



FY21: A pivotal year

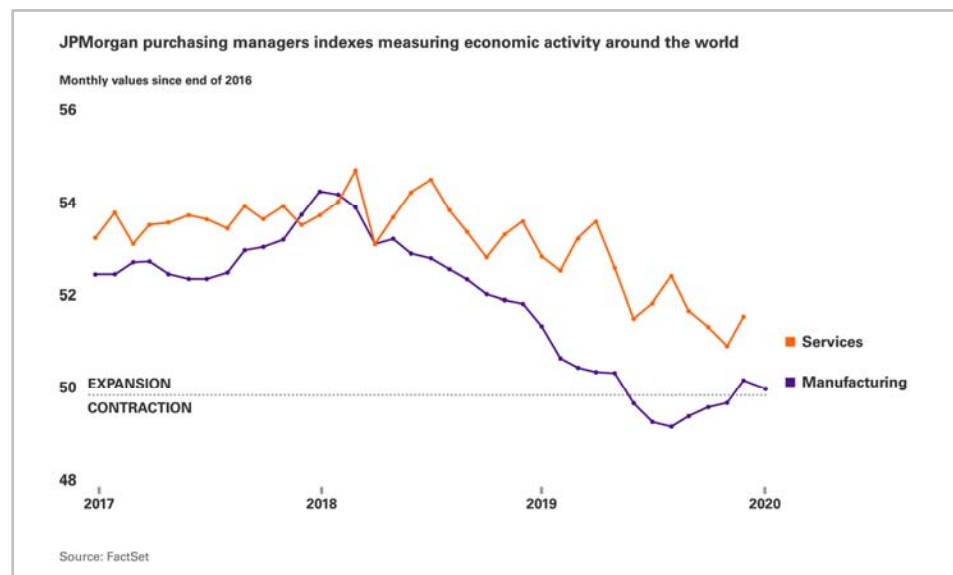
I would like to first share my most sincere appreciation to each of you for again delivering the holidays to our customers during this busy Peak season that was both condensed in time and unprecedented in volume. On top of these significant volume increases, there were nearly 8 million FedEx Home Delivery and FedEx Ground packages delivered on Sunday during Peak due to the implementation of delivery seven days a week by FedEx Ground. We should all be proud of these remarkable numbers.

FedEx service levels were very high — particularly at FedEx Express, compared with competitors' services. We closely track our service performance during Peak and are confident in our data and methodology. Ground did experience challenges with weather-related delays, as well as large shifts in the origin of shipments that did not match customer forecasts, but despite a number of inaccurate reports in the media, overall Ground service levels were very good. We dispute the methodology being used by some of these outside firms, and their data does not match our own and what we know to be true. In addition, UPS adjusted some of their transit times to slow down during Peak season relative to the rest of the year, while FedEx maintained our delivery commitment times during our customers' busiest season. We held ourselves to the same standard during Peak that we do during the other 11 months of the year. That means service

level comparisons between the two were inconsistent, with FedEx service levels graded on a steeper curve.

When you factor in Amazon and USPS service levels, the picture gets even more distorted. They are measured solely on final-mile performance, as that is the only readily available data outside firms can access. Simply put, it was not apples to apples — or even apples to oranges. While some media reports missed the mark, the entire executive team at FedEx recognizes your accomplishments, and we're grateful for your dedication during this critical season for our customers. Most importantly, our customers see through this inaccurate reporting, based on feedback we have received giving FedEx very high marks for a great Peak season.

As I mentioned over the past year, FedEx is in a period of challenge and change. Some of the difficulties we face, such as tariffs, trade uncertainties, and slowing global economies, are beyond our control. And while there's a healthy U.S. consumer economy supported by a strong labor market, weak global trade and manufacturing drove less-than-expected demand for our most profitable package and freight services across our business-to-business segments. That is being further compounded by air cargo capacity continuing to grow, outpacing the softer demand.





From the Chairman & CEO

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We are also experiencing unique headwinds as a result of the investments we've made to expand residential delivery to seven days a week and to integrate TNT. The strategic decision we made to step away from Amazon also meant temporarily lower volume levels. And while we're experiencing a negative financial effect from these issues, our investments are exactly the right ones, and they are setting us up for long-term success. Moreover, as our volumes indicated, this was a record Peak season despite stepping away from Amazon.

Looking ahead, we are laser-focused on the factors we can control, such as our five key areas for profitable growth discussed on the earnings call — **E-commerce, Business-to-Business, Operational Excellence, Increasing International Profitability, and Revenue Quality**. We're confident that our flawless execution of these strategies will make FY21 a pivotal year for FedEx:

1. **E-commerce** is the fastest-growing segment in our business. Look no further than Cyber Monday, on which FedEx moved nearly 38 million packages, up 17% from the year before. From 2018 through 2026, e-commerce is predicted to account for over 90% — reflect on that number for a moment — of the incremental growth in the U.S. domestic parcel market. In the [July 2019 issue of From the Chairman & CEO](#), I detailed the changes underway at FedEx to handle the growth of e-commerce and ensure FedEx Ground is the leader in business-to-consumer shipping. These include:

- **Integrating SmartPost package volume into the FedEx Ground network.** This means the majority of the packages that were previously delivered by the U.S. Postal Service will now be delivered by FedEx Ground service providers. This will provide greater efficiency and delivery density as SmartPost and FedEx Ground packages are delivered to the same or nearby residential addresses.

- FedEx Ground is also enhancing its capabilities to efficiently handle **the increasing volume of large packages**, like sofas and mattresses ordered online, with the addition of new large-package sorting annexes and enhanced large-package handling equipment throughout the network.
 - Customers are thrilled with our announcement of residential **delivery seven days a week** to the majority of the population in the continental U.S. **This means every day is a delivery day.** Many customers started switching to FedEx during Peak — their busiest time of the year. We are one day faster than UPS's ground transit schedules for 400 million origin and destination ZIP code pairs. Additionally, we currently estimate that operations seven days a week will increase our speed on more than 20% of home delivery packages by a day. It's important to note the FedEx speed and Sunday service advantages are also valuable for healthcare and perishable shippers who need weekend delivery. Increasing our operations to everyday delivery is an investment, of course, but we expect to begin reaping the benefits in late FY20, continuing into FY21.
 - We have also significantly expanded our FedEx OnSite alliances in the U.S. by adding more Walgreens locations and signing a new agreement with Dollar General. With these additions, and in conjunction with our flagship FedEx Office locations, by Peak season next year, 90% of the U.S. population will be within 5 miles of a FedEx dropoff and pickup location. Our convenience network also supports the double-digit growth we are seeing in returns, which is in the sweet spot of our focus on business-to-business (B2B) shipping, as this is B2B traffic.
2. **Business-to-Business** shipping remains a top priority, as it is the source for the majority of FedEx revenues. Express will increase its focus on premium, time-definite services, especially as our international business rebounds, given the new trade deals. Recent progress in the form of the Phase I deal



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between the U.S. and China as well as the United States-Mexico-Canada Agreement (USMCA) is good news for our business and for the global economy. We will increase the use of sensor-based technology to differentiate our Express services for healthcare, aerospace, and other high-tech segments, offering unparalleled visibility and recovery for those shipments. We'll also be introducing new, convenient services for small and medium B2B customers.

- 3. Operational Excellence** is core to our business. Our strategy to compete collectively, operate independently, manage collaboratively has allowed us to deliver great service, as customer need requires, in a cost-effective manner. Operational Excellence in today's world must be enabled by best-in-class technology. We're using technology in a number of ways to increase our efficiency. One example is dynamic route optimization, or DRO, which we are offering to FedEx Ground service providers to enable them to prepare for increased residential volume associated with e-commerce growth. DRO technology provides near-real-time data that service providers can use to plan efficient delivery routes, as well as make decisions about their vehicle mix and workforce to accommodate the increase in both small and large packages.

To better serve the ballooning e-commerce market, we will be introducing new operational concepts to more efficiently deliver the last mile for business-to-consumer (B2C) shipments. This often requires the delivery of a single lightweight package to a residence, which affects our productivity; and when the delivery is to a suburban or rural area, it is even more expensive to serve. With the growth trajectory of e-commerce, our current model for handling B2C deliveries must change. We must get the right package into the right network at the right cost to serve.

Our new systems will exemplify Operational Excellence and provide superior service in the

most cost-effective manner. In this way, we will allow each of our FedEx networks to do what it does best.

- 4. Increasing International Profitability** will include reducing intercontinental and domestic air capacity to fit current demand. Of particular importance is our fleet modernization program to retire all A310 and MD-10 aircraft from the FedEx Express fleet. These aircraft are old, inefficient, and not nearly as reliable as the Boeing 767Fs and 777Fs that are replacing them. By May 2022, the retirement of 159 A310s and MD-10s will be complete. This is a remarkable success story for our great air operations professionals.

With TNT, we're continuing to move toward interoperable FedEx and TNT intra-Europe ground networks, targeting the end of this coming May. The vast majority of TNT couriers and contractors will be in uniforms reflecting the FedEx Express brand also by the end of FY20. This will dramatically increase our brand awareness around the globe. And the progress we've made at our Charles de Gaulle hub is already benefiting our European business, and that project's completion in fall 2021 will allow us to fully integrate the European air network — delivering significant financial benefits.

We're also opening the valve for e-commerce in Europe, where we've already seen strong intercontinental commercial growth. To add perspective, we had just nine European e-commerce sales leads a year ago — and now, we're actively managing 1,000 e-commerce customers and 10,000 leads.

- 5. Revenue Quality** will be improved by focusing on small and medium shippers and strategically managing our large B2B customer portfolio so that average yields are compensatory for the unmatched services we provide.

Our efforts in all of the areas above will begin to bear fruit by the last quarter of FY20 and into



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FY21. Absent any further economic slowdowns in the global marketplace, we will see a more competitive and a more profitable FedEx in the years to come.

Our Board of Directors and our Strategic Management Committee are very confident in our strategy and the various initiatives above. Most importantly, we are confident in you, our great team that now numbers more than 490,000 individuals around the world. You have done a marvelous job dealing with challenge and change in FY20. Thanks to each of you for keeping our Purple Promise — "I will make every FedEx experience outstanding" — every day.

A handwritten signature in black ink, appearing to read "Frederick W. Smith".

Frederick W. Smith
Chairman and CEO