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United Parcel Service, Inc. Financial Analysis

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Abstract

This is a financial analysis of United Parcel Service, Inc. (UPS), referred to as UPS for the remainder of this report. This analysis covers the years 2013-2017. For comparison, UPS's primary competitor, FedEx was chosen as the secondary company. UPS strategically operates in over 220 countries and territories (Item 1: Business, 2017) . Its strong global presence and expansion efforts over the last five years have yielded consistent growth in Service Revenue each year. UPS has continued to increase its fixed asset expansion from 2013 to 2017 through debt financing. Long-Term Debt has increased 63.3% from 2016 to 2017. This increase in long-term debt has funded discretionary accelerated payments to pension plans, share repurchases, and capital asset expansion. UPS's Cash from operations decreased (77.2%) from 2016-2017. Cash from investing activities funded the accelerated ($7,794) million to Pension and Postretirement Benefit Contribution. UPS and FedEx's financials were analyzed using Common Size statements, Trend Analysis, Horizontal Analysis and Summary of Cash Flow Analysis Ratios were used to provide quantitative analysis as well. UPS and FedEx are in the Courier and Express Delivery Service industry, code 492110 in the North American Industry Classification System (NAICS. The industry averages were calculated and used for comparative purposes.

United Parcel Service, Inc. Financial Analysis

The United Parcel Service, Inc.'s (UPS) strong global presence has allowed it to be the leading competitor in Courier and Express Services. This financial analysis of UPS was performed using: the annual report for years 2009, 2010, 2013, 2014, 2015 and 2017, 2017 10-K and, investor relations on its website and analysts' reports. FedEx's 2017 Annual Report was also used. This analysis examines the financial data from 2013-2017 and is organized by financial statement. Note that the fiscal years for UPS and FedEx differ. UPS's fiscal year ends December 31, and FedEx's fiscal year ends May 31.

Common Size Income Statement

UPS has increased its Service Revenue over the last five years. With this increase in Service Revenue, Operating Expenses have increased as well. The largest expense, Compensation and Benefits Expense, has fluctuated from year to year due to mark-to-market losses on pension and postretirement benefit plans (MD&A, AR 2017). Purchased Transportation Expense has increased and fluctuated due to charge by third party, air, rail and ocean (MD&A, AR 2017). Fuel Expense has changed from year to year due to an increase in decrease in the price of diesel fuel (MD&A, AR 2017). While Service Revenue has increased from year to year, the increased Operating Expenses negatively impacted Operating Profit particularly in 2014 and 2016, thus effecting Net Income in 2014 and 2016 as well.

Revenue

UPS's Service Revenue increased each year from 2013-2017 as shown in *Figure 1*. All operating segments (U.S. Domestic, International Package and Supply Chain & Freight) have contributed to this growth. The increase in Service Revenue of 8.2% from 2016 to 2017 is attributable to a 4.9% increase in package volume and capital asset expansions (MD&A, AR 2017). FedEx has also had a consistent increase in service revenue over the last 5 years as shown in *Figure 2*. FedEx had a 19.8% increase in Service Revenue from 2016 to 2017, but UPS has maintained a higher Service Revenue in U.S. Dollars (USD) from 2016 to 2017.

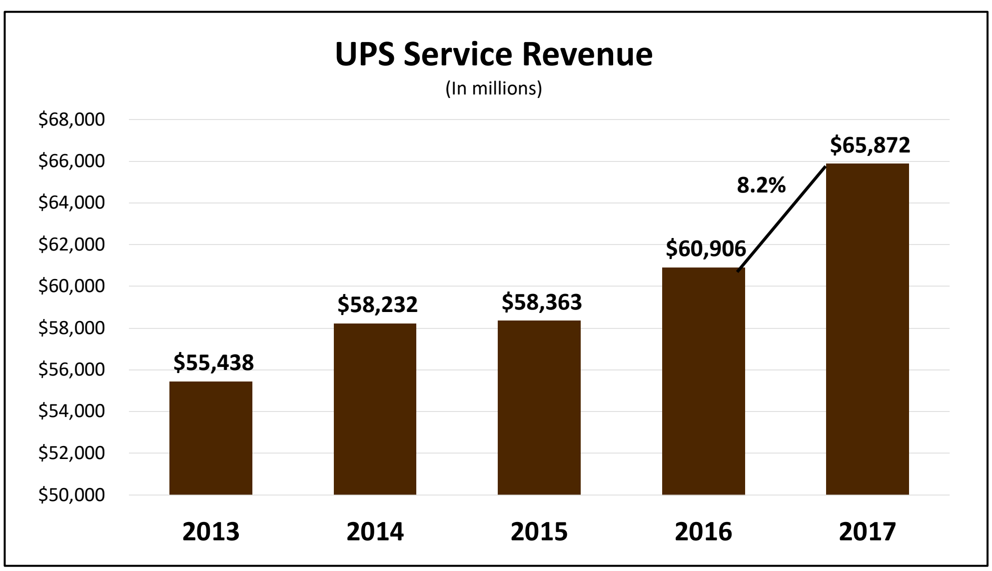

Figure 1. UPS's Service Revenue in millions in USD from 2013-2017.

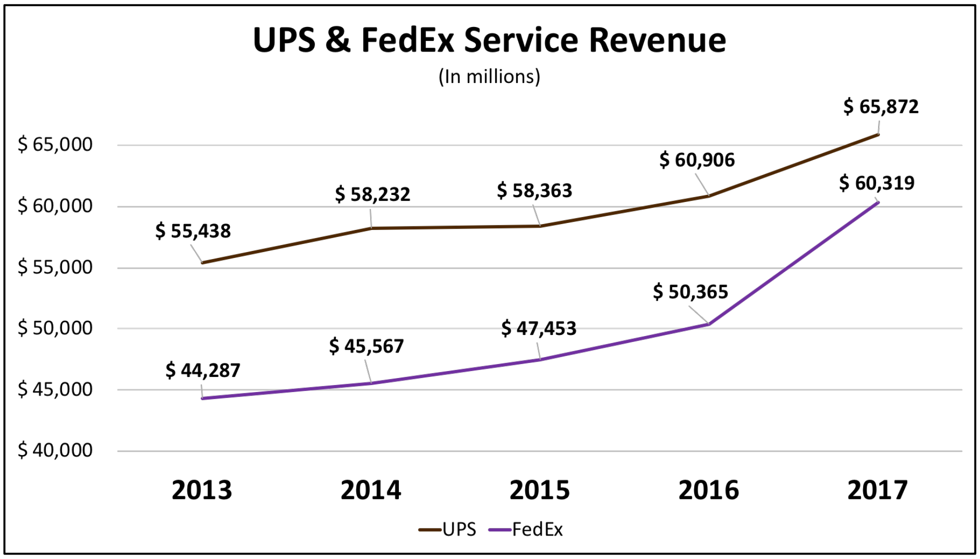

Figure 2. Trend line of UPS's & FedEx's Service Revenue in USD from 2013-2017.

Operating Expenses

UPS's common size income statement highlights its largest expenses Compensation and Benefits, Purchased Transportation and Fuel Expense. Compensation and Benefits Expense fluctuated from fiscal years ending 2013-2017. As of December 31st, 2017, UPS had 454,000 employees, excluding temporary seasonal employees. This is consistently the largest expense for fiscal years ended 2013-2017, as shown in *Table 1*.

	2013	2014	2015	2016	2017
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Compensation and benefits	51.5%	55.0%	53.2%	57.1%	52.5%
Repairs and maintenance	2.2%	2.4%	2.4%	2.5%	2.4%
Depreciation and amortization	3.4%	3.3%	3.6%	3.7%	3.5%
Purchased transportation	13.5%	14.5%	13.8%	15.0%	16.7%
Fuel	7.3%	6.7%	4.3%	3.5%	4.1%
Other, net	9.4%	9.6%	9.7%	9.3%	9.4%
Operating Profit	12.7%	8.5%	13.1%	9.0%	11.4%
Interest exp., invest. Inc., net	-0.6%	-0.6%	-0.6%	-0.5%	-0.6%
Income Tax Expense	4.2%	2.8%	4.3%	2.8%	3.4%
Net Income	7.9%	5.2%	8.3%	5.6%	7.5%

Table 1. UPS's Common Size Income Statement.

To show a comparison between UPS and FedEx's Operating Expenses and Operating Profit, FedEx's Common Size Service Revenue, Operating Expenses and Operating Profit are shown in *Table 2*. UPS spends 53.8% on average as a percentage of Total Service Revenue from 2013-2017 on its Compensation and Benefits Expense. FedEx spends 36.1% on average as a percentage of Total Service Revenue from 2013-2017.

	2013	2014	2015	2016	2017
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Compensation and benefits	36.3%	35.5%	36.1%	36.9%	35.7%
Purchased transportation	16.4%	17.6%	17.9%	19.8%	22.6%
Fuel	10.7%	10.0%	7.8%	4.8%	4.6%
Other	12.8%	13.0%	13.5%	14.4%	14.5%
Operating Profit	10.0%	8.4%	3.9%	6.1%	8.4%

Table 2. FedEx's Service Revenue, Operating Expenses and Operating Profit as a percentage of Total Service Revenue.

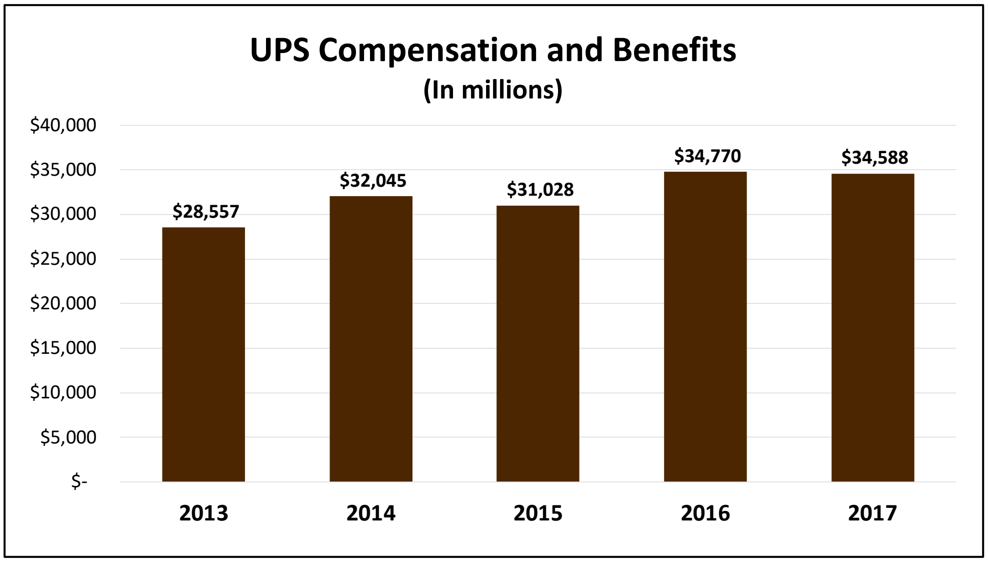

Figure 3. This graph shows UPS Compensation and Benefits in USD from 2013-2017.

Compensation and Benefits Expense increased as a percentage of Total Service Revenue from 51.5% in 2013, to 55% in 2014. It decreased as a percentage of Total Service Revenue from 55% in 2014 to 53.2% in 2015. It increased as a percentage of Total Service Revenue from 53.2% in 2015 to 57.1% in 2016 due to $3.742 billion increase in Compensation and Benefits. Benefits Expense increased $3.133 billion from 2015 to 2016 primarily due to an $2.634 billion increase in costs associated with its pension plans, $2.77 million increase in health and welfare costs and $125 million increase in vacation, holiday, excused absence, payroll tax and other expenses (MD&A, AR 2017). Contributing to the increase in Compensation and Benefits Expense was an $118 million mark-to-market loss in 2015 due to a gain of $1.624 billion in Discount Rates and a loss of $1.550 billion on rate of Return on Assets (MD&A, AR 2017). There was a $2.651 billion loss in 2016 due to a loss of $1,953 billion in Discount Rates and a loss of $732 million on rate of Return on Assets (MD&A, AR 2017).

Compensation and Benefits Expense has decreased as a percentage of Net Sales from 57.1% in 2016 to 52.5% in 2017 due to an overall decrease in Compensation and Benefits Expense of $182 million. Benefits Expense decreased $1.477 billion from 2016-2017 due to a decrease in costs associated with its pension plans of $1.869 billion, and offset by an increase in Health and Welfare Costs of $1.869 billion and Vacation, Holiday, Excused Absence, Payroll Tax and Other Expenses increase of $226 million (MD&A, AR 2017). There was a mark-to-market loss of $800 million in 2017 due to a loss of $2,288 billion in Discount Rates and a gain of $1,525 billion on rate of Return on Assets (MD&A, AR 2017). UPS's mark-to-market losses from 2015 to 2017 are broken down in *Figure 4*.

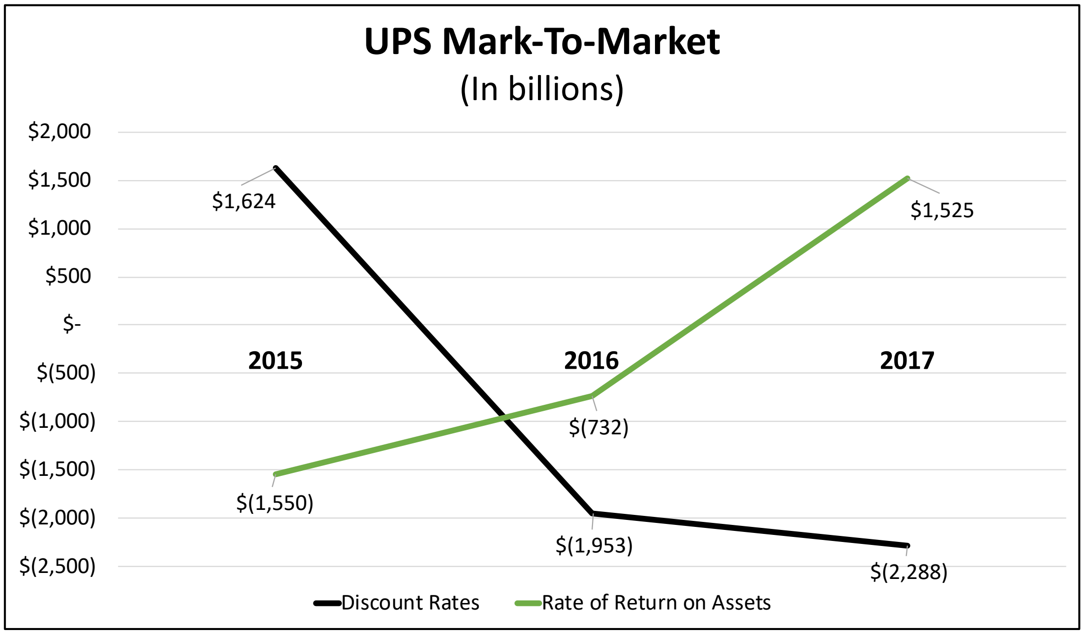

Figure 4. UPS's Discount Rates and rate of Return on Assets.

Purchased Transportation

UPS's Purchased Transportation Expense includes amounts charged to UPS from third party air, rail and ocean and is the second largest expense, as shown in *Table 1*. Purchased Transportation Expense averaged 14.7% of Service Revenue over the 5 year period. The 13.5% increase from 2015 to 2016 is due to an $1.086 billion increase in Purchased Transportation Expense charged by third party air, rail and ocean primarily because of the acquisition of Coyote and an increase in volume and rates for mail services (MD&A, AR 2017). The 20.4% increase from 2016-2017 is due to a $1.86 billion increase in Purchased Transportation Expense charged by third party air, rail and ocean, primarily from a Forwarding and Logistics business increase of $949 million.

Fuel Expenses fluctuate based on of the U.S. Department of Energy's (DOE) On-Highway Diesel Fuel Price and international region or country's diesel fuel prices (MD&A, AR 2017). U.S. Domestic Package and Domestic Supply Chain & Freight services apply a fuel surcharge based off of the DOE's On-Highway Diesel Fuel Price, and International Packages and International Supply Chain & Freight that originate in the U.S. are indexed at this price as well (MD&A, AR 2017). During

February, 2017, UPS began adjusting fuel surcharge rates weekly instead of monthly, so fuel costs transferred to the customers will be more accurate in the future (MD&A, AR 2017).

Operating Profit

Compensation and Benefits, Purchased Transportation and Fuel Expense affected Operating Profit significantly in 2014 and 2016. Operating profit is compared to Service Revenue as shown in *Figure 5.*

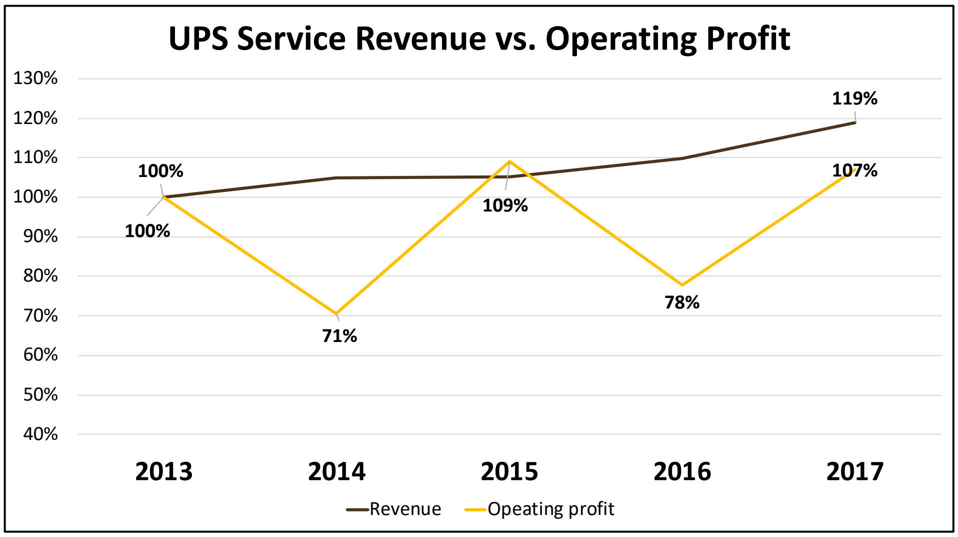

Figure 5. Trend analysis with base year 2013.

Operating Profit decreased as a percentage of Revenue from 2013 to 2014 due to 12.2% increase in Compensation and Benefits and 13% increase in Purchased Transportation, offset by a 3.6% decrease in Fuel Expense. Operating Profit increased as a percentage of Revenue from 8.5% in 2014 to 13.1% in 2015. This increase is due to a 3.2% decrease in Compensation and Benefits, 4.9% decrease in Purchased Transportation and a 36.1% decrease in Fuel Expense shown in *Table 1*. Operating Profit Margin, shown in *Figure 6* indicates how profitable UPS is after considering Operating Expenses (Fraser & Ormiston, 2010).

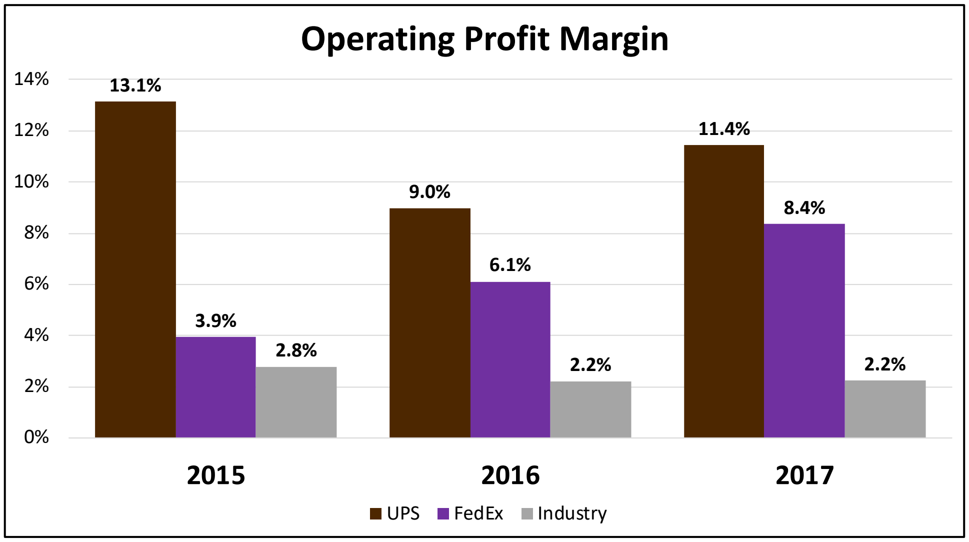

Figure 6. Operating Profit Margin for UPS, FedEx and the Industry Average.

The decrease in Operating Profit from 2015 to 2016 is due to the 12.1% increase in Compensation and Benefits Expense from, 9.9% increase in Repairs and Maintenance Expense, 6.7% increase in Depreciation and Amortization Expense, 13.5% increase in Purchased Transportation Expense, offset by a 14.7% decrease in Fuel Expense. Despite the decrease in Operating Profit Margin in 2016, UPS has consistently generated more profit considering Operating Expenses than FedEx and the Industry Average for the past three years. The increase in Operating Expenses decreased Operating Profit in 2014 and 2016, thus decreasing Net Income for 2014 and 2016 as well.

Net Profit

The decrease in UPS's Net Profit Margin in 2016 shown in *Figure 7,* is due to the increase in Operating Expenses and decrease in Operating Profit in 2016. Net Profit Margin shows how much profit was generated after considering all revenues and expenses, and despite the decrease in 2016, UPS is still more profitable than FedEx and its Industry in terms of Net Profit Margin. UPS's Net Profit Margin components are shown in *Figure 8* as a percentage of Base Year 2013.

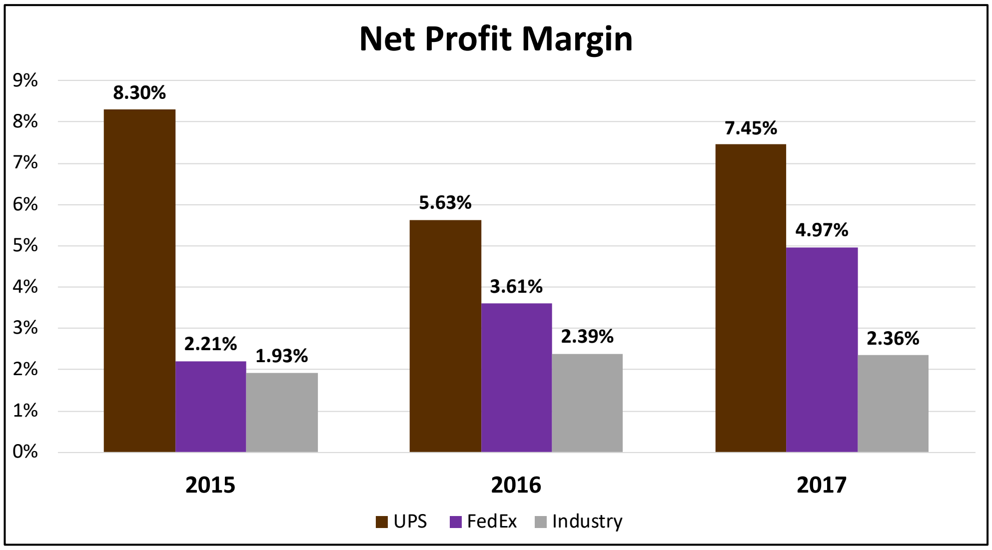

Figure 7. Net Profit Margin for UPS, FedEx, and the Industry Average.

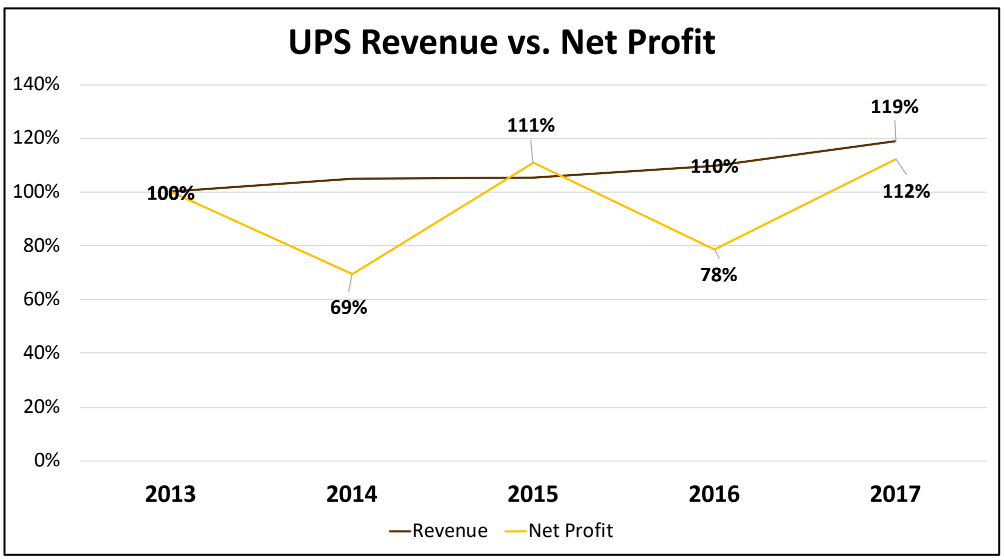

Figure 8. UPS's Revenue vs. Net Profit using trend lines for 2013-2017.

Earnings Per Share

UPS's Earnings Per Share (EPS) is shown in *Figure 9*. It returned less to common stock shareholders in 2016 than in 2015 and 2017. The decrease in EPS from $5.38 in 2015 to $3.89 in 2016 is due to the $2.651 billion loss on mark-to-market Pension and Postretirement Benefit Plans (Note 16, AR 2017). This loss adjusted Q4 2017 Net Income by $1.673 billion, thus decreasing EPS by $1.91

from 2015 to 2016 (Note 16, AR 2017). FedEx's EPS increased to $4.65 due to a smaller mark-to-market loss of $800 million and an increase in Revenue from 2016 to 2017.

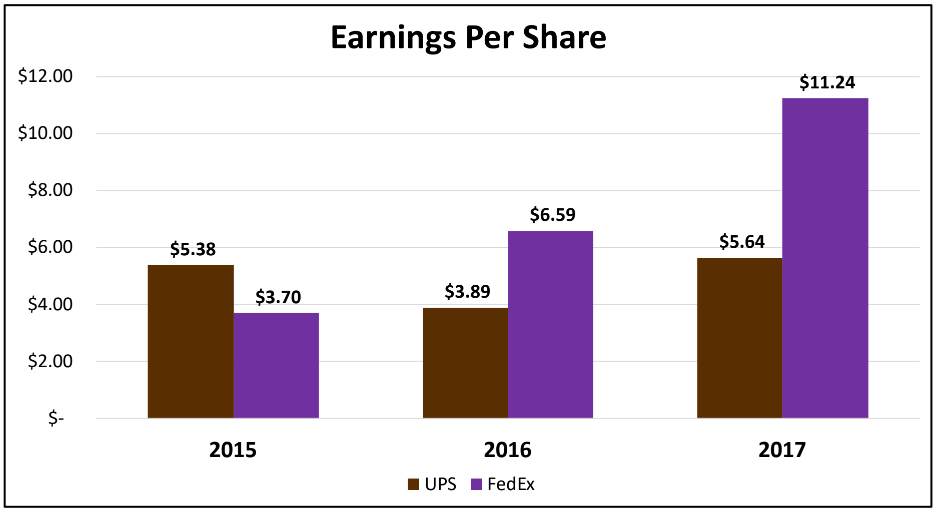

Figure 9. Earnings Per Share for UPS and FedEx.

UPS has continued to decrease the number of Common Stock shares through its Share Repurchase Program. However, the decrease in EPS in 2016 is due in greater part to the mark-to-market loss $2.651 billion as shown in *Table 3*.

Year	Number of Shares	EPS
2015	901 mil	$5.38
2016	883 mil	$3.89
2017	871 mil	$5.64

Table 3. UPS Common Stock shares outstanding and EPS.

Common Size Balance Sheet

UPS's Revenue has increased each year from 2013 to 2017 as shown in *Figure 1*. This consistent growth in Revenue combined with its debt, allows UPS to continue investing in Plant Property and Equipment while making acquisitions around the world. To finance this expansion and a large Share Repurchase Program, UPS has increased its Long-Term Debt from 2013 to 2017. This increase in Long-Term Debt and Share Repurchase program are strategic.

Assets

UPS's Common Size Balance Sheet Asset accounts are shown in *Table 4*.

Assets	2013	2014	2015	2016	2017
Cash and cash equivalents	12.9%	6.5%	7.1%	8.6%	7.3%
Marketable securities	1.6%	2.8%	5.2%	2.7%	1.6%
Accounts receivable, net	18.0%	18.8%	18.6%	19.1%	19.3%
Property, Plant and Equipment, Net	49.6%	51.6%	47.9%	46.6%	48.7%
Goodwill	6.0%	6.2%	8.9%	9.3%	8.5%
Other, net	11.9%	14.2%	12.2%	13.8%	14.5%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4. This table shows UPS's Common Size Balance Sheet Assets.

UPS has strategically increased its capital expenditures over the last three years. The increase in Total Assets is shown in *Figure 10*.

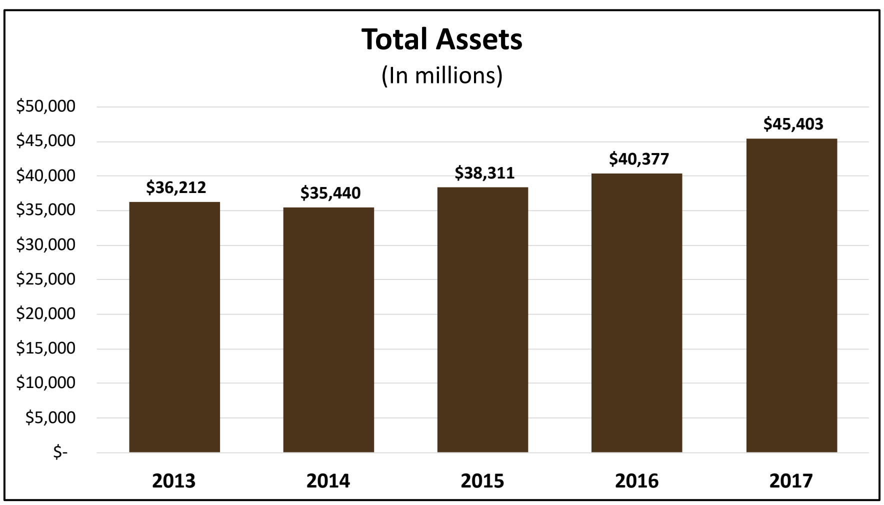

Figure 10. UPS's Total Assets.

FedEx's Total Assets is shown in *Figure 11*.

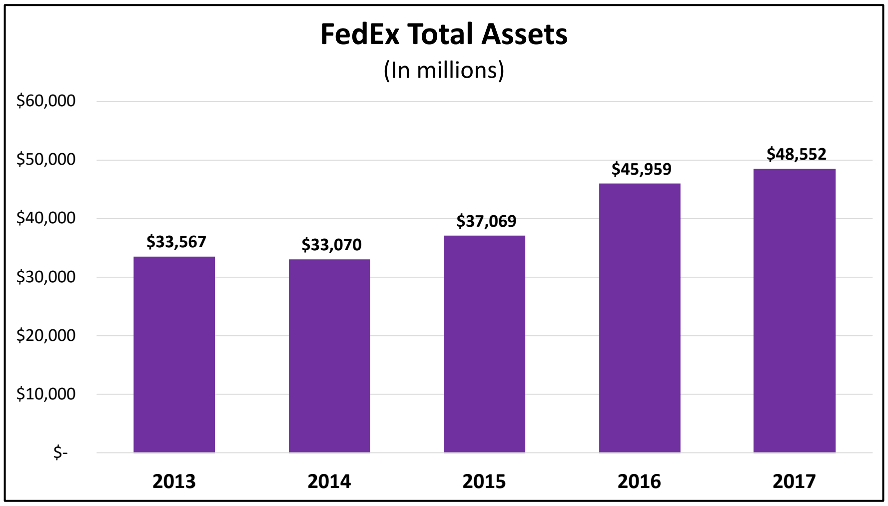

Figure 11. FedEx's Total Assets.

Because of the increase in Total Assets, UPS's Return on Total Assets (ROA) has decreased 4.14% from 2015 to 2016, but it still has a higher ROA than FedEx and its Industry, as shown in *Figure 12*.

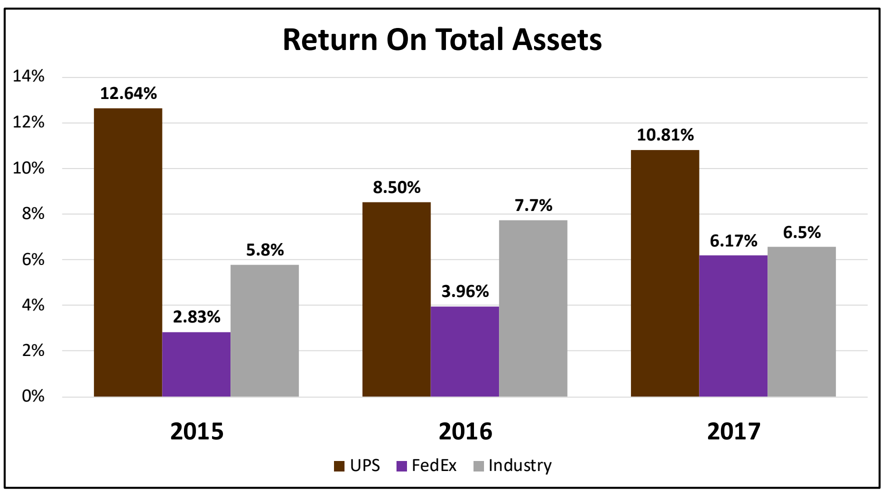

Figure 12. Return on Total Assets for UPS, FedEx, and its Industry Average.

UPS's ROA components are shown *Figure 13*. UPS has continued to increase Total Assets at a consistent rate, but its Net Earnings decreased 29.2% from 2015 to 2016.

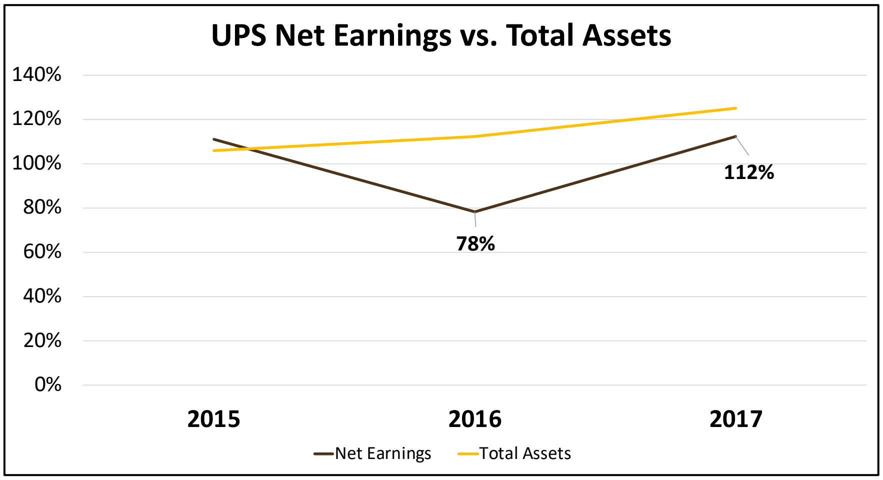

Figure 13. UPS's ROA.

UPS's Plant, Property and Equipment (PPE) account has averaged 48.8% as a percentage of Total Assets *(Table 4)* from 2013-2017. *Table 5* shows the increase in capital assets from 2015 to 2017.

(In millions)	2015	2016	2017
Aircraft	$15,815	$15,653	$16,248
Plant equipment	$8,026	$8,430	$9,387
Vehicles	$8,111	$8,638	$9,365
Buildings	$3,280	$3,439	$4,035
Buildings and leasehold improvements	3,450	$3,612	$3,934
Construction-in-progress	$273	$735	$2,239

Table 5. UPS's Plant, Property and Equipment Asset (Note 3, AR 2017).

It has increased PPE 17.6% from 2016 to 2017. This increase is primarily attributable to investments in Aircrafts, Plant Equipment, Vehicles and Buildings as shown in *Table 5*. In 2017, UPS announced plans for seven new buildings and one expansion on a previously existing building; however, the largest PPE account is Aircrafts (Item 2: Properties, AR 2017). UPS has short-term leases or charters the majority of its aircrafts as shown in *Figure 14*.

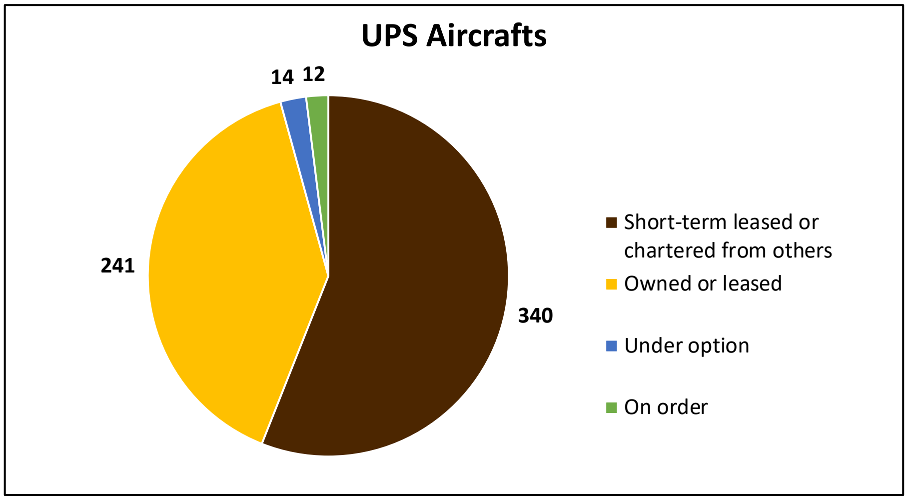

Figure 14. UPS Aircraft ownership.

Accounts Receivable

UPS's Accounts Receivable is the second largest asset account and has remained consistent over the past five years as shown in *Table 4*. Accounts Receivables has increased as Service Revenue has increased.

Goodwill

In 2015, UPS acquired Coyote for $1,829 billion. Coyote is a U.S. based truckload freight brokerage company and its acquired Assets and assumed Liabilities are allocated in *Table 6*. (Note 7: Business Acquisitions, AR 2015).

Coyote Acquisition	(In millions)
Goodwill	$1,233
Intangible assets	$664
Accounts receivable	$249
Cash and cash equivalents	$18
Plant, property & equipment	$17
Other non-current, current assets	$3
Accounts payable, Other current, noncurrent liabilities	($143)
Deferred tax liabilities	($212)
Total	$1,829

Table 6. This table shows the allocation of the acquisition of Coyote for the fiscal year ended 2015 (Note 7: Business Acquisitions, AR 2015).

Acquisitions

The largest acquisition for UPS from 2013 to 2017 was the acquisition of Coyote as explained above. As part of UPS's strategic expansion, it acquired several companies in 2017. In January, UPS acquired UK based, Freightex Ltd. which contributed to the Supply Chain & Freight segment (Note 7: Business Acquisitions). In June, it acquired Eirpost Group Unlimited Company, referred to as "Nightline," which is an Ireland-based express delivery and logistics company that aids in the International Package segment (Note 7: Business Acquisitions, AR 2017). In November, UPS acquired (STTAS) Global Holdings, Inc. which is a global trade compliance management company that contributes to the Supply Chain & Freight segment (Note 7: Business Acquisitions, AR 2017). These three acquisitions were paid in Cash from Cash from Operations but were immaterial (Note 7: Business Acquisitions, AR 2017).

Liabilities

UPS's Common Size Balance Sheet Liability accounts are shown in *Table 7*. It has increased its Long-Term Debt has increased from 2013 to 2017. This increase in Long-Term Debt has funded its Capital Expansion and the Share Repurchase Program. Pension and Postretirement Benefit Obligations (PBO) have fluctuated from 2013 to 2017.

Long-Term Debt

The Long-Term Debt account steadily increased each year from 2014 to 2016, but increased 63.6% from 2016 to 2017. This increase is Long-Term Debt is primarily due to Capital Asset expansion and the Share Repurchase Program. UPS's Long-Term Debt is shown in *Figure 15*.

Liabilities	2013	2014	2015	2016	2017
Current maturities of long-term debt	0.1%	2.6%	7.9%	9.1%	8.8%
Accounts payable	6.8%	7.8%	6.8%	7.5%	8.5%
Accrued wages and withholdings	6.4%	6.7%	5.9%	5.7%	5.6%
Other current liabilities, net	6.3%	7.3%	7.4%	6.7%	5.1%
Long-Term Debt	29.9%	27.8%	29.5%	30.7%	44.7%
Pension and Postretirement Benefit Obligations	19.5%	32.3%	27.8%	31.4%	15.6%
Other Non-Current Liabilities, net	13.0%	9.5%	8.3%	7.8%	9.5%
Total Liabilities	82.1%	93.9%	93.5%	98.9%	97.7%

Table 7. UPS's Common Size Balance Sheet Liability.

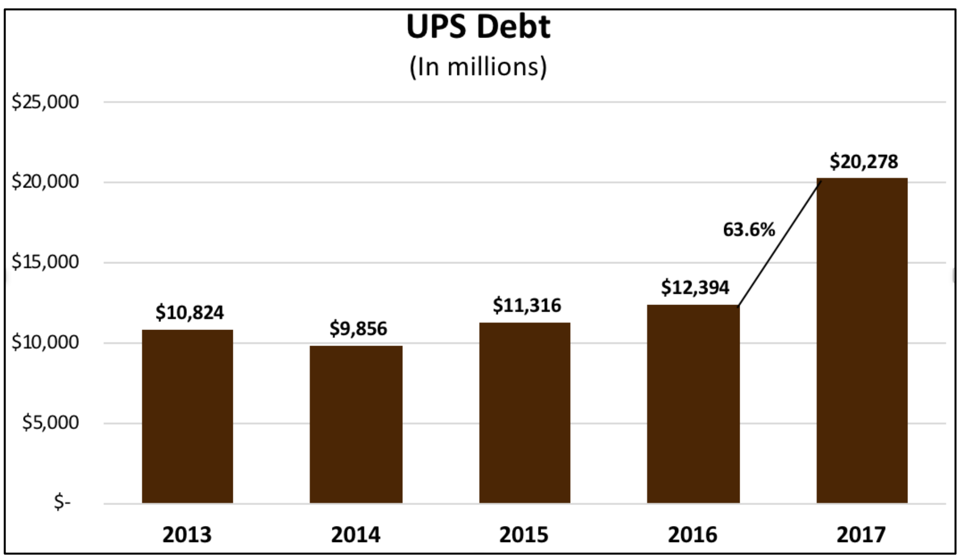

Figure 15. UPS's Long-Term Debt.

FedEx has increased its Long-Term Debt from 2013-2017, as shown in *Figure 16*. A trend analysis of UPS and FedEx Long-Term Debt comparing years 2014, 2015, 2016 and 2017 to base year 2013 shows an increase in Long-Term Debt for all four years for FedEx. Long-Term Debt according to the trend line increased for fiscal years ended 2015, 2016 and 2017.

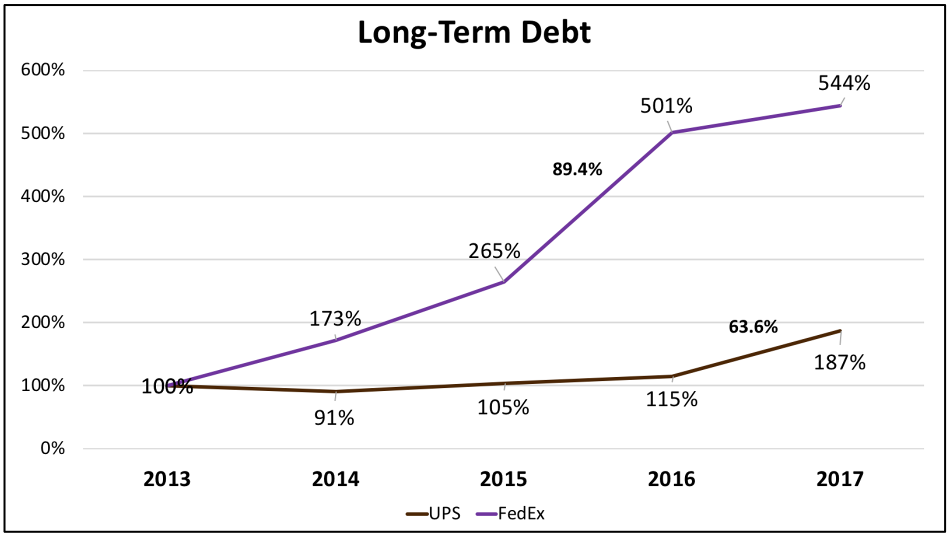

Figure 16. Trend lines of Long-Term Debt for UPS and FedEx.

This 88% increase of UPS's Long-Term Debt from 2014 to 2017 is partially attributable to its increase in Total Assets as shown in *Figure 10,* Acquisitions of Coyote *(Table 6)* and increase in PPE in *Table 5*. This increase in Long-Term Debt is also due to its Share Repurchase Program totaling $7.198 billion from 2015 to 2017 (Note 10: Shareowners' Equity, AR 2017). The share repurchase program is covered in more detail under the Shareowners' Equity section. UPS uses debt financing in the form notes (Note 8: Debt and Financing Arrangements, AR 2017). A debt schedule for 2017 is shown in *Table 8*.

Debt Issuances	Principal Amount in USD (In millions)
Fixed-rate senior note	$4,950
Floating-rate senior note	$1,461
Euro senior notes	$1,397
Canadian senior notes	$547
Total	**$8,355**

Table 8. UPS's debt issuances for 2017.

UPS's Debt Ratio shows that on average 96.7% of Assets are financed through debt for fiscal years ended 2015, 2016 and 2017. UPS consistently has a higher Debt Ratio than FedEx and its

Industry as shown in *Figure 17*. Despite its higher Debt Ratio, UPS is still generating more Total Service Revenue than FedEx as shown in *Figure 2*. UPS has a strong asset base, but FedEx surpassed UPS in the number of Total Assets in USD in 2015 shown in *Figure 10*. Even though UPS's Assets are financed through debt, *Figure 18* shows that Total Assets are still higher than the Total Liabilities in USD from 2013 to 2017.

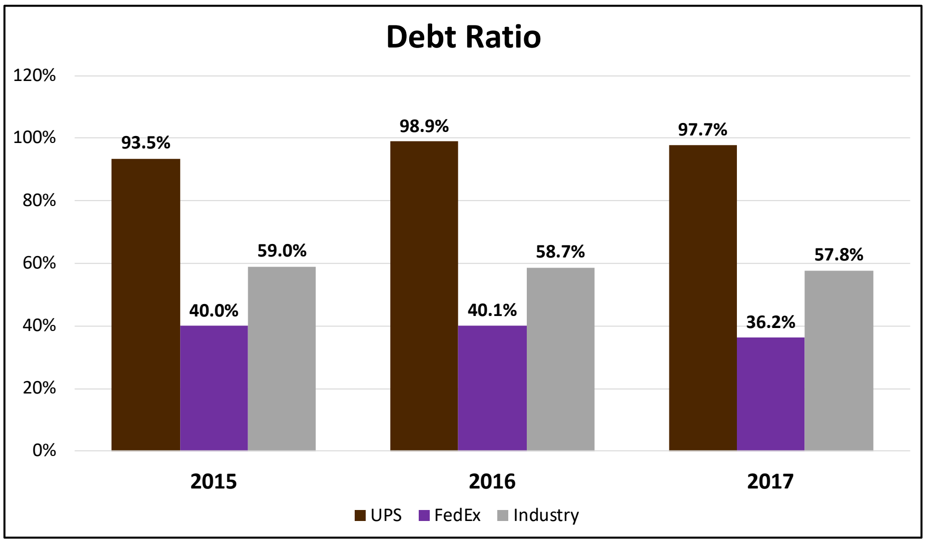

Figure 17. Debt Ratio for UPS, FedEx and its Industry Average.

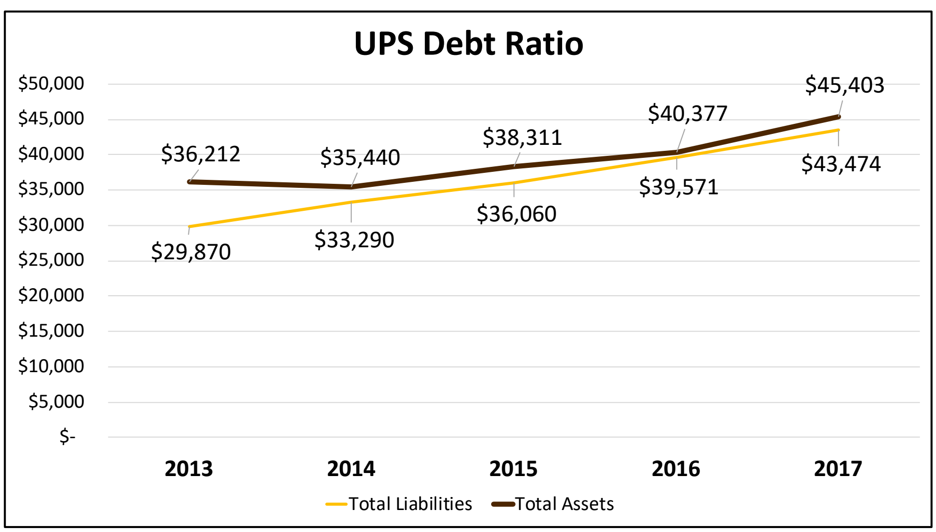

Figure 18. UPS's Debt Ratio.

Interest Expense

UPS's Interest Expense was ($341) million, ($381) million and ($453) million in 2015, 2016 and 2017 respectively (MD&A, AR 2017). Its Interest Expense decreased in 2015 due to a decrease in effective interest rates British currency interest rate swaps, offset by an increase in commercial paper used to fund the acquisition of Coyote (*Table 6)* (MD&A, AR 2016*)*. Interest Expense increased in 2016 due to an increase in outstanding commercial paper, Long-Term Debt *(Figure 15)* and higher effective interest rates on senior notes (MD&A, AR 2017). UPS's Interest Expense increased in 2017 due to the issuance of senior notes *(Table 8)* with higher effective interest rates (MD&A, AR 2017). UPS's Times Interest Earned ratio is shown below in *Figure 19*.

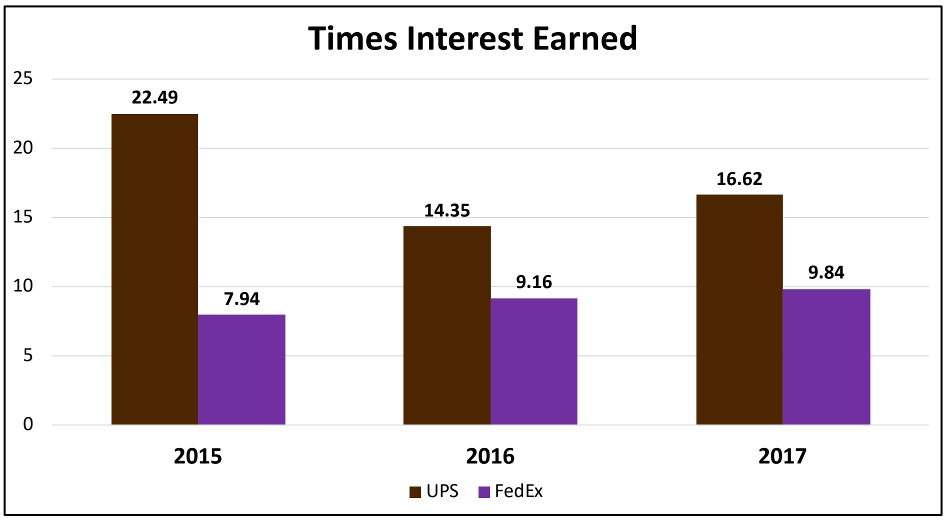

Figure 19. Times Interest Earned for UPS, FedEx and its Industry Average.

Pension and Postretirement Benefit Obligation

UPS had a Central States Pension Fund (CSPF) until 2007. UPS now has a collective bargaining agreement with the International Brotherhood of Teamsters (IBT) ((Note 4: Company Sponsored Employee Benefit Plans, AR 2017). Under this agreement, UPS offers three qualified pension plans: UPS Retirement Plan, UPS Pension Plan, and IPS/IBT Full-Time Employee Pension Plan (Note 4: Employee Sponsored Benefit Plans, AR 2017). UPS sponsors several plans for International Pension Benefits, U.S. Postretirement Medical Benefits and Defined Contribution Plans (Note 4: Employee Sponsored Benefit Plans, AR 2017).

Under these plans, UPS calculates a Postretirements Benefit Obligation (PBO) which shows an actuarial liability based on the present value of liabilities earned and the present value of future increases in compensation (Investopedia, 2018). UPS's PBO from 2013 to 2017 is shown in *Figure 20*.

PBO's are calculated using actuarial estimates such as mortality rates, service life of employee, and potential increase in salaries (Investopedia, 2018).

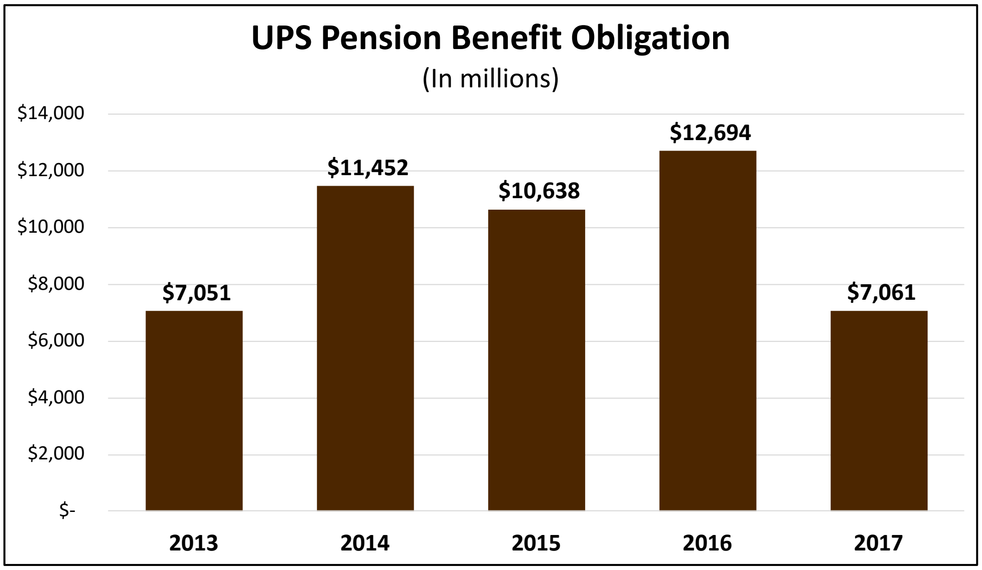

Figure 20. UPS's Pension Benefit Obligation (PBO).

Liabilities vs. Shareowners' Equity.

UPS's Total Liabilities made up 97.7% as a Percentage of Liabilities and Shareholders' Equity in 2017. UPS has consistently had greater Liabilities than Equity. This is shown in *Figure 21*.

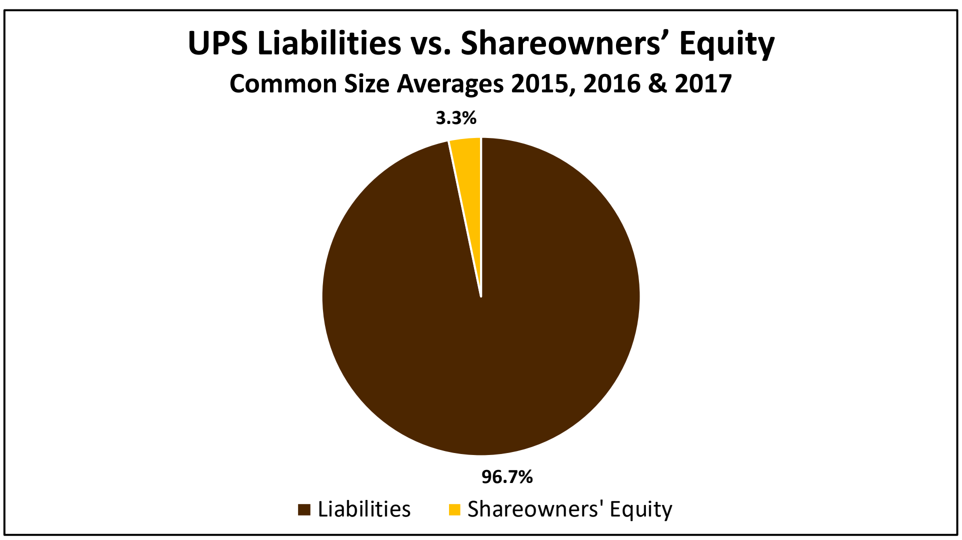

Figure 21. UPS's Liabilities vs. Shareowners' Equity Common Size Average.

Shareowners' Equity

UPS's Common Size Shareowners' Equity is shown in *Table 9*. UPS's Shareowners' Equity has decreased from 17.9% as a percentage of Total Liabilities and Shareowners' Equity in 2013 to 2.3% as a percentage of Total Liabilities and Shareowners' Equity in 2017. UPS's Equity is very small compared to its Liabilities as explained in *Figure 21*. Shareowners' Equity has continued to decrease due to a large share repurchase program. This program depleted Additional Paid-In-Capital and decreased Retained Earnings from 2013 to 2016. Shareowners' Equity decreased due to a decrease in Controlling Interests from 2013 to 2017. Accumulated Other Comprehensive Income (AOCI) fluctuated from 2013 to 2017 but decreased Shareowners' Equity in 2013, 2014, 2016 and 2017.

Shareowners' Equity	**2013**	**2014**	**2015**	**2016**	**2017**
Additional paid-in capital	0.0%	0.0%	0.0%	0.0%	0.0%
Retained earnings	19.1%	16.2%	15.7%	12.1%	12.9%
Accumulated other comprehensive loss	-1.3%	-10.1%	-9.2%	-11.1%	-10.7%
Equity for Controlling Interests	17.9%	6.0%	6.4%	1.0%	2.2%
Noncontrolling Interests	0.0%	0.0%	0.1%	0.1%	0.1%
Total Shareowners' Equity	17.9%	6.1%	6.5%	1.1%	2.3%

Table 9. UPS's Common Size Shareowners' Equity.

UPS's Return on Equity (ROE) has increased 311% from 2015 to 2016, as shown in *Figure 22*. This change in ROE from 2015 to 2016 is due to a (82.8%) decrease in Shareowners' Equity and a (29.2%) decrease in Net Income. ROE decreased from 2016 to 2017. This decrease in ROE from 2016 to 2017 is due to 140.1% increase in Shareowners' Equity, offset by a 43.1% increase in Net Income. *Figure 23* uses a trend analysis based on the 2013 decrease in Net Income in 2014 and 2016, and the decline in Shareowners' Equity.

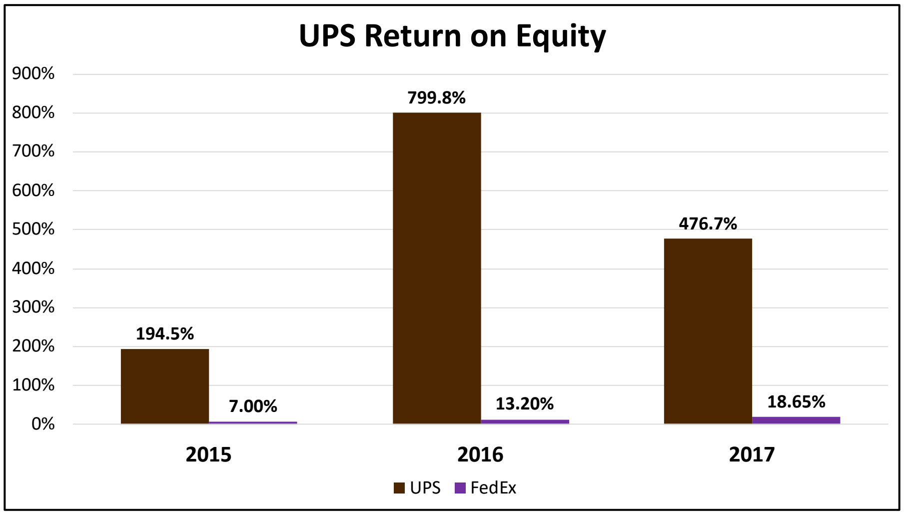

Figure 22. UPS's ROE.

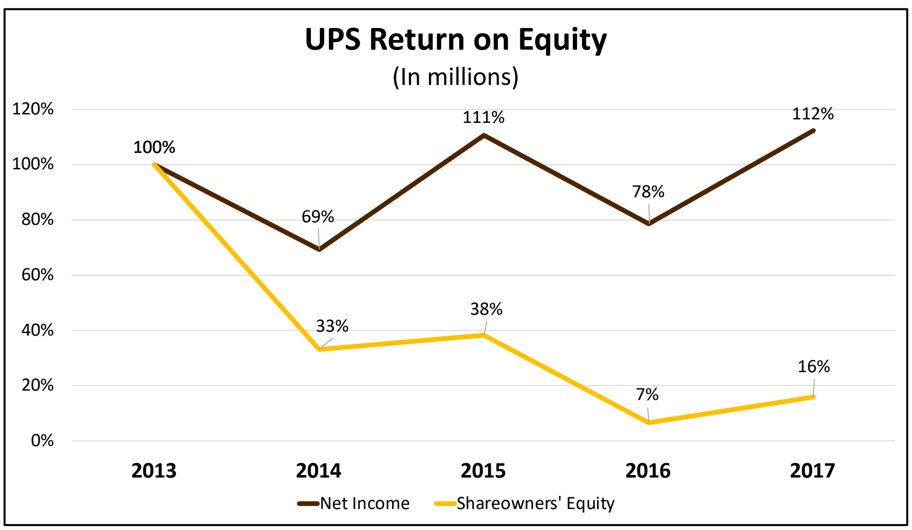

Figure 23. UPS's ROE.

Additional Paid-In-Capital (APIC)

UPS's APIC was depleted from 2009 to 2010 (Financial Statements, 2009 & 2010). When Common Stock is repurchased and retired, this decreases APIC. *Table 9* shows the zero balance in APIC from 2013 to 2017. Once this account is exhausted, its stock retirements begin to reduce Retained Earnings. The stock repurchase and decrease to Retained Earnings is explained below.

Retained Earnings

UPS's Retained Earnings has decreased each year from 2013 to 2017 as a percentage of Total Shareowners Equity, due to the share repurchase program and an increase in dividend payouts. The 17.3% decrease in Retained Earnings from 2013 to 2014 is due to the repurchase of 43.2 million shares for $3.8 billion (Financial Highlights on Annual, AR 2017). The 18.7% decrease from 2015 to 2016 is due to the share repurchase and increase in dividends paid. In 2015, UPS repurchased 26.8 million shares for $2.711 billion and increased dividends paid by $188 million (Note 10: Shareowners' Equity, AR 2017). In 2016, UPS repurchased 25.2 million shares for $2.680 billion and increased dividends paid by $128 million (Note 10: Shareowners' Equity, AR 2017). In 2017, it repurchased 16.1 million shares for $1.816 billion (Note 10: Shareowners' Equity, AR 2017). The share repurchase program retired 68.1 million shares for $7.198 billion for fiscal years ended 2015, 2016 and 2017 (Note 10: Shareowners' Equity, AR 2017).

Accumulated Other Comprehensive Income

UPS's Accumulated Other Comprehensive Income (AOCI) accounts have fluctuated from 2013 to 2017 as shown in *Table 9*. AOCI decreased 681.3% from 2013 to 2014 due primarily to a decrease in unrecognized pension and postretirement benefit costs. UPS remeasures the value of its pension plan assets and liabilities annually, and this causes a net actuarial gain (loss) to prior service costs each year. The prior service cost decreased from $2,983 million to ($3,198) million from 2013 to 2014 (Note 9: Shareowners' Equity, AR 2014). The decrease in AOCI for 2013 to 2014 was also due to a decrease in foreign currency translation of $331 million (Note 9: Shareowners' Equity, AR 2014). AOCI was offset by an unrealized gain on cash flow hedges of $280 million (Note 9: Shareowners' Equity, AR 2014).

For fiscal years ended 2014 and 2015, 2016 and 2017, AOCI fluctuated from (-10.1%) as a percentage of Total Shareowners' Equity in 2014 to (-10.7%) as a percentage of Total Shareowners' Equity in 2017 as shown in *Table 9*. These increases and decreases in AOCI from 2014 to 2017 are primarily due to changes in the unrecognized pension and postretirement benefit costs and foreign currency translation gain (loss) (Note 10: Shareowners' Equity, AR 2015) (Note 10: Shareowners' Equity, AR 2017).

Statement of Cashflows

UPS's Statement of Cash Flows indicates a decrease in Net Cash from operating activities, an increase in Capital Expenditures, and an increase in repayment of Long-Term Debt. *Table 10* shows an overall pattern of (+) Cash Flow from Operating, (-) Cash Flow from Investing and (-) Cash Flow from Financing in Cash Flow activities from 2013 to 2017. This pattern indicates that the company is, "using cash flow generated from operations to buy fixed assets and to pay down debt or pay owners," (Dugan, Gup, & Samson, 1991).

(In millions)	2013	2014	2015	2016	2017
Operating	$7,304	$5,726	$7,430	$6,473	$1,479
Investing	($2,114)	($2,801)	($5,309)	($2,566)	($4,975)
Financing	($7,807)	($5,161)	($1,565)	($3,140)	$3,287

Table 10. UPS's Cash from operating, Cash from investing and Cash from financing activities.

Inflows

UPS's inflows of cash are shown below in *Table 11*. Cash from operating activities decreased significantly as a percentage of Total Inflows from 2013 to 2017, while proceeds from Long-term borrowing increased significantly, as a percentage of inflows from 2013 to 2017, as show in *Table 11*.

	2013	2014	2015	2016	2017
Net cash from operating activities	66.4%	53.4%	36.4%	35.1%	9.4%
Sales & maturities of marketable securities	26.9%	29.0%	31.3%	31.0%	12.6%
Proceeds from long-term borrowings	0.9%	14.2%	18.5%	32.1%	76.2%
Issuances of common stock	4.5%	2.6%	1.2%	1.3%	1.6%
Other, net	1.3%	0.9%	0.2%	0.5%	0.2%
Net change in short-term debt	0.0%	0.0%	12.4%	0.0%	0.0%
Total Inflows	100.0%	100.0%	100.0%	100.0%	100.0%

Table 11. UPS's Summary of Cash Analysis Inflows of Cash from 2013 to 2017. Each inflow is shown as a percentage of total inflows.

Total Inflows fluctuated between $10,995 million in 2013 to $15,762 million in 2017. In 2015, Total Inflows was highest at $20,410 million. This increase in Cash Inflows was due to financing activities instead of Cash from operating activities.

Operating Activities

UPS's Cash from operating activities is shown in *Figure 24*. UPS's Cash from operating activities fluctuated from 2013 to 2017.

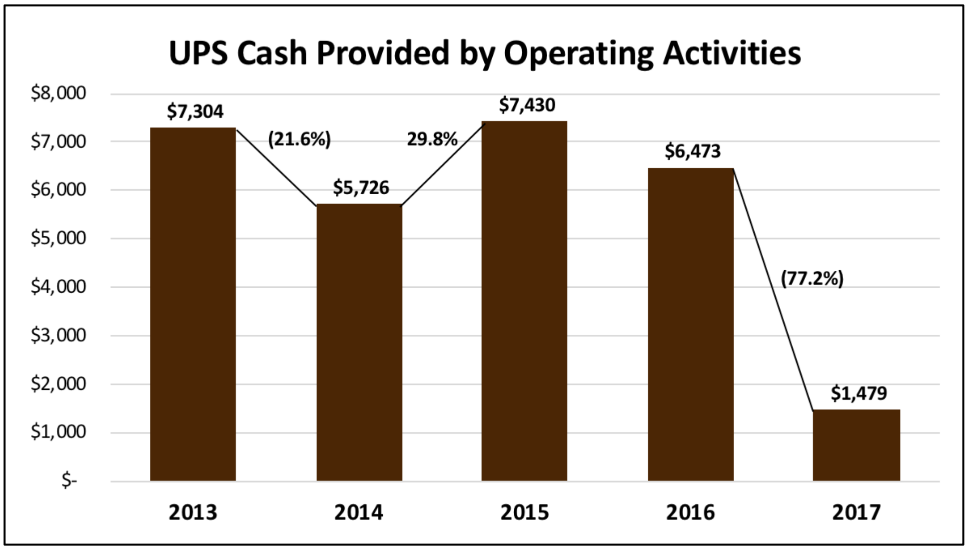

Figure 24. UPS's Cash provided by operating activities.

The (21.6%) decrease in cash from operating activities from 2013 to 2014 was due to a 30.6% decrease in Net Income and $1,925 million increase in Pension and Postretirement Benefit Expense (Consolidated Cash Flow Financial Statement, AR 2015). There was in $1,046 million increase in Pension and Postretirement Benefit Contributions and a $2,271 million increase in Pension Obligation Settlement from 2013 to 2014 as well (Consolidated Cash Flow Financial Statements, AR 2015). Both increases decreased Cash from operating activities. Cash from operating activities increased 29.8% from 2014 to 2015 due to a 59.8% increase in Net Income and a $1,851 million decrease in Postretirement Benefit Expense (Consolidated Cash Flow Financial Statement, AR 2015).

Cash from operating activities decreased from 2015 to 2016 due to a 29.2% decrease in Net Income, a $2,536 million increase to Pension Benefit Expense and a $1,439 million increase to Pension and Postretirement Benefit. (Consolidated Cash Flow Financial Statement, AR 2017). Cash provided from operating activities from 2016 to 2017 decreased 77.2% due to a $5,126 million increase in Pension and Postretirement Benefit Contributions and $1,851 million decrease in Deferred Tax Expense (Consolidated Cash Flow Financial Statement, AR 2017.) The change in Cash provided from operating activities is shown in *Figure 25*.

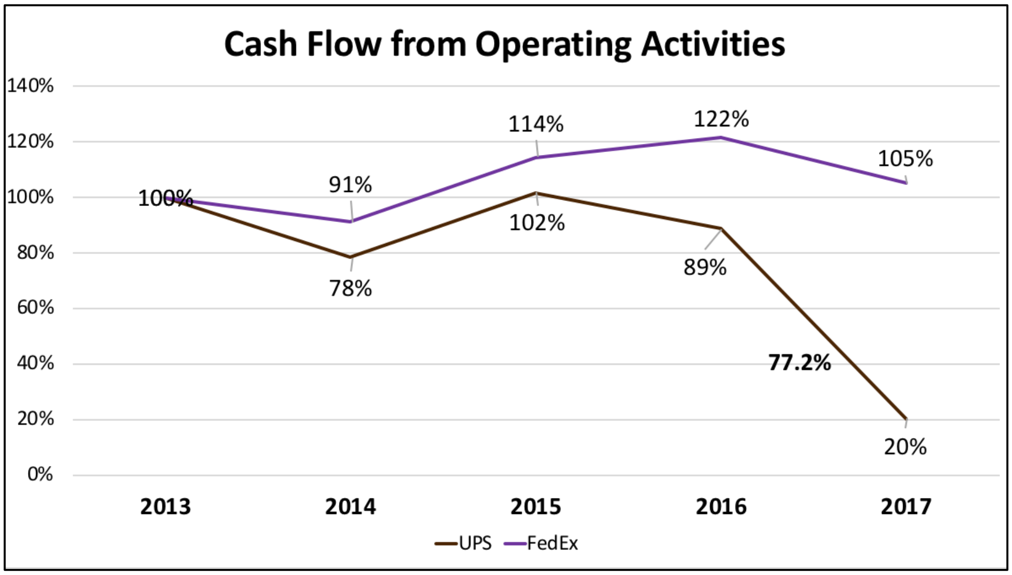

Figure 25. Trend lines of Cash provided from operating activities for UPS and FedEx.

Proceeds from Long-Term Borrowings

UPS has increased its Long-Term Debt *(Figure 15)* due to its Capital Asset Expenditures *(Figure 10 & Table 5)* and Share Repurchases (Retained Earnings section) and acquisitions made from 2015 to 2017 (Acquisitions section). The increase in proceeds from Long-Term borrowings is Cash received from acquiring Long-Term Debt.

Sales and Maturities of Marketable Securities

UPS's buys and sells Trading Securities (TS) and Available-For-Sale-Securities (AFSS) from year to year. This is explained below in the Outflows section.

Net Change in Short-Term Debt

The 12.4% increase as a percentage of Total Outflows is due to the acquisition of Coyote also highlighted in the Acquisitions section.

Outflows

UPS's Cash outflow percentages are shown in *Table 12*. The major outflows for UPS from 2013 to 2017 were the increase in Capital Expenditures (*Table 5*) and the increase in repayment of long-term debt.

	2013	2014	2015	2016	2017
Capital expenditures	15.2%	18.0%	12.0%	16.8%	32.7%
Purchases of marketable securities	21.7%	27.2%	37.3%	27.2%	10.2%
Cash paid for business acquisitions	0.2%	0.7%	9.6%	3.1%	0.8%
Repayments of long-term borrowings	13.8%	13.1%	13.7%	21.5%	24.7%
Purchases of common stock	28.2%	20.8%	13.6%	15.1%	11.4%
Dividends	16.6%	18.3%	12.7%	14.9%	17.4%
Other, net	4.4%	2.1%	1.0%	1.4%	2.8%
Total Outflows	100.0%	100.0%	100.0%	100.0%	100.0%

Table 12. UPS's Summary of Cash Analysis Outflows of Cash as a percentage of Total Outflows.

Investing Activities

As mentioned in the Asset section of this analysis, UPS continues to acquire Capital Assets. The change in purchase of marketable purchase from 2016-2017 is due to the $355 million sale of Trading Securities. Cash paid for business acquisitions increased in 2015 due to the acquisition of Coyote as explained in the Acquisitions section. The increase in buildings, facilities and plant equipment were the largest percentage of Cash used in investing activities.

Financing Activities

As discussed above, the largest increase in cash was due to the increase in Long-Term Debt *(Figure 15)*. As more debt is accumulated, the repayment of long-term borrowings will increase as shown in *Table 12*. In 2013, UPS spent $3.8 billion repurchasing 43.2 million shares (Financial Highlights on Annual, AR 2017). In 2014, the share repurchase $2.7 billion for 26.4 million shares (Financial Highlights on Annual, AR 2017). This share repurchase declined in 2015 to 2017. It was explained previously in the Retained Earnings section. The decrease in outflow of cash for purchases of Common Stock as shown in *Table 12* is due to the decrease in stock repurchases from 2013 to 2017.

The outflow of cash for dividends fluctuated as a percentage of outflows from 2013 to 2017; however, UPS continued to increase its dividends paid from 2013 to 2017 as shown in *Figure 26*. FedEx paid $426 million in dividends in 2017 (FedEx: MD&A, AR 2017). The increase in cash dividend payments and the decrease in number of shares, increased UPS's dividends paid per share as shown in *Figure 27*.

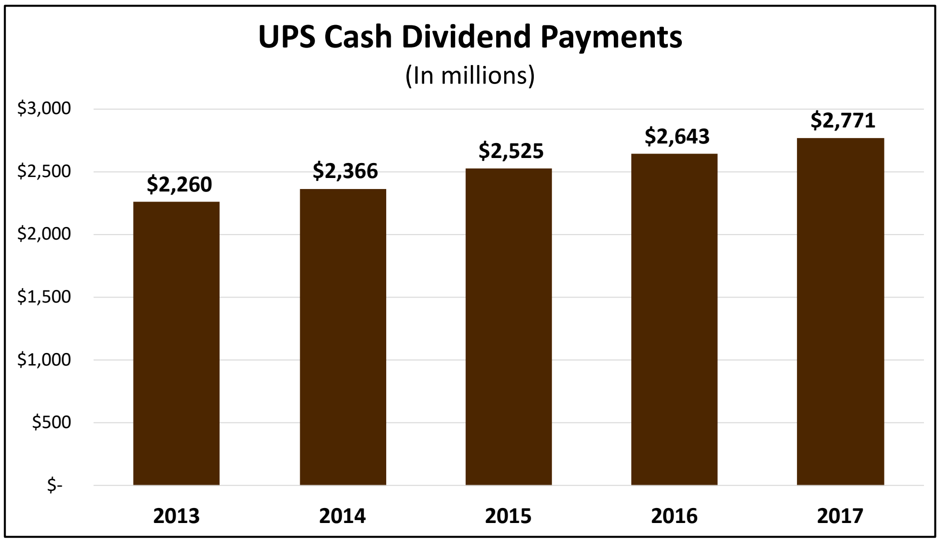

Figure 26. UPS's total amount spent on dividend payments.

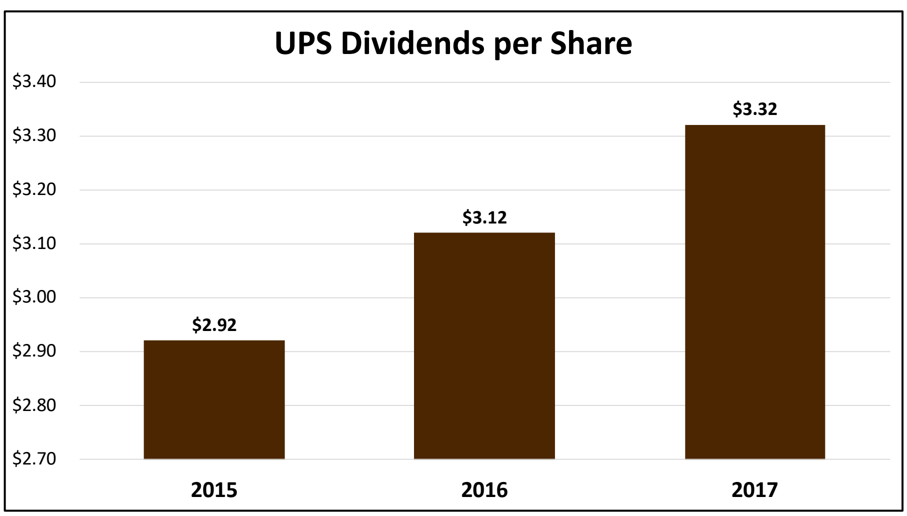

Figure 27. UPS's dividends paid per share.

UPS's Dividend Payout ratio is shown in *Figure 28*. The increase from 2015 to 2016 is due to a decrease in Net Income from the $2.651 billion mark-to-market loss in 2016. It decreased from 2016 to 2017 due to the increase in Net Income as shown in *Figure 9*. FedEx's dividend payout is low despite a high EPS, due to its smaller dividends paid per share as shown in *Figure 27*. FedEx paid dividends per share of $0.80, $1.00 and $1.60 in 2015, 2016 and 2017 respectively (FedEx: MD&A, AR 2017).

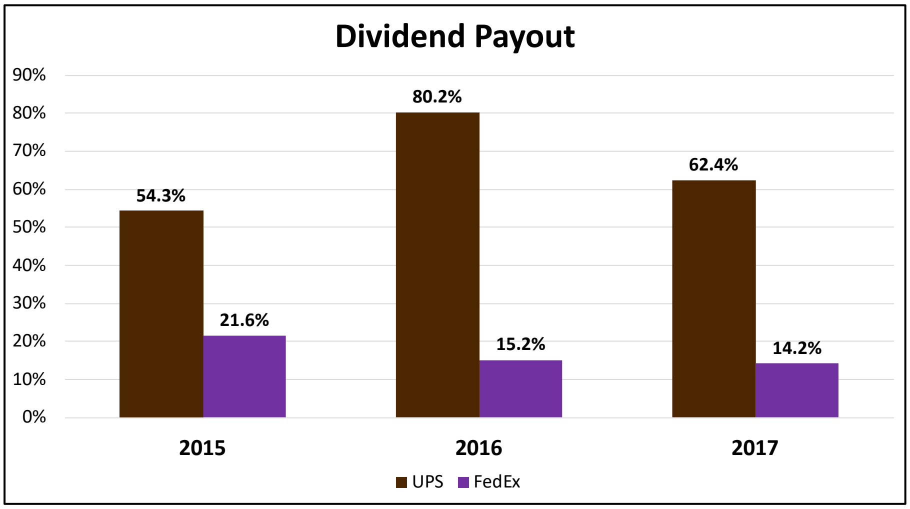

Figure 28. Dividend Payout ratio for UPS and FedEx.

UPS's Dividend Yield ratio is much lower than FedEx's due to its lower stock price at year end for 2015, 2016 and 2017 as shown in *Figure 29*. UPS stock price closed at $96.23, $114.64 and $119.50 on December 28, 2015, 2016 and 2017 respectively (NASDAQ, 2018). FedEx's stock price closed at $182.24, $163.82 and $203.11 on December 28, 2015, 2016 and 2017 respectively (NASDAQ, 2018). FedEx is yielding a higher return based off of the market price for the years ended 2015, 2016 and 2017 (Fraser & Ormiston, 2010).

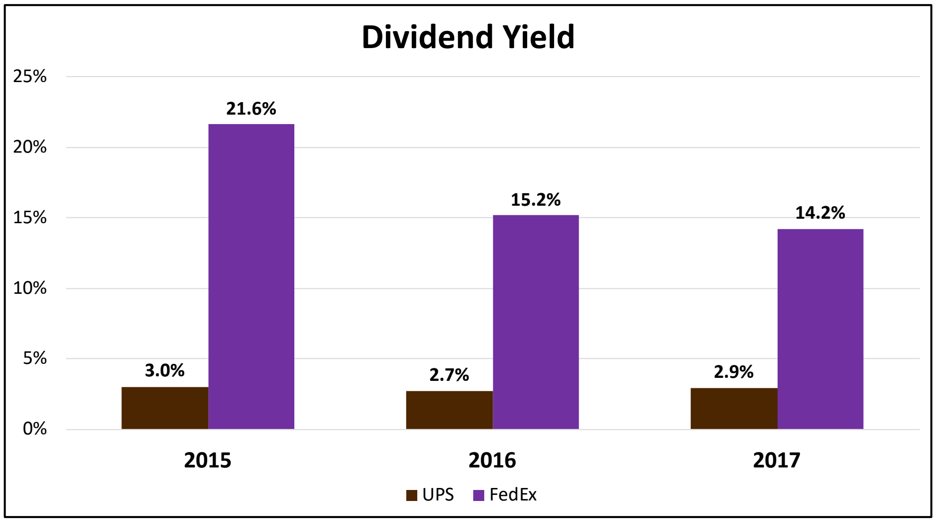

Figure 29. Dividend Yield ratio for UPS and FedEx.

Cash Flow Ratios

The Cash Flow Adequacy ratio is shown in *Figure 30*. The decrease from 2016 to 2017 is due to the increase in Long-Term Debt and Capital Asset Expenditures. In 2016 and 2017, UPS did not generate enough cash flow to cover its outflows without requiring financing through investing or financing activities. The loss in cash from operating activities explained above is the reason that UPS can only cover its Capital Expenditure, Debt Repayments and Dividends paid 0.12 times (Fraser & Ormiston, 2010).

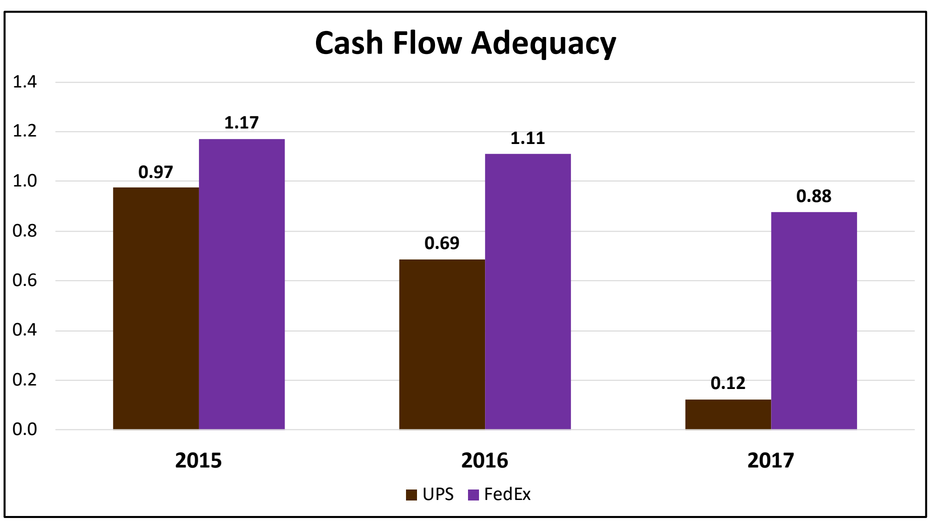

Figure 30. Cash Flow Adequacy ratio for UPS and FedEx.

UPS's Cash Flow Margin shows the ability to translate its Service Revenue into Cash is shown in *Figure 31*. The decrease from 2015 to 2016 is due to the $957 million decrease in cash from operating activities from 2015 to 2016. The decrease from 2016-2017 is due to the $4,994 million decrease in cash from operating activities from 2016 to 2017. Both decreases in cash from operating activities were explained above.

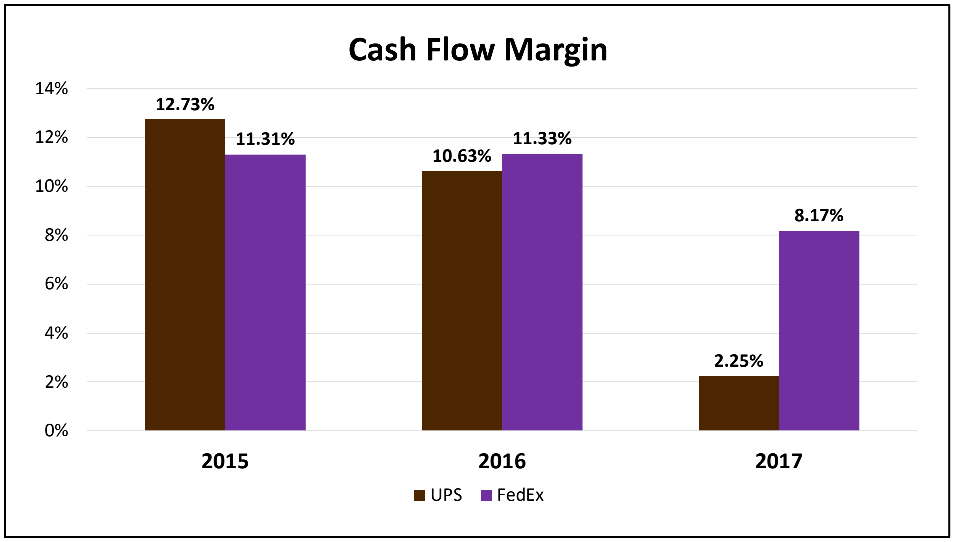

Figure 31. Cash Flow Margin for UPS and FedEx.

UPS has funded a large portion of its Capital Asset expansion program from Long-Term Debt. The ratio shown in *Figure 32* indicates that UPS's cash return on investments in its Assets has declined from 2015 to 2017, particularly in 2017 due to its decline in cash from operating activities.

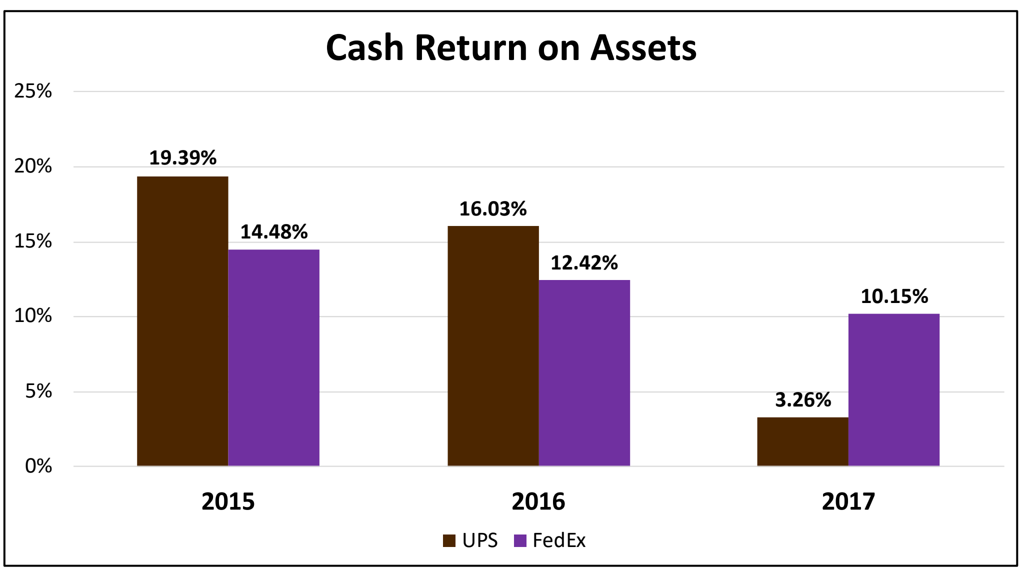

Figure 32. Cash Return on Assets for UPS and FedEx.

Stock Performance & Analyst Opinions

The Price to Earnings (PE) ratio shows stock market price compared to EPS. FedEx's PE is higher than UPS. UPS stock is selling for less on average on the New York Stock Exchange (NYSE) than FedEx stock. PE is shown in *Figure 33*.

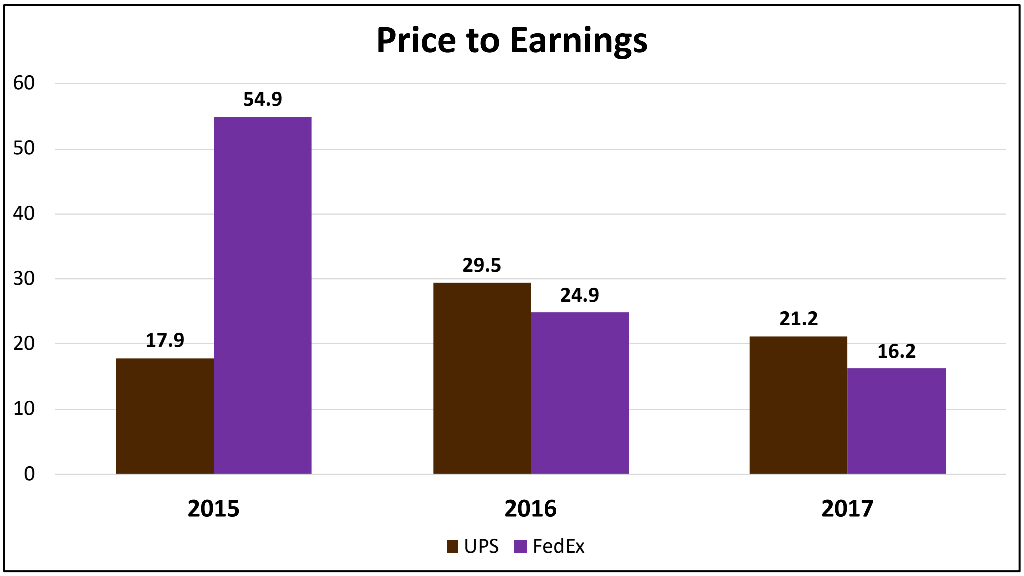

Figure 33. Price to Earnings Ratio for UPS and FedEx.

UPS's ticker symbol (UPS), 5 year stock price is shown in *Figure 34*.UPS's stock price is lower than FedEx (FDX) for the last five years to date. UPS's high/low market price per share for the last 52 week period is shown in *Table 13*. UPS's close on April 11th, 2018 was $106.02 (Nasdaq, 2018).

Figure 34. UPS's market price per share for the last five years to date (NASDAQ, 2018).

Low (Last 52 week period)	**High** (Last 52 week period)
$ 101.45	$135.53

Table 13. This table shows UPS's high/low market price per share for the last 52 week period.

FedEx's market price for the last five years to date is shown in *Table 35*. FedEx's high/low market price per share for the last 52 week period is shown in *Table 14*. FedEx's close as of April 11th, 2018 was $242.04 (NASDAQ, 2018).

Figure 35. FedEx's market price per share for the last five years to date (NASDAQ, 2018).

Low (Last 52 week period)	**High** (Last 52 week period)
$ 182.89	$277.66

*Table 15***.** FedEx's high/low market price per share for the last 52 week period (NASDAQ, 2018).

Analysts' recommendations regarding UPS stock are shown below in *Figure 36*. The majority of firms are recommending stock in the courier express service industry; however, more firms (16) are recommending FedEx as a Strong Buy. The firms providing these recommendations are in *Table 16*.

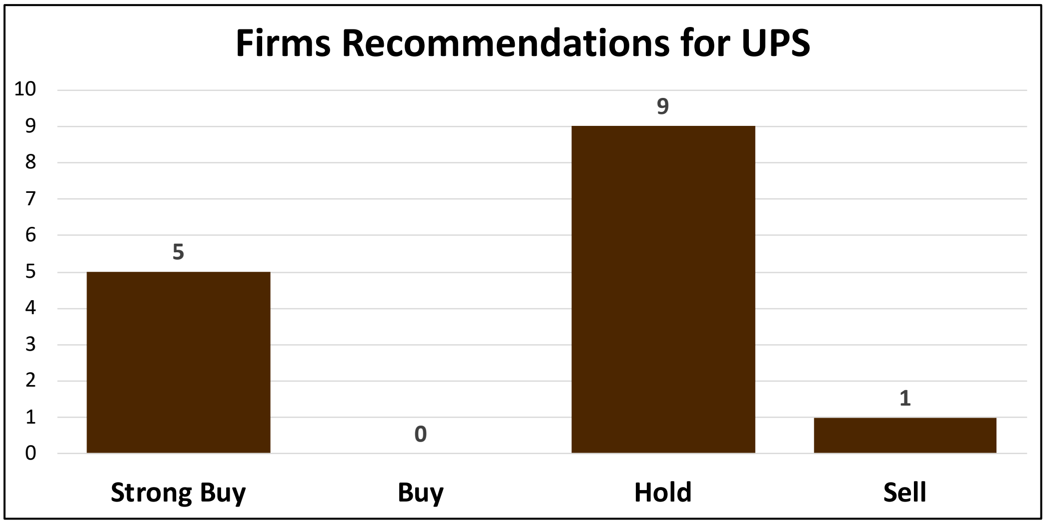

Figure 36. Firms recommendations for UPS stock (NASDAQ, 2018).

Firms Recommendations		
B of AML	Baird R W	Co Forecast
Cowen & Company	Deutsche BK Securities	Edward Jones
JP Morgan Securities	Morgan Stanley	Oppenheimer Holdings
Raymond James	Seaport Global	Stephens Inc.
Stifel Nicolaus	Wells Fargo Securities	

Table 16. List of firms providing recommendations for UPS and FedEx stock (NASDAQ, 2018).

Conclusion

The Courier and Express Service industry is dependent on its ability to deliver packages to any location in the world at the lowest price, in the most efficient was as possible. UPS's continued development in its efficiency has driven its growth in Service Revenue from 2013 to 2017. Through acquisitions and Capital Expenditures, UPS has continued to increase its Total Assets. The expansions, share repurchases and accelerated pension payments have increased. Long-Term Debt decreased cash from operations significantly from 2015 to 2017, but this increase in Long-Term Debt has funded its substantial growth from 2013 to 2017. Should UPS continue its expansion, cash from operations will need to be improved to sustain the company's financial stability.

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