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Updated:

UPS Posts \$1.12 Billion 4Q Profit as Volume, Rates Rise

By Dan Leone, Staff Reporter

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UPS Inc. nearly doubled its fourth-quarter net earnings, which shot up to \$1.12 billion as volumes and pricing improved across almost all business segments, the parcel carrier said Feb. 1.

For all of 2010, UPS, Atlanta, earned \$3.49 billion, a gain of more than 62% from 2009, the company said. Total annual shipment volumes were up 3.9% year-over-year, UPS said.

Total quarterly revenue rose 8.4% to \$13.42 billion, and revenue for the year increased 9.4% to \$49.56 billion, UPS said in its latest earnings report.

“Wow, what a difference a year makes,” Kurt Kuehn, UPS’ chief financial officer, said on a Feb. 1 conference call.

Although he acknowledged that business appears finally to be finding its legs after a long recession, “Clearly, the go-go economy of 2007 is not fully back yet.”

In particular, UPS Freight, the less-than-truckload unit, is still feeling pressure from the cutthroat rate environment that pervaded the LTL sector throughout the downturn and is only now beginning to firm.

“The only business really that still has quite a ways to go on the margin side is the LTL business,” said Kuehn. He added that Freight is “modestly profitable” but still not performing at internal target levels.

Nevertheless, UPS executives were unambiguous about their expectations for economic improvement in 2011.

CEO Scott Davis said that the company, which ranks No. 1 on the Transport Topics 100 list of the largest for-hire carriers in the United States and Canada, anticipates a record-breaking year.

“We expect revenue and margin expansion” in 2011, Davis said.

Fourth-quarter operating profit at UPS’ U.S. package business, which accounts for the single largest portion of the company’s revenue, jumped 36.5% to \$1.04 billion. Operating income for all of 2010 soared 57.8% to \$3.37 billion, UPS said.

The domestic package division moved about 15.2 million parcels a day in the fourth quarter, up from 14.86 million in the 2009 quarter. Across all modes, revenue per U.S. package for the 2010 quarter increased 3.5% to \$8.62. For the year, revenue per package rose 3.8% to \$8.85, UPS said.

The vast majority of domestic ground packages carried by UPS moves on trucks.

Unlike the LTL segment, “we’ve been pleased with a rational and stable pricing environment” in the U.S. parcel business,

Davis said.

Meanwhile, the world's largest package company said that there is still room for improvement at UPS Freight.

"I'd say we are modestly profitable with the fourth quarter" at UPS Freight, said Davis. He added that the drop in quarterly LTL profits usually seen in the fourth quarter from the third quarter was less pronounced in 2010 than in years past.

Nevertheless, "we still have a long ways to go for profitability in the LTL industry to get back anywhere near to typical rates," said Kuehn.

UPS doesn't break out operating profit for the LTL division, but company documents show that Freight's operating revenue was \$526 million in the fourth quarter, a 20.1% increase compared with the 2009 quarter. Yearly LTL revenue was about \$2 billion, a 10.8% increase from 2009.

Quarterly revenue per hundredweight, a measure of LTL pricing, rose 8.7% to \$19.95. For the year, LTL yield was up 8.4% to \$19.18, UPS said.

The Freight division moved an average of 41,700 LTL shipments per day in the fourth quarter and an average of 39,700 LTL shipments per day for all of 2010 — year-over-year gains of 7.7% and 1.4%, respectively. The increase in average daily volumes occurred in spite of two fewer weekday operating days at Freight in 2010. The LTL division had 251 work days in 2010.

Jon Langenfeld, who follows UPS for Robert W. Baird, said that "recent firming LTL industry pricing trends" bodes well for UPS Freight, which did not discount as aggressively as the broader LTL segment did during the recession.

Langenfeld estimated that profit margins at the Freight division will have to firm up to about 10% "from roughly breakeven today" in order for the segment to boost its operating income "over the next couple years."

Looking ahead, UPS said that while it expects a record-setting 2011 as far as its own earnings are concerned, the U.S. economy is likely to grow only modestly.

"As far as our outlook for 2011, economic expectations call for modest growth, but we expect a record-setting year for UPS, with earnings per share reaching an all-time high," said Kuehn. "We anticipate earnings in a range of \$4.12 to \$4.35 per share, an increase of 16% to 22%" compared with the 2010 levels just reported.

Among the factors keeping a lid on economic growth is a historically low inventory-to-sales ratio that is indicative of lingering consumer caution.

Currently, "I do think inventory-to-sales ratios are still pretty low historically," said Kuehn. On the bright side, "I think it bodes pretty well for replenishing the inventories this year."

For the broader U.S. economy, UPS is forecasting 2011 gross domestic product growth of "somewhere around 3%, maybe a little higher," said Kuehn.