

GOOD NEWS KEEPS COMING FOR UPS AS ECOMMERCE GROWTH CONTINUES

The carrier expects positive economic trends to continue in 2021 but at a slower pace. Because of pandemic-related uncertainty, UPS declined to provide 2021 financial guidance to investors.

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At United Parcel Service Inc. (UPS), the carrier's exceptional ecommerce-driven sales and earnings growth from 2020 continued during the first quarter of 2021, which ended March 31.

In a conference call with analysts this week, CEO Carol Tomé said UPS reported record Q1 profits and a double-digit operating margin in its domestic operations. The carrier also scored a record Q1 profit in its international segment and record operating profit and operating margins in its supply chain and freight operations.

Revenue for Q1 was \$22.91 billion, a 27.0% increase over \$18.04 billion for Q1 2020. Revenue from domestic packages grew 22.3% year over year. Also, international package revenue was up 36.2% during the quarter and revenue for UPS's supply chain

and freight operations increased 34.3% compared with the year-ago period. Adjusted operating profit for Q1 was \$2.95 billion, up 164% compared with \$1.12 billion in the year-ago quarter. Company-wide average daily volume increased 14.3% year over year during the quarter.

Brian Newman, chief financial officer at UPS, said the company benefitted from positive economic trends and expected positive trends to continue in 2021 but at a slower rate. "In the U.S., full-year nominal retail sales are anticipated to grow 11.7% and electronic sales and mail orders—the proxy we use for online sales—are expected to be up 12.7% following growth of 24.7% in 2020," he said, according to a Seeking Alpha transcript.

However, Newman declined to provide specific guidance

regarding its anticipated 2021 financial results due to uncertainty related to the pandemic.

A busy year for all carriers

The COVID-19 pandemic—now more than a year old—pushed many consumers to do more shopping online. That, in turn, helped generate significant increases in the volume of packages UPS and its rivals deliver. Since the pandemic started disrupting American life in March 2020, ecommerce package volume for that year consistently exceeded volume in 2019, according to data from last-mile technology vendor Convey.

UPS, FedEx Corp., United States Postal Service, Amazon Logistics and regional carriers such as LaserShip and OnTrac collectively set a new industry record of delivering more than 3 billion parcels during the 2020



holiday season alone, according to shipping software company ShipMatrix.

During the crucial peak holiday season in December, UPS was the on-time leader, Convey says.

For the two weeks leading up to Christmas (Dec. 11-Dec. 17 and Dec. 18-Dec. 24), UPS delivered 85% and 86% of packages on time, respectively, the vendor says. That's compared with 69% and 76%, respectively, for FedEx and 55% and 58% for The United States Postal Service. Convey's data is based on tens of millions of packages shipped from more than 500,000 U.S. locations across the company's client base but excludes shipments from Amazon.com Inc.

"Driven by the demand for ecommerce and vaccination rollout, UPS's strong Q1 earnings report offers a positive outlook for the future of the retail supply chain," says Kevin Beasley, chief information officer at VAI, a developer of enterprise resource planning software.

Because of the pandemic, Beasley says, "retailers, distributors, and shipping partners had to utilize tech-enabled solutions to track inventory levels and streamline

shipping processes to avoid delays in the pandemic and meet demand. We now see that many of the challenges from the pandemic present large opportunities for companies like UPS to capitalize on ecommerce in 2021."

FedEx's challenges were no different than UPS's—and it also continues to climb in revenue. In its fiscal third quarter ended Feb. 28, FedEx reported revenue of \$21.51 billion, up 22.8% compared with \$17.48 billion. For the nine months ended Feb. 28, FedEx's revenue grew to \$61.39 billion, up 18.4% for the comparable period a year earlier. FedEx's operating income for the quarter was \$1.01 billion, up 145% from \$411 million for the comparable period a year earlier. Operating income for the nine months ended Feb. 28 was \$4.06 billion, up 109% from \$1.94 billion a year earlier.

UPS's digital operations keep growing

Tomé said UPS added nearly 150,000 new Digital Access Program (DAP) accounts during the first quarter. She said that the company is on track to hit its target of \$1 billion in DAP revenue target by the end of this year.

DAP, launched in 2019, is a series of strategic alliances and

agreements intended to integrate UPS services more closely with ecommerce platforms and retailers. For example, it includes a deal with Stamps.com, which provides ecommerce shipping software, to offer discounted shipping rates to Stamps.com customers. DAP also includes collaborations with ecommerce vendors that specialize in demand generation, order management, web store hosting, shipping and returns.

Also, Tomé said, UPS recently replaced its home-grown online bill payment system with newer technology and began deploying it globally in the first quarter. Once fully implemented, she said, the new software will make it easier for customers to pay and manage their UPS bills.

In a note to investors on Tuesday, Wells Fargo analyst Allison Poliniak-Cusic wrote UPS's "operating performance was solid across the platform," reflecting the carrier's capital investments, which include opening three major automated hubs in the second quarter of 2019.

For the quarter ended Feb. 28, 2021, UPS reported:

- *Consolidated revenue increased 27.0%,*



representing growth across all business sectors.

- *Adjusted consolidated operating profit of \$2.95 billion, up 164% compared*

to \$1.12 billion in the year-ago quarter.

- *Company-wide average daily volume increased 14.3% year over year during the quarter.*

- *A \$6.4 billion decrease in its pension liabilities thanks to provisions of the American Rescue Plan Act.*

Percentage changes may not align exactly with dollar figures due to rounding.

