’re affected like everybody else. And when the storms hit, we had to close down. We opened up right away. We had pre-staged materials for our employees and for the communities in advance of the storms. Those things we could do. Unfortunately, for example, today in Mexico City, they had an earthquake which we can’t pre-stage.

So we have very little effect in our base business, I would say. We’ve recovered very well. And service has been great; the customers have been great. I personally flew on that relief flight down to Miami and the communities down there welcomed our help and our supplies, and so did our employees.

**Frederick W. Smith**
*Chairman & CEO, FedEx Corp.*
On e-commerce, how much exposure does FedEx have by segment to traditional retail? Please walk through the various impacts, positive and negative, on FedEx when a retail supply chain closes stores or shifts more towards an omni-channel model. That's from Brian Ossenbeck of JPMorgan. Raj?

**Rajesh Subramaniam**  
*Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.*

Yeah. Brian, we do not breakout our business by industry segment. But it’s important to recognize that retail is just one of the wide range of industries that we serve. Healthcare, automotive, aerospace, financial services, construction, the list goes on and on. It’s also important to recognize that we provide our services for several retailers that are performing very well and are growing their business with FedEx. We continue to deliver millions of packages to stores, which is obviously a B2B move.

As you said, more and more retailers are evolving their business model to compete with pure-play e-tailers, and we see this as an opportunity to provide even better value for our customers. Whether it’s fulfilling from store or a DC, we have a portfolio of services that we can cater to their needs. And, furthermore, there are opportunities for retailers to provide unique value to their customers by leveraging their infrastructure in combination with the services that we provide. Thank you.

**Frederick W. Smith**  
*Chairman & CEO, FedEx Corp.*

How has the Fulfillment offering been received in a competitive market and what is the ultimate market opportunity for FedEx? Again, from Brian Ossenbeck at JPMorgan. How is the rollout of FedEx Fulfillment services progressing and what are the longer term revenue objectives for the service? Do you expect it to be material or a complementary service? That’s from David Vernon of Bernstein. So Raj and Henry.

**Rajesh Subramaniam**  
*Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.*

Yeah. Let me just kick it off. Thank you for the question. We think there is significant potential for growth for FedEx Fulfillment, especially serving small and medium customers. FedEx Fulfillment is best suited for companies who manage approximately 50 to 2,000 orders per day. And as you can imagine, this is a growing customer segment and we are very excited about the opportunities ahead.

It gives the companies an opportunity to focus on their core business while we manage warehousing, fulfillment, inventory, transportation management, reverse logistics and so on. We’ve opened a second Fulfillment facility in California earlier this month. And if customers use both our facilities in Fontana and in Indianapolis, they can reach 94% of the U.S. population in two days via FedEx Ground. Let me turn it over to Henry.

**Henry J. Maier**  
*President & CEO, FedEx Ground*

Yeah. Let me just add, we opened up the first facility in February of this year and the second in June. This is a for-profit business. It drives ancillary transportation revenue, and we’re pretty excited about the potential for the business going forward.

**Frederick W. Smith**  
*Chairman & CEO, FedEx Corp.*

How far along is the SmartPost redirect program? And what percentage is being redirected currently and expected by the end of FY 2018? Will FedEx be in position to redirect SmartPost volume to a Ground courier this peak season? If so, in what percent of the network? And can you provide any additional color on how this should impact earnings? Same two analysts. Henry?

**Henry J. Maier**  
*President & CEO, FedEx Ground*

Yeah. Thanks for the question, David and Brian. SmartPost redirect, or what we call delivery optimization, enables us to increase delivery density by matching a SmartPost package to a Home Delivery package that is going to the same or adjacent address on the same day. We make these matching decisions in real-time and we’re seeing great progress, although this capability was only launched about seven weeks ago. We anticipate this will continue through peak. And it’s very important to remember that our objective with delivery optimization is to increase density of delivery, the number of packages per stop, as well as adjacent deliveries.
Frederick W. Smith  
Chairman & CEO, FedEx Corp.

Do your agreements with ISPs specifically allow for or prohibit FedEx Ground from utilizing a form of personal vehicle drivers, to the extent such delivery options are available? Is Ground interested in developing a solution that utilizes personal vehicles similar to the solution utilized among certain companies fulfilling the home delivery component of B2C shipments? That’s from Ben Hartford of Baird. Henry?

Henry J. Maier  
President & CEO, FedEx Ground

Thanks, Ben, for the question. FedEx Ground service providers can choose the type of vehicle to deliver packages that best meets their business’ needs while complying with the appropriate regulations. It is one of the many decisions that entrepreneurs, who own these businesses, makes every day to ensure the best possible customer service while considering safety, reliability, and what makes the most economic sense for their business.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

So we’ve had several questions on the Postal Services, raising prices on competitive products, and what that means for rate expectations for calendar 2018 and what effect this might have on SmartPost. And related, the peak season surcharge, would it be fully reflected in the price structure of the larger shippers? I actually think, Raj, you answered the latter very well. Do you want to comment on USPS pricing on competitive products?

Rajesh Subramaniam  
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

Sure, Fred. Brian, while I won’t comment directly on the competitors’ pricing strategies, let me just say that we make pricing decisions based on economic conditions, market conditions, and the value of the service we provide. And we work to ensure that we receive an appropriate price for the value of our service. As regards to SmartPost, there is no significant impact based on those actions. I don’t know, Henry, if you’re going to add any more to that?

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

Would the company provide an update on automation and upgrade initiatives at FedEx Ground? That’s from Matthew Troy of Wells Fargo. And can you update us on the automation initiatives, specifically loading trucks more efficiently? And that’s from Jairam Nathan of Daiwa. Henry?

Henry J. Maier  
President & CEO, FedEx Ground

Okay. Well, thanks for the question, guys. Well, let me remind everyone that we have over 100 automated facilities in the network today and we believe FedEx Ground has one of the most automated sortation networks in the industry.

Let me begin with the load side. The load side is a little bit less mature and developed. We are, however, employing sensor technology that ensures maximum use of trailer space during the loading process, thereby improving our load factor. And this sensor technology includes tools that allow us to provide very quick feedback to our workforce about loading techniques.

On the unload side, it’s a little bit more mature and developed. We’ve had efforts underway in that space for almost two years. We’re examining two different systems that utilize the combination of robotic technology, including sensing, movement and intelligence, with bulk unloading techniques. We’re seeing some really good results in that area. Longer term, our approach will be to figure out this technology as we move forward with new building designs.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

We had a couple of questions here about the composition of our various fleets, and to some degree leading from those questions into our efforts on autonomous vehicles.
Very small percentages of the FedEx fleets are anything other than diesel. And the fuel efficiency, particularly in the light diesel areas have been very significant over the last few years. In the Express sector, for instance, the sprinter vans I think – am I not correct, Dave – have improved almost 100% over the last 10 years. So we do have some electrics in the Freight sector. We have some CNG vehicles. And, obviously, all of us are looking for these announcements of the heavier electric vehicles that have been promoted so much in the press.

In terms of autonomy, we have some significant efforts underway in evaluation of autonomous vehicles, but there are none of which we would – none of these efforts are ready for prime time and are certainly not worth talking about publicly at this point.

Jack Atkins of Stephens ask about CapEx spending for FY 2018, maintained at $5.9 billion. And specifically, have you accelerated any specific IT projects versus your prior outlook? And if so, have you deferred any capital projects from other segments of the business. Alan?

Alan B. Graf, Jr.
CFO & Executive Vice President, FedEx Corp.

Thanks for the question, Jack. We’re managing this right now. We’re just at the end of the first quarter. I still feel comfortable with that number. It may not be the way I drew the play up when we did our business plan, but I still feel pretty good with that number. I’d remind you of two things; you’re going to have an airplane move up a week or back a week and have a significant impact on that total. And, secondarily, I’m still waiting to see on tax reform what that might do, and that could have an impact on our spending as well. Thanks for the question.

Frederick W. Smith
Chairman & CEO, FedEx Corp.

We have a couple of questions on China. Where does the domestic and export Chinese market rank in priority? And what are the current or planned initiatives in the country? What’s the impact from the reports of thousands of Chinese factories forced to close as part of Beijing’s ongoing battle against pollution? That came from Helane Becker of Cowen. David Cunningham?

David L. Cunningham
President & CEO, FedEx Express

Thanks, Fred. Brian, China is the second largest economy in the world with GDP growth expected to top 6% this year. And clearly, help plays a lead role in our global growth story. It’s a huge manufacturing base, continues to be a top priority for FedEx. Our primary focus is on the international business where we are the leading B2B player.

Our commitment to growth is clear from recent investments that we’ve added capacity to that market. We launched a Shanghai-Liège flight in April. We launched the eastbound around-the-world flight that Dave talked about earlier in July. We have a new Shanghai hub that will open in November. So we continue to expect China to remain a growth market for FedEx. We also have a long-standing presence in the Chinese domestic market, primarily focused on key verticals where we have differentiated offerings versus local players.

And then, Helane, thanks for the question regarding the factories. This is just doing business in China. We do not expect a material long-term impact from these closures. Thank you.

Frederick W. Smith
Chairman & CEO, FedEx Corp.

Thank you, David. I’d remind everybody that Dave Cunningham spent, what, 21 years in Asia? 22. So you’re talking to somebody that knows the scene over there pretty well. Here’s a question about what do you see driving continued strength in international air cargo and express volumes. Raj?

Rajesh Subramaniam
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

David, thank you for the question. Manufacturing growth has been robust in the recent few months, and the inventory-to-sales ratio has been quite low. And, as I said earlier, the trade has been strongest since 2011 and there is also synchronous trade growth across the
globe. Also, the capacity addition has been in check for both cargo and passenger airlines. So we see continued strength in the market. Thank you.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

So, Raj, as a somewhat related question, what percentage of your business do the annual rate increases apply to directly? How much of your businesses, Express, Ground and Freight, is tariff business versus contract business?

Rajesh Subramaniam  
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

As a matter of policy, we do not release that information. All I can say on this is, we are committed to our pricing strategies that drive a balance between volume and yield growth. And as you can see, over the past few years, we've done that very, very successfully. Thank you.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

So here's a couple of questions for the Ground segment. Henry, one from Allison Landry of Credit Suisse. Given the strong growth in the returns business, how does GENCO fit into the equation in terms of the current contribution to the bottom line for the Ground segment? And where do you see that going in the next three to five years?

Henry J. Maier  
President & CEO, FedEx Ground

It was Allison, right? Allison Landry? Thanks, Allison, for the question.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

It was from Allison Landry of Credit Suisse.

Henry J. Maier  
President & CEO, FedEx Ground

Well, we acquired GENCO, FedEx Supply Chain, because of their return to dispositioning capabilities; and they process hundreds of millions of returns a year. Their primary business is the business of repairing or dispositioning if something comes back so that the merchant or ultimate seller of those goods doesn't have to deal with it. The benefit to FedEx is, is that we play in the transportation side of that. So we get the double whammy here. We get the ability to participate in the transportation and we get the value-add around the services that FedEx Supply Chain provides.

Raj is probably better suited to comment on the growth returns in the industry based on what we're seeing with e-commerce. But it's a significant place that we need to play going forward. Hence, the reason why we thought GENCO was such a good fit to FedEx.

Rajesh Subramaniam  
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

I'll just say that returns represents 20% to 30% of all the goods transported through e-commerce. And the fact that we have a terrific transportation portfolio and now with FedEx Supply Chain, we have an end-to-end solution for returns.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

Henry, there’s a question about higher PT expenses at Ground. Are they related to the ISP conversions or something else?

Henry J. Maier  
President & CEO, FedEx Ground
Well, purchased transportation expense is primarily driven by increased volume and higher rates. Included in that number is postage. If you think about the fact on the ground network that all of our transportation is purchased, whether it’s P&D, line haul, or what we ultimately tender to the U.S. Postal Service, it all shows up in that line and it moves pretty closely with the growth in volume.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

Okay. Here’s one from Chris Wetherbee of Citi and Ravi Shanker of Morgan Stanley. Chris asked, do you see recent moves by Amazon, in particular, its purchase of Whole Foods as indicative of a trend to drive a greater combination of e-commerce and in-store fulfillment. Is this a good thing for FedEx?

And Ravi Shanker of Morgan Stanley asks, can you please share your thoughts on Amazon’s purchase of Whole Foods, as well as Amazon’s launch of Instant Pickup points? Are e-commerce players moving towards brick-and-mortar footprints? What are the long-term implications of this for FedEx?

Well, let me comment a little bit, and then maybe have Dave and Raj speak to this. Over the last year-and-a-half, there have been increasing amounts of good analytical work, some of which have been done by the people on this telephone call, that has exploded, if you will, the arcane nature of pickup and delivery operations. And we’ve been thrilled to see that, quite frankly, because for many years now on this call, I and a number of others of my business partners here have been saying that this is a very complex business with a lot of very sort of top line thoughts about it in previous years and it’s really quite complicated.

As I pointed out, we are a transportation company that serves 220 countries around the world. I don’t know how many billion people and how many millions of businesses, but it’s substantial. And through our transportation networks, each of those businesses can be connected one to the other. So that formula is N-squared. I mean, there are literally billions and billions of potential combinations.

When it gets to the destination delivery station, then traffic of whatever nature, all of the industries that Raj mentioned or the growing e-commerce can be combined together to be locally delivered. So we are a worldwide transportation company that delivers locally, but we are not a local delivery company. And retailers are local delivery entities. And so, that’s where the misunderstanding has come.

The drivers of cost, as Alan mentioned in his comments, are the mix between very large customers and small and medium customers because the yields are higher with the latter, given the purchasing power of the former. And the second is the mix of commercial versus residential deliveries because the vast majority of houses, even with the growth of e-commerce, do not get an e-commerce delivery per day.

E-commerce has basically been made possible by the Postal Service’s mail deliverer – delivery routes and mail personnel, putting small e-commerce packages in with the mail and delivering them for very low rates. That’s challenged, as has been well reported, including some excellent work by you, Chris, by the reduction of mail due to digital disruption.

So my guess is that everybody that’s in the e-commerce business is seeking to develop greater route densities one way or another; the Walgreens OnSite locations that we just mentioned, all of the efforts that Amazon is making, UPS is making, and so forth. So I think at the end of the day, all of this is going to rationalize itself over the next few years. E-commerce is not going to eliminate the retailing sector of the country. It’s about 10% now, Raj?

Rajesh Subramaniam  
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

10%.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

It’s about 10%. It’s certainly going to grow as a percentage. But will it be half? I doubt it. And the business courier, anybody in this room, will it be 20%, 18%? Who knows. But I think you see the purchase of Amazon of Whole Foods, they want to be in the grocery business. Groceries are heavy, hard to handle, people like to come and see the produce and so forth. I’ve been in the grocery business twice, once as an independent director at Malone & Hyde, which was a big wholesale grocery business, and later for many years as a director at General Mills.
And I have to tell you, it's one of the toughest businesses in the world with very low margins and very, very good competitors. So I think there's going to be more of this. I think you're going to see e-tailers become more brick-and-mortar. And I think you're going to see brick-and-mortar become more e-tailers. And how that all shakes out, I don't know. But we believe as a management team that we have the assets in place to be able to participate in these markets extremely well and we just have to, as Alan said, make sure we keep it in balance.

I mean, we had extraordinary growth this last quarter in a couple of our e-commerce customers that really were very surprising to all of us. So same time you've got that going on, you have announcements like the Amazon-Kohl's announcement just today, I think it was, about returns. And Best Buy has Amazon products. What is the – they have their Alexa, yeah. My goodness, my grandkids love them. So they talk to Alexa all the time. So they're just laying Alexas at Best Buys for sale.

So all of this is not quite as pristine as a lot of people would like to think about it. And I think over the next few years there are lot of moving parts here. And you have to be flexible and nimble to be able to deal with the market as it evolves, because you're not going to be able to predict exactly how it's going to evolve, that I can promise you. So sorry for the long-winded answer, but it's not a question that lends itself to a simple reply.

So we've got a couple more here. Okay. Tom Wadewitz of UBS. Is TNT's customer mix skewed to lower price, less service-sensitive businesses? Do you expect to change this customer mix over time to support the stronger profitability in the combined TNT-FedEx Europe operations? Dave Bronczek's giving it to Cunningham because it's...

David J. Bronczek
President & COO, FedEx Corp.

[indiscernible] (01:00:07).

Frederick W. Smith
Chairman & CEO, FedEx Corp.

Okay.

David L. Cunningham
President & CEO, FedEx Express

We're going to continue. I mean, TNT has a very strong base in Europe. We're going to continue to leverage their road network capability in Europe, and Southeast Asia, and Australia, and the Middle East with our intercontinental capabilities. The flights that we put in, in April and July build on that capability, so 100,000 customers that ended up with improved value propositions, transit, and service. So we're going to continue to build on that capability for the future.

David J. Bronczek
President & COO, FedEx Corp.

Yeah, I was just going to add to that. I mean they have a great European road network, of course. What Alan Graf actually commented about, their international business that's significant around the world was what got affected the most, so that's the high-yielding customer. So we're working on all aspects of the TNT business and we will get it back into the FedEx fold.

Frederick W. Smith
Chairman & CEO, FedEx Corp.

Ken Hoexter of BofA Merrill Lynch. Adding DIM weight to SmartPost, the post office does not charge by DIM. Do you expect this to impact share gains or Ground packages flowing down chain to SmartPost given your DIM charges there? Raj?

Rajesh Subramaniam
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

Yeah. I'm not going to comment on the market share directly other than to say that dimensional weight pricing is a very common industry practice and it allows us to make the best use of space in our aircraft and where it goes and also encourages our customers to make packaging adjustments. Ultimately, efficient packaging increases the sustainability of operations as well. So it's a common industry practice and we are very comfortable with the changes we made.
Okay. I'm informed that this is the last one. This comes from Kevin Sterling of Seaport Global. The strength we are seeing in air freight and the international export market, is it more cyclical? Or are we seeing a structural change that you believe is more permanent? Do you believe the primary strength of the air freight market is being driven by the need for speedy supply chains to deliver products in a more timely manner. Outside of the speed-to-market are there any other factors at work?

Rajesh Subramaniam  
Executive Vice President – Chief Marketing & Communications Officer, FedEx Corp.

Thank you for the question. As I said before, this is the fastest trade growth I've seen since 2011. The trade growth is 1.4 times GDP for the first half of this calendar year and typically it's been roughly at GDP for the last few years. So what's driving it? The manufacturing, especially in the technology sector, is a key driver of this trend for this year. We expect that to be continued for the rest of the year. As to how far trade versus GDP goes forward, I can't comment on that. That's too early to say.

Frederick W. Smith  
Chairman & CEO, FedEx Corp.

Let me just close off here with something I think is very important for the people that follow FedEx to recognize, particularly in a time where there's all this very problematic geopolitical rhetoric going on. The world is becoming wealthier almost everywhere. Hundreds and hundreds of millions of people have risen out of poverty into the middle class in China, in India, in Africa, these enormous populations. And they are all equipped now with cellular telephones and access to the Internet, or the vast majority, and that more than anything else which is what put e-commerce on steroids.

So you're seeing fundamental demand at the individual level drive companies to export and international e-commerce to grow. That's why we put up Cross Border. And I think a very big part of the increase in, quote, air cargo demand is being driven by these e-commerce demands at the individual or the various country levels.

And we're very proud of the network that we've developed in India, and China, and Indonesia, and Southeast Asia; I could go on and on, Mexico. And certainly wish our Mexican teammates well where there's earthquake. So that's a big secular trend that is driving an awful lot of things. And I think that, as much as any type of cyclicality of traditional product flows in, quote, air cargo is something that's here to stay.

So on that, I think we should tie it off and give it back to Mickey here.

A. Mickey Foster - VP  
Investor Relations, FedEx Corp.

Thank you for your participation in FedEx Corporation’s first quarter earnings release conference call. Feel free to call anyone on the Investor Relations team if you have additional questions about FedEx. Thank you very much.