MARKET EXPECTATIONS FOR UPS OPERATING MARGIN

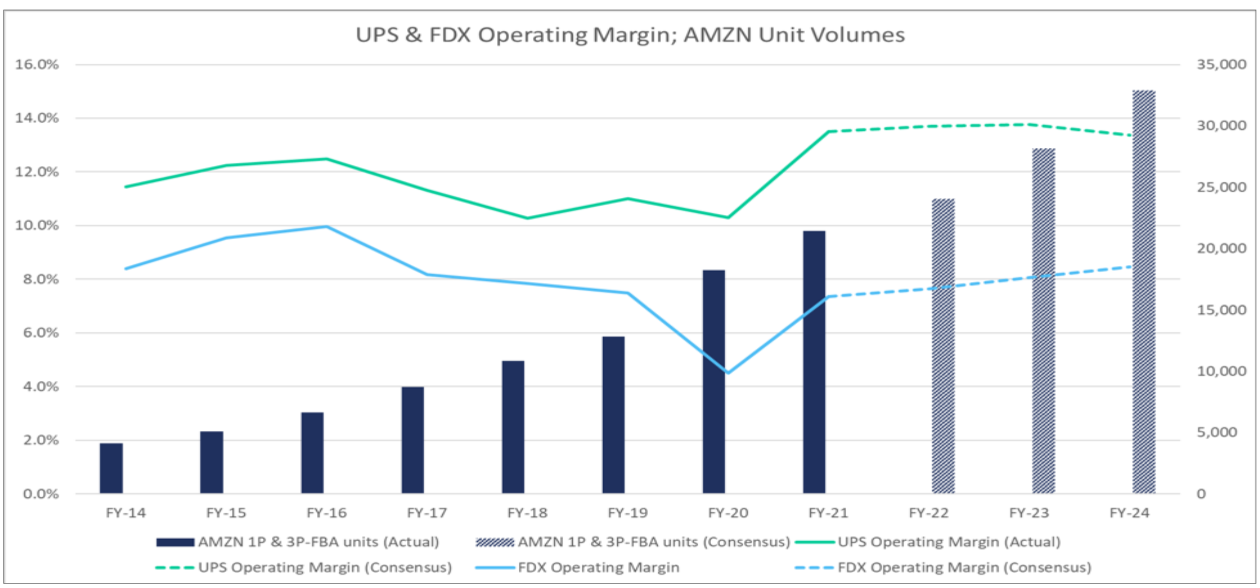
visible alpha

In Business Breakdown's recent podcast "[UPS: Leaders of the Package,]" released Feb. 9, 2022, host Zack Fuss interviewed Matt Reustle, CEO of Colossus and a former transport analyst.

During the episode, listeners find that operating margins are the "guiding light" that drives the parcel delivery industry, specifically UPS, FedEx and Amazon. Businesses centered around large logistical networks carry substantial fixed costs such as labor, trucks, planes and sortation facilities. Therefore, volume growth typically drives incremental margin growth assuming the existing pool of fixed resources can absorb increases in volume.

With Carol Tomé joining UPS as CEO in Q1 of 2020, right before the Covid-19 pandemic, the new theme for the company became "better, not bigger." Because Amazon started to disrupt the marketplace for UPS, Tomé's main objective was to bring in outside resources and perspectives to re-optimize the operating model to maintain and improve margins in the face of a continued increase in parcel volumes attributable to sustained growth in e-commerce.

Today, e-commerce is continuing to drive more volume. Historically, e-commerce has hurt operating margin quite substantially for UPS and FedEx, but recent investments in automation have helped to improve operating efficiency, as seen in the last reported fiscal year. Visible Alpha consensus shows that analysts expect that these businesses will at least maintain this margin as e-commerce volumes (proxied by Amazon unit volumes) are expected to continue to increase at a 12-17% rate YoY for FY22-FY24.



Source: Visible Alpha consensus (Feb. 11, 2022) visible alpha

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