Initiating Coverage:

United Parcel Service Inc.

Can Brown Deliver Share Price Appreciation as Well?

Key Take-away: As any MBA will be able to tell you, decreasing revenue and rising costs ≠ pretty financials. Revenue dropped by 1.9% and 1% in the domestic and international markets respectively, only offset by minor growth in the supply chain solutions segment. For UPS, a cooling real economy whilst still feeling the effects of a hot labor market leaves leadership with a tricky path to navigate.

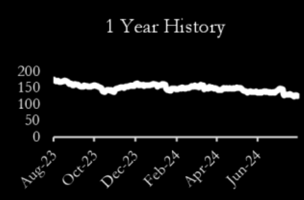
Cooling Economy Hits Numbers: UPS has had tough YoY comps to beat for a couple of cycles now, but negative top and bottom lines justify the ~12% on earnings the ticker received. There was not too much of a spin put on by management on the call/presentation, but there seemed to be reassurance that operations are stable and improving, which is believable, as the new contract agreement shifts into the rearview mirror and direct competition with Amazon seems to be tempering. Regardless, UPS is seen as a bellwether for real economic growth, and the tandem of those two players delivering bad news seem to make obvious which direction the consumer is heading over a 12 month trajectory.

A Mixed Bag After a Geographic Breakdown: While the cool US numbers regarding revenue and operating profit garner the most attention, and rightfully so, the European numbers should be cause for concern. While competition can be stiffer there with both DHL & FedEx cemented, YoY volume growth was as low as -8% in May before rebounding to -4% in June. Asia and the Americas Ex-US look promising however, with both geographies printing green YoY for volume, underpinning them as growth targets for UPS.

Valuation: We initiate coverage with a $120.00 PT.

Consortium Equity Research
Industrials | Freight & Logistics
August 15th, 2024

Stock Rating:	Under Weight
Price Target:	USD $120.00
Price:	$126.42
Potential Upside/Downside:	-5.0%
Ticker(s):	$UPS
Market Cap:	$108.29b
Shares Outstanding:	856,000m
Free Float (%):	85.49%
Dividend Yield:	5.16%



Industrials Coverage Team

VP of Training
Caleb Mahle
Johns Hopkins University
Cmahle2@edu

Peer Comparisons

Comparable Companies

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Ticker		Mkt Cap		EV	P/E		Revenue LF		EBITDA LF
FedEx Corporation (NYSE:FDX)	$	69,405	$	100,263	16.4x	$	87,693	$	11,250
Deutsche Post AG (XTRA:DHL)	$	46,901	$	70,219	13.4x	$	90,464	$	7,963
C.H. Robinson Worldwide, Inc. (NasdaqGS:CHR	$	11,469	$	13,339	35.3x	$	17,459	$	608
Expeditors International of Washington, Inc. (N	$	696	$	2,753	25.6x	$	1,865	$	185
United Parcel Service, Inc. (NYSE:UPS)	**$**	**146,951**	**$**	**178,991**	**20.6x**	**$**	**24,138**	**$**	**11,769**

Ticker	LTM EV/EBITDA	Gross Margin	EBIT Margin	EBITDA Margin	1 Yr EBITDA Growth Rate LF
FedEx Corporation (NYSE:FDX)	8.9x	27.3%	7.9%	12.8%	6.1%
Deutsche Post AG (XTRA:DHL)	8.8x	19.9%	6.1%	8.8%	(5.7%)
C.H. Robinson Worldwide, Inc. (NasdaqGS:CHR	22.0x	6.7%	3.2%	3.5%	(29.5%)
Expeditors International of Washington, Inc. (N	14.9x	21.4%	4.0%	9.9%	(20.2%)
United Parcel Service, Inc. (NYSE:UPS)	**-15.2x**	**54.7%**	**39.0%**	**48.8%**	**(1.1%)**
High	21.95x	54.7%	39.0%	48.8%	6.1%
75th Percentile	14.91x	27.3%	7.9%	12.8%	-1.1%
Average	**7.88x**	**26.0%**	**12.0%**	**16.8%**	**-10.1%**
Median	8.91x	21.4%	6.1%	9.9%	-5.7%
25th Percentile	8.82x	19.9%	4.0%	8.8%	-20.2%
Low	-15.21x	6.7%	3.2%	3.5%	-29.5%

Source: S&P NetAdvantage

Industry Overview

Price Cuts Needed Across the Industry: In 2020/21, UPS and the shipping industry as a whole had much more freedom to exercise pricing power when it was a public health hazard to obtain goods by other measures and wallets were as sure as had been in decades, but with competition resettled and supply chain issues out of the picture, prices have been slashed to maintain competitiveness.

E-Commerce, Amazon Insourcing: As of Q4 of last year, Amazon became the largest deliver of packages by volume in the US. The 'E-commerce'ification of retail in America, while initially a boon for legacy networks, soon turned dilutive towards their market share, as Amazon, which has a free-flowing war chest from the FCF generation of AWS, in housed a lot of its own deliveries. However, Amazon makes up 11.5%-12% of UPS TTM Revenue, and the rate of decrease of that figure is likely to slow, as Amazon will always have to rely on its competitors in certain segments of the market.

Recent Mix Favors Small-Package & Non-Urgent: The volume metrics in the US segment have been saved as of late by increased consumer preference for ultra-low cost consumer items, notably from apparel retailers Temu & Shein. These packages, which are almost always ultra-lightweight, have helped UPS's volume but hurt its revenue per piece (RPP), as these are inexpensive items generally being shipped at the cheapest rate (non-urgent), thus hurting margins. The trend towards small package is expected to continue through H2 2024.

Company Overview

Higher Package Density Continues to be a Goal: Despite the industry wide trend of small-package growth via the likes of Temu & Shein, UPS is targeting an increase of package and delivery density. In order to save precious driver times and also meet emissions reduction targets. The company plans to leverage machine learning to optimize and increase the number of deliveries per stop from 1.28 to 1.4. The numbers make sense, given the cost of last mile delivery for a package to an address is $5.50, but the marginal package only costs $0.60 in the same van.

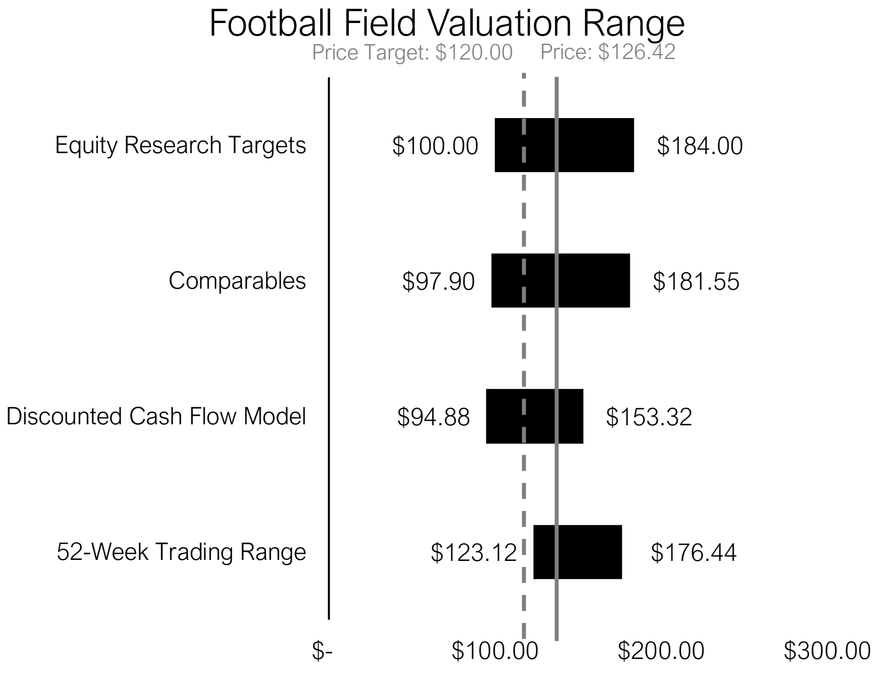
Unionized & Highly Compensated Workforce Still Navigable: The headline grabber in Q3 of last year was the news that the average full-time UPS driver will make ~$170,000 in total compensation annually, higher than most white collar jobs. From a macro lens, the agreement between UPS and the Teamsters Union means an 11.7% increase in union wage rates YoY. However, on the books there was only a recorded adjusted operating expense increase of 3.2% due to improved network planning, a reduction in block hours, and a new record annual record in terms of auto safety.

Regaining Ground Post-Strike: As the strike materialized in mid 2023, many merchants diverted business away from UPS in anticipation of possible delays. While shipping tends not to be a sticky business but rather rooted in cost and reliability, UPS should be able to win customers back, however, some locked in longer-term contracts with competitors, damping UPS's prospects.

8/15/2024

Investment Thesis & Valuation

Our analysis gives UPS a price target of $120.00 and an underweight rating.



Potential Downsides to Our Rating (Upside to UPS)

E-Commerce Has Further Room to Grow: Simply put, if the ultra-long-term trend is right, a greater percent of all goods that the world consumes being delivered instead of sought would be accretive to UPS volume. More specifically, e-commerce and retailer volume outpacing GDP would give UPS stock price legs to increase beyond its long-term growth rate & ability to enhance margins.

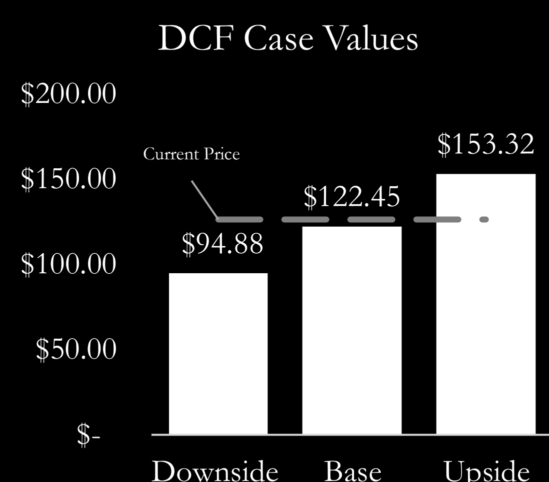
Capex on Delivery Network Provides Outsized Returns: UPS is a capital intensive business, and while that can largely be chalked up to the fleet of 294, relatively old aircraft UPS owns, (in addition to the rest of its multi-dimensional fleet), a lot of capex goes towards network capacity and improving operational returns to scale for labor using technology.

Value Recognized from Healthcare Capabilities: UPS has been pushing to expand its healthcare logistics capabilities between

Our Price Target: $120.00
Our PT is based on the composite effects of higher labor costs and reduced volume at the expense of amazon with positive inorganic growth through acquisition and further expansion into healthcare supply chain logistics.

Our Upside Case: $150.00
Our upside case is based on the massively valuable and durable moat that UPS sits upon returns to its ability to provide outsized returns to investors. Normalization in the labor market and consumer end market should jumpstart operating profit and automation and supplies chains of the future design margin that are unthinkable in the current environment.

Our Downside Case: $95.00
Our downside case is built on a UPS that is burdened by the onerous contract with the teamsters, Amazon’s insourcing ambitions, and a weak consumer in the near term for the US & Europe. UPS will remain a decent dividend play but will fail to see share appreciation.



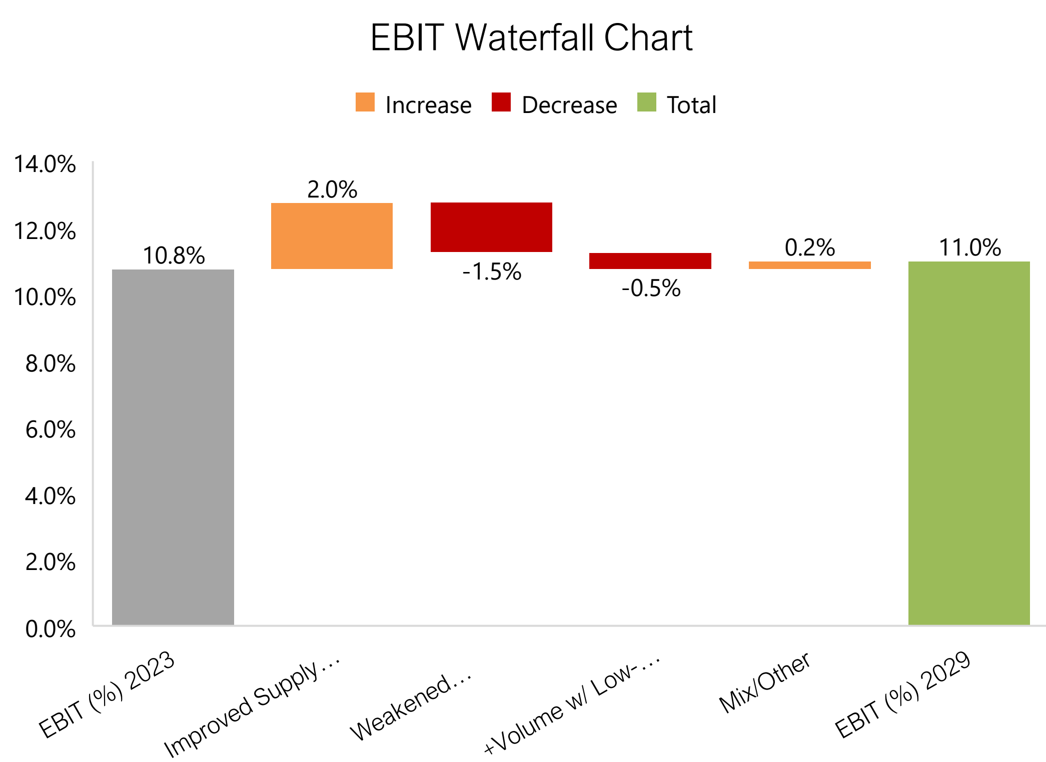
service providers and suppliers. In the most recent quarter, this has meant adding additional cold-storage supply facilities to support needs in the increasingly complex biopharma industry.

Projections

Income Statement ($mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	90,958	93,000	95,341	97,992	100,966	2.6%
EBITDA	12,553	11,067	11,937	12,876	13,893	2.6%
EBIT	9,784	8,742	9,553	10,426	11,369	3.8%
EBIAT	7,919	7,081	7,929	8,654	9,436	4.5%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	13.8%	11.9%	12.5%	13.1%	13.8%	13.0%
EBIT Margin	10.8%	9.4%	10.0%	10.6%	11.3%	10.4%
Revenue Growth	-9.3%	2.2%	2.5%	2.8%	3.0%	0.2%
EBIT Growth	-29.2%	-10.7%	9.3%	9.1%	9.0%	-2.5%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	35.6x	20.4x	17.6x	15.8x	14.2x	20.7x
EV/Sales	1.4x	1.4x	1.3x	1.3x	1.3x	1.3x
EV/EBITDA	46.3x	55.1x	53.8x	52.3x	50.8x	51.7x
FCF Yield	-5.9%	1.8%	4.0%	5.3%	2.8%	1.6%



About $UPS

United Parcel Service, Inc. (UPS), headquartered in Atlanta, Georgia, is a global package delivery and supply chain management company founded in 1907. It operates in over 220 countries and territories, providing a wide range of logistics services, including transportation, distribution, and freight forwarding. UPS is known for its extensive ground and air delivery network, serving both individual consumers and businesses. The company is a key player in the global logistics industry, with operations across various segments, including domestic and international package delivery. UPS continues to expand its services to meet the evolving needs of its customers.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.