
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED November 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 1-15829

FEDEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
942 South Shady Grove Road Memphis, Tennessee
(Address of principal executive offices)

62-1721435
(I.R.S. Employer
Identification No.)

38120
(ZIP Code)

(901) 818-7500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock
Common Stock, par value \$0.10 per share

Outstanding Shares at December 18, 2013
312,228,182

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Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

GENERAL

The following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and critical accounting estimates of FedEx Corporation ("FedEx"). This discussion should be read in conjunction with the accompanying quarterly unaudited condensed consolidated financial statements and our Annual Report on Form 10-K for the year ended May 31, 2013 ("Annual Report"). Our Annual Report includes additional information about our significant accounting policies, practices and the transactions that underlie our financial results, as well as a detailed discussion of the most significant risks and uncertainties associated with our financial condition and operating results.

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ("FedEx Freight"), a leading North American provider of less-than-truckload ("LTL") freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications and back-office support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. ("FedEx Office") and provides customer service, technical support and billing and collection services through FedEx TechConnect, Inc. ("FedEx TechConnect"). See "Reportable Segments" for further discussion. Additional information on our businesses can also be found in our Annual Report.

The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services based on macro-economic factors and the global economy;
- the volumes of transportation services provided through our networks, primarily measured by our average daily volume and shipment weight;
- the mix of services purchased by our customers;
- the prices we obtain for our services, primarily measured by yield (revenue per package or pound or revenue per hundredweight for LTL freight shipments);
- our ability to manage our cost structure (capital expenditures and operating expenses) to match shifting volume levels; and
- the timing and amount of fluctuations in fuel prices and our ability to recover incremental fuel costs through our fuel surcharges.

The majority of our operating expenses are directly impacted by revenue and volume levels. Accordingly, we expect these operating expenses to fluctuate on a year-over-year basis consistent with the change in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volume. The line item "Other operating expenses" predominantly includes costs associated with outside service contracts (such as security, facility services and cargo handling), insurance, uniforms, professional fees and advertising.

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Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2014 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year. References to our transportation segments include, collectively, our FedEx Express, FedEx Ground and FedEx Freight segments.

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RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares summary operating results (dollars in millions, except per share amounts) for the periods ended November 30:

	<u>Three Months Ended</u>		Percent <u>Change</u>	<u>Six Months Ended</u>		Percent <u>Change</u>
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
Revenues	\$ 11,403	\$ 11,107	3	\$ 22,427	\$ 21,899	2
Operating income	827	718	15	1,622	1,460	11
Operating margin	7.3%	6.5%	80bp	7.2%	6.7%	50bp
Net income	\$ 500	\$ 438	14	\$ 989	\$ 897	10
Diluted earnings per share	\$ 1.57	\$ 1.39	13	\$ 3.10	\$ 2.84	9

The following table shows changes in revenues and operating income by reportable segment for the periods ended November 30, 2013 compared to November 30, 2012 (dollars in millions):

	<u>Change in Revenues</u>		<u>Percent Change in Revenue</u>		<u>Change in Operating Income</u>		<u>Percent Change in Operating Income</u>	
	<u>Three Months</u>	<u>Six Months</u>	<u>Three Months</u>	<u>Six Months</u>	<u>Three Months</u>	<u>Six Months</u>	<u>Three Months</u>	<u>Six Months</u>
	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>
FedEx Express segment	\$ (14)	\$ (41)	—	—	\$ 96	\$ 125	42	29
FedEx Ground segment	256	524	10	10	12	35	3	4
FedEx Freight segment	57	82	4	3	1	2	1	1
FedEx Services segment	(14)	(28)	(3)	(4)	—	—	—	—
Other and eliminations	11	(9)	NM	NM	—	—	—	—
	<u>\$ 296</u>	<u>\$ 528</u>	3	2	<u>\$ 109</u>	<u>\$ 162</u>	15	11

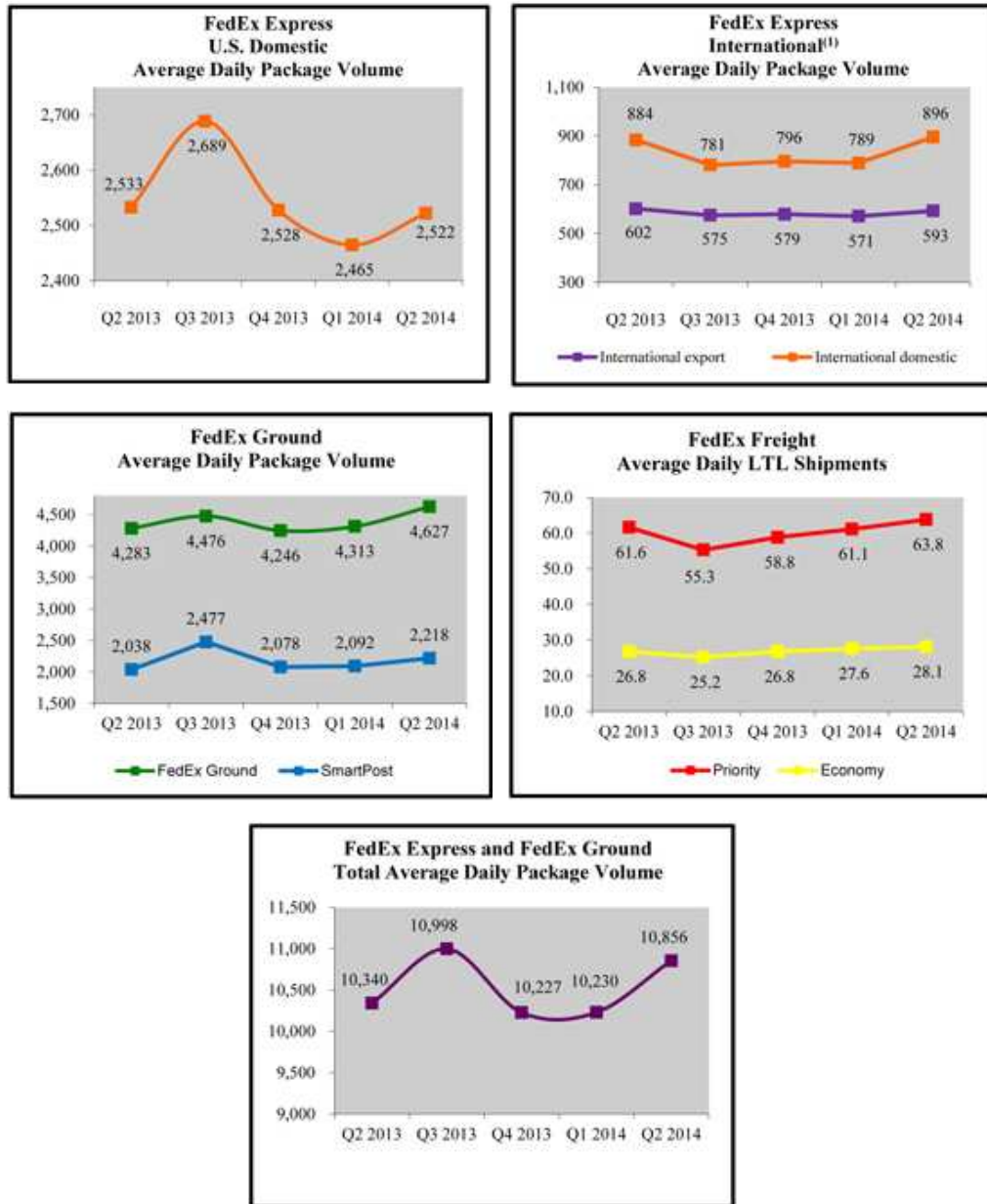
Overview

Our revenues and earnings increased in the second quarter of 2014 driven by improved profitability at FedEx Express and continued solid performance of our FedEx Ground segment. In the second quarter of 2014, earnings improved at FedEx Express, despite a slight decrease in revenues, due to our profit improvement initiatives, including the benefits from our fleet modernization programs, which have resulted in lower aircraft maintenance expenses. Included in our 2013 results was an \$0.11 per diluted share negative impact of Superstorm Sandy. Our results for the second quarter and first half of 2014 also reflect lower pension expense and a modest benefit from the voluntary employee severance program we announced in 2013. Our results for the first half of 2014 include significant headwinds from the net negative impact of fuel (described further below) and one fewer operating day.

In the second quarter of 2014, we announced the authorization of a new share repurchase program of up to 32 million shares of common stock, which augmented the 7.4 million shares remaining on our previously authorized repurchase program. During the second quarter, the company repurchased 7.2 million shares of FedEx common stock, increasing the fiscal 2014 year-to-date purchase total to 10 million shares. The second quarter share repurchases had no effect on the quarter's earnings per share.

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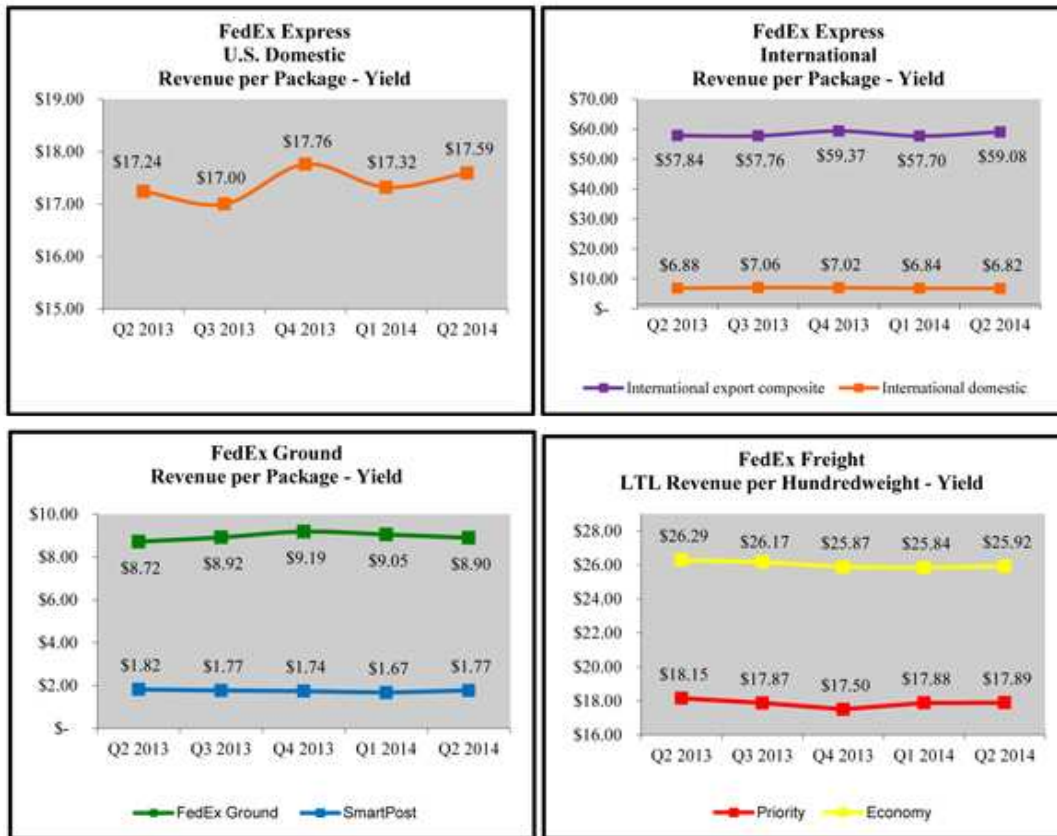
The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected volume trends (in thousands) over the five most recent quarters:



⁽¹⁾ International domestic average daily package volume represents our international intra-country express operations.

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The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected yield trends over the five most recent quarters:



Revenue

Revenues increased 3% in the second quarter and 2% in the first half of 2014, primarily due to higher volumes and yield increases at FedEx Ground and higher volumes at FedEx Freight. At our FedEx Ground segment, revenues increased 10% in the second quarter and in the first half of 2014 due to higher volume from market share gains and increased yields as a result of rate increases. Revenues at FedEx Freight increased 4% during the second quarter and 3% during the first half of 2014 primarily due to higher weight per shipment and average daily LTL shipments. At FedEx Express, revenues decreased slightly in the second quarter and the first half of 2014 as revenue growth from stronger base U.S. and international package business and our freight-forwarding business at FedEx Trade Networks was more than offset by lower freight revenue and the negative impact of lower fuel surcharges. Revenues at all of our transportation segments in the first half of 2014 were negatively impacted by one fewer operating day.

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Operating Income

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the periods ended November 30:

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Operating expenses:				
Salaries and employee benefits	\$ 4,148	\$ 4,133	\$ 8,225	\$ 8,236
Purchased transportation	2,040	1,860	3,919	3,540
Rentals and landing fees	648	630	1,288	1,248
Depreciation and amortization	647	592	1,286	1,165
Fuel	1,136	1,235	2,240	2,373
Maintenance and repairs	479	511	959	1,053
Other	1,478	1,428	2,888	2,824
Total operating expenses	<u>\$ 10,576</u>	<u>\$ 10,389</u>	<u>\$ 20,805</u>	<u>\$ 20,439</u>

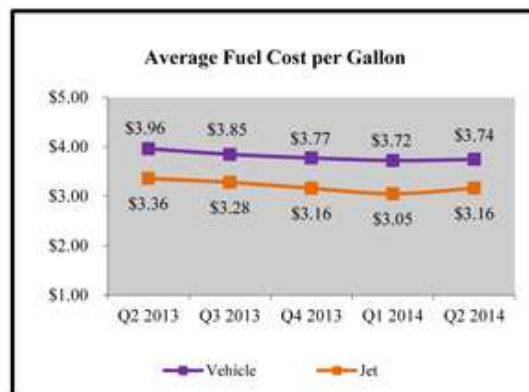
	Percent of Revenue		Percent of Revenue	
	Three	Three	Six	Six
	Months	Months	Months	Months
	Ended	Ended	Ended	Ended
	2013	2012	2013	2012
Operating expenses:				
Salaries and employee benefits	36.4%	37.2%	36.7%	37.6%
Purchased transportation	17.9	16.7	17.5	16.2
Rentals and landing fees	5.7	5.7	5.7	5.7
Depreciation and amortization	5.7	5.3	5.7	5.3
Fuel	9.9	11.1	10.0	10.8
Maintenance and repairs	4.2	4.6	4.3	4.8
Other	12.9	12.9	12.9	12.9
Total operating expenses	<u>92.7</u>	<u>93.5</u>	<u>92.8</u>	<u>93.3</u>
Operating margin	<u>7.3%</u>	<u>6.5%</u>	<u>7.2%</u>	<u>6.7%</u>

Operating income increased in the second quarter and the first half of 2014 primarily as a result of improved profitability at FedEx Express, higher volumes and increased yields at FedEx Ground and improved performance at FedEx Freight. Our results in the second quarter of 2014 compared to 2013 benefited from the negative impact of Superstorm Sandy in the prior year. In addition, our results in the first half of 2014 include a significant negative impact of the timing lag which exists between when fuel prices change and when indexed fuel surcharges automatically adjust and one fewer operating day.

Purchased transportation costs increased 10% in the second quarter and 11% in the first half of 2014 due to volume growth at FedEx Ground, costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks and higher utilization of third-party transportation providers at FedEx Express and FedEx Freight. Depreciation and amortization expense increased 9% in the second quarter and 10% in the first half of 2014 primarily due to accelerated depreciation on certain aircraft, and aircraft recently placed in service at FedEx Express. Salaries and employee benefits expense in the second quarter and in the first half of 2014 benefited from lower pension expense, lower headcount due to employees departing through our voluntary buyout program and the delayed timing or absence of merit increases for many of our employees. Maintenance and repairs expense decreased 6% in the second quarter and 9% in the first half of 2014 due to the continued modernization of our aircraft fleet, which impacted the timing of certain maintenance events.

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The following graph for our transportation segments shows our average cost of jet and vehicle fuel per gallon for the five most recent quarters:



Fuel costs decreased 8% in the second quarter and 6% in the first half of 2014 due to lower average price per gallon of jet fuel. Based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel did not impact operating income in the second quarter but had a significant negative impact on operating income in the first half of 2014.

Our analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express and FedEx Ground services. However, this analysis does not consider the negative effects that fuel surcharge levels may have on our business, including reduced demand and shifts by our customers to lower-yielding services. While fluctuations in fuel surcharge rates can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of services sold, the base price and extra service charges we obtain for these services and the level of pricing discounts offered. In order to provide information about the impact of fuel surcharges on the trend in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for the second quarter and the first half of 2014 and 2013 in the accompanying discussions of each of our transportation segments.

Income Taxes

Our effective tax rate was 36.9% for the second quarter and 36.5% for the first half of 2014, compared with 36.8% for the second quarter and first half of 2013. For 2014, we expect an effective tax rate between 36.5% and 37.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income.

We are subject to taxation in the United States and various U.S. state, local and foreign jurisdictions. Substantially all U.S. federal income tax matters through fiscal year 2009 are concluded, and we are currently under examination by the Internal Revenue Service for the 2010 and 2011 tax years. It is reasonably possible that certain income tax return proceedings will be completed during the next 12 months and could result in a change in our balance of unrecognized tax benefits. The expected impact of any changes would not be material to our consolidated financial statements. As of November 30, 2013, there were no material changes to our liabilities for unrecognized tax benefits from May 31, 2013.

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Business Acquisitions

As discussed in our Annual Report, on June 20, 2013, we signed agreements to acquire the businesses operated by our current service provider Supaswift (Pty) Ltd. in five countries in Southern Africa. In addition, on September 2, 2013, we entered into an agreement to acquire Supaswift's business in two additional countries. This acquisition will be funded with cash from operations and is expected to be completed in the second half of 2014, subject to customary closing conditions. The financial results of the acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2014 results.

Outlook

We expect revenue and earnings growth to continue into the third quarter and the remainder of 2014 driven by ongoing improvements in the results of all of our transportation segments. Our expected results for 2014 will continue to be constrained by moderate growth in the global economy and continued challenges from the demand shift trend from our priority international services to our economy international services at FedEx Express.

The second quarter share repurchases had no effect on the quarter's earnings per share, but are expected to improve full year earnings by \$0.04 per diluted share.

During the second quarter an additional 30% of the 3,600 employees accepting voluntary cash buyouts departed the company. As of November 30, 2013, approximately 75% of the total population of employees leaving the company had vacated their positions. The remaining 25% will depart by May 31, 2014. While the voluntary severance program provided a modest benefit to our second quarter results, the majority of the benefits realized from our voluntary severance program will ramp up as the fiscal year progresses and the remaining scheduled employee departures occur.

During the first half of 2014, we continued to execute on the profit improvement programs we announced in 2013. These activities are focused primarily at FedEx Express and FedEx Services. As previously noted, the majority of the benefits from our profit improvement programs will not occur until 2015 and 2016. Our ability to achieve the profit improvement target and other benefits from these programs is dependent upon a number of factors, including the health of the global economy and future customer demand, particularly for our priority services.

Other Outlook Matters . For details on key 2014 capital projects, refer to the "Liquidity Outlook" section of this MD&A.

Our outlook is dependent upon a stable pricing environment for fuel, as volatility in fuel prices impacts our fuel surcharge levels, fuel expense and demand for our services. Historically, our fuel surcharges have largely offset incremental fuel costs; however, volatility in fuel costs may impact earnings because adjustments to our fuel surcharges lag changes in actual fuel prices paid. Therefore, the trailing impact of adjustments to our fuel surcharges can significantly affect our earnings either positively or negatively in the short-term.

As described in Note 8 of the accompanying unaudited condensed consolidated financial statements and the "Independent Contractor Model" section of our FedEx Ground segment MD&A, we are involved in a number of lawsuits and other proceedings that challenge the status of FedEx Ground's owner-operators as independent contractors. FedEx Ground anticipates continuing changes to its relationships with its owner-operators. The nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

See "Forward-Looking Statements" for a discussion of these and other potential risks and uncertainties that could materially affect our future performance.

RECENT ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements.

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 2 of our condensed consolidated financial statements.