



Building the network for what's next

Last year, I shared with you that fiscal year 2020 would be a period of great **challenge and change** for FedEx, as was certainly the case — especially with the emergence of COVID-19. In our [2019 Annual Report](#), I covered the three major factors spurring this challenge and change, which all merit reiterating:

- **Trade disputes** that began in calendar year 2018 and accelerated in calendar year 2019;
- Strategic decision-making and investment to position FedEx as *the* dominant **e-commerce** player; and
- Strategically timed **aircraft and hub modernization** programs.

Challenge & change — trade disputes:

Trade is an essential element of prosperity. Arguably one of the biggest changes that has increased prosperity since the end of World War II has been the opening of global markets and the growth of trade. FedEx serves more than 220 countries and territories, making us an enormous enabler and beneficiary of free trade, and as we finished fiscal year 2018, FedEx experienced one of the strongest quarters in the company's history.

As illustrated in the below chart, in calendar year 2018 the trade disputes dealt a devastating blow to the global industrial economy, which is very much dependent on global trade. Our company's commercial business suffered across the board as the trade disputes escalated. We were most adversely affected in Europe, where we were in the midst of the integration of TNT. FedEx was among the first to recognize this slowdown in global trade, and **we responded to this challenge by actively managing costs while continuing to make the necessary investments for long-term success.**

Challenge & change — going all-in on e-commerce:

Second, by the end of fiscal year 2019, our Strategic Management Committee had made some of the most significant decisions in the history of FedEx — representing an enormous shift in direction. FedEx has a history of seeing what lies on the horizon, and **we determined to go all-in on e-commerce.**

And in the July 2019 [From the Chairman & CEO](#), I detailed the ways in which we've been positioning FedEx to win in the booming e-commerce market.



Sources: Netherlands Bureau for Economic Policy Analysis and Haver Analytics
As of April 1, 2020



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Challenge & change — aircraft and hub modernization:

The third element of challenge and change FedEx continues to address is the modernization of our air fleet and primary hubs. The expensing provision of the Tax Cuts and Jobs Act signed in December 2017 encouraged FedEx to order additional Boeing 777F and 767F aircraft and retire more of our less efficient planes. We've successfully retired all of our A310 aircraft, and we expect to retire all of our MD-10 fleet by the end of fiscal year 2022.

The law's incentives also encouraged our future-focused hub modernization efforts, specifically our \$1.5 billion expansion of the FedEx Express Indianapolis hub and a \$1.5 billion modernization of the FedEx Express Memphis World Hub — both multi-year projects.

While some of the above strategies created financial headwinds in the short term, **we're confident we will point to these decisions as inflection points as we drive profitable growth over the long term.**

Who we are and what we do — responding to the COVID-19 pandemic:

While we were heading off existing challenges and positioning our company to leverage future opportunities, a challenge emerged in January 2020 unlike anything we could have predicted. We confronted COVID-19 initially in China, where we took herculean steps to protect the safety of our team members. As the virus spread throughout the globe, the **safety of our team and our customers** remained our absolute first priority.

My most sincere appreciation goes to teams across FedEx — both those working resolutely behind the scenes and our frontline team members — whose efforts have combined to keep the world's health care, industrial, and at-home supply chains moving in a truly historic way.

Our Global Network Planning and Operations Control teams adjust our network to maximize

capacity and utilization, at times on a daily basis. We are peerless in our ability to move aircraft around the world to match capacity to demand. We have undertaken one of the largest airlifts since the Berlin Airlift of 1948, and we've put who we are and what we do on display for the world throughout our ongoing response to COVID-19. While impossible to capture the breadth of our efforts in one letter, below are several illustrations of how we've mobilized the incredible reach and flexibility of our networks and the commitment of our FedEx team members to respond to the pandemic:

- FedEx Express has globally transported **31.8 kilotons of personal protective equipment** since February 1, 2020, including well over 1 billion masks.
- FedEx Express stood up a special weekend operation — **quickly adding 28 flight legs** — to help the U.S. government move COVID-19 test specimens from more than 50 remote drive-through testing centers across 12 states.
- FedEx Ground rapidly ramped up its operation to manage **peak-like e-commerce volumes** to support U.S. customers as they stay home and shop online in support of social distancing.
- FedEx Logistics has orchestrated more than **100 charter flights and 1,000 ocean containers** to supply critical personal protective equipment.
- FedEx Cares has facilitated the transport of more than **7,300 humanitarian aid shipments** globally through collaborations with our nonprofit partners — including personal protective equipment, medical shelters, boxes for food banks, and more.

Learn more at [fromthechairman.com](https://www.fromthechairman.com).



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Future-ready strategies:

And while our strategic course at FedEx was plotted long before COVID-19 entered the picture, in many ways, the world accelerated to meet our existing strategy. The e-commerce growth we anticipated over a few years happened in a matter of a few months, with e-commerce as a percentage of the U.S. retail market increasing from **16% in calendar year 2019 to 27% in April 2020**.

This growth underscored the importance of our business initiatives that directly address the e-commerce market's inherent challenges, including FedEx Ground seven-day operations, in-home deliveries of large, bulky items through FedEx Freight Direct, and integration of SmartPost volume to increase density.

We are also continuing to pursue technologies like Dynamic Route Optimization and winning strategies like Last Mile Optimization where we're collaborating across operating companies to optimize our resources and give FedEx a competitive edge, as Raj discussed in February's [From the President](#).

Building the network for what's next:

As depicted in the chart, COVID-19 obviously adds uncertainties to an already tenuous global landscape given the trade disputes and the slowing industrial economy. Despite these external factors over which we have little control, we have enormous cause for optimism. We've shown our mettle amid a global crisis, and **the world will continue to look to FedEx to deliver critical cargo**. We are continuing to make progress on the integration of TNT, which will strengthen our global network capabilities for our customers.

On top of the world's most dynamic and omnipresent physical network, FedEx also has incredible data and insight. As just one example, in May 2020, we announced a new multiyear collaboration **with Microsoft** to help transform commerce by combining the global digital and logistics network of FedEx with the power of

Microsoft's intelligent cloud. Our first joint solution, FedEx Surround, will provide customers near-real-time insights — down to ZIP code, for example — to shine a digital light on the movement of physical inventory.

Furthermore, we have launched **SenseAware ID**, our next generation sensor-based logistics device that provides real-time tracking of a package location while it's in the FedEx Express network using Bluetooth Low Energy. Initially, SenseAware ID will be limited to U.S. domestic FedEx First Overnight packages and will roll out nationwide by September 2020. This will provide competitive differentiation on our most premium services, and via FedEx Surround will allow for greater visibility, actionability and reliability on these shipments.

We believe **blockchain** and its insight into an authentic chain of custody will completely change worldwide supply chains. We continue to lead in exploring use cases across global customs clearance, health care and aerospace that have the potential to disrupt our industry for the better.

We're preparing **Roxo, the FedEx On Demand Bot**, for a second round of testing after last year's initial on-road tests and are making progress on legislation and regulatory approvals. There is much discussion of how autonomous robots like ours could help within a global pandemic like COVID-19, and we'll come out of this pandemic with a greater understanding of how FedEx can benefit customers — and society — through these devices.

You can expect us to continue to lead through technology and boost our capabilities at the intersection of the digital and physical world to position FedEx — an original market disruptor — to disrupt the market again.

Of course, none of these achievements would be possible without our FedEx team. FedEx has been absolutely committed to fostering a workplace that is as diverse as the world we serve, including our leadership at the highest levels of the company. For example, we have one of the most diverse



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board of directors in corporate America made up of 13 directors, four of whom are women and three of whom are ethnically diverse. Our legacy of diversity and inclusion is as important and as meaningful to me as anything we've accomplished in this company's history, but we can do more. **We commit to continuing to listen to our more than 500,000 team members around the globe as we find more ways to do what's right.**

I am extremely grateful for the commitment of each of our team members who deliver every day on the Purple Promise to make every FedEx experience outstanding. FedEx is the network for **what's next**, and we have the backing of the sharpest team in the business.

A handwritten signature in black ink, appearing to read "Fred", written in a cursive, stylized script.

Frederick W. Smith
Chairman and CEO