Good afternoon, and welcome to FedEx Corporation’s third quarter earnings conference call. The third quarter Form 10-Q earnings release and stat book are on our website at fedex.com. This call is being streamed from our website, where the replay will be available for about one year.

Joining us on the call today are members of the media. During our question-and-answer session, callers will be limited to one question in order to allow us to accommodate all those who would like to participate. 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 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; Raj Subramaniam, President and COO; Alan Graf, Executive Vice President and CFO; Mark Allen, Executive VP, General Counsel and Secretary; Rob Carter, Executive Vice President, FedEx Information Services and CIO; and Brie Carere, Executive Vice President, Chief Marketing and Communications Officer.

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

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

Thanks for participating on this call. As we announced last June, FY 2020 would be a year of challenge and change. And beginning in early January, the coronavirus entered the picture for FedEx.

FedEx addressed this issue decisively with our team members’ safety as our number one priority, and our extensive planning and execution. Let me thank and praise profusely all those at FedEx who have kept our system operating to the great benefit of our customers.

FedEx is proud to have played a significant role in supplying medical supplies, both donated and commercial, to and within China in concert with China Post and globally. We continue to work with relief organizations worldwide. With the curtailment of passenger flights across the Atlantic, we will provide the lift required to keep vital commerce moving.

As was the case in Asia, our FedEx team members in Europe and the Americas are dealing with this crisis competently and with great dedication. Again, their safety is our first consideration.

Regarding broader issues, we remain very confident and focused on these strategic issues as previously announced: improving FedEx Express margins and completing TNT integration; becoming the most successful North American package delivery company, particularly for e-commerce shipments; and completing the retirement and replacement of 159 very old and inefficient aircraft by the fourth quarter FY 2022, after which we will be able to significantly lower go-forward CapEx, while still funding profitable growth across the enterprise.

We also continue to work on several entrepreneurial initiatives such as the FedEx SameDay Bot Roxo, sensor-based shipping, and new digital services, which we think have great potential.
Let me now ask Brie, Raj and Alan to provide their comments, after which we will take your questions. Brie?

**Brie Carere**  
*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Thank you, Fred. Good afternoon, everyone. I would normally begin my remarks with our economic outlook. However, given the uncertainty in the current environment, we have temporarily withdrawn our economic forecast. Rather, I will provide an update on our commercial response to the coronavirus. Then I will discuss how we are continuing to evolve our commercial strategy to adapt to a changing marketplace and deliver innovative solutions for our customers.

The coronavirus and the efforts to contain it represent an unprecedented challenge that we are evaluating and addressing daily. As the coronavirus broke in China, we implemented a global response plan and began managing through this crisis with the strength of our global network and unparalleled logistics expertise. We are uniquely positioned to lead in both the relief and the recovery efforts. We have been on the front lines of the relief efforts prioritizing the handling of medical and humanitarian supplies for our customers and nonprofits while supporting our existing customers - we’re protecting our customers’ base volumes to the greatest extent possible, demonstrating our continued business partnership with our customers.

This is especially important to the millions of small businesses who depend on us. We will then manage incremental demand and new customers. In February, we managed to influx a shipment request to China amid limited capacity by implementing a temporary peak surcharge for US outbound freight shipments, and adjusting our transit commitments to China to maximize our capacity utilization. We’ve also dynamically adjusted spot prices to and from China.

Total air cargo capacity reduction to and from mainland China from early February to early March is estimated at 40% year-over-year. Widebody belly capacity contributed to 82% of this decline. In China, we have seen a rebound week over week since the week of March 3. With the urgent need for stock replenishment and with air capacity shortage in the market, we believe demand will stay elevated.

We continue to adjust transit times and spot prices specifically for China outbound to manage demand profitably. We continue to increase the transit differentials between our premium and our economy services to encourage the use of premium service for any time-critical shipments given the volatility in the market.

What started as a relief and recovery effort in China now unfortunately is global. The recently implemented travel ban between Europe and the US is expected to impact cargo capacity significantly since approximately 60% of the airfreight capacity between Europe and the US is on passenger flights. We’re now employing the same strategies in other parts of the world that have helped us manage demand and capacity constraints in China, including transit time extensions, dynamic spot price management, and we’ll also leverage peak surcharges for specific lanes in periods of time as they are required.

For our intra-European business, we continue to run our air and ground networks. Due to the lockdowns of some areas and enhanced border controls, we are dynamically adjusting our network, and in some lanes we’ve extended transit times. As businesses close in multiple markets, we are seeing a reduction in volume due to fewer orders and businesses simply not being open for delivery.

Now let me pull back. Prior to the coronavirus, the consumer sector had been a bright spot driving B2C growth in Europe. There was subdued B2B peak in our Q3 numbers, especially from the broader airfreight market. I am very optimistic however about our long-term prospects in Europe, especially as we make strides towards interoperability of the FedEx and TNT networks. While the freight segment of our European business has been under significant pressure, we continue to focus on growing the parcel mix in the network.
In Q3, our international European parcel volume grew year-over-year with deferred growing at a faster rate than priority. Our European sales and marketing teams are seeing opportunity, and our sales pipeline momentum remains at a high pace across all segments with continued year-over-year growth for the past nine months.

In Q3, our sales team in Europe has been successfully closing business 30% more quickly than the previous year. In the past year, we have generated more than 12,000 e-commerce opportunities, adding more than 3,400 customer wins. Nearly half of these wins are brand-new FedEx customers. More than 60% of this new e-commerce traffic is international export volume.

As part of our international growth strategy, we have launched a new digital shipping tool for small business customers across 54 countries and 7 languages. Early metrics show conversion rate from a rate quote to creating a shipment label at 3x the previous application. Almost 2 million e-commerce shoppers in 25 key European markets now utilize FedEx Delivery Manager to manage their shipments. And in FY 2020, we have also grown our convenience retail network to over 14,000 locations across Europe. Combined, these enhancements strengthen our competitiveness and position us very well for success in Europe for years to come.

Now let me pivot closer to home. When FedEx Ground began its seven-day delivery in January, our industry-leading e-commerce value proposition became even more powerful. Sunday residential delivery includes delivery to more than 188 million people, which encompasses 75% of US GDP. FedEx Ground is faster to more locations than UPS Ground. Because of our seven-day network transformation, 16% of FedEx Home Delivery package volume has been accelerated by at least one day, resulting in more than 72% of volume being delivered in two days or less.

In fact, since now we deliver to most of the US population on Saturdays and Sundays, our net speed advantage for our Home Delivery shipments increases throughout the week. Let me explain. For packages picked up on Monday, we’re approximately 20% faster than UPS. And by Friday, the packages picked up on Friday are now more than 80% faster than UPS Ground. For both our FedEx Home Delivery and our FedEx Ground commercial services, we are at least one day faster in 320 million ZIP pairs.

In FY 2020, we have, however, experienced some yield pressure due in part to the commercial ground volume softness, which we believe strongly is linked to the economy. However, our transit time superiority and seven-day service continues to create significant growth and market share improvements, while delivering exceptional value for customers, both small and large. Currently, our FedEx Ground volumes are strong. Our largest retail customers’ volumes are rising as social distancing efforts are encouraging consumers to shop from home.

Finally, turning to our Freight business. FedEx Freight and the LTL industry have experienced a reduction in volumes over the past year due to the slowing economy. Despite pressure on volume growth, the team has done an amazing job driving revenue quality. We’ve a very strong value proposition that includes a comprehensive portfolio of solutions across our enterprise and our end-to-end support for our customers.

With that, I’ll turn it over to Raj for his remarks.

Raj Subramaniam
President & Chief Operating Officer, FedEx Corp.

Thank you, Brie, and good afternoon. Our global team has been working tirelessly to mitigate the effects of the coronavirus on our business and assist in relief efforts. We are, first and foremost, focused on safety and support of more than 475,000 global team members and our customers who need our assistance.

FedEx is one of the few companies in the world that has the network and capabilities to keep commerce and aid moving during this time. We are keenly aware of this fact and the role we play, and we view it as our duty and responsibility to
continue supporting our customers and communities in a safe and effective manner. We are laser-focused on preparation, mitigation and relief response.

We have countless remarkable examples of ways we are working with customers to combat this virus on multiple fronts, both in the US and worldwide. In addition to our extensive relief efforts in China over the last few months, we are providing support within the United States, including the delivery of test kits, masks, gloves and personal protective equipment to hospitals, labs, testing centers and homes.

As part of a public-private partnership with many of our healthcare customers, we are working to rapidly deploy medical supplies to labs and clinics nationwide. For example, over the weekend, we worked with Roche Diagnostics to deliver critical product to designated testing labs across the United States. This is just one of many herculean efforts underway. Time is of the essence when it comes to getting test kits and medical supplies to healthcare providers to flatten this curve, contain the virus and save lives. And our team members are working around the clock to respond to this global pandemic.

We’re keeping their safety at the forefront of our operations and have suspended signature requirements to promote social distancing. I cannot emphasize enough how proud I am of the manner in which our people have rallied together in the face of this unprecedented situation. This is clearly who we are and what we do.

During times of uncertainty, one thing is certain, FedEx delivers upon the Purple Promise. Given the size and scale of our global network, we are also uniquely positioned to play a significant role in the recovery of manufacturing and other business sectors as the economy rebounds. Coronavirus impact in February resulted in factories being shut down in Asia and lowered volumes on FedEx networks as a result. These numbers are reflected in our third-quarter earnings.

However, while manufacturing has started to come back, belly capacity on passenger airlines continues to be severely constrained. In contrast, FedEx flew 246 flights in and out of China just last week, which is aligned with our normal flight schedule. And over the past couple of weeks, our flights have been full, and we have registered record load factors intra-Asia, especially with our hub in Guangzhou.

Now turning to the trans-Atlantic theater. As of last week, passenger capacity significantly curtailed. About 60% of the airfreight capacity between Europe and the US is on passenger flights. However, demand out of Europe is softening as well as factories and businesses close as we heard in the last 24 hours. We have set up a virtual command center to monitor demand and manage in real-time all the levers including pricing and capacity deployment. We’ll increase or decrease our capacity as required so we can provide the best service for our customers and deliver returns for our shareholders.

Now turning to TNT. We continue to make significant progress on TNT integration around the world, and are on track to deliver important milestones as we end the fiscal year. In Q4, we will complete the interoperability of the intra-European ground network. This will enable us to lower our cost to serve as the related FedEx operations continue to be optimized. We also remain fully on track for completion of the air network integration in fall 2021, which will bring to a close the physical network integration of TNT into FedEx. As I have stated before, the rationale behind the TNT acquisition remains sound.

Earlier this quarter, we announced FedEx Express will be contracting with FedEx Ground for the transport and delivery of select day-definite Express residential packages in the US. That rollout began earlier in the month in Greensboro North Carolina and we are already seeing positive results. This initiative, which we refer to as Last Mile Optimization, is one element of the ongoing comprehensive transformation of our business to meet the challenges of a rapidly changing market.

In April, we’ll expand Last Mile Optimization into Cincinnati, Phoenix, Minneapolis-Saint Paul, Newark, Salt Lake City, and we will continue to roll this out over the next 12 months. This is the first step in the evolution of our business model to reduce our cost, cost to serve by moving the right product in the right network at the right cost.
On previous calls, we’ve discussed Ground’s transformation to serve the dynamic e-commerce market including weekend residential delivery, handling SmartPost volume in the Ground network, and finding new safe, more efficient ways to deliver large packages. These network changes are being enabled by investments in new technology that’ll allow us to make dynamic decisions about the optimal routing of any package at virtually any time within the FedEx Ground network. This will increase our efficiency, drive down our cost to serve, and allow us to be more competitive and more profitable even as residential volume continues to grow.

Our investments in the technological and operational changes at FedEx Ground are significant, but they are necessary. They will improve productivity, increase delivery density, optimize the Ground network and maximize capacity utilization. And speaking of capacity, given the growth of omni-channel e-commerce distribution, we’re also investing in smaller regional sortation facilities as we push investment in Ground capacity closer to the destination address. All of this combines to shape FedEx Ground into what will be the most cost-effective transportation company serving the e-commerce market.

Before I finish, I want to be sure to talk about the exceptional results at FedEx Freight in the third quarter despite a challenging economic environment. Our team at FedEx Freight adds great value to the overall portfolio of FedEx, and they continue to maintain a laser focus on revenue quality and execution. They are making progress towards the double-digit operating margin goal even in a soft volume environment.

In summary, FedEx continues to be committed to delivering long-term profitable growth. We have successfully weathered global crises before. And in the near term, we are focused on supporting our employees, communities and customers as we work through the coronavirus situation. We continue to be excited about our prospects ahead, as we execute on our core priorities, including driving operational excellence by transforming the Ground company, improving international profitability by completing the TNT integration, and rightsizing our air network.

We’re optimistic about our efforts to evolve our business model to reduce our cost to serve with the Last Mile Optimization being the first step. With a more stable economic environment, these measures should produce strong results for the corporation.

Now, I’ll turn it over to Alan Graf to provide details on our financials. Alan?

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

Thank you very much, Raj, and good afternoon, everyone. Our third-quarter operating results declined due to a number of factors, including weak global economic conditions, including the impact of the coronavirus pandemic, higher self-insurance accruals and unfavorable variable compensation comparison, increased FedEx Ground costs from expanded service offerings, the loss of the Amazon business, a continuing mix shift to lower-yielding services, and a more competitive pricing environment.

Prior to the outbreak of the coronavirus, commercial volumes and revenues were somewhat underperforming our December expectations. The coronavirus pandemic magnified the global economic weakness. A reversal of our corporate annual incentive compensation accrual in the third quarter of last year drove a negative year-over-year comparison of approximately $115 million. The variable compensation comparison is expected to be a modest benefit in the fourth quarter.

Higher self-insurance accruals negatively impact Ground margins by approximately 180 basis points. The combination of headwinds of the expansion to six- and seven-day delivery, and the loss of the Amazon volume negatively impact Ground margins by approximately 190 basis points. These factors were partially offset by residential delivery volume growth at FedEx Ground, an approximate $100 million benefit from additional operating weekday, an 11% increase in revenue per
hundredweight at FedEx Freight, which helped drive their best third-quarter operating income ever, the shifting of Cyber Week into December, and the benefits of cost containment activities, which has lowered our year-to-date FedEx Services expenses allocated to our transportation segments through intercompany charges.

Our third-quarter effective tax rate increased to 25% versus 20.6% last year, primarily because last year’s net income included a tax benefit from the recognition of certain loss carryforwards, which was partially offset by a tax expense attributable to the enactment of a lower tax rate in the Netherlands.

We are suspending our fiscal 2020 earnings forecast for our consolidated and segment results due to the great uncertainty caused by the coronavirus pandemic. While we cannot currently predict how long the economic impact of the pandemic will last, we do remain confident in our long-term strategy and our ability to adjust to market conditions. We will continue to manage network capacity at FedEx Express by reducing international flight hours in the fourth quarter if global economic conditions deteriorate further.

However, if global airfreight demand increases as the world recovers from the COVID-19 pandemic, we have the ability to flex our network to meet the needs of customers. We expect continued revenue growth at FedEx Ground during the fourth quarter. However, we expect higher operating costs from the expansion to year-round seven-day residential delivery and weak economic conditions will negatively impact FedEx Ground results in the fourth quarter.

To further mitigate near-term headwinds and position us for future earnings growth, we are attacking costs throughout the enterprise including, continuing to retire our oldest and least-efficient aircraft, integrating TNT, and lowering our residential delivery cost by having FedEx Ground deliver FedEx SmartPost and certain FedEx Express packages.

In addition to these cost actions, our FY 2021 performance should also benefit from the lapping of the loss of the Amazon business, lapping the cost of FedEx Ground seven-day delivery expansion, one additional operating weekday, increased synergies from the TNT integration, profitable market share gains, and a rebounding demand for our services as the coronavirus pandemic subsides. We expect to finish FY 2020 with capital spending of approximately $5.9 billion.

Given the uncertainty in business conditions, we are reviewing in great detail our planned spending for FY 2021. Our capital intensity is expected to decline after FY 2022, as committed aircraft deliveries are substantially lower in FY 2023 and beyond.

To finish my remarks, I want to congratulate Mike Lenz for being named my successor. Mike has been an invaluable part of the FedEx finance organization with his leadership of our Treasury, Investor Relations and Strategic Finance teams. He is uniquely qualified to guide our company to improved financial success.

As to the outlook, although we have been performing well in March up to today, as Raj discussed, there is so much uncertainty that we cannot give guidance or comment on any question related to near-term financial performance.

And now, the operator can begin the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll hear first today from Ken Hoexter with Bank of America.

Ken Hoexter
Analyst, Bank of America Merrill Lynch

Hey, great. I don’t know if this is for Raj or Alan, I guess, I’ll just leave it a general question. But as you look forward on your canceled outlook, what worries you most here? Is it the scale of the recession? Maybe you can give some insight
into what made you cancel the outlook. Is it kind of the rates – the increase in air rate not offsetting the decline in demand and the scale of that demand decline? Maybe just give some parameters on it. Thanks.

**Rajesh Subramaniam**  
*President & Chief Operating Officer, FedEx Corp.*

Well, Ken, this is Raj. I think if you think, the last couple of weeks we have seen, as I said earlier, an increased demand from Asia. We’ve seen strong demand for FedEx Ground here in the US, and especially Home Delivery, and even the commercial volumes have been quite stable.

And what we do not know now is how this pandemic evolves and what happens to demand. For instance, we do not know how Europe demand is going to come through here as a lot of their manufacturing is starting to shut down there.

So, there’re so many unknowns at this point. And as Alan said, the first two weeks of March had been good, but there’s no way for us to project forward what the next few weeks hold for us.

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

I think as you probably heard from a lot of people out there, Ken, it’s a V shape, it’s one thing, if it’s a U shape, it’s something else completely. We are really managing this business almost on a day-to-day basis. We certainly think we know what’s going to happen the next week, but I have to tell you, every 24 hours, something new happens.

Europe had been doing well. Now, it seems that Europe and UK are starting to shut down a little bit more, and the demand is probably going to be less than I would have told you it was three weeks ago. We can’t tell you about Asia, it’s the same thing. Is this a bubble or is this going to continue? I do know that we have great plans in shape from the cost side to go either way. And that’s the best we can tell you right now, because it is just so uncertain out there.

**Operator:** We’ll move next to David Ross with Stifel.

**Dave Ross**  
*Analyst, Stifel, Nicolaus & Co., Inc.*

Yes. Good afternoon. Just a question on the transition of SmartPost, bringing it in-house to Ground. Given everything that’s going on now, are you slowing the migration away from the postal service or speeding it up? And then once it’s all within the Ground segment, what happens to the SmartPost product?

**Rajesh Subramaniam**  
*President & Chief Operating Officer, FedEx Corp.*

David, I think we are continuing the process of moving SmartPost into FedEx Ground as we have previously discussed. And this is a purely an economic decision. That’s all it was. And the reason we’re doing it is for a few reasons. One is, of course, density. Matching stops and adjacency drives significant stop efficiencies for us. And then, second is our enhanced technology. With our dynamic route optimization, it maximizes productivity opportunities in route planning. So, we have put that together and we’re continuing at pace, and we’re roughly halfway there, and we’ll continue to keep moving forward for the rest of the calendar year.

In terms of product, I’ll have Brie answer that question.
Brie Carere  
*Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.*

Yeah. It’s a great question. We continue to believe that we need two distinct products. We will have our Home Delivery product as well as what is currently the SmartPost product. It will be rebranded in the future. We will give sub-pound volume to the post office as that makes sense. But we believe we need two separate products because the slower economy product, we will flex that transit as required and we will also flex that transit for peak. We really do think there are two distinct markets that we can grow into with this portfolio.

Operator: And from JPMorgan, we’ll hear next from Brian Ossenbeck.

Brian Ossenbeck  
*Analyst, JPMorgan Securities LLC*

Yeah. Hi, good afternoon. Thanks for taking the question. Just wanted, Alan, if you could ask – if you could give a little bit more detail rather on the cost initiatives. It sounds like you’re doing some things we’ve heard of before, retiring the fleet, doing TNT, doing the Ground to Express. But what else is on the radar realizing it’s uncertain at this point? Can you commit to anything else given the outlook has been pulled, and there’s a lot of moving parts out there? Thank you.

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

Well, I do want to emphasize, Brian, that and also to the last question, as we continue to grow Ground and grow its densities, we are lowering those costs at a rapid clip. And that is a big part of what’s going to, I think, benefit Ground greatly as we look going forward. That’s not a Q4 comment. That’s just where we need to be strategically. The same thing with the amount of flight hours that we’ve taken out right now as we continue to right-size the intercontinental air network at Express. Those two are the big giant buckets.

But everywhere else with technology and productivity, we – if we can – as we continue to grow, we think that we will be taking out a lot of additional costs just from efficiencies. We’ve frozen and reduced our overhead. I have a number of scenarios, good and not so good, where we’ll know what steps to take as we go through this. And as I’ve said, this is a day-to-day and week-to-week look right now, and we’re managing as we go. And I’m confident that we’ll be successful in doing that, short of some really bad outcome that I don’t know that anybody is projecting at this point.

Operator: We’ll move next to UBS’s Tom Wadewitz.

Thomas Wadewitz  
*Analyst, UBS Investment Bank*

Yeah. Good afternoon. And I want to say congratulations, Alan, on your announced retirement. I’ve covered the company a long time, and you’ve always been the CFO. It’s been great to work with you over the years. Congratulations to Mike as well. Let’s see, I wanted to ask you on the Express B2C shipments that are going to be delivered in Ground. Maybe if you could offer some thoughts on kind of timeframe for how long it takes to roll it out. And how do we think about the magnitude of cost savings? It seems it could be large, but it also might require reengineering of the pick-up and delivery routes in Express to realize the cost savings. So, wondered if you could offer some thoughts on that? Thank you.

Rajesh Subramaniam  
*President & Chief Operating Officer, FedEx Corp.*

Hi, Tom, this is Raj. So, yes, we have started this process in March, as I said before, and the rollout is fully underway. We’ll be in the rest of the country by – in the next 12 months, and I already talked about the markets that’ll be in April. So,
it’s a fast-moving program. And it’s – as the market’s grown for B2C, there’s an opportunity to rationalize the last-mile optimization, specifically on the residential side.

At this point, we’re not going to be able to tell you the quantification of the benefits, and there’s a lot more to come here. And for good reason, I don’t want to also talk about what comes next in this regard.

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

There are – Tom, thank you for those kind remarks. I appreciate it. Mike’s going to be doing a great job. You’re all in good hands with him. Couple of things. Express is going to grow and it’s going to be delivering items that require aviation and are going long distance that are time-sensitive. So, we’ll manage that. At the same time, we’re managing the flow of the slower-moving pieces that have been in Express to Ground because they can make the delivery time. That’s just a normal evolution that we couldn’t do a couple of years ago because we didn’t have the technology to do it.

Now we have the technology to do it. And as Raj says, we’re about halfway through that. And as we continue to ramp up our technology investments, we’ve got other things on the horizon as well. So, there’s a complete program of how we’re transforming the operating networks of FedEx Corporation to what we think the future market’s going to be, which is a lot more e-commerce, hopefully, we’ll have international growth again, and that’s where we’re moving to.

**Operator:** From Goldman Sachs, we’ll hear from Jordan Alliger.

**Jordan Alliger**  
*Analyst, Goldman Sachs & Co. LLC*

Yeah. Hi. Question. You had, obviously, pretty strong growth in Ground in the quarter, and maybe with all that’s going on, it’ll continue to be pretty solid as people order from home. You also mentioned a few headwinds, notably the six- and seven-day delivery. Amazon, I guess, the self-insurance may be in there. Realizing there’s still costs ahead to roll that out, into sort of pretty load sort of – for the growth, I mean, do you expect a diminishment in the magnitude of the headwinds as we move forward into the next quarter or will they stay sticky for the near term?

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

No, I expect the headwinds to diminish. There’s a lot of things that we piled up on Ground from a strategic standpoint. We were going to wait later till Sunday, we said, no, let’s get it going. We took the Amazon traffic out for strategic reasons as you understand. On our PLPD, it’s been very frustrating. We’re working every day to improve our safety in every one of our companies. In Ground, in particular, we are rapidly expanding our use of cameras and video recorders. And where we do that, we see the severity and the frequency of accidents declined significantly.

But we have a backlog of old claims that has continued to harness a bit and we had to take another significant charge in Q3. Hopefully, that’s behind us. We’re learning how to manage this much better in today’s litigious society, and I think we will improve both the severity and the frequency, and how we handle these things, and I hope that we can put that behind us as well. I’m very excited about what I know is going to be our cost structure at Ground, particularly in the next 12 to 18 months. And we have to get to the low-cost producer, and we are committed to do so.

**Rajesh Subramaniam**  
*President & Chief Operating Officer, FedEx Corp.*

And if I can add to that, Jordan, is that the customer demand is very strong. The value proposition that Brie talked about earlier, we are now the market-leading player in e-commerce in the United States, and the demand we’re seeing from
small, medium and large is very good. And now we have a very, very diversified customer base, and we can leverage off of that.

**Operator:** We’ll move on to Scott Group with Wolfe Research.

**Scott H. Group**  
*Analyst, Wolfe Research LLC*

Hey, thanks. Afternoon, guys. So, lots of concerns in the market broadly about balance sheets, cash flow. Maybe, Alan, what are you guys doing to support the balance sheet? What’s the level of flexibility on CapEx for next year?

And then separately just on the Express side, can you just clarify did you still take out the 7% of the capacity you talked about last quarter? And any way to think about fuel in this environment? I know that’s a few questions, but thanks.

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

Yeah. That’s a little more than one. So, let me hit the big one. I mean, obviously, we’ve got all kinds of scenario planning for cash flow, right? I mean, you got to have liquidity. That’s what everybody is looking for. We’re part of the A4A Group that submitted our request via them to the government about some liquidity support.

We have a doomsday scenario where we can definitely cut as much CapEx out of 2021 as we need to. I don’t think we’re going to hit that. I think our cash flows are going to be strong, but I can’t tell you that until we get through the coronavirus. Nobody knows when that’s going to be. So, we are managing the heck out of it right now.

We have a – we just increased our revolver. We have many, many, many unencumbered beautiful new aircraft that we could use if we needed to for liquidity. So, I think as compared to my friends in the passenger business, we are in really good shape in that regard.

As to fuel, if it stays down here, it should have somewhat of a benefit. But the fuel surcharge is just one of the surcharges that we use in managing our business. So, we’ll just see how that goes.

We had committed to I think 6% to 8% of flat out reduction in Q4. I would say, today, we’re not there because we’re flying more in Asia than we had expected to, but we’re pretty close to that range.

**Operator:** Moving next to Allison Poliniak with Wells Fargo.

**Allison Ann Marie Poliniak-Cusic,**  
*Analyst, Wells Fargo Securities, LLC*

Hi, guys. Good afternoon. Just going through your comments on Asia and manufacturing, number of industrials are talking about the increasing need for speed of the supply chain. I know you were talking I think you had mentioned you’re back to capacity there. How quickly can you evolve or add incremental capacity in there to maybe supply the increased demand over the next few weeks? Any comments there?

**Rajesh Subramaniam**  
*President & Chief Operating Officer, FedEx Corp.*

Yes. That’s the value of our FedEx network. And we are able to flex up or down as needed. In this particular case as we talked about the flight hours earlier, our planned flight schedule is to be down 7.5%.
However, we are tactically deploying extra sections as we see the opportunity to move additional profitable business in this capacity-constrained environment. So, it is a – again, we are a key player in connecting the global commerce, and this fact becomes ever more evident in this current circumstances, especially out of China right now.

Operator: From Credit Suisse, we’ll hear from Allison Landry.

Allison Landry  
Analyst, Credit Suisse Securities

Good afternoon. Thanks for taking my question. So, just considering the prospect for a global or US recession or a severe downturn, how should we think about the decremental margins at Express relative to what you saw in the second half of fiscal 2009?

And specifically, could you frame the structural changes you’ve made in the business during the PIP and even in more recent years that maybe could result in some downside protection relative to historical decrementals? Thank you.

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

I’ve been through a few of these in my 40-year career at FedEx, and I think we’ve always rebounded very well from them, we always managed them very well. Obviously, you’re talking about one of our scenarios. It’s way down on the realm of likelihood and possibility as of today, but we still have to have it. So, it’s all the normal levers that you would imagine it would be. But as one of – probably from my point of view, a company that’s best positioned to continue to keep global supply chains up as we fight this virus and then rebound from it, I think we’re in great shape in that regard. So, it just depends on how long it lasts and how much demand there is, but there’s going to be demand. People are going to be needing medical supplies, people are going to be needing to eat, people that can run businesses are going to run businesses, and they’re going to rely on us to help them with their supply chains. And we’re confident in that.

Operator: We’ll move next to Brandon Oglenski with Barclays.

Brandon R. Oglenski  
Analyst, Barclays Capital, Inc.

Hey, good afternoon, everyone, and thank you for taking my question. So, I guess, I just want to ask the strategic rationale behind bringing SmartPost in-house. We get it, you’re trying to drive delivery density obviously to residential stops. But at the same time from a purely analytical perspective, isn’t this potentially diluting the revenue base with a $5 product effectively now being served by an $8 network? Or is that overly simplifying the issue?

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

Well, I’ll talk about the cost part, and I’ll turn it over to Brie to talk about the dilution part. Every time we have a match or a near match of a SmartPost package in our Ground network, our costs are significantly below the postage for SmartPost. So, it’s just math. And the more of those we get out there, the more productive then our independent service providers can be with everything else that they’re delivering. So, it has a wonderful effect on the productivity and the cost per package across the entire network, and it’s working extremely well.

I’ll let Brie talk about the marketing part.
Sure. As I mentioned before, there’s a couple of different nuances from a features of service perspective, but they are important. The first from a Home Delivery perspective is a guaranteed product. The SmartPost product is not a guaranteed product. So, if you need that peace of mind, you’re going to pay for it, and we continue. As I mentioned earlier, we have studied this with a lot of rigor and a lot of in-depth analysis. There are two distinct markets there.

In addition to that, we have a variety of different features of service on the Home Delivery product. There are different features of service from a consumer perspective, we call them consumer delivery options that are available on the Home Delivery product that are not available on the economy product. And as I mentioned earlier, we do believe that a portion of the product, the sub-pound will continue to be delivered by the post office. We’ve studied this, we think this is the right portfolio, and we’re very confident in that decision.

Operator: Moving on to Jack Atkins with Stephens.

Jack Atkins
Analyst, Stephens, Inc.

Hey, good afternoon. Thank you for taking my question. Can you talk about what you’re seeing in terms of business trends among your core B2B customers? It certainly sounds like B2C traffic has been strong over the last couple of weeks. But what’s happening with that core B2B base? Have you seen a change there over the last two to three weeks given the coronavirus impact? And as you think about your leverage to small- and mid-sized businesses, how do you think those particular customers are going to trend as we look out over the next few weeks?

Brie Carere
Chief Marketing and Communications Officer & Executive Vice President, FedEx Corp.

Yeah. It’s a great question. Let me talk about our B2B base because it does vary around the world. Here in the United States, as Raj mentioned from a commercial business, we see that currently to date, it is quite stable. From an Asia perspective, we’re actually quite optimistic. From a stock replenishment perspective, we have seen throughout the month of March really day-over-day, week-over-week improvements from a volume and the vast majority of what we have coming out of Asia, the vast majority actually is commercial traffic.

What we talked about this morning actually when we looked at the Chinese recovery, what we have seen is 90% to 95% of large manufacturers in China are now back to work in some capacity. Closer to 65% to 70% of small businesses in mainland China are coming back to work from a manufacturing perspective. So, we believe output is in around 65% to 75%, and we are seeing that rebound.

So, from an Asia perspective, we feel really good large customer leading, small customer coming back from a China perspective. Europe, right now, we can’t predict because it has had the most change I would say in the 24 to 48 hours. You’ve all seen the media. We do anticipate by the end of the week to be incremental manufacturing closures in Europe. So, we are anticipating more softness there in Europe. But the US is strong and Asia is in really good shape as we speak today.

Operator: And from Cowen, we’ll hear next from Helane Becker.

Helane Becker
Analyst, Cowen & Co. LLC

Thanks very much, operator. Alan, I can’t believe it. An end of an era for you and for me, it’s very sad, but congratulations and best wishes on your retirement. My question is really for Fred. There was a lot of change in the world in 2019 that
affected you guys with the trade wars and so on. Could you just talk about how you think this whole coronavirus will change the way the world does business, if at all? Thank you.

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

Well, Helane, it is indeed an end of an era. I've tried to talk Alan out of it. I told him we were just getting started here, but I think he's got his priorities right, with Susan and his family. But he's still the CFO till September 21 at midnight. And I'll have a lot more to say about Alan on the next couple of calls. So, Helane, I think one of the things that we've been in the midst of, and it's been a bit of a disappointment to the SMC and me, in particular, that we haven't gotten across to people how fundamentally changed the world was before the coronavirus.

I mean, we were the first people in the fall of 2018, in fact, it was on one of these analyst calls that basically we said, Europe is essentially moving into a business recession. Because when the trade war began in March of 2018, when the President famously said trade wars are good and easy to win, people missed the point that the – it wasn’t just China that was in the sights, it was Europe, and it was a ricochet bullet that hit Germany.

So, by the fall of 2018, we began to see that. And if you look at the PMIs from that point forward really until the last couple of months of 2019, they look like a ski slope and then they flattened out. So, we’ve done a wonderful job, I think, of trying to deal with that. We were hopeful there was going to be a China deal on the trade side in the spring of 2019. And in fact, we were told that was the case. It didn't happen. And we would probably done some different things had we not been a bit more optimistic than back.

So fundamentally, the major change that's gone on and FedEx had been talking about it for a long time is the reduction in world trade and the rising of protectionism and mercantilism, and a lot of tariff and non-tariff barriers. So, you add the coronavirus on top of that and world GDP growth this year is going to be extremely small. And I know we've suspended our economic outlook.

So, I think that’s – number one is you’re going to see probably less international trade because of those political trends. Maybe it will turn around, but there’s nothing that seems to be a catalyst at the moment that says that.

Second, I suspect this will be somewhat more short-term than long-term, because people forget that there was a tremendous flu epidemic, I think it was in 2009, and a lot of people thought that things would change permanently as a result of that. They didn’t.

Now, the coronavirus may be a little bit different, because it’s so virulent, obviously, in terms of the contagion. It doesn’t seem to be as dangerous to most people, but the lethality for older people with underlying diseases is quite stark. So, if I had to speculate, that’s all it would be. Having said on the IATA, and what’s now the A4A boards and so forth, at least in the near-term, you're going to have a lot more use of video conferencing and very prudent steps to minimize a lot of business travel. I think that’s going to be one of them.

And third, we’re already in the midst of this e-commerce revolution, and we've leaned into it, as we’ve said, particularly as we went into this fiscal year. I don’t think that that’s going to stop. And I think the major retailers are very heavily focused on that, and people misunderstand the e-commerce market is not just one monolithic market. There's sort of the Tier 1 set of inventory, Tier 2 and Tier 3. Tier 1 are the things we use every day, paper towels and consumables in one thing. And I believe, I'm correct that Amazon announced today or recently that they were going to restrict a lot of the non-essential products.

So, you see the big retailers and our big customers moving to be very effective competitors into this Tier 1. And again to Raj and Alan’s point, again, we are very confident we are the low-cost producer. We didn’t in-source SmartPost because we felt it was a good idea. We did it because the basic math said that we should. And with this Tier 1, short-haul
e-commerce, we think we can be the low-cost producer and the market leader there. And in fact, we don’t think it, we know it. And so, we’ve leaned into it painfully, but we said that at the first of the year that this would be a year of challenge and change. And as I said, now you have the coronavirus on top of it.

So, those are the three things I think are going to change. Probably slower global GDP growth and international trade, we think we can take significant market share there, but we have to be very disciplined. And number two, I think you will have some changes in business travel, maybe all travel, but certainly business travel. And then third, I think the e-commerce revolution will continue and we plan to be a big part of that.

Operator: Moving next to Citi’s Chris Wetherbee.

Christian Wetherbee
Analyst, Citigroup Global Markets, Inc.

Hey, thanks. Good afternoon. Wanted to come back to Ground for a moment and maybe try to better understand what we think the cadence of sort of improvement in the margins might be. I understand it’s very difficult to provide guidance in the circumstances we’re at now. But just given the progression that we’ve seen so far pre-virus, it would seem like there has been a little bit of a stagnation of the ability to kind of move that margin back up. You called out 370 basis points of specific impacts, which kind of gets us closer to flattish from an EBIT perspective despite significant revenue growth. So, maybe it’s SmartPost and maybe it’s just a matter of time before that builds density and drives some better incremental margins. But if you could just give us a sense of what that trajectory might look like? What needs to happen to get those margins to start moving back, just given how robust the top line is right now?

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

Well, I don’t know how to tell it any better than I have so far, Chris. I can’t really give it to you about Q4. I can tell you that as I said, we got out there with Saturday and Sunday, because we made the strategic move to get out there and do it. I think that will pay off in a big way, and we start to lap that next fiscal year. We are halfway through with our technology implementations on our route optimizations and our scheduling. We’re growing the densities as we grow the business. Every one of those things is driving down cost per package. We did get out with some of the Tier-1 closed zone pricing anticipating that we would over time get our costs down there, so those would be more profitable. And so, yes, that’s part of it as part of the strategy.

But as I said it before, I mean I know where the costs are heading. I know what we’re doing to get closer to customers on both sides of the equation where the traffic has an origin or where it has a destination. We’re doing a great job with that. We talked about the regional sort facilities that we’re putting up. So, there’s so many things underway and more to come. And again, we’re completely transforming ground. We’re not having the yields overall on a total standpoint, because we don’t have the B2B traffic we thought we would have. But we’re managing through that, and we’ll get back on pace on that as well.

Rajesh Subramaniam
President & Chief Operating Officer, FedEx Corp.

And just one thing to add here. And the good news here is the customers are – they are taking in the service and we’re taking share, especially in the e-commerce space. And I think when you put the two factors together, it results in a positive outcome for Ground.

Operator: We’ll move next to Ben Hartford with Baird.
Hey, good afternoon. And Alan, congrats on your retirement. Raj, just some further perspective on airfreight and load factors, and how it’s most likely to play out given presumptive B2B business headwinds in Europe and the US to come, but specifically Europe. How long do you think this demand and supply in equilibrium needs the high load factors to persist out of Asia? How long do you think that will be until we start to see the market respond with more freighter and perhaps some empty belly space capacity come back online with some risk economically in some of the more developed markets? I mean, any way to kind of describe as you see it right now, how long we should be riding this very, very robust load factor that you’re experiencing in Asia at the moment?

Rajesh Subramaniam  
President & Chief Operating Officer, FedEx Corp.

I’m not sure how best to answer the question other than to kind of go through what we just went through. The demand we are seeing out of Asia right now is quite robust, and if you look at the intra-Asia load factors that are a record which is also very interesting, Asia to Europe and Asia to US. And the manufacturing is – I mean, the capacity is coming back online, and the capacity of airfreight is down. So net-net, we are seeing the demand and we should see that go forward.

As far as Europe is concerned, very, very early to tell. We’re dealing with information that’s literally 24 hours old, and trying to project that out is impossible. Now, one thing that I know though is that 60% of the trans-Atlantic traffic went on belly capacity. And as that capacity comes down, the capacity is going to be severely constrained, that much I can tell you. As far as the demand, we have to wait and see, and it’s too far or too early for me to say anything about that right now.

Operator: We’ll hear now from Bascome Majors with Susquehanna.

Bascome Majors  
Analyst, Susquehanna Financial Group LLLP

Yes. Thanks for taking my question. Could you update us on how far along you are with your Ground delivery partners negotiated and the contracts that are going to enable the SmartPost and Express last-mile integration? And any thoughts in areas where you’ve already got that structure in place? Have you seen the volume and density economics change favorably as you had expected? Thanks.

Rajesh Subramaniam  
President & Chief Operating Officer, FedEx Corp.

So, nearly half of the SmartPost volume currently is delivered by Ground service provider business, and we expect to be virtually complete by the end of calendar year 2020. And there were some of the exceptions that Brie talked about earlier.

As to the contractual relationship with our independent service providers, these are great partners. They run very efficient businesses. They love the additional volume that they’re getting. We work with them on a continuous basis to make sure that we’re giving them everything they can. We’re helping them with their scheduling, helping them build their density, so they can make their businesses more profitable. So, it’s a great relationship.

Operator: And at this time, I’d like to turn things over to Mickey Foster for any closing remarks.
A. Mickey Foster  
*Vice President, Investor Relations, FedEx Corp.*

Thank you for your participation in FedEx Corporation’s third quarter earnings conference call. Feel free to call anyone on the Investor Relations team if you have any additional questions on FedEx. Thank you. Bye.