FedEx Loses $876 Million, But Sees Better Economy

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FedEx Corp. last week reported a quarterly loss of $876 million linked to one-time charges, but company leaders forecast better economic conditions that could improve results in the months ahead.

“There are signs that the worst of the recession is behind us, and we remain optimistic that we will see quarter-over-quarter economic improvement later this calendar year,” Chief Executive Officer Frederick Smith said on June 17.

The corporation’s loss for its fiscal fourth quarter, which ended May 31, included $1.08 billion in one-time charges, and profit excluding costs was 64 cents a share, down 56%. Revenue fell 20% to $7.85 billion.

Losses continued at the FedEx Freight unit, though results excluding charges improved from the preceding quarter.

The recession hit hard at FedEx Freight, as revenue fell 28% to $948 million from $1.31 billion. The unit lost $106 million, including $100 million in charges, compared with $99 million of operating income in the prior-year period.

Excluding charges, the Freight operating loss was $6 million, which makes the quarter’s operating ratio 100.6, better than the 106.5 in the fiscal third quarter but worse than 92.7 a year earlier. The third-quarter Freight operating loss was $59 million.

Weaker regional pricing was attributed to lower fuel surcharge revenue, included in LTL freight rates, while FedEx national freight pricing was hurt both by lower base rates and by reduced fuel surcharge collections, Chief Financial Officer Alan Graf Jr. said.

Average daily Freight shipments fell 17%, and weight per shipment declined 2%. Revenue per 100 pounds of freight dropped to $17.78 from $18.21 in the 2009 third quarter and $19.18 in the fiscal 2008 fourth quarter.

FedEx Freight President Douglas Duncan said he sees some bright spots.

“We are in a great position to take on additional capacity,” said Duncan, if there is consolidation or
if there is an economic upturn. “Given what we see as the possibility of consolidation, we are in great shape to handle our fair share of what may come our way. We retained the bulk of our driver force, and we kept up construction where capacity was constrained.”

Driver ranks have been reduced just 7%, he said, noting that new facilities have opened in Houston and Columbus, Ohio, in recent months to boost capacity.

Duncan didn’t say how much freight FedEx could pick up from industry consolidation. He noted that current industry volumes are more than 20% lower than they were three years ago. He also said that any economy-related volume increase would be limited because only moderate growth is expected in gross domestic product at the start of a recovery.

The Express unit also struggled, as revenue fell 25% to $4.8 billion and the unit’s operating loss was $136 million, including $260 million in one-time costs. Domestic package revenue declined 21%. A total of 19 percentage points of the decline was price-related and two percentage points was lower volume.

FedEx Ground revenue slid 1% to $1.70 billion, from $1.72 billion. Operating income was identical at $203 million, and package volume was little changed.

Part of the FedEx conference call was devoted to Smith’s comments on federal legislation to change the labor laws applying to some FedEx Express workers (click here for previous story).

“We oppose this very vigorously,” Smith said. “FedEx provides highly competitive wages and benefits. We have gained a reputation as a great place to work around the world.”

Fiscal first-quarter earnings were forecast at 30 cents to 45 cents a share. Recent fuel increases were a major factor in the forecast, because surcharges were based on prices in April and May that are significantly lower than June and July prices, Graf said.

“While cost control came in stronger than expected in the fiscal fourth quarter, the fact remains FedEx has more operating leverage than the vast majority of freight companies,” Rick Paterson, a UBS financial analyst, said in an investor note. “Cost control will only take FedEx so far, and with stagnant pricing, no material productivity opportunities given the network is already optimized, and market share initiatives unable to materially offset the brutal business cycle.”

The corporation’s charge included about $1.1 billion in goodwill and asset write-downs, $46 million in severance, $56 million for lease terminations and similar costs, and a $128 million tax benefit.