

BANKING/ FINANCE

FedEx Falls as Rising Costs Cool Wall Street's High Hopes

by Thomas Black

FedEx Corp. failed to keep up with Wall Street's soaring expectations as a jump in costs at the Ground unit crimped profit margins and spurred doubts about the extent of a bonanza from record package deliveries.

The Ground unit, which carries most of the company's U.S. e-commerce business, had margins of 7.5% in the fiscal second quarter, down from 11.8% in the previous quarter, FedEx said Thursday. The division's higher spending on wages and purchased transportation dragged down FedEx's overall margins from the previous three-month period, even as profit surged from last year.

The cost squeeze is poised to weigh on FedEx despite the courier's push to raise prices and boost efficiency. A flood of e-commerce parcels is expected to continue even after this year's gains from the coronavirus pandemic. Since dropping off packages is more expensive at homes than at businesses, the shift threatens FedEx Ground's effort to restore profit margins to the teens, which it enjoyed when commercial deliveries predominated.

The Ground unit's profitability in the quarter ending Nov. 30 was "a negative surprise," Allison Landry, an analyst with Credit Suisse Group AG, said in a note to clients. The margins were "below our expectation and fell short of what we thought were unreasonably high market expectations that were closer to 10%."

The shares of FedEx jumped 93% this year through Thursday, placing it in the top 10 gainers of the broad U.S. stock gauge.

The company's cost challenge parallels similar pressure at United Parcel Service Inc., which sparked a brief rout in its own shares when it warned of higher expenses after reporting results in October. While Wall Street turned bullish on the couriers this year as the pandemic compelled consumers to shop more online, investors have been sensitive to any sign that soaring e-commerce deliveries will weaken profitability.

FedEx said margins at its Ground business will improve after the company gets through the extra costs of the peak holiday delivery season. The unit's chief, Henry Maier, said on a conference call with analysts that he was "highly confident of double-digit margins" in the next two quarters.

The Memphis, Tennessee-based courier will also get a boost from a rebound in commercial business when the pandemic abates, as the U.S. economy recovers and more people return to offices. But the growth in e-commerce shipments is here to stay, the company said, with those parcels expected to triple from their 2019 level to 111 million a day in 2026.

"Unquestionably, the sustainability and acceleration of the e-commerce business that we have seen and that everybody has highlighted is here to stay," said Chief Financial Officer Mike Lenz said on the call. "That volume is going to keep coming."

Besides becoming more efficient, FedEx plans to raise prices further, especially for e-commerce, said market chief Brie Carere.

The courier has increased prices with surcharges as the pandemic swelled



JASON DOY

Since dropping off packages is more expensive at homes than at businesses, the shift threatens FedEx Ground's effort to restore profit margins to the teens, which it enjoyed when commercial deliveries predominated.

residential demand. FedEx signaled the increases will continue with an announcement this week that surcharges on certain packages will remain indefinitely after the peak season.

"We're going to continue to execute on our revenue quality strategy. We think there have been some fundamental shifts in the market," Carere said. "We believe surcharges will be a part of our pricing strategy moving forward for e-commerce. They are a necessary part."

Adjusted earnings in the company's fiscal second quarter rose to \$4.83 a share, which included a 71-cent gain mostly related to taxes, FedEx said. That compares with the \$4.01 average of analyst estimates compiled by Bloomberg.

Sales in the quarter jumped 19% to \$20.6 billion, while analysts predicted \$19.4 billion. FedEx again declined to provide guidance for its fiscal year 2021, which concludes at the end of May.

The revenue gains "were partially offset by costs to support strong demand and to expand services, variable compensation expense, and COVID-19-related costs," FedEx said in the statement. The company reported \$150 million in costs related to the pandemic for the first six months of the current fiscal year, including \$100 million in the previous quarter.

While operating expenses typically rise during the peak holiday season, the impact was even more pronounced this year at the Ground unit because of record home deliveries. FedEx hired almost 30% more temporary workers this year than last year and hired more third-party companies to provide transportation, driving up expenses at the Ground unit. The division's package volume jumped 39% from a year earlier.

The company's Express unit fared better, with large gains in international priority packages and U.S. overnight boxes. Express revenue rose 14% to \$10.4 billion. Operating margins climbed to 8.7%, a gain of more than three-fold from a year earlier and higher than in the previous quarter. The unit is positioned for another shot in the arm as COVID-19 vaccine deliveries ramp up worldwide.

Still, Express is getting a boost from special circumstances such as the emergency movement of health supplies and falling competition from passenger flights, which typically carry some cargo. There's a risk that won't last as passenger carriers recover after slashing operations because of the pandemic. FedEx counters that it will take 18 to 24 months for airlines to bring freight capacity back to pre-COVID levels.

Thomas Black reports for Bloomberg News.



CITY OF DORAL NOTICE OF PUBLIC HEARING

All residents, property owners and other interested parties are hereby notified of a **COUNCIL MEETING** on **Wednesday, January 13, 2021 beginning at 10:00 AM**, to consider an Ordinance allowing restaurants to apply for a temporary outdoor seating Certificate of Use (CU) with a sunset provision of December 31, 2021, in an effort to promote the economic recovery of the City's restaurants, as well as provide an opportunity for City residents to resume dining at local businesses. The City Council will consider this item for **SECOND READING**.

General Public Comments: members of the public that wish to provide comments in writing may do so by emailing the City Clerk at cityclerk@cityofdoral.com. Comments must be submitted with your name and full address by Tuesday, January 12, 2021. The comments will be circulated to the elected officials and administration, as well as remain as a part of the record for the meeting.

Public Hearing Comments: members of the public that wish to provide comments on the Public Hearing item(s) **ONLY**, may register to join the meeting via this link: <https://attendee.gotowebinar.com/register/5293438614868441615>

The meeting will be broadcasted live for members of the public to view on the City of Doral's website (<https://www.cityofdoral.com/government/city-clerk/council-meetings>) as well as Channel 77 and Facebook Live.

The City of Doral proposes to adopt the following Ordinance:

ORDINANCE No. 2020-25

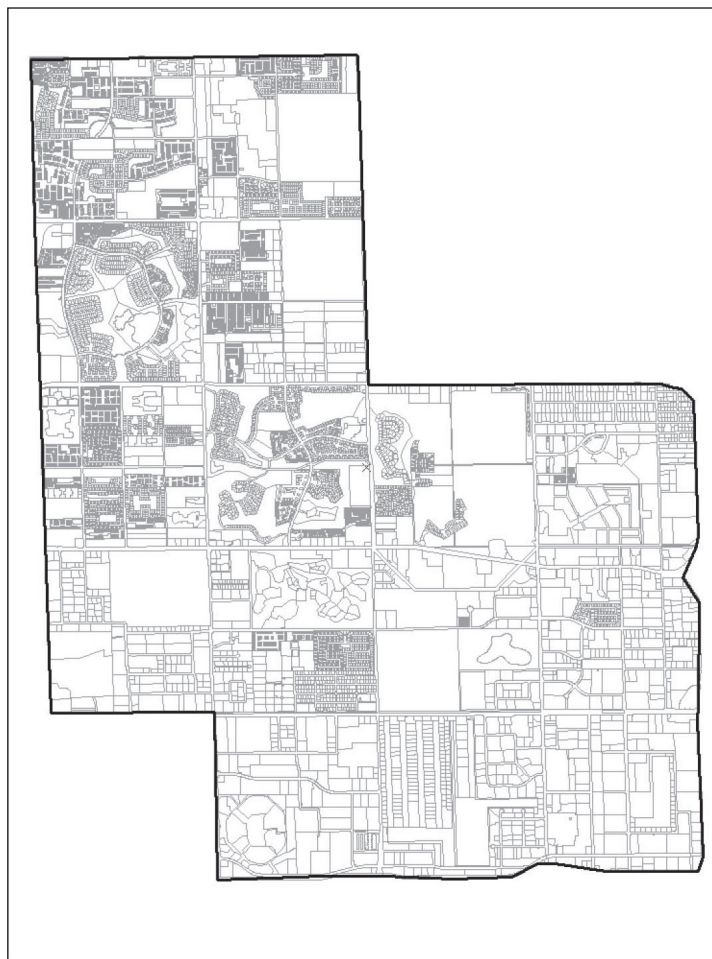
AN ORDINANCE OF THE MAYOR AND THE CITY COUNCIL OF THE CITY OF DORAL, FLORIDA, AUTHORIZING RESTAURANTS TO APPLY FOR A TEMPORARY OUTDOOR SEATING CERTIFICATE OF USE (CU) WITH A SUNSET PROVISION OF DECEMBER 31, 2021, IN AN EFFORT TO PROMOTE THE ECONOMIC RECOVERY OF THE CITY'S RESTAURANTS DUE TO THE COVID-19 PANDEMIC; PROVIDING FOR A REPEALER PROVISION; AND PROVIDING FOR AN EFFECTIVE DATE

HEARING NO.: 20-10-DOR-01

APPLICANT: City of Doral

REQUEST: The City of Doral (the "Applicant") is requesting the Mayor and the City Council approval of an ordinance allowing restaurants to apply for a temporary outdoor seating Certificate of Use (CU) with a sunset provision of December 31, 2021, in an effort to promote the economic recovery of the City's restaurants, as well as, provide an opportunity for City residents to resume dining at local businesses.

Location Map



Inquiries regarding the item may be directed to the Planning and Zoning Department at 305-59-DORAL.

Pursuant to Section 286.0105, Florida Statutes If a person decides to appeal any decisions made by the City Council with respect to any matter considered at such meeting or hearing, they will need a record of the proceedings and, for such purpose, may need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based. This notice does not constitute consent by the City for introduction or admission of otherwise inadmissible or irrelevant evidence, nor does it authorize challenges or appeals not otherwise allowed by law. In accordance with the Americans with Disabilities Act, any person who are disabled and who need special accommodations to participate in this meeting because of that disability should contact the Planning and Zoning Department at 305-59-DORAL no later than three (3) business days prior to the proceeding.

Connie Diaz, MMC
City Clerk
City of Doral City of Doral