

FedEx Routes

Thinking of Entering
into the World of FedEx
Contracting?



DISCLAIMER: MyGround® is a registered trademark of MyGround Support, LLC. MyGround Support, LLC is not endorsed by, sponsored by, is not associated with, and has no connection with Federal Express Corp and FedEx Ground.

MyGround Support LLC does not warrant or guarantee the accuracy, reliability or completeness of any of the content and information in this document in any form. The recipient may not rely on the information as a basis for making any decision to buy, or otherwise acquire an asset and/or business. **THIS CONTENT MAY NOT BE REPRODUCED OR RESOLD FOR ANY REASON.**

About MyGround® Support

MyGround® Support specializes in providing services to current and aspiring FedEx Ground Contractors.

Since 2014, MyGround Support has been **recognized as the most experienced, unbiased, and "top shelf" consultant in the industry** from client surveys.

MyGround Support's Staff Includes Consultants with:

- Bachelors Degree in Finance and MBA from top tier schools
- 20+ Years of consulting experience with top tier clients including Verizon, Sprint, US Postal Service, TSA as well as small clients
- Licensed Broker and Owner of Real Estate firm
- 20+ Years as CDL
- Fleet management experience
- Direct experience in contracting with FedEx Ground
- Court Recognized Subject Matter Expert in numerous FedEx Route matters

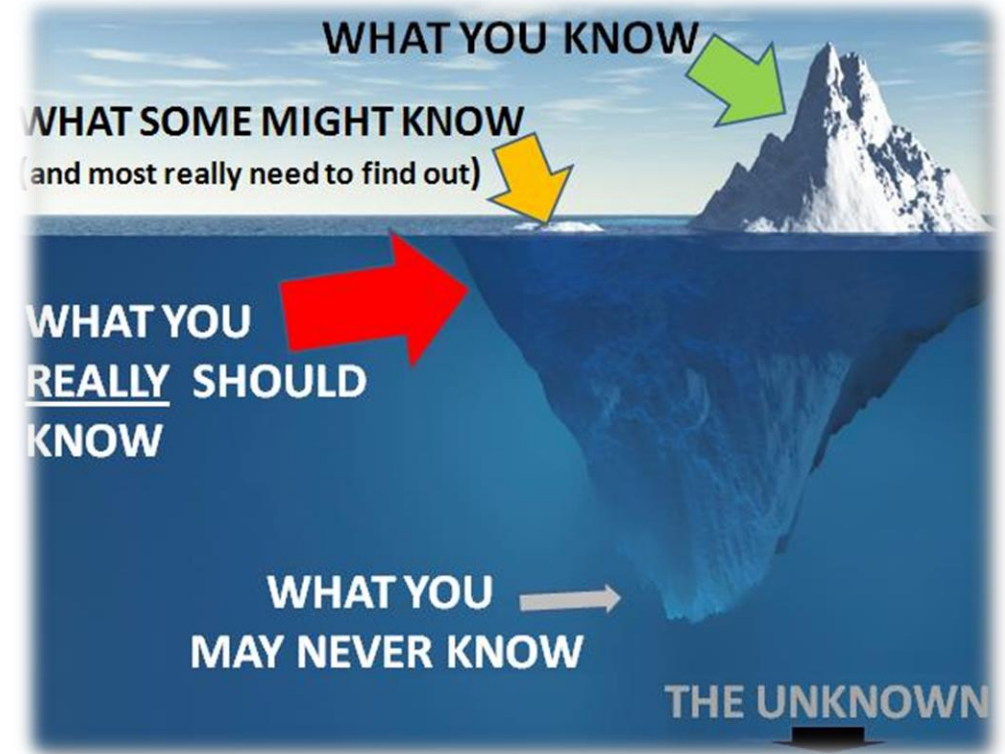


Our principles and values include:

- **Be Impartial & Unbiased:** We don't "sell" great or bad things about FedEx routes and linehaul to you. Sometimes FedEx Routes are a good opportunity, other times they aren't. We provide unbiased information (positive and negative) you can use in your decision process.
- **Use Sound Data & True Valuation Methods:** Income Based Discounted Cash Flow (DCF) is used for valuation, a recognized Business Valuation Approach by the National Association of Certified Valuators and Analysts® and American Institute of Certified Public Accountants. Industry data such as Price Digests® for fair market value of vehicles.
- **Focus on What Counts:** We focus on true financial metrics including Discounted Cash Flow (DCF) Valuation and Capital Impacts (CAPEX) along with our extensive non-financial knowledge of FedEx Routes/Linehaul.

Topics

- I. How do I enter the world of FedEx Ground contracting?
- II. Basics of FedEx Ground Agreements
 - P&D - Independent Service Provider Agreement (ISPA)
 - Linehaul - Transportation Service Provider Agreement (TSPA)
- III. Financials and Financial Returns
- IV. Am I a good fit for FedEx Routes?
- V. Financing in the industry
- VI. What to watch for if choosing to buy FedEx Routes
- VII. Myths and Fallacies of Industry
- VIII. How MyGround® Support can help you



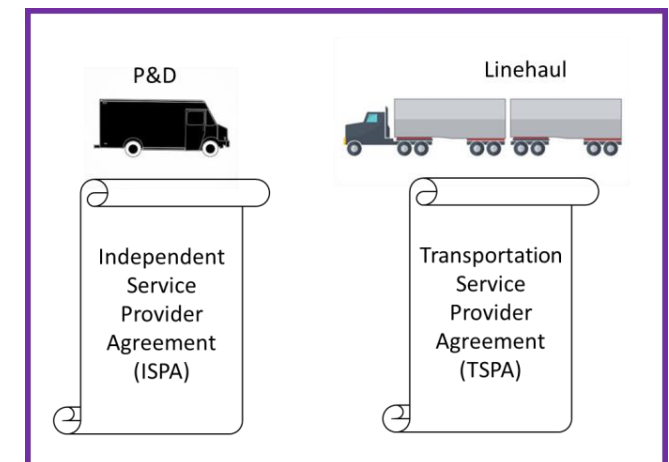
FedEx Ground Contracting



- Contracting with “Ground” Segment of the FedEx Corporation
- NOT a Franchise – Operating Agreements with FedEx Ground (Leased Transportation that operates under FedEx Ground’s Motor Carrier Authority)
- Approximately 5,600 Contracted Entities (US & Canada)
 - Approximately 12,500 Linehaul Tractors
 - Approximately 54,500 P&D Vehicles
- Operate out of approximately 600 Hubs & Stations/Terminals (US & Canada)
- Contractor is responsible for ALL operating costs
 - No Fuel or Expense Reimbursement
 - All Employees must be W2 employees on the contractor

*The Term “Route”
Doesn’t Exist at FedEx !*

- **P&D** – Pick-up and Delivery of FedEx Ground packages to businesses and residences in a defined Contracted Service Area (CSA)
- **Linehaul** – Transporting FedEx Ground owned trailers (“doubles” and 53 ft trailers) between FedEx Ground facilities and sometimes customer sites



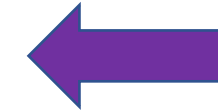
I: How do I enter the world of FedEx Ground contracting?



How to Get a P&D Service Area or Linehaul Run(s)

OPTION 1: Get for “free” from FedEx Ground

- FedEx Ground Public site www.buildagroundbiz.com
- Dozens of opportunities posted each week. Sometimes 30+ opportunities a day. Sometimes over a thousand a year
- RFI Response submitted to FedEx Ground, interview if selected,



Option 1 is top way most become FedEx Ground contractors by a factor of 8.5 to 1 or higher compared to Option 2

****OR****

OPTION 2: Buy from existing FedEx Ground Contractor

- **UNREGULATED INDUSTRY**
- Typically Asset Sales, some Stock Sales
- All transfer and assignments of Agreements, regardless of sale type subject to approval by FedEx Ground
- Can be assignment of the Agreement, or a “Carve Out”
- P&D “Carve Outs” are not recommended for buyers in any way – In a “Carve Out” you are buying on speculation, Agreement is not assigned

OPTION 1: Get for “free” from FedEx Ground

Find Contracting Opportunities

Open opportunities are generally published here for 7 days from the posting date. Create customized alerts on your [Account Profile](#) page to be notified when new opportunities are available. Don't have an account? [Create an account](#) today!

Showing 1 to 15 of 28 Result(s) Found

Station Fredericksburg

P&D - Contracted Service Areas

Fredericksburg, VA

Available Opportunities: 2

Opportunity Number: ISP-22-02-25-0224-001

Posted: 2/25/2022

Expires: 3/4/2022

Station Yonkers

P&D - Contracted Service Area

Yonkers, NY

Available Opportunities: 1

Opportunity Number: ISP-22-02-25-0107-001

Posted: 2/25/2022

Expires: 3/4/2022

Station Pontiac

P&D - Contracted Service Area

Lake Orion, MI

Available Opportunities: 1

Opportunity Number: ISP-22-02-24-0480-001

Posted: 2/24/2022

Expires: 3/3/2022

Station St-Johns

P&D - Undefined Service Area

Mount Pearl, NL

Available Opportunities: 1

Opportunity Number: PD-22-02-23-6011-001

Posted: 2/23/2022

Expires: 3/2/2022

Search

Opportunity Type

All

Country

All

State/Province

All

START SEARCH

Late February 2022 [buildagroundbiz](#) Example on one day:

- P&D Contracted Service Areas
- Assigned Linehaul Runs
- Unassigned Linehaul Runs

Hub Olive Branch

Linehaul - Unassigned PM Single Runs

Olive Branch, MS

Available Opportunities: 3

Opportunity Number: LH-22-02-23-0389-001

Posted: 2/23/2022

Expires: 3/2/2022

Station Greenville

Linehaul - Assigned PM Single Runs

Greenville, SC

Available Opportunities: 2

Opportunity Number: LH-22-02-23-0296-001

Posted: 2/23/2022

Expires: 3/2/2022

Station Newport News

Linehaul - Assigned PM Single Runs

Hampton, VA

Available Opportunities: 2

Opportunity Number: LH-22-02-23-0236-001

Posted: 2/23/2022

Expires: 3/2/2022

Station Fort Myers

Linehaul - Unassigned AM Single Runs

Fort Myers, FL

Available Opportunities: 1

Opportunity Number: LH-22-02-23-0339-002

Posted: 2/23/2022

Expires: 3/2/2022

Station Braselton

P&D - Contracted Service Area

Braselton, GA

Available Opportunities: 1

Opportunity Number: ISP-22-02-23-0310-001

Posted: 2/23/2022

Expires: 3/2/2022

OPTION 1: Get for “free” from FedEx Ground

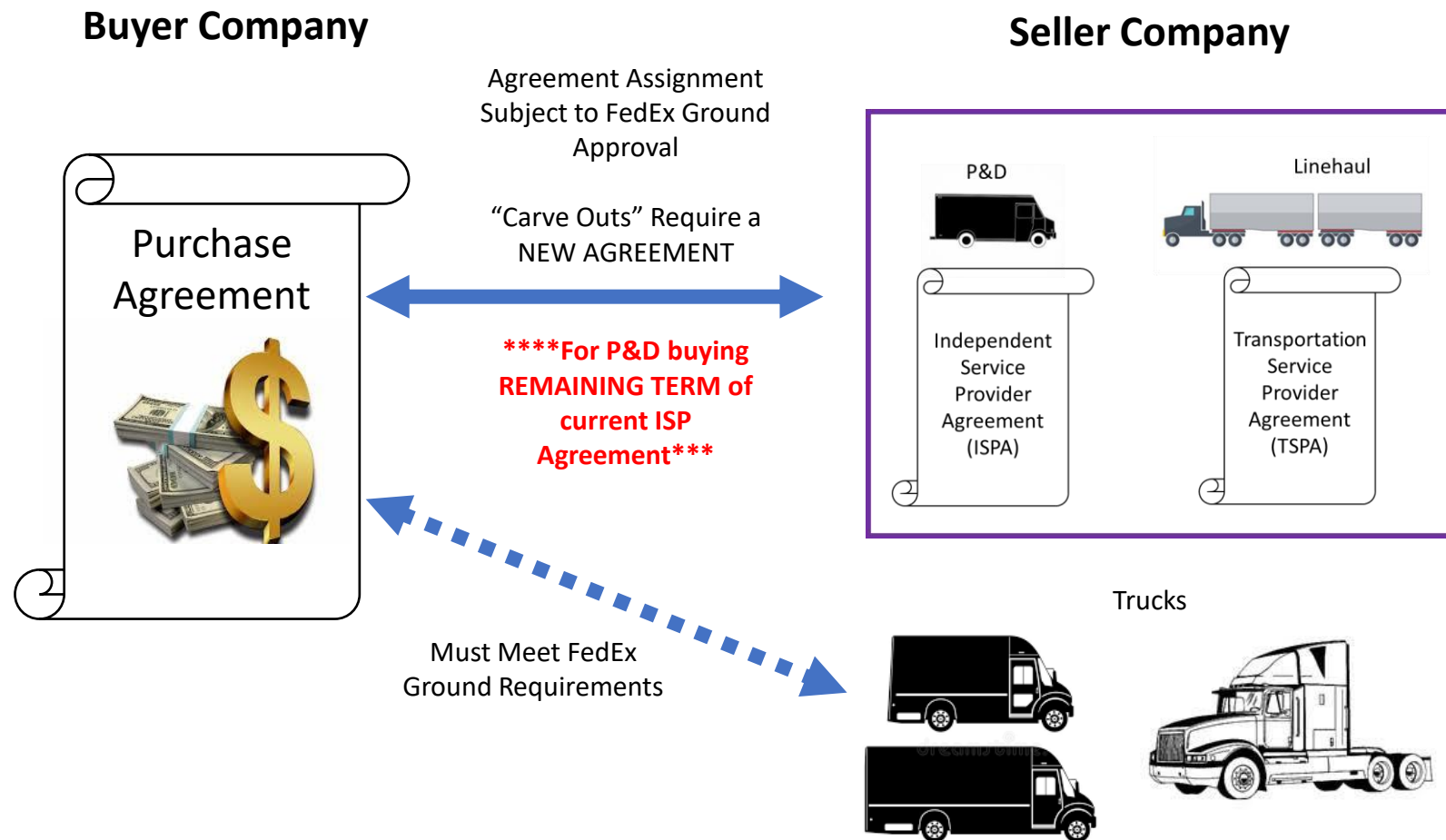
Debunking 5 Myths and Fallacies of *buildagroundbiz* Opportunities

Claim	Verdict	Comments
You must be an existing FedEx Ground contractor or experienced to get an opportunity	FALSE	MyGround Support has helped dozens each year successfully get an opportunity with little to no experience
You “bid” for the opportunities directly from FedEx Ground	FALSE	Simple online application process (RFI) and there is no money involved. There is no bidding anything. FedEx Routes are not franchises, they cost no money to get from FedEx Ground
Opportunities on <i>buildagroundbiz</i> are somehow “troubled or bad”	Depends	An opportunity is posted due to business needs of FedEx Ground or the incumbent contractor is not continuing. P&D CSAs, Assigned Linehaul, and Unassigned Linehaul are all posted
Most people enter contracting with FedEx Ground by buying FedEx Routes	FALSE	Most FedEx Ground contractors got their opportunities directly from FedEx for free rather than “buying” by a factor of 8.5 to 1 or greater
Its very hard to get an opportunity from <i>buildagroundbiz</i>	FALSE	MyGround Support hears from clients each week that submitted the application (RFI) and were chosen

OPTION 2: Buy from existing FedEx Ground Contractor

Typically an “Asset Sale”

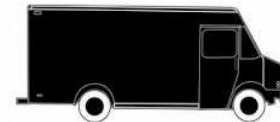
- Not Buying Business, but rather Defined Assets
- Agreement & Potentially Trucks are Assets
- In “Carve Outs” no Agreement is transferred
- Cannot Sell Drivers & People!
– Can sell right to hire
- May or may not use a Broker
- Stock sales are permitted, but not recommended in any way



II: Basics of FedEx Ground Agreements



Independent Service Provider Agreement (ISP Agreement)



Key Attribute	Comments
Term	1, 2, or 3 years. EXPIRE at end of term. Do NOT renew
Renewable	NO – However, if certain standards met, may be able to execute a follow-on agreement. Process starts several months in advance of end of agreement for follow-on agreement
Compensation	Negotiated for Term of Agreement between FedEx Ground and Contractors
Service Area	Defined in Attachment A-1 of Agreement – by ZIP Code, potentially street address
Vehicles	Contractors provide vehicles that meet FedEx Ground standards and requirements (VEDR, FCAM, 3way back-up cameras, shelving, brand promotion, etc). Vehicles needs vary by day of week
Drivers	Contractors provide drivers that meet FedEx Ground standards and requirements. Source, hire, and train. Driver needs vary by day of week
Daily Operational Activities	Contractors design their work areas and oversee daily operations. Contractor has sole responsibility for all activities

- **ISP Agreement Schedules and Attachments**
 - **Attachment A-1 Contracted Service Area (CSA)**– Lists the ZIP Codes/Addresses/Type of Service Agreement Covered
 - **Schedule B Leased Equipment** – Lists the approved vehicles that are used by the contractor under the agreement
 - **Schedule C & Attachment C-1** – Negotiated Charges Table – Negotiated rates for services provided under the agreement
- **P&D Service Types**
 - **Ground** – pickup and delivery to commercial/businesses
 - **eCommerce (Home & SmartPost)** – pickup and delivery to non-commercial/homes
- **Inbound Attainment** – Getting packages back to terminal by cut-off time
- **PCAT – Proposal Capture & Analysis Tool – FedEx Ground’s model of potential Revenue**

Transportation Service Provider Agreement (TSPA)



Key Attribute	Comments
Term	1 year, auto renews unless each party advises otherwise
Renewable	YES – auto renews if notice not provided not renewing. Only renews linehaul runs not forfeited in any given year
Compensation	Fixed by FedEx Ground for Term of Agreement – not negotiated
Service	TSPA Attachment A-1 – Linehaul Runs. Individual Linehaul runs on TSPA have standards. If standard not met, run forfeited from Agreement
Vehicles	Contractors provide road tractors that meet FedEx Ground standards and requirements (VEDR, FCAM).
Drivers	Contractors provide drivers that meet FedEx Ground standards and requirements. Source, hire, and train.
Daily Operational Activities	Contractors follow FedEx Ground processes and dispatching for movement of trailers

- **Transportation Service Provider Agreement (TSPA) Key Items**
 - **TSPA Attachment A-1** – Lists the Runs held by the Agreement
 - **TSPA Schedule B** – Lists trucks in service on TSPA agreement
 - **TSPA Schedule C** – Compensation Rates
- **Types of Runs**
 - **Team Run** – Two drivers, typically go 4,000 plus miles a week
 - **Solo Run** – One driver, typically goes as low as 1,300 to 2,500 plus miles a week
 - **Assigned Run** – Set Origin and Set Destination(s) – weekly mileage fairly fixed. *Slang words for Assigned Run: Dedicated*
 - **Unassigned Run** – Set Origin and NO set destination(s) – weekly mileage is variable. *Slang words for Unassigned Run: Extraboard, Wildcard, Wheel*
- **Points** – Points earned that can be used to “purchase” future runs via points.
- **Spots** – Picking up and placing trailers at customer locations.
- **Spare** – A tractor that is not associated with a run, but can do a run in place of a tractor that is assigned to a run. No contractual rights for runs.
- **Key Contractual Aspects Related to Runs**
 - **Availability Level** – Threshold of availability that must be maintained before forfeiture of run – in Attachment A-1
 - **Service Level** - Threshold of service level that must be maintained before forfeiture of run – in Attachment A-1

Agreement Highlights

P&D

- Must be a Corporation to Contract with FedEx Ground
- **Can be terminated by FedEx Ground for a variety of reasons**
- Compensation Structure is Negotiated
- Require specific standards for vehicles including specific safety systems
- Indemnification to FedEx Ground up to \$10k per incident
- **Cannot be Renewed** - May have an option to negotiate a new ISP Agreement for a CSA as current Agreement nears the end of its term. May have exclusivity period for follow-on agreement if:
 - At least 99.0 percent Inbound Local Service
 - No Opportunity to Cure Notifications issued
- Ground, Home, and eCommerce delivery along with 7 Day a week delivery all required in future Agreements
- Everyone must be a W2 Employee
- FedEx Ground has a lot of say in who you can hire (experience/skills)

Linehaul

- Must be a Corporation to Contract with FedEx Ground
- **Can be terminated by FedEx Ground for a variety of reasons**
- Compensation Structure is dictated by FedEx Ground
- Require specific standards for vehicles including specific safety systems
- Indemnification to FedEx Ground up to \$75k per incident
- May be Renewed if FedEx Ground offers and contractor agrees 30 days prior to expiration. Renewal typically involves addendums for agreement changes.
- **Individual Runs within the Agreement can be lost** or forfeited for a variety of reasons. Defined on TSPA Agreement Attachment A-1
- Everyone must be a W2 Employee
- FedEx Ground has a lot of say in who you can hire (experience/skills)

WARNING: Agreement terms change quite often. Vehicle Requirements a MAJOR Change on P&D Side in Future

III. Financials and Financial Returns



FedEx Ground Segment Official Financials

FedEx Ground Segment Annual Consolidated Statements of Income FY 2018 – FY 2022					
Years ended May 31 In millions					
	FY 2018	FY 2019	FY 2020	FY 2021	Q2 YTD FY 2022
Revenue	\$ 18,395	\$ 20,522	\$ 22,733	\$ 30,496	\$ 15,941
Operating Expenses:					
Salaries and employee benefits	3,003	3,413	4,060	6,060	3,468
Purchased transportation	7,936	9,174	10,799	14,126	7,418
Rentals	754	791	989	1,166	666
Depreciation and amortization	681	728	789	843	449
Fuel	12	14	15	21	13
Maintenance and repairs	309	336	392	496	285
Intercompany charges	1,444	1,521	1,581	1,862	971
Other	1,700	1,882	2,094	2,729	1,519
	15,839	17,859	20,719	27,303	14,789
Operating Income	<u>\$ 2,556</u>	<u>\$ 2,663</u>	<u>\$ 2,014</u>	<u>\$ 3,193</u>	<u>\$ 1,152</u>
<u>SELECTED STATISTICS</u>					
Operating Margin	13.9%	13.0%	8.9%	10.5%	7.2%

<https://investors.fedex.com/financial-information/quarterly-results/default.aspx>

Factors Driving Financials and Financial Returns



















FedEx Ground purchases transportation at agreement rates that are fixed for term of Agreement.

Contractor holds the following risk:

- Increases in Labor Costs and/or challenges in labor market
- Increases in Vehicle Costs
- Increases in Insurance Costs
- P&D Change in stop/package volumes – could be positive or negative
- P&D Negotiated Rates - fixed vs variable rate balance will determine if increased volume is a positive or negative profit impact

Contractor holds the following upside:

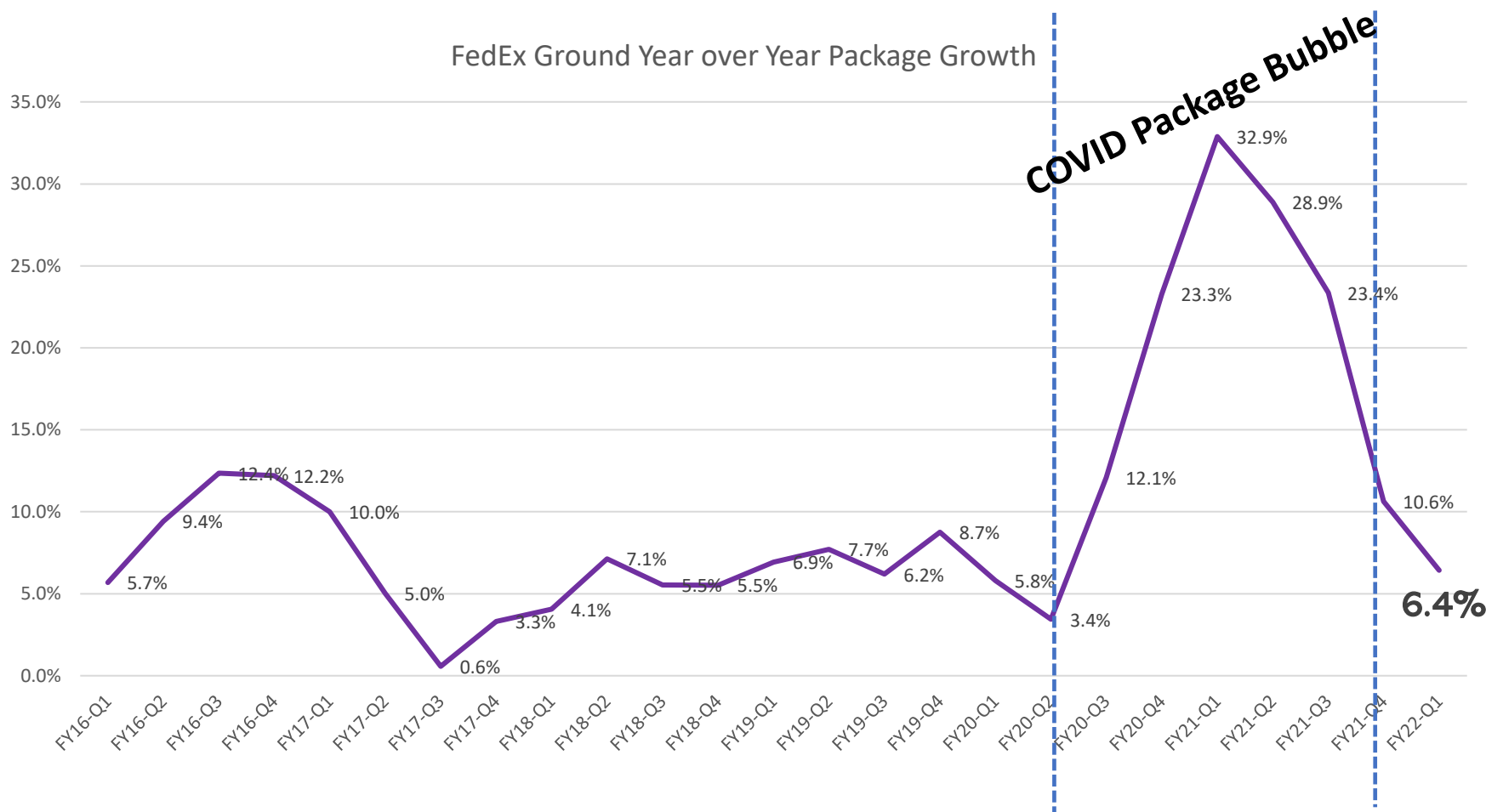
- Decreases in Labor Costs
- P&D Change in stop/package volumes – could be positive or negative
- Growth to FedEx Ground caps
- Once multi state operations achieved, in-house maintenance to bring down costs

Attribute		Revenue Impact	Cost Impact	Profit Impact
Fuel Costs				N/A
Labor Costs		N/A		
Volume (P&D)			 ? 	 ? 
Volume (P&D)			 ? 	 ? 
Volume (Linehaul)		N/A	N/A	N/A

FedEx Ground Segment Package Growth

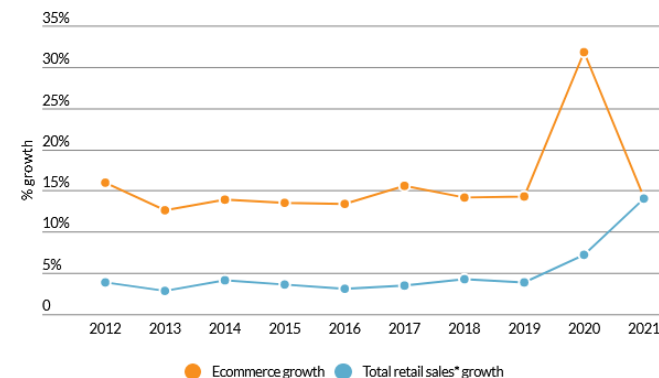
<https://investors.fedex.com/financial-information/statistical-books/default.aspx>

FedEx Ground Year over Year Package Growth



Amazon accounts for 43.5% of US ecommerce
After a blockbuster 2020, online revenue growth slowed for Amazon.com Inc., No. 1 in the Top 1000. But the web giant still grew its share of the U.S. ecommerce market in 2021. The total value of goods Amazon and its third-party marketplace sellers sold to U.S. consumers, often referred to as gross merchandise value or GMV, increased 18.8% to \$378.95 billion last year from \$319.10 billion in 2020, Digital Commerce 360 estimates. Meanwhile, online market growth, Amazon and its third-party merchants grew 14.2% in 2021 vs. 41.8% in 2020. Amazon's share of all gains in the U.S. in 2021 was 55.4%—more than half—of all gains in the U.S. in 2021.

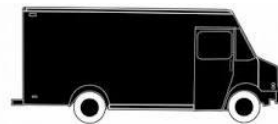
Comparing growth: US ecommerce vs. total retail* sales
Year-over-year growth, 2012-2021



Source: Digital Commerce 360 analysis of U.S. Department of Commerce data; February 2022

*Total retail figures exclude sales of items not normally purchased online such as spending at restaurants, bars, automobile dealers, gas stations and fuel dealers

P&D Compensation Structure



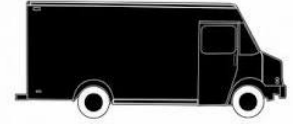
- Schedule C of the Independent Service Provider (ISP) Agreement outlines the compensation structure including rates
- Compensation rates are negotiated and reflected in Attachment C-1 of the Agreement
- Many times there are temporary rates in effect. Watch for temporary rates via other terms in the Agreement that may be in historicals but are ending

Type	Fixed or Variable	Negotiated Charge	How Often	Example Illustrative Rate
All	Fixed	Service Charge	Weekly	\$10,350.00
		Apparel Brand Promotion	Weekly	\$80.00
		Vehicle Brand Promotion	Weekly (per Vehicle on Schedule B)	\$28.00
	Variable	Per Stop Fuel Surcharge	Per Stop (indexed to weekly fuel prices)	\$0.25
		Large Package Mix at X% of Mix	x% of ISP deliveries (for example 7%)	\$2.19
Business Pickup & Delivery Points Only	Variable	Stop Charge	Per Stop for Business up to a Ceiling	\$2.90
		Surge Stop Charge	Per Stop for Business over the Ceiling	\$2.50
		Package Charge	Per Package for Business	\$0.25
Residential Pickup & Delivery Points (aka SmartPost & Home)	Variable	eCommerce Stop Charge	Per Stop for Business up to a Ceiling	\$1.45
		eCommerce Package Charge	Per Stop for Business over the Ceiling	\$0.18

All dollar amounts
are illustrative only

ISP
Agreement
Attachment
C-1

FedEx Generated PCAT – Proposal Capture & Analysis Tool



I. 12 Month Historical Summary of CSA Activity

	FedEx Historical Data	ISP Historical Data
Total Packages	140,421	
Total Stops	122,531	
Packages / Stop	1.1460	
Daily Stop Threshold	929	880

Would you like to use the FedEx provided historical data or would you like to provide your own historical data values for use in this calculator?

FedEx Provided or ISP Provided
FedEx Provided

II. Proposal Information

Length of Term (Years of Contract): 03 Years

	3/12/2016	3/11/2017	3/10/2018		
Effective Date	03/12/2016	03/11/2017	03/10/2018		

	3/12/2016	3/11/2017	3/10/2018		
FXG Dock Loading Positions					
FHD Dock Loading Positions	5	5	5		
Vehicles in Brand Promotion Program	12	12	12		

Proposal Elements	Frequency	Rate				
		3/12/2016	3/11/2017	3/10/2018		
Service Charge	Weekly	1,325	1,350	1,500		
Stop Charge	Activity Based	2.94	2.94	2.96		
Surge Stop Charge	Activity Based	2.00	2.00	2.00		
Per Stop Fuel Surcharge	Activity Based	0.45	0.45	0.45		
Package Charge	Activity Based	0.09	0.10	0.11		
Period Safety Incentive	Period	3,700	3,800	3,900		
Customer Service Incentive	Period	1,750	1,800	1,850		
New Acct Startup Charge	Activity Based	25.00	25.00	25.00		
Apparel Brand Promotion Charge	Weekly	125	130	135		
Vehicle Brand Promotion Charge	Weekly / Vehicle	25	26	27		

III. Projected Service Area Growth & Matrix

A. Volume Growth

	3/12/2016	3/11/2017	3/10/2018		
Package Growth Percentage					
Stop Growth Percentage					
Over Threshold Stops					
Packages / Stop	1.1460	1.1460	1.1460		
New Account Startup	32	32	32		
Total Stops	122,531	122,531	122,531		
Total Packages	140,421	140,421	140,421		

IV. Future Annual Revenue Matrix, Based on Sections II & III

A. Future Revenue

		3/12/2016	3/11/2017	3/10/2018		
Service Revenue	Fixed	68,900	70,200	78,000		
Stop Revenue	Variable	360,242	360,242	362,692		
Surge Stop Revenue	Variable	0	0	0		
Fuel Stop Surcharge Revenue	Variable	55,139	55,139	55,139		
Package Revenue	Variable	12,637	14,042	15,446		
Period Safety Incentive Revenue	Other@ 100% Attainment	48,100	49,400	50,700		
Customer Service Incentive Revenue	Other@ 100% Attainment	22,750	23,400	24,050		
New Acct Startup Revenue	Variable	800	800	800		
Apparel Brand Promotion Revenue	Fixed	6,500	6,760	7,020		
Vehicle Brand Promotion Revenue	Other Veh. Dep.	15,600	16,224	16,848		
Variable Revenue		428,819	430,223	434,078		
Fixed/Other Revenue		161,850	165,984	176,618		
Total Revenue		590,669	596,207	610,696		
***Reserved						
% Variable Revenue		72.5	72.1	71.0		
% Fixed/Other Revenue		27.4	27.8	28.9		

B. Revenue Matrix

	3/12/2016	3/11/2017	3/10/2018		
10.00%	633,471	686,386	754,111		
8.00%	624,910	667,663	723,224		
6.00%	616,350	649,284	693,459		
4.00%	607,790	631,248	664,797		
2.00%	599,229	613,556	637,216		
1.00%	594,949	604,839	623,825		

Always get the PCAT !

Use FedEx Ground's projections, not someone else's "projections"

Linehaul Compensation Structure



- Schedule C of the Transportation Service Provider Agreement (TSPA) outlines the compensation structure including rates (Schedule A, B, C...)
- Compensation rates are tied to leg miles driven, location specific adders, fuel costs, and drop & hook

Schedule C Variable Mileage Rate

Leg Miles	Sch C VMR Rate per Mile
51	\$1.618
165	\$1.305
168	\$1.305
90	\$1.394
70	\$1.483
311	\$1.305



Location Specific Mileage Plus

Mileage Plus per Mile	\$ 0.000 to 0.20 or more
-----------------------	-----------------------------



*May become obsolete in
future with A, B, C,.. Rate
matrix on Schedule C*



Per Mile Fuel Compensation

(Indexed to Fuel OPIS per gallon
of ZIP or FXG terminal per
gallon)

Weekly OPIS Per Gallon Fuel Price for ZIP Code or FXG Terminal per Gallon	\$ 2.5500
Std Fuel Mile Rate per Mile	\$ 0.2220



Drop & Hook

Single Trailer	\$ 12.00
Double Trailer	\$ 16.00



Flat Rate

Special flat rates between two points	\$ 0.00 to XXX
---	-------------------

All dollar amounts are illustrative only

Financial Returns

FedEx Routes can be considered a good opportunity and provide a competitive return, but its important to know what that potential return could be:

- **EBITDA of negative to ~16% for Linehaul**
 - 11-13% Average for Well Run & Newer Fleet
- **EBITDA of negative to ~14% for P&D**
 - 10-12% Average for Well Run, Good Negotiated Rates, & Newer Fleet

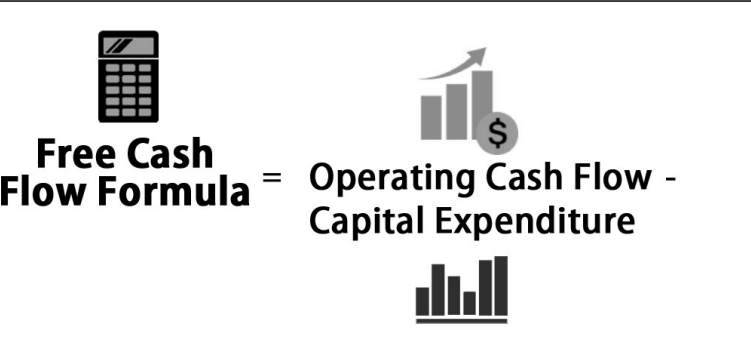
EBITDA is just one part of an equation when determining the potential return. Looking at it in isolation is a major flaw

- **P&D and Linehaul Runs are very capital intensive**
- Delivery Trucks and Road Tractors require major capitalized repairs and scheduled replacement that significantly impact EBITDA available for profit taking

FREE CASH FLOW IS YOUR CONCERN !

For Sale Advertisements advertise “Cash Flow” and “EBITDA” NOT “Free Cash Flow”

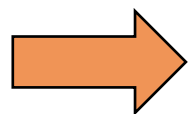
- Free Cash Flow = EBDITA /less Capital Expenditures /less Taxes
- Capital Expenditures = Vehicle Replacement or Capitalized Repairs to Vehicles


$$\text{Free Cash Flow Formula} = \text{Operating Cash Flow} - \text{Capital Expenditure}$$

Valuation - Buying Rather Than Getting From FedEx Ground for Free

The value of something is ultimately determined by what the market (someone) will pay.

Multiples like 3x, 4x, and now even 5x of a Broker defined "Cash Flow" or "EBITDA" is Broker/Seller mumbo jumbo.




Brokers really use the min Debt Service Coverage Ratio (DSCR) to really set the list price – max you can finance

As stated, FedEx P&D and Linehaul can definitely be a good opportunity, but there are five things everyone should know about them as they consider their value if buying:

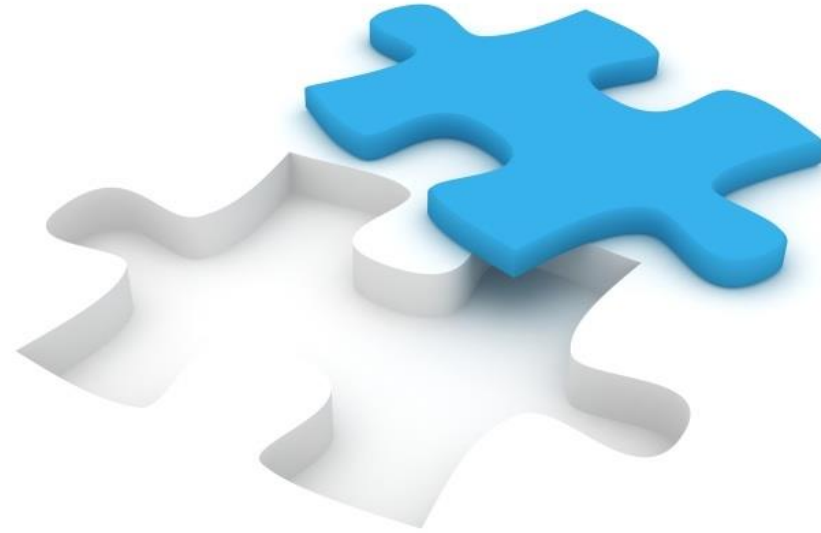
1. Instead of buying you can source directly from FedEx Ground for free
2. You can lose your agreement with bad performance or for business reasons
3. FedEx Ground may not offer a follow-on agreement, FedEx Ground is under no obligation to provide
4. Industry is extremely capital intensive (costs of vehicle assets is high)
5. Agreement compensation does not adjust with market conditions as is common in other parts of the industry

What is a Valuation Method?


$$\text{Discounted Cash Flow Formula} = \frac{CF_t}{(1+r)^t}$$

Income Based Discounted Cash Flow (DCF) is considered a good method for valuation. It is a recognized Business Valuation Approach by the National Association of Certified Valuers and Analysts® and American Institute of Certified Public Accountants. It uses discounted cash flow valuation based on Free Cash Flow (this is NOT the "Cash Flow" reported in Sales Ads) along with growth factor considerations and required rate of return. Vehicles, if included, are then added to the number derived and such addition is based on Blue Book Value.

V. Am I a good fit for FedEx Routes?



Do you have what it takes to be a FedEx Ground Contractor?



https://www.youtube.com/watch?v=yDJ_fu1xPWs&t=4s



<https://www.youtube.com/watch?v=WeCDhHi8uPs>

Commentary from a contractor with 30+ years of experience
Started in 1987 and left in 2020

Considerations to Ask Yourself

Consideration	Fit	Comments
I'm really just interested in FedEx Routes because of "superior high margins" they make	X	You may not understand the actual returns possible with FedEx Routes especially after capital expenditures
I'm a first-time business owner who has the time and effort to dedicate to the operations	✓	FedEx Routes are a more simplistic business (no inventory, accounts receivables, marketing, etc) so with effort and dedication you are on the right track
I want to get on the e-Commerce train and grow massively	?	You may not understand the difference between e-Commerce growth and FedEx Ground historical growth rates nor FedEx Ground contracts work
I want to have this business has my side job and keep my full-time job. My full-time job keeps me very busy	X	You may not understand the operations yet
I've been a driver for a long time and ready to develop a business with my core business skills	✓	FedEx Routes are a more simplistic business (no inventory, accounts receivables, marketing, etc) so with effort and dedication you are on the right track
I want to leave my current job and make an upper middle-class income of a max \$100-110k after capital expenditures as a hands-on owner	✓	FedEx Routes show they may be able to provide this
I have time to dedicate to my operations, but I want manager help and not work 7 days a week, but I only need \$50-60k a year after capital expenditures	✓	FedEx Routes show they may be able to provide this

**Only You Can Determine if
You're a Fit for FedEx Routes**

V. Financing in the Industry



Financing

SBA Backed Loans are available

- Possible, but very limited availability
- Agreement with FedEx Ground is not collateral
- Very expensive (interest rate)
- Very high origination fees
- Adjustable rates – inflation risk
- Must sign personal guarantee
- Personal assets including home are collateral



Commercial Lending or Home Equity

- Much cheaper than SBA Back Loans
- Possibly more difficult to get



DO NOT LET BROKER REFER YOU TO LENDER

- Route Broker gets a 1% kick-back fee of loan amount for simply referring your name
- Contact the lender directly to save on origination fee costs
- **Start with your local bank**



Financing



U.S. Small Business
Administration

<https://data.sba.gov/dataset/7-a-504-foia>

Program	BorrName	BorrStreet	BorrCity	BorrSta	BorrZip	BankName	GrossApprov	SBAGuarant	InitialR	TermIn	N
7A	Tran Express Inc.	5258 S. Granby Court	Aurora	CO	80015	Celtic Bank Corporation	600000	450000	7.75	120	
7A	RFKP Logistics Inc.	2801 Gareth's Sword Dr.	Lewisville	TX	75056	Celtic Bank Corporation	1454000	1090500	7.75	120	
7A	MS01 Logistics Inc	150 Greenhorn Drive	Pueblo	CO	81001	Celtic Bank Corporation	840000	630000	7.5	120	
7A	Stormbreaker Delivery Inc	322 N Matterhorn Drive	Alpine	UT	84004	Celtic Bank Corporation	459400	344550	6.75	120	
7A	SANDSTONE ENTERPRISES INC	6817 86th Avenue NE	Marysville	WA	98270	Celtic Bank Corporation	741700	556275	7.5	120	
7A	C & LL LOGISTICS GROUP CORP	200 Milk Street	CARTERET	NJ	7008	Celtic Bank Corporation	1770000	1327500	6	120	
7A	INTERFACE PARTNERS LOGISTICS I	14206 Jones Bridge Rd	UPPER MARLBORO	MD	20774	Celtic Bank Corporation	716400	537300	6	120	
7A	Cesca Inc.	9385 WCR 15	Firestone	CO	80504	Celtic Bank Corporation	1763200	1322400	6	120	
7A	BOLT CARRIERS INC.	1881 Commerce Drive Suite 10	ELK GROVE VILLAGE	IL	60007	Celtic Bank Corporation	150000	127500	6	120	
7A	A-OK Delivery Systems Inc.	W77N380 Prairie View Road	Cedarburg	WI	53012	Celtic Bank Corporation	1060400	795300	6	120	
7A	MNT DELIVERY & TRANSPORTATION	25125 Santa Clara Street, #E	Hayward	CA	94544	Celtic Bank Corporation	1763500	1322625	5.75	120	
7A	Blackrock Logistics Inc	515 Urwin Parkway	Ontario	OH	44906	Celtic Bank Corporation	672700	504525	6	120	
7A	ParcelPac Inc.	3325 S. Cherry Street	Denver	CO	80222	Celtic Bank Corporation	1317100	987825	6	120	
7A	AAA Logistics Inc.	10761 243rd Avenue NE	REDMOND	WA	98053	Celtic Bank Corporation	893500	670125	6	120	
7A	SAFE BOX LOGISTICS INC.	8501 Foothills Blvd	Roseville	CA	95747	Celtic Bank Corporation	2551300	1683858	6	120	
7A	Harvon Enterprises Inc	2706 Saint Josephs Drive	Bowie	MD	20721	Celtic Bank Corporation	750500	562875	6	120	
7A	DuPont Hill Delivery Inc.	7125 Laurel Ave. SE	SNOQUALMIE	WA	98065	Celtic Bank Corporation	1479100	1109325	6	120	
7A	Advanced Home Runners Inc.	1208 Stonebridge Drive	Howards Grove	WI	53083	Celtic Bank Corporation	796700	597525	6	120	

Considerations if Financing

Don't Spend Money or Invest Time in Opportunity If:

- Opportunity is a “carve-out” or partial sale
- Opportunity does not have 3 years of Tax Returns – tax returns must reflect similar or same “assets” being sold
- Opportunity is Overpriced
- Seller financing of at least 10% is not available – typically a requirement by lender
- **If DSCR from tax return isn't 1.25, wasting time**

Debt-Service Coverage Ratio (DSCR)

Ratio shows how much cash is available to pay off debt. A DSCR is calculated by dividing your total earnings before interest, taxes, depreciation and amortization (EBITDA) by the annual principal and interest payments on all business loans, including the proposed new loan.

A DSCR of 1 shows that a business has just enough income to repay current debt.

SBA loans require a DSCR of 1.15 or greater, most lenders require slightly higher (~1.25)

Broker Purported "Cash Flow"	\$ 300,000
Broker List Price	\$ 1,000,000
Annual Revenue	\$ 1,500,000
"Real" EBITDA in Tax Return	\$ 150,000
Loan Amount (80% of Purchase Price)	\$ 800,000
Term (in months)	120
Interest Rate	8%
Monthly Payment	\$9,706.21
Annualized Payment	\$116,474.49
Debt Service Coverage Ratio	1.29

VI. What to watch for if choosing to buy FedEx Routes



Top 5 Initiatives Undertaken by “More Successful” Contractors

1. Invested time, money, and effort in due diligence process to ensure good fit operationally and financially
2. Heavily focused on operations – did 2 week ride along and operational shadowing
 - Determined existing management would stay or need to go
 - Understood daily tasks and issues
 - Understood daily vehicle counts and drivers
 - Understood contingency planning
3. **Did not rely on Broker Marketing Packages**
 - Valuation was performed on current financials, agreement, and FedEx Ground provided statistics rather than estimated or efficient financial returns provided by seller or broker
4. **Understood Vehicles and Planned capital expenditures and factored those expenditures into purchase price**
5. **Did not overleverage themselves (high loan amounts) to buy**



Top 5 “Mistakes” by those Claiming Buyer’s Remorse

1. **Overpaid – Did not use proper valuation methods**
2. **Did not focus on actual operations – too focused on financials**
 - Assumed manager ran things and manager was good at what they did
 - Understated daily tasks – hours of work
 - Misunderstood labor market and assumed manager(s) and driver(s) would stay
3. **Relied on Broker Marketing Packages**
 - Relied on “Proforma” financials
 - Relied on unrealistic growth rates based on e-commerce rather than real package volume stats and agreement rate structures
 - Relied on future efficiencies purported without affirmation efficiencies would even work
4. **Misunderstood financial returns possible, especially portion of EBITDA (profit) that has to be used for capital expenditures**
 - Did not understand vehicles and replacement of vehicles
 - Modeled “improved financials” with no means to achieve
5. **Did not engage independent buyer support – used same company or Broker selling routes**



emclaren

Acquisition Risks & Things to Watch Out For

General Risks

- Buying Assets or a Business for sale involves risk and there is potential for loss of principle invested.
- P&D Agreements Expire – Linehaul Operating Agreements do not necessarily renew automatically
- Historical Financials of past may not be relevant anymore given contracting changes and rate changes
- **Buying anything under ownership for less than 3 years**

Operational Things to Consider

- Claims of Absentee Ownership – Absenteeism is quickest way to lose your Agreement
- Driving owners & family members – must be able ascertain how often owner & family is driving (can determine via certain documents)
- Operations, especially P&D are tiring at times
- Severe driver recruiting issues and wage escalations as a result
- Cure Letters and poor performance
- Poor Performing Manager “included in sale”

Purchase Transaction

- **Partial or “Carve Out” Sales – extreme risk**
- Oversimplified Purchase Agreements without holdback for driver retention, manager retention, vehicle condition/warranties, profit margin achieved etc.
- Truck Lease Assumptions – Possibility for Exceptional Risk
- Reliance on “Pro-forma” financials
- Lack of Proper Due Diligence and “going cheap” on the engagement of appropriate business professionals
- Not understanding the “what” that is being bought



***P&D Carve outs are
“Sucker Sales” to
unknowing new entrants
to industry***

Vehicle Aspects

- Older, high mileage junk trucks – must have a deep understanding of trucks or engage someone that does
- Vehicle Mismatch to What is Needed. For example: Sleeper Tractor for a Solo Run, Box Truck when Step Van needed
- Vehicle Value overstated / not based on Blue Book Value
- Severe driver recruiting issues and wage escalations as a result
- Noncompliant with new safety standards/ safety equipment requirements

Sample Initial Due Diligence Items – P&D

Sale Information

- Copy of Letter of Intent to include the following:
 - Purchase Price
 - CSA definition included
 - Assets Included or Leases to be Assumed
- Partial or full sale of Service Area of Seller's Entity? (if partial denote which service area not included in sale)

Contractual – Contract Related

- PCAT
- Attachment A-1
- Schedules C (with all attachments)
- Schedule D
- Schedule E
- Schedule F
- Schedule K
- Copies of Cure Letters
- CSP Dashboard
- Schedule of Amendments

Vehicle Related

- All Delivery Vehicle IDs / VIN / Current Mileage
- Seller owned Delivery Vehicles – List of all Seller Owned Vehicles by Unit ID and any lien balance
- Leased Delivery Vehicles by Unit ID and COPIES OF LEASES including leasing terms/financials
- Quarterly Maintenance reports provided to FedEx Ground for past year by Unit
- Insurance Provider stated value report

Operational Expense Related

- Copy of sampling of daily service worksheets
- Scanner invoices
- VDER vendor and invoices
- Copy of worker's compensation remuneration rate (not invoice)
- Copy of NTL/physical damage insurance roster for vehicles and premiums

Financial Related

- At least one year of FXG weekly settlement sheets (including current time period), all pages
- 20XX IRS 1099 and FXG 1099-S
- Seller P&L for current year to date
- Seller P&L and Balance sheet for last full year as of 12/31/XX
- 1120 Tax Returns (all pages) for 3 years – if less than 3 years, time period in business
- Federal 941 Filings for last 4 quarters
- W3 Summary for last full year (12/31/XX)

Employee & Operations Related

- Current Employee Roster including base pay, per diem (if paid), and benefits provided (if provided)
- Copies of paystubs for last pay period of each month for all employees (can black out names/PII) for last year
- Daily Service Worksheets

THIS IS NOT AN INCLUSIVE LIST – SAMPLE ONLY

Sample Initial Due Diligence Items - Linehaul

Sale Information

- Copy of Letter of Intent to include the following:
 - Purchase Price
 - Runs included
 - Assets Included or Leases to be Assumed
- Partial or full sale of Runs of Seller's Entity? (if partial denote which runs not included in sale)

Contractual – Contract Related

- TSPA Attachment A-1 Assigned Runs & Spots
- TSPA Schedule B - Leased Equipment
- Tractor ID Availability Rate - Current Printout of Availability Rate by Tractor ID
- Tractor ID Service Level Rate - Current Printout of Service Level Rate by Tractor ID
- Tractor ID Points - Current Printout of Points by Tractor ID
- CSP Performance Dashboard

Vehicle Related

- All Tractor IDs / VIN / Current Mileage
- Seller owned Tractors – List of all Seller Owned Tractors by Tractor ID and any lien balance
- Leased Tractors by Tractor ID and COPIES OF LEASES including leasing terms/financials
- Quarterly Maintenance reports provided to FedEx Ground for past year by Tractor ID
- Insurance Provider stated value report

Operational Expense Related

- ELD vendor and invoices for past 6 months
- VDER vendor and invoices for past 6 months
- Copy of worker's compensation remuneration rate (not invoice)
- Copy of NTL/physical damage insurance roster for vehicles and premiums

Financial Related

- At least one year of FXG weekly settlement sheets (including current time period), all pages
- 20XX IRS 1099 and FXG 1099-S
- Seller P&L for current year to date
- Seller P&L and Balance sheet for last full year as of 12/31/XX
- 1120 Tax Returns (all pages) for 3 years – if less than 3 years, time period in business
- Federal 941 Filings for last 4 quarters
- W3 Summary for last full year (12/31/XX)

Employee Related

- Current Employee Roster by FXG ID including base pay, per diem (if paid), and benefits provided
- (if provided)
- Copies of paystubs for last pay period of each month for all employees (can black out names/PII)
- for last year

THIS IS NOT AN INCLUSIVE LIST – SAMPLE ONLY

VII: Myths and Fallacies of Industry



Random Sampling of Myths & Fallacies

Claim	Verdict	Comments
Little to no effort is required	FALSE	Need to be involved daily
Its better to own P&D before getting into linehaul	FALSE	P&D is significantly more complicated than linehaul
Amazon DSP routes are better than FedEx Routes	Depends	Amazon DSPs do hold a higher profit margins & revenues, but operations are extremely stressful and almost unsustainable
Financing is not available for FedEx Routes	FALSE	FedEx Routes with GOOD financials and tax returns can get financing
I own my “territory” once I get it	FALSE	FedEx Ground agreements are operating agreements, not franchises
Routes make more profit than FedEx Ground itself does on a % basis (claims of 20+% margin)	FALSE	FedEx Ground Segment Operating Margin (Profit) hasn’t exceeded 14% in years
My agreement renews	Depends	P&D Agreements expire, Linehaul Agreements may renew
A single “manager” can run an entity’s operations	FALSE	A single manager can’t work 7 days a week. Most large entities require multiple managers in addition to the owner

VIII: How MyGround® Support can help you

Email info@mygroundsupport.com

