INDUSTRIALS: TRANSPORTATION & LOGISTICS

THE OWL FUND

INITIATING COVERAGE REPORT

William C. Dunkelberg Owl Fund
October, 4th 2015

FedEx Corporation

Exchange: ***NYSE*** *Ticker:* ***FDX*** *Target Price:* ***$176.67***

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COMPANY OVERVIEW

FedEx Corp. is the world's second largest transportation and e-commerce business, and a leader in express transportation shipping. FedEx operates in 220 nations and territories, bringing in 72.1% of its FY 2015 revenue from the United States, 11% from Asia, 10.2% from Europe, 3.6% from the rest of the Americas, and 3.1% from Africa and the Middle East. FedEx serves the needs of its clients through four business segments: FedEx Express (57.4% of FY 2015 Revenue), FedEx Ground (27.4%), FedEx Freight (13.0%), and FedEx Services (3.3%). FedEx Corporation reports the end of its fiscal year on May 31st.

INVESTMENT THESIS

FedEx is currently trading at a 12.9% discount to its 5-year historical P/E multiple, an 11.8% discount to its 5-year historical P/E spread against UPS, and a 6.0% discount to its 5-year historical P/E spread against the S&P Industrial Sector. FedEx became undervalued as a result of (1) the overall market reaction to the slowed growth in China, (2) missed earnings in Q4 FY 2015 due to adverse currency translation and lower than expected volumes, and (3) an additional missed earning in Q1 of FY 2016 due to increases in self-insurance reserves. The stock price has dropped approximately 20% from its all-time high in mid-June. Investors have reacted irrationally. Looking forward, we believe that FedEx will see top line growth through its ideal positioning in the growing e-commerce market and its international expansion projects. Moreover, the company will expand its margins through profit improvement initiatives such as fleet modernization and adapting pickup and delivery operations to maximize on-road efficiency. These catalysts, alongside the company's economic moat created by its network effect, will drive FedEx's P/E multiple from 14.9x to its average 5-year historical P/E spread multiple against the S&P 500 Industrial Sector of 15.9x, and will trade at our target price of $176.67, yielding a 22.1% return.

Sector Outperform
Recommendation: BUY

Key Statistics:

Price	$145.52	52 Week Low	$140.57
Return	22.1%	52 Week High	$185.19
Shares O/S (mm)	282	Yield	0.69%
Market Cap (mm)	$41,091	Enterprise Value	$44,806

1 Year Price Graph

Adjusted Earnings History:

Quarters	EPS	Δ Rev. YoY	Δ Price
2Q15	$2.14	36%	-3.72%
3Q15	$2.01	63%	-1.37%
4Q15	$2.66	8%	-2.96%
1Q16	$2.42	15%	-2.84%

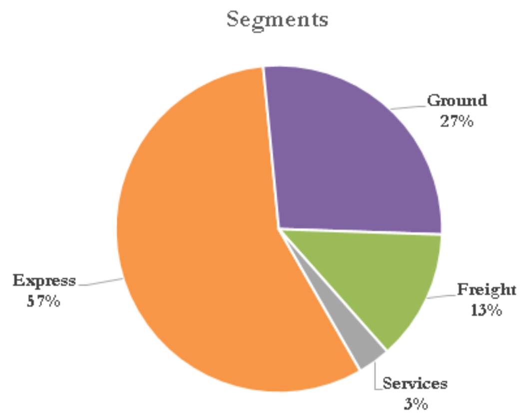
Adjusted Earnings Projections:

Year	Q1	Q2	Q3	Q4	Total
2014	$1.53	$1.57	$1.23	$2.46	$6.75
2015	$2.10	$2.14	$2.01	$2.66	$8.95
2016e	$2.42	*$2.55*	*$2.43*	*$3.26*	*$10.69*
2017e	*$2.88*	*$2.99*	*$2.83*	*$3.52*	*$12.27*

All prices current at end of previous trading sessions from date of report. Data is sourced from local exchanges via FactSet, Bloomberg and other vendors. The William C. Dunkelberg Owl fund does and seeks to do business with companies covered in its research reports.

SEGMENT OVERVIEW

FedEx Corporation (NYSE: FDX)
FedEx is a broad holding company of transportation, e-commerce and business services. Each of the four segments detailed below are independent companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. These companies are included broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the FedEx brand.



Federal Express Corporation (57.4% of FY 2015 Revenue)
Federal Express Corporation ("Express") is the world's largest express transportation company, offering time-definite delivery to more than 220 countries and territories, connecting markets that comprise more than 90% of the world's gross domestic product. This segment offers overnight and same-day services for U. S. domestic shipping, and one-to-five day shipping for international customers. Additionally, three sub segments operate under FedEx Express: "FedEx Trade Networks," "FedEx Supply Chain Systems," and "Bongo." These sub segments integrate and extend the segment's worldwide supply-chain and e-commerce logistics.

FedEx Ground Package System Incorporated (27.4% of FY 2015 Revenue)
FedEx Ground Package System, Inc. ("Ground") is a leading North American provider of small-package ground delivery services (150 lbs. maximum). FedEx Ground provides low-cost, day-certain service to any business address in the U.S. and Canada, as well as residential delivery to nearly 100% of U.S. residences through its FedEx Home Delivery service. The Ground segment also includes SmartPost, which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the U.S. Postal Service for final delivery to any residential address or PO Box in the U.S. In FY 2015, FedEx acquired GENCO Distribution System, which is a leading North American third-party logistics provider that specializes in e-commerce returns.

FedEx Freight Incorporated (13.0% of FY 2015 Revenue)
FedEx Freight, Inc. ("Freight") is a leading provider of less-than-truckload (LTL) freight services across the United States, reaching main districts in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands as well. Less-than-truckload service is more cost efficient than full truckload service, as it delivers multiple products from multiple customers to a variety of locations, while full truckload shipments (FTL) only ship containers of one product from one customer at a time. Freight shipments fall between 150 and 20,000 pounds, and as a result are primarily used for business-to-business transactions. FedEx offers two freight shipping options: Priority and Economy. Priority offers narrow shipping windows through greater cost to the customer, while Economy provides discounted costs to customers for longer delivery wait times. FedEx Custom Critical, a sub segment operating under FedEx Freight, helps expedite freight shipments while enhancing the tracking, handling and security of FedEx Freight services.

FedEx Corporate Services Incorporated. (3.3% of FY 2015 Revenue)
FedEx Corporate Services, Inc. ("Services") provides internal support to the Express, Ground and Freight Segments through its sales, marketing, information technology, communications and back-office departments. This segment is responsible for creating, updating and maintaining fedex.com and the FedEx Mobile application, which both serve as online portals for customers to place, track and manage their orders. FedEx Services also markets the FedEx brand through a variety of television, print, and digital outlets. Furthermore, FedEx Services' information technology department ensures the security of its customers', vendors', and employees' information, and handles customer service, billings and collections from U.S. customers. FedEx Office, a sub segment within FedEx Services, operates 1800 customer facing retail locations for the purchase of supplies and services for FedEx Express and FedEx Ground deliveries.

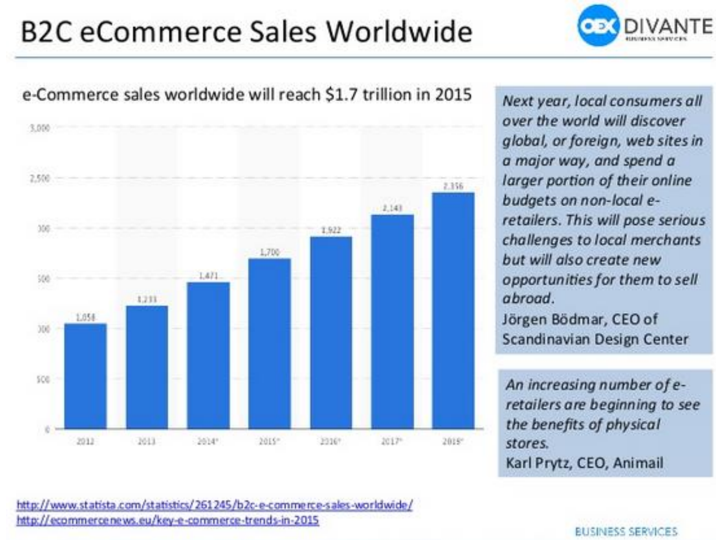
INDUSTRY OVERVIEW.

Transportation Services Index

The Transportation Services index (TSI) is a monthly measure of the volume of services performed by the for-hire transportation sector. The index covers the activities of for-hire freight carriers, for-hire passenger carriers, and a combination of the two. In July 2015 the index increased 0.6 percent. This continued a trend alternating monthly increases and decreases that began after the index hit an all-time high in November 2014. Following the increase in July, the index was 0.5 percent lower than the all-time high, returning to its March 2015 level after three months below that level. Freight shipments are up 14.8 percent in the five years from the post-recession level of July 2010 and are up 9.8 percent in the 10 years from July 2005.

Effect of E-commerce on the Transportation Industry

E-commerce trade is one of the major drivers of the global courier service industry. The e-commerce trade primarily involves B2B businesses and online shopping. It is growing rapidly in the Asia-Pacific region. Moreover, the demand for B2C e-commerce trade is also increasing. Recently, there has been a surge in the use of e-commerce across the globe. The impact of this new form of commerce has been felt in each and every industry, and retailers everywhere want to expand their operations to include online shopping. This new form of retail has brought in a new set of opportunities, as well as challenges, for courier and delivery services companies. The e-commerce market might not be as mighty as the traditional market, but it is growing at a much faster pace. It is expected to reach more than $1.5 trillion by the end of 2015. Such huge volumes of packages will require efficient and safe parcel delivery systems. This will create huge opportunities for parcel delivery service providers such as FedEx and United Parcel Service to diversify their revenue streams.



Express Delivery Services

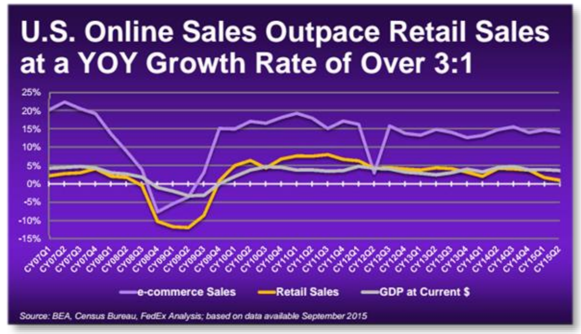
Worldwide, the express delivery industry generates annual revenue of about $220 billion. Led by the US, North America is the largest market for express delivery services, but Asia, Europe, and Latin America are being targeted for industry growth. China and India are seen as especially promising markets because of their rapidly emerging consumer classes. The US express delivery services industry includes about 7,500 companies with combined annual revenue of about $90 billion. Business transactions and online consumer spending drive demand for express delivery services. The profitability of individual companies depends on price, reliability, quality, and services. Large companies compete by offering a wide range of services. Small companies compete through specialized customer service. The industry is divided into two segments: large networked couriers capable of nationwide and international delivery, and smaller local services that transport packages within a metropolitan area. The courier segment of the US industry is highly concentrated and accounts for most of the industry's revenue; United Parcel Service (UPS) and Federal Express (FedEx) dominate the market. The local segment, which is much smaller, is highly fragmented.

Less-Than-Truckload Shipping

LTL shipments are a smaller but growing part of the shipping market. LTL carriers transport the consolidated cargo of several shippers on one truck, dropping goods off at multiple delivery points. Long-distance LTL truckers typically operate a network of terminals connected by long-distance routes. Because most shipments involve transfers at terminals, delivery times for LTL shipments are generally longer than for TL shipments. To lower delivery costs, LTL trucking companies often work with logistics companies to arrange, consolidate, time, and monitor shipments.

CATALYSTS

Positioning in E-commerce



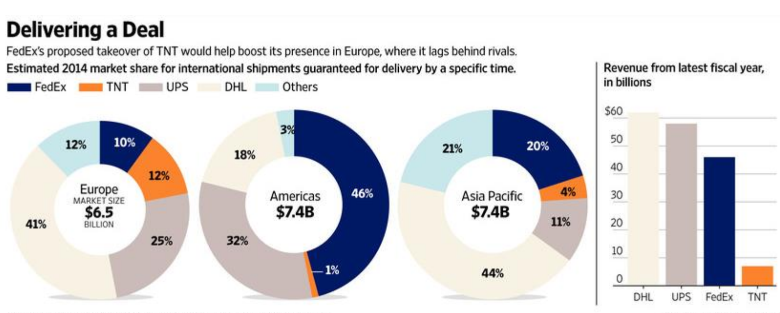
FedEx Ground has been growing consistently for the last decade with annual revenue increasing at a CAGR of 4.1% the last five years. The primary stimulant behind growth has been the company's heavy investments to position itself in the e-commerce industry. Total e-commerce sales are expected to reach more than $1.5 trillion by the end of CY 2015 and continue to grow thereafter. This creates huge opportunities for FedEx as they are positioned to take full advantage of the increased demand. FedEx SmartPost is a leading national small-parcel consolidator that specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages, using the USPS for final delivery to residences. Effective September 1st, 2015, SmartPost, was fully integrated into FedEx's Ground segment, enabling the company to better manage high volumes of low-weight e-commerce packages. Moreover, instead of outsourcing home deliveries to USPS, SmartPost now has access to FedEx Ground's delivery networks. This will create a significant difference in operating expense going forward, as the company will need the USPS less and less. SmartPost had $1.0 billion in sales in FY 2015. In January 2015, FedEx acquired GENCO FOR $1.4 billion to expand existing FedEx service offerings in the e-commerce markets. GENCO's infrastructure and supply chain capabilities include reverse logistics, providing triage, test and repair, remarketing and product liquidation solutions. Simply put, GENCO specializes in organizing and returning packages from customers that made online orders. As e-commerce demand rises, we believe that we will see an increase in returns of items purchased online, and GENCO situates FedEx perfectly to thrive throughout this trend. GENCO had $416 million in sales during FY 2015.

Profit Improvement Initiatives

The transportation service industry is driven by cost efficiency. Transportation service companies' top lines are driven by total number of packages shipped and the price per package charged. Pricing changes are historically insignificant, which make revenue dependent on total package volume. Package volumes are largely out of FedEx's control and are dependent on the global macro environment. Therefore, transportation service companies, such as FedEx, outperform competition by cost control and efficiency. In October 2012, FedEx announced profit improvement initiatives to add $1.7 billion in annual profit improvement by the end of FY 2016. Since inception, the initiatives have expanded operating margin from 7.8%, to 9.0% from FY 2013 to FY 2015. Looking forward, the company has added and restated specific profit improvement initiatives for FY 2016 including: (1) SG&A cost reductions, (2) U.S. domestic transformation, (3) international profit improvement, and (4) air fleet modernization. SG&A initiatives include a voluntary employee buyout program, organizational improvements, and eliminating non-essential systems. U.S. domestic transformation initiatives include implementing new technology and processes to improve flight and crew scheduling, adapting pickup and delivery operations to maximize on-road efficiency, and consolidating facilities. The international profit improvement and targeted growth and yield initiatives are similar to the cost cutting initiatives mentioned previously. The company does not release result per initiative and only discloses the effect of the cumulative effect of these projects. We believe the most significant cost benefit FDX is implementing is modernizing its air fleet with larger, more fuel efficient aircraft. FedEx is purchasing eleven Boeing 767 freighters and two Boeing 777 freighter planes in FY 2016. Boeing 767's are two-engine, long-range, wide-bodied cargo aircraft, while Boeing 777's are also two-engine, wide-bodied cargo aircraft, but also have a longer range and larger capacity than any other aircraft operated. These aircraft possess a 20% to 30% cost benefit compared with comparable planes Airbus A310-200 and the Boeing MD10-30, respectively. FedEx has purchased 14 Boeing 767's and 13 Boeing 777's, driving FY 2015 fuel cost savings. We foresee the full effect of these aircraft accruing in FY 2016. As mentioned, FedEx does not disclose the cost reduction effects of individual initiatives, however, the profit improvement initiative in its entirety is forecasted to expand operating margin 100 basis points in FY 2016.

International Expansions

FedEx has identified another big opportunity in local deliveries. Retailers are mostly forced to rely on smaller local courier companies that give non-uniform services. As a solution, FedEx is working to increase connectivity in the isolated locations. It is opening new hubs and acquiring local delivery companies in the key markets of Europe, Latin America, and Asia Pacific. FedEx Express is spending $100 million to set up an express and cargo center at Shanghai Pundong International Airport. The facility will be capable of handling up to 36,000 parcels hourly, and is expected to go into operation in early CY 2017. The airport is expected to become the world's top air cargo hub by the end of CY 2015, and recently received approval to carry out an expansion project that is expected to increase its freight handling capacity to five million tons annually by CY 2020. Driven by these strategic focuses, FedEx has performed at a high level over the last two years, growing its ground revenue at a CAGR of 7.7%. More recently, in Q1 2016 FedEx increased its ground yield per package by 5.5%, driven primarily by changes in dimensional weight rating, extra services, and SmartPost customer mix. FedEx is currently the fourth largest transportation service company in Europe, holding a 10% market share in Europe behind competitors DHL (41% market share), UPS (25%) and TNT express (12%). In April 2015, TNT accepted a $4.4 billion merger agreement with FedEx (33% premium). The merger would place FedEx with a 22% market share and lower the company's first and last-mile costs, such as pickup and drop-off costs, in the region since TNT possesses a large network of delivery depots. The deal was expected to close in the first half of CY 2016, however within the last week, European Union antitrust regulators released that they are considering demanding concessions, such as asset sales. Regulators have yet to decide whether to voice any objection. In CY 2013, UPS attempted to acquire TNT, which EU regulators prohibited because they believe it would create a duopoly between UPS and DHL in Europe. Our opinion is that the merger will be completed. The deal between FedEx and TNT would create a much smaller entity with market share of 22% less than UPS and DHL. However if the deal does get rejected, we see no downside to FedEx. The company has not moved on news of potential EU action. Given this information, our analysis is if the merger proceeds, FedEx will be a new powerful force in Europe. If the merger is denied, the price will see insignificant price fluctuations, if any at all.



ECONOMIC MOAT

Network Effect: FedEx possesses incredibly strong shipping and e-commerce networks. FedEx holds strong barriers to industry entry, previously displayed when DHL was forced to exit the domestic U.S. parcel delivery. FedEx and UPS's enormous U.S. market share caused DHL to suffer nearly $1 billion in losses in its U.S. operations. FedEx, alongside UPS, is now one of only two companies in the U.S. shipping industry. FedEx has invested in a substantial number of airplanes, trucks, sorting facilities, and employees. Additionally, the company has worked diligently to mold and create right-to-fly agreements across the globe. As a result, a start-up shipping company would be forced to suffer immense losses over several years in any attempt to replicate FedEx's international networks. Furthermore, FedEx's dominating position in the market allows it to easily acquire any small companies that try to pose competition.

RISKS

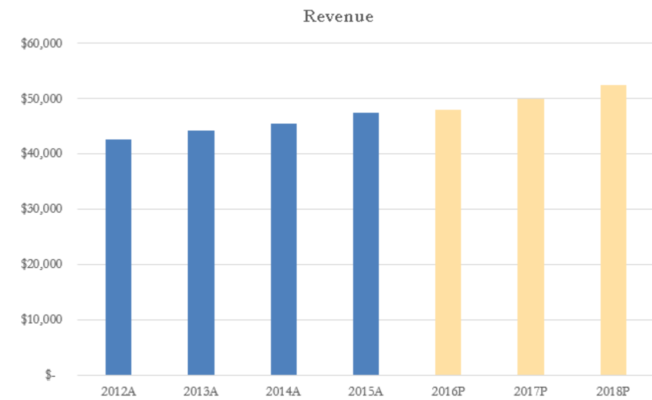
Peak Season Performance: FedEx faces the challenge of matching its service supplies with peak season demands during this holiday sales season in October, November and December, large volumes of goods are shipped internationally to U.S. consumers. The inability to perform in peak season would see a loss in FedEx's revenues, as well as an increase in costs due to an influx of requests for money-back guarantees.

Fuel Prices:

Costs of jet fuel and gas for trucks are variable, and have the potential to adversely affect bottom line. If the price of oil increases drastically, the cost of day-to-day operations will increase. FedEx will be unable to drastically increase its service prices to offset costs, as this could deter customers.

FINANCIALS

Revenue



Company top line increased between FY 2013 and FY 2015 from $44.3 billion to $47.5 billion representing a 2.3% CAGR. FedEx derives its revenue from two primary components: (1) total package volume, and (2) revenue per package sent. Revenues increased 3% in FY 2014, due to higher volumes in Ground and Freight and yield increases in Ground. Revenues increased 4% in FY 2015 due to improved package volume and the acquisition of GENCO. We believe that through its acquisition of GENCO and merger of SmartPost, FedEx Ground will be ideally positioned to benefit from the growth of e-commerce across North America. Moreover, the potential $5.5 billion acquisition of TNT will expose FedEx for e-commerce growth in Europe. For these reasons, analysts forecast that top line will grow at a 5.1% CAGR through FY 2018.

FedEx Express (57.4% of FY 2015 Revenue)

FedEx Express witnessed negligible revenue growth from $27.2 billion in FY 2013 to $27.3 billion in FY 2015. Despite growth of total average daily package volume from 3.9 million packages per day in FY 2013 to 4.1 million packages per day in FY 2015, lower fuel surcharges, unfavorable exchange rates, and slight price depreciation have limited Express revenue growth. We believe that additional e-commerce will drive package volume growth and pricing will remain consistent. The best-case scenario for large top line growth in in the Express is if the TNT acquisition is approved and integrated into the segment. TNT had $6.5 billion in sales in the last fiscal year and is an ideal way for FedEx to gain exposure to the European market. Analysts forecast that Express revenue will grow at a 1.0% CAGR through FY 2017.

FedEx Ground (27.4% of FY 2015 Revenue)

FedEx Ground revenue grew from $10.6 billion in FY 2013 to $13.0 billion in FY 2015, representing a 7.1% CAGR. Similar to the Express segment, Ground segment revenue is driven by (1) total package volume, and (2) revenue per package sent. In FY 2015, Ground revenues increased 12% due to volume and pricing growth, the inclusion of GENCO, and pricing growth at FedEx SmartPost. The Ground segment will be the most positively affected by the increase in e-commerce due to positioning with SmartPost (small-parcel consolidator) and GENCO (shipment return specialist). Analysts project that Ground will grow at a 12.5% CAGR through FY 2017.

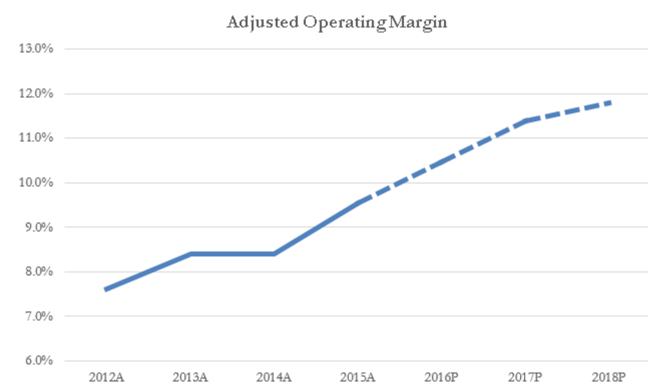
FedEx Freight (13.0% of FY 2015 Revenue)

FedEx Freight revenue grew from $5.4 billion in FY 2013 to $6.2 billion in FY 2015 representing a 4.7% CAGR. The segment derives its revenue from the transportation of parcels weighing over 150 lbs. In FY 2015, Ground revenues enlarged 8% due to higher average daily shipments and higher revenue per shipment. Average daily trucking shipments increased 5% in FY 2015 due to higher economic demand. Analysts forecast Freight to grow at a 2.0% CAGR through FY 2017. Overall, we view the Freight segment as a stable, less noteworthy segment that will influence the stock price within our investment horizon.

FedEx Services (3.3% of FY 2015 Revenue)

FedEx Services revenue grew from $1.7 billion in FY 2013 to $1.5 billion in FY 2015, representing a decline of 11%. The FedEx Services segment provides direct and indirect support to the transportation businesses, and FedEx allocates all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating its transportation businesses in the results of those segments. The Service segment has shrunk almost every year from its all-time high revenue of 2.0 billion in FY 2005. These losses are a miscellaneous assortment of unusual circumstances such as repatriating revenue to Express, Ground, or Freight or a change in accounting for the company's pension. We see no meaningful results from the service segment.

Margins



FedEx has increased its operating profit from 7.8% in FY 2013 to 9.0% in FY 2015. In FY 2015, there was a $2.2 billion loss associated with an increase in self-insurance reserves to protect FedEx from the costs associated with workers compensation claims, vehicle accidents and general business liabilities. The company and analysts all disregard this as an unusual event and use adjusted results. The company reports operating expenses in salaries and employee benefits, purchased transportation, rentals and landing fees, fuel, maintenance and repairs, retirement plans, and mark-to-market adjustment. The most important expense we are focusing on is fuel. Fuel expense in FY 2014 equaled $4.6 billion and in FY 2015, fuel cost shrunk to $3.7 billion. In a bear case scenario, if fuel prices immediately increased to FY 2014 costs per barrel, the company would pay nearly $4.8 billion in fuel charges in FY 2016, and $5.0 billion in FY 2017. Conversely, if fuel prices remain consistent, we forecast that the company will pay $3.7 billion and 3.9 billion in FY 2016 and FY 2017, respectively.

FedEx Express

FedEx Express had operating margins of 5.8% in 2015, and saw a 50 bps increase YoY. Despite flat revenues, segment operating results improved due to U.S. domestic volume growth, benefits from the profit improvement initiatives and lower international expenses due to currency exchange rates. These benefits were partially offset by higher maintenance expenses and higher incentive compensation accruals. Maintenance and repairs expenses increased 15% in FY 2015 due to the timing of aircraft maintenance events. Fuel expense decreased 19% due to lower airline fuel expense. The net impact of fuel had a noteworthy benefit to operating income. In addition, FedEx recorded charges of $276 million associated with the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines at FedEx Express. Moving forward, the profit improvement initiatives outlined in our catalysts will stimulate significant margin expansion. Analysts are forecasting 100 basis points of operating margin improvement for FY 2016, derived mostly from the Express segment.

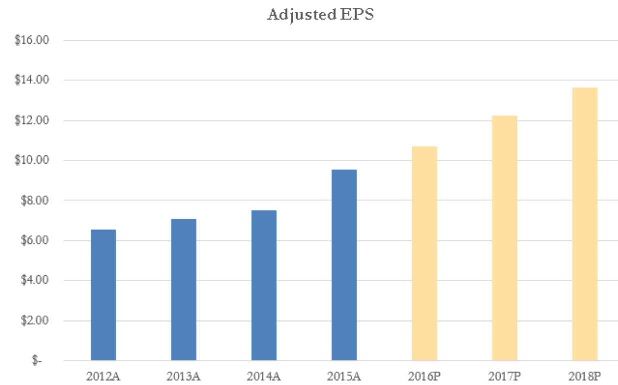
FedEx Ground

FedEx Ground had operating margins of 16.70%, and saw a 70 bps decrease YoY. The Ground segment's operating income increased 9% in 2014 driven by higher volumes and yields. Operating income comparisons were also positively impacted by the inclusion in 2013 of costs associated with the business realignment program. The increase to operating income in 2014 was partially offset by higher network expansion costs, as FedEx continues to invest heavily in the growing FedEx Ground and FedEx SmartPost businesses. Other expenses increased 24% in 2015 primarily due to the addition of GENCO results and higher self-insurance costs. The inclusion of GENCO results in the FedEx Ground segment results has impacted the year-over-year comparability of all operating expenses. Including the incremental costs from GENCO, salaries and employee benefits increased 23%, driven by additional staffing to support volume growth. There is also a $197 million charge in the fourth quarter to increase the reserves associated with the settlement of an independent contractor proceeding at FedEx Ground. We project FedEx Ground's operating margins to remain relatively stagnant, with benefits of volume growth due to expansion of e-commerce offset by the restructuring costs associated with SmartPost and GENCO for FY 2016.

FedEx Freight

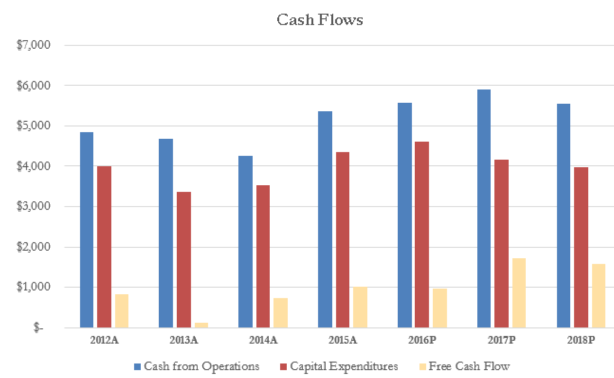
FedEx Freight had operating margins of 7.80% and saw a 170 bps increase YoY. The Freight segment's operating income and operating margin increased in 2015, due to higher LTL revenue per shipment and higher average daily LTL shipments. These factors were partially offset by a 10% increase in salaries and employee benefits expenses, driven by staffing to support volume growth and higher incentive compensation accruals. Analysts expect improvement in operating margin moving forward due to volume growth in the differentiated LTL services.

Earnings



FedEx has missed three of its last four earnings per share estimates. The 4.76% miss in Q2 2015 can be attributed to a year-over-year 1.33% decrease in fuel surcharges alongside lower FedEx SmartPost shipment volumes. FedEx missed earnings by 0.93% Q4 2015 due to the company's inability to meet holiday season shipment needs. In Q1, EPS underperformed expectations by 1.39% because of higher than expected operating costs, self-insurance associated with FedEx Ground, and less than expected Freight shipping volumes. Despite these misses, EPS has still increased from $8.08 to $9.72 over the last twelve months. GAAP EPS decreased from $7.56 to $3.70 year over year in FY 2015, due to a sharp increase in self-insurance reserves. Looking forward, FedEx is expected to grow earnings to $10.69 by the end of FY 2016, and $12.27 by FY 2017, representing respective year-over-year increases of 12.1% and 14.8%. FedEx's earnings may be affected by unpredictable macroeconomic factors, such as fuel prices and global economic conditions. However, we believe FedEx will see its projected earnings increases, due to increasing segment revenues, further expansion of margins, and continued improvements in the company's profit improvement initiatives.

Cash Flows and Capital Expenditures



Cash flow from operations has grown at an 8.6% CAGR since 2011. Over the next two years CFFO is projected to grow at a CAGR of 4.8% due to higher margins and increasing package volumes. In FY 2015 capital expenditures were $814 million higher than FY 2014, primarily due to increased spending for aircraft at FedEx Express and increased spending for sort facility expansion at FedEx Ground. Aircraft and related equipment purchases at FedEx Express during 2015 included the delivery of 14 Boeing 767-300 Freighters and 13 Boeing 757 aircrafts, as well as modifications to current aircrafts. Looking forward, capital expenditures are expected to grow another 5.8% in FY 2016 to approximately $4.6 billion. Spending in 2016 will focus on continued expansion of the FedEx Ground network and additional aircraft deliveries to support the fleet modernization program at FedEx Express. FedEx anticipates that cash flow from operations will be sufficient to fund increased capital expenditures in 2016. The company expects approximately 45% of capital expenditures in 2016 to be dedicated to growth initiatives, predominantly at FedEx Ground, and 55% dedicated to maintaining its existing operations. Expected capital expenditures for 2016 include $1.6 billion in investments for delivery of aircraft and progress payments toward future aircraft deliveries at FedEx Express. Because of the increased spending plan, free cash flow is expected to decrease by 5.3% in FY 2016. However, free cash flow has grown at a 13.8% CAGR since 2011.

Debt

FedEx's Total Debt is $8.4 billion. Through FY 2020, FedEx must repay $2.0 billion in bond principal. In January of FY 2015, FedEx issued $2.5 billion of fixed-rate long-term debt, of which $1.4 billion was used to fund the purchase of GENCO. Because of this issuance, FedEx's debt-to-equity ratio increased from 31.01% to 48.48% year-over-year. This debt offering increased interest expense from $160 million to $235 million YoY in FY 2015. FedEx has a $1 billion revolving credit facility that expires in March 2018, of which the full amount is still available. FedEx has a 23.84 Interest Coverage ratio, showing a strong ability to cover upcoming interest payments. The company has an adequate debt credit rating of BBB, assigned by Standard & Poor's.

Peak Season

For transportation services companies like FedEx and UPS, capturing peak season demand is extremely important. At the height of holiday season these companies see demand over double the amount of daily average volumes. To fulfill demand, FedEx and UPS are building new facilities, adding more temporary holiday workers, and working with retailers to help them avoid a recurrence of a pre-Christmas shipping logjam. In 2013 roughly 2 million express packages were left stranded by delivery companies on Christmas Eve, according to shipment-tracking software developer ShipMatrix Inc. UPS experienced far more severe problems than FedEx. In 2014 results were marginally better. FedEx recently announced it will hire 55,000 additional workers. UPS announced it will hire roughly 95,000 workers. Each of these amounts is up 10,000 from last year. Deloitte LLP predicts sales growth of up to 14% this holiday season, and FedEx said it expects peak-day package volumes to reach 22.6 million. The peaks have become more pronounced closer to Christmas as last-minute online free shipping deals have proliferated. To address this issue the two companies are using pricing strategies to help maximize revenues during the peak season. These comprehensive peak-pricing initiatives will increase revenue from the customers that surge and ultimately drive significantly greater cost at peak.

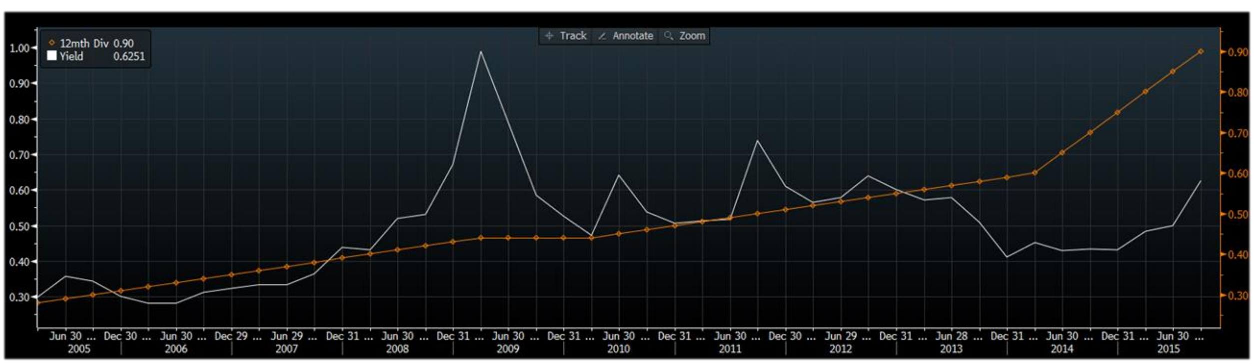
Profitability Ratios and DuPont Analysis

FedEx's ROE of 6.91 for FY 2015 was down from FY 2014, but this can be attributed to their purchase of GENCO. FedEx's profitability metrics in FY 2015 are outliers due to the accounting adjustments for retirement plans and self-insurance accruals. Looking at FedEx's ROE against competitors, FedEx holds a lower ROE than both of its competitors but UPS is highly levered, as its assets/equity is very high at 8.32. Despite having a lower return on sales, we see this mark improving moving forward as higher pricing is instituted in the Express, Ground and Freight segments, along with efficiency improvements stemming from the profit improvement programs.

Dupont Analysis						
Company	Tax Burden	Interest Burden Ratio	Return on Sales	Asset Turnover	Assets/Equity	ROE
UPS	65.4%	0.93	8.5%	1.6x	8.32	69.92%
DHL	80.4%	0.87	5.2%	1.6x	3.77	21.55%
Average	72.9%	0.90	6.9%	1.6x	6.045	45.7%
FedEx	64.5%	0.87	3.9%	1.4x	2.32	**6.91**%

Shareholder Returns

FedEx is committed to returning value to its shareholders, proven by its share repurchase programs and a steadily increasing dividend yield. In FY 2014, FedEx repurchased $4.9 billion worth of common stock (39 million shares of common stock at $131.83 per share). In FY 2015 FedEx repurchased another $1.3 billion worth of common stock (8 million shares at $154.03 per share). In 2015, FedEx authorized the repurchase of 15 million shares of common stock, which may be repurchased at any time through open and private networks. As of the end of Q1 FY 2016, 11.1 million shares remained to be repurchased. Repurchases will be performed over the next several years to offset equity compensation dilution. Also, FedEx recently raised its quarterly dividend from $0.20 to $0.25, netting a 0.69% dividend yield. FedEx's year-over-year dividend growth rate increased from 7.14% in 2014 to 33.33% in FY 2015. FedEx will continue to return value to its shareholders by periodically increasing dividends while further executing its repurchase programs.



VALUATION

Peer Group

FedEx is currently trading at 20.5% discount to its 5-year historical spread against competitors UPS and Deutche Post. Deutsche Post AG (DHL) provides Company offers domestic mail delivery, international parcel and mail delivery services, and freight delivery and logistics services to both business and the public. DHL has a minimal presence in the United States but leads the garneted shipment market in Europe and Asia, commanding market shares of 41% and 44% respectively. UPS is the world's largest package delivery company by market capitalization, a leader in the U.S. less-than-truckload shipments. Both of these companies are very similar to FedEx. However, FedEx derives its sales more from ground shipments, effectively lowering its margins. For this reason, we do not believe it a fair to compare FedEx to UPS and DHL.

FedEx Comparable Analysis
($ in millions except per share)

		Capitalization		Valuation Multiples				Ratios				Margins		Leverage
	Stock Price	Equity Market	Enterprise Market	P/E Multiple		EV/EBITDA		ROE %	ROA %	ROIC/WACC %	Dividend Yield %	Gross Margin %	EBITDA Margin %	Debt/ Equity %
Company	4/29/2014	Value	Value	LTM	NFY	LTM	NFY	LTM	LTM	LTM	NTM	LTM	LTM	MRQ
DPW GR EQUITY	$24.95	$30,221	$33,804	15.7x	13.0x	8.3x	7.0x	19.3	5.4	1.00	-	-	6.88	55.13
UPS US EQUITY	$99.38	$89,063	$96,011	19.7x	17.1x	11.5x	9.2x	122.8	10.9	1.40	2.82	20.55	14.31	503.83
Mean				17.7x	15.1x	9.9x	8.1x	71.0x	8.1x	1.2x	1.4x	10.3x	10.6x	279.5x
FDX US EQUITY	$145.52	$41,092	$44,807	15.0x	11.9x	9.8x	5.3x	18.3	3.1	0.98	0.58	22.95	9.48	48.48

Undervaluation

FedEx is currently trading at a 12.9% discount to its 5-year historical P/E. When compared to UPS, FedEx is trading at an 11.8% discount to its historical discount on a 5-year P/E basis. Furthermore, FedEx is trading at a 6.0% discount to the S&P Industrial Sector. FedEx historically trades at a 3.6% premium to the S&P Industrial Sector. The undervaluation began in mid-August with the China selloff and was further amplified by an earnings miss three weeks later. Despite having very similar Chinese exposures, FedEx share price dropped 10.1% the week of August 21st, while UPS declined only 6.5%. The difference in the market reaction may have been generated from FedEx's planned capital spending in Asia. However, with non-uniform carriers still delivering the majority of residential packages, there is still a lot of validity to FedEx's growth expectations. With China currently comprising 4.5% of revenue, we see this as an overreaction by the market. Three weeks later FedEx missed earnings by $0.02 per share. Despite strong operational performance, margin expansions were offset by increased self-insurance reserves, causing the miss. It is difficult to find details specific to the self-insurance reserves, but on the latest earnings call CEO Mike Glenn referred to it as a backwards looking event. We see FedEx as a company trading at the most attractive value in its industry and see its current discount to its competitors and own historical multiple as unwarranted due to its position to take advantage of peak season demand in FY 2016, particularly with holiday e-commerce sales strong earnings growth in FY 2016, and beyond. For these reasons, we believe that FedEx should return to its average 5-year historical P/E spread multiple against the S&P 500 Industrial Sector of 15.9x.

Target P/E
- 15.9x

×

NTM EPS
- $11.22

=

Target Price
- $176.67

Discounted Cash Flow Assumptions

We projected sales growth, of 5.6% and 5.3% for FY 2016 and FY 2017, respectively. Overall, our sales projections are very similar to consensus estimates. We see growth driven by increased e-commerce and international expansions plans. Gross margin will expand from 24.3% in FY 2016 to 24.8% in FY 2017 and 25.1% in FY 2018 and remain constant henceforth. Gross margin and SG&A were lowered expanded and lowered more than consensus estimates, respectively. We believe that the profit initiative plan will cut costs and faster than anticipated. Remaining projections were forecasted by using the previous three years and comparable results.

WACC Calculations

The WACC of 8.50% was calculated the taking the average equity and debt weights for the previous five year along with their current weight. The average equity weight was calculated at 90.5% and the average debt weight was calculated at 9.50%. Cost of equity was calculated to be 9.62% by using the expected market return of 9.62%, risk free rate of 2.15%, and a beta of 1.0. Cost of debt was found to be 1.40% using an effective tax rate of 35.0%, short term debt total percentage of 0.26%, short term debt rate of 0.70%, long term debt percentage of 99.74%, and a long term debt rate of 2.15%. By adding the product of average debt weighting and the cost of debt, and the product of average equity weighting and the cost of equity, we derived a WACC of 8.5%

Summary of Financial Projections for - Fed Ex

	Actuals			Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales	44,287	45,567	47,453	49,921	52,367	54,776	56,693	58,393	60,145	61,950
% Growth		*2.9%*	*4.1%*	*5.2%*	*4.9%*	*4.6%*	*3.5%*	*3.0%*	*3.0%*	*3.0%*
EBITDA	5,570	6,010	4,930	5,741	6,389	7,011	7,257	7,474	7,699	7,930
Margin	*12.6%*	*13.2%*	*10.4%*	*11.5%*	*12.2%*	*12.8%*	*12.8%*	*12.8%*	*12.8%*	*12.8%*
EBIT	3,211	3,446	2,340	2,746	3,509	3,999	4,139	4,263	4,391	4,522
Margin	*7.3%*	*7.6%*	*4.9%*	*5.5%*	*6.7%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*
Net Income	1,558	2,093	1,048	3,005	4,007	4,653	4,837	5,001	5,170	5,345
Margin	*3.5%*	*4.6%*	*2.2%*	*6.0%*	*7.7%*	*8.5%*	*8.5%*	*8.6%*	*8.6%*	*8.6%*
EPS	$ 4.91	$ 6.75	$ 3.65	$ 10.66	$ 14.47	$ 17.11	$ 18.12	$ 19.09	$ 20.12	$ 21.21
Growth Rate		37.4%	-45.9%	191.8%	35.8%	18.3%	5.9%	5.4%	5.4%	5.4%

APPENDIX

Exhibit I: 5-Year Historic P/E

Exhibit II: 5-year Historical Spread against the S&P 500 Industrial Sector

Exhibit III: 5 Year Price Graph

DISCLAIMER

This report is prepared strictly for educational purposes and should not be used as an actual investment guide. The forward looking statements contained within are simply the author's opinions. The writer does not own any FedEx Corporation stock.

TUIA STATEMENT

Established in honor of Professor William C. Dunkelberg, former Dean of the Fox School of Business, for his tireless dedication to educating students in "real-world" principles of economics and business, the William C. Dunkelberg (WCD) Owl Fund will ensure that future generations of students have exposure to a challenging, practical learning experience. Managed by Fox School of Business graduate and undergraduate students with oversight from its Board of Directors, the WCD Owl Fund's goals are threefold:

- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.