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Updated:

## UPS' Third-Quarter Profit Declines 43%, but Company Says It Sees Signs of Recovery

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This story appears in the Oct. 26 print edition of Transport Topics.

Lower profits at its key U.S. domestic package unit slashed UPS Inc.'s third-quarter earnings by 43% to \$549 million, but the company said signs of an economic recovery should bring better results in the months ahead.

Profit from operations also fell 43%, including a drop of 54% in the domestic package business. That segment of the company accounted for 62% of third-quarter revenue of \$11.2 billion.

Revenue at the company's less than truckload unit fell 16%, reflecting lower revenue per pound of freight shipped and lower volume.

"I'm encouraged by the signs of economic recovery that are becoming apparent, although we still have a long way to go," said Scott Davis, CEO of UPS, noting that cost control and efficient operations were helping quarterly results. "Ongoing strategic investment has positioned UPS to capitalize on growth opportunities around the world."

"The business environment in the third quarter began similarly to that of the preceding quarter," Chief Financial Officer Kurt Kuehn said in the earnings announcement. "We did see profitability improvement due to effective cost management and firming volume later in the quarter."

UPS, Atlanta, Ga., which ranks No. 1 on the Transport Topics 100 list of largest for-hire carriers in the United States and Canada, forecast improved results over the third quarter for trucking and other businesses, saying profit would be between 58 cents a share and 65 cents a share for the fourth quarter. That's an improvement over the 55 cents a share in the third quarter. Last year's fourth quarter profit was 83 cents a share.

Operating profit on a companywide basis was \$929 million as a result of lower volume and lower rates, compared with \$1.63 billion in last year's third quarter. Net income was 96 cents a share in the 2008 period.

Domestic package performance accounted for most of the year-to-year decline in the company's largest unit.

Package volume fell 3.6% and revenue per package was off 9%, reflecting lower fuel surcharge revenue and lighter-weight shipments, the company said. The operating ratio for the domestic package business deteriorated to 92.5, compared with 85.8 in the year-ago period. Revenue fell 12% to \$6.87 billion from \$7.84 billion.

The LTL unit's third-quarter revenue dropped to \$474 million from \$562 million a year earlier. Revenue per hundredweight declined 6% to \$17.91, as total shipments fell 1.7% and weight per shipment slipped 8.6%.

"UPS Freight performance was negatively impacted by increasingly competitive conditions in the freight environment," the company's announcement said. "None-theless, the business outperformed the market and gained share while maintaining

yields.”

On a sequential basis, UPS Freight showed a mixture of modest declines and improvements.

Third quarter LTL revenue rose \$3 million from \$471 million in the second quarter, while revenue per hundred pounds of freight climbed to \$17.91, a gain of 3.7%. Shipments fell to 2.60 million from 2.61 million and weight per shipment declined by 2.5% to 1,019 pounds.

The company does not release details about profitability of the LTL unit, which is part of its supply chain and freight segment. That business experienced a 21% drop in profits to \$102 million from \$129 million. The operating ratio was nearly identical at 94.5, compared to 94.4 a year earlier.

“Although UPS cited improving volume trends across most of its business, they conceded it’s still too early to declare a recovery underway and the fourth quarter outcome is largely contingent on the strength of the holiday season,” said a report by UBS analyst Rick Paterson. “UPS is doing a great job at cutting costs. The full benefit of these efficiency gains won’t be seen until volumes begin to rebound more significantly.”

The company said it has taken cost-saving steps totaling \$1.4 billion this year, and has cut annual capital spending by 23% to \$1.7 billion as the economy slowed.

The international business performed better than any other part of the company.

Volume was up 4%, in part due to an acquisition in Turkey. The operating ratio for international package business dipped slightly to 87.1 from 86.9.

However, revenue per shipment was 21% lower, a performance that was attributed in part to reduced fuel surcharge collections and currency fluctuations. International revenue was \$2.42 billion, a drop of 18%.

Total packages shipped on domestic and international routes in the third quarter fell 2.4% from the same quarter of 2008. The average revenue per package fell 11%.