# UBS Global Industrials and Transportation Conference

June 6, 2019

# Forward-Looking Statements and Non-GAAP Reconciliations

This presentation, our Annual Report on Form 10-K for the year ended December 31, 2018 and our other filings from time to time with the Securities and Exchange Commission contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. From time to time, we also provide forward-looking statements in other materials we release as well as oral forward-looking statements. Statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof and similar terms are intended to be forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties include, but are not limited to: changes in general economic conditions, in the U.S. or internationally; significant competition on a local, regional, national, and international basis; changes in our relationships with our significant customers; complex and stringent regulation in the U.S. and internationally (including tax laws and regulations), changes to which can impact our business; increased physical or data security requirements that may increase our costs of operations and reduce operating efficiencies; legal, regulatory or market responses to global climate change; strikes, work stoppages and slowdowns by our employees; the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities; changes in exchange rates or interest rates; our ability to maintain the image of our brand; breaches in data security; disruptions to the Internet or our technology infrastructure; interruption of our business from severe weather or other natural or man-made disasters including terrorism; our ability to accurately forecast our future capital investment needs; exposure to changing economic, political and social developments in international and emerging markets; changes in business strategy, government regulations, or economic or market conditions that may result in substantial impairment of our assets; increases in our expenses or funding obligations relating to employee health, retiree health and/or pension benefits; potential additional tax liabilities in the U.S. or internationally; the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; our ability to realize the anticipated benefits from acquisitions, joint ventures or strategic alliances; our ability to manage insurance and claims expenses; and other risks discussed in our filings with the Securities and Exchange Commission from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2018 or described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements.

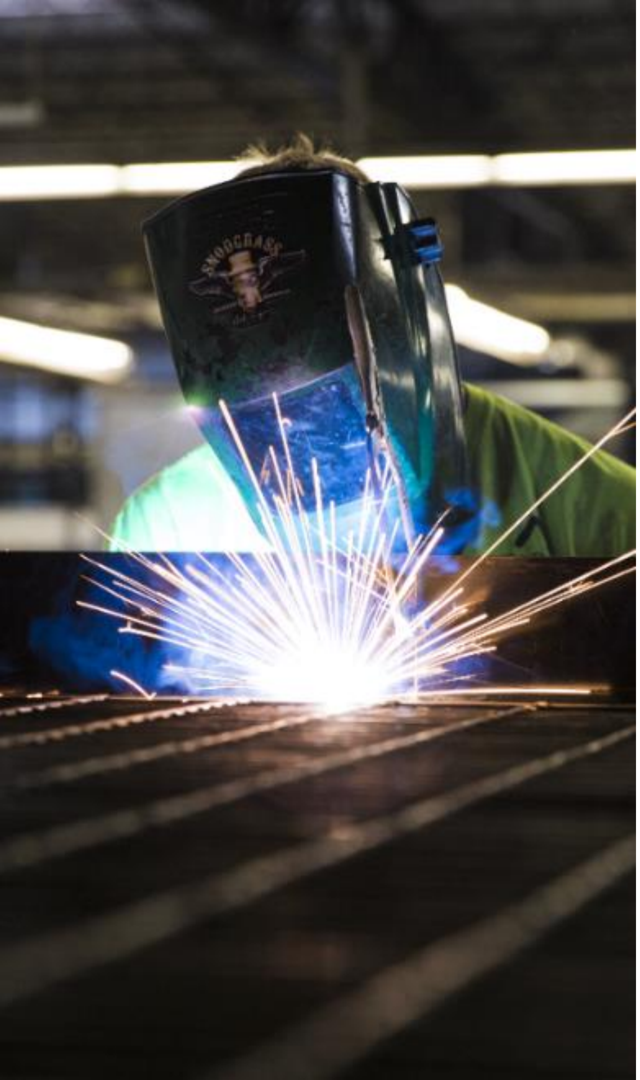
Information, including comparisons to prior periods, may reflect adjusted results. See the appendix for reconciliations of adjusted results and other non-GAAP financial measures.


# Why UPS?

- UPS is positioned to capitalize on global megatrends that offer high-quality revenue growth.
    - Growth from the right sectors:  SMBs, healthcare, B2B/B2C e-commerce, manufacturing and high-growth international markets.
- Efficiencies and costs are improving as we implement our Transformation initiatives.
    - New technology and automated facilities.
    - Streamlined customer support processes.
- Stable or growing dividend for almost 50 years, a hallmark of the UPS investment.
    - $0.96 dividend/share in 1Q19 or 5.5% growth from 2018.
    - Strong dividend yield amongst transports*.



*Compared to Dow Jones Transportation Index, as of May 2019



# Executing in a Dynamic Environment

- Agile global network helps counterbalance the effects of trade uncertainty.
    - Ability to help customers adapt to changing conditions.
    - Strong cost management from asset-light services.
    - Enhanced efficiencies from new automated facilities coupled with the ability to shift aircraft as needed across the network.

# Delivering Market Leading Next Day Capabilities


- Advanced, automated air hubs internationally and in the U.S.
- Global fleet of 547 aircraft; adding 10 more in 2019 (Boeing 747-8 and 767).
- Integrated air and ground network increases flexibility.
- Complete redesign of U.S. regional air hubs added flexibility to the network.
- Solutions for customers to locate products closer to end customers.
  - Establish local market presence.
  - eFulfillment and Ware2Go with Next Day delivery options.

# Improving Final Mile Delivery Efficiency While Rewarding U.S. Employees with a New Labor Contract

| Full Time Driver Contract Start | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| 2013 | $0.70 | $0.70 | $0.70 | $0.80 | $1.00 |
| YoY Change | 2.2% | 2.1% | 2.1% | 2.3% | 2.8% |
| 2018 | $0.70 | $0.75 | $0.80 | $0.90 | $1.00 |
| YoY Change | 1.9% | 2.0% | 2.1% | 2.3% | 2.5% |

- Total full time driver wage and benefit cost per hour increase on average about 2.5%.
    - Wage rate increases average 2.3%.
- New driver classification adds flexibility to efficiently support e-commerce growth.
- Enhanced part time employee compensation to improve retention.
- Protected ability to implement operations technology.

# Making the Right Financial Decisions for Investors and UPS

- Applying a long-term approach to managing contributions assures sustainability for employees, lowers ongoing costs, provides business flexibility and reduces risk.
- PBGC rates have increased and continue to be above our borrowing costs.
- Debt-financed accelerated pension funding is expected to be earnings-accretive and credit neutral.
- Projected returns from assets will improve funded status.

**Pay the PBGC or add debt at a lower rate?**

| Year | PBGC Rates | YoY Change |
|---|---|---|
| 2016 | 3.00% | |
| 2017 | 3.40% | 0.40% |
| 2018 | 3.80% | 0.40% |
| 2019 | 4.30% | 0.50% |

UPS's largest non-union U.S. pension plan closes at the end of 2022.

***Adjusted free cash flow anticipated between $3.5 and $4.0 billion*, with potential upside from working capital initiatives.***



*Non-GAAP financial measure.  Because it is not possible to predict, potential impacts of a future pension mark-to-market adjustment are not included. FCF is adjusted for capital lease obligations.


# Expecting Benefits in 2H19

- One additional operating day in 3Q19.
- 2018 International commodities headwinds not expected to repeat.
- Transformation gains from Voluntary Retirement Plan will hit full run rate in July.
- Wrapping new labor contract with a lower cost growth rate in the second year.
- New facilities coming online earlier, delivering efficiencies sooner.

# Questions
# & Answers

# Reconciliation of GAAP and Non-GAAP Financial Measures

We supplement the reporting of our financial information determined under generally accepted accounting principles ("GAAP") with certain non-GAAP financial measures, including, as applicable, "as adjusted" operating profit, operating margin, other income (expense), pre-tax income, net income and earnings per share. Additionally, we periodically disclose free cash flow, free cash flow excluding discretionary pension contributions, and capital expenditures excluding principal repayments of capital lease obligations. The equivalent measures determined in accordance with GAAP are also referred to as "reported" or "unadjusted."

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include but are not limited to: amounts related to mark-to-market gains or losses (non-cash); settlement of contingencies; gains or losses associated with mergers, acquisitions, divestitures and other structural changes; charges related to restructuring programs such as the implementation of our Transformation strategy; asset impairments (non-cash); amounts related to changes in tax regulations or positions; amounts related to changes in foreign currency exchange rates and the impact of any hedging activities; other pension and postretirement related items; and debt modifications.

We believe that these non-GAAP measures provide additional meaningful information to assist users of our financial statements in understanding our financial results, cash flows and assessing our ongoing performance because they exclude items that may not be indicative of, or are unrelated to, our underlying operations and may provide a useful baseline for analyzing trends in our underlying businesses. Management uses these non-GAAP financial measures in making financial, operating and planning decisions. We also use certain of these measures for the determination of incentive compensation awards.

Non-GAAP financial measures should be considered in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. Our non-GAAP financial information does not represent a comprehensive basis of accounting. Therefore, our non-GAAP financial information may not be comparable to similarly titled measures reported by other companies.

*Costs Related to Restructuring Programs; Transformation Strategy Costs*

We supplement the presentation of our operating profit, operating margin, pre-tax income, net income and earnings per share with similar non-GAAP measures that exclude the impact of costs related to restructuring programs, including Transformation strategy costs. We believe this adjusted information provides a useful comparison of year-to-year financial performance without considering the short-term impact of restructuring costs. We evaluate our performance on this adjusted basis.

*Impact of Changes in Foreign Currency Exchange Rates and Hedging Activities*

We supplement the reporting of our revenue, revenue per piece and operating profit with non-GAAP measures that exclude the period-over-period impact of foreign currency exchange rate changes and hedging activities. We believe currency-neutral revenue, revenue per piece and operating profit information allows users of our financial statements to understand growth trends in our products and results. We evaluate the performance of our International Package and Supply Chain and Freight segments on this currency-neutral basis.

Currency-neutral revenue, revenue per piece and operating profit are calculated by dividing current period reported U.S. dollar revenue, revenue per piece and operating profit by the current period average exchange rates to derive current period local currency revenue, revenue per piece and operating profit. The derived amounts are then multiplied by the average foreign exchange rates used to translate the comparable results for each month in the prior year period (including the period over period impact of foreign currency hedging activities). The difference between the current period reported U.S. dollar revenue, revenue per piece and operating profit and the derived current period U.S. dollar revenue, revenue per piece and operating profit is the period over period impact of currency fluctuations.

*Free Cash Flow and Adjusted Capital Expenditures*

We supplement the reporting of cash flows from operating activities with free cash flow, free cash flow excluding discretionary pension contributions and free cash flow plus principal repayments of capital lease obligations, non-GAAP liquidity measures. We believe these free cash flow measures are important indicators of how much cash is generated by regular business operations and we use it as a measure of incremental cash available to invest in our business, meet our debt obligations and return cash to shareowners. Additionally, we believe that adjusting capital expenditures for principal repayments of capital lease obligations more appropriately reflects the overall cash that we have invested in capital assets. We calculate free cash flow as cash flows from operating activities less capital expenditures, proceeds from disposals of property, plant and equipment, and plus or minus the net changes in finance receivables and other investing activities. Free cash flow excluding discretionary pension contributions adds back any discretionary pension contributions made during the period.

# Reconciliations

## Reconciliation of GAAP and non-GAAP Income Statement Data

### (in millions, except per share amounts):

| Three Months Ended March 31, 2019 | As-Reported (GAAP) | Transformation Strategy Costs | As-Adjusted (non-GAAP) |
|---|---|---|---|
| Operating profit: | | | |
| U.S. Domestic Package | $ 666 | $ 28 | $ 694 |
| International Package | 528 | 84 | 612 |
| Supply Chain & Freight | 200 | 11 | 211 |
| Total operating profit | $ 1,394 | $ 123 | $ 1,517 |
| Income before income taxes | $ 1,440 | $ 123 | $ 1,563 |
| Income tax expense | $ 329 | $ 30 | $ 359 |
| Net income | $ 1,111 | $ 93 | $ 1,204 |
| Diluted earnings per share | $ 1.28 | $ 0.11 | $ 1.39 |

# Reconciliations

## Reconciliation of GAAP and non-GAAP Revenue, Revenue Per Piece and Operating Profit

**(in millions, except per piece amounts):**

| Three Months Ended March 31 | 2019 As-Reported (GAAP) | 2018 As-Reported (GAAP) | % Change (GAAP) | Currency Impact | 2019 Currency Neutral (non-GAAP) | % Change (non-GAAP) |
|---|---|---|---|---|---|---|
| **Average Revenue Per Piece:** | | | | | | |
| International Package: | | | | | | |
| Domestic | $ 6.49 | $ 6.70 | -3.1% | $ 0.47 | $ 6.96 | 3.9% |
| Export | 28.78 | 28.87 | -0.3% | 0.73 | 29.51 | 2.2% |
| Total International Package | $ 16.79 | $ 16.99 | -1.2% | $ 0.59 | $ 17.38 | 2.3% |
| Consolidated | $ 11.08 | $ 10.97 | 1.0% | $ 0.09 | $ 11.17 | 1.8% |
| **Revenue:** | | | | | | |
| U.S. Domestic Package | $ 10,480 | $ 10,227 | 2.5% | $ - | $ 10,480 | 2.5% |
| International Package | 3,459 | 3,533 | -2.1% | 117 | 3,576 | 1.2% |
| Supply Chain & Freight | 3,221 | 3,353 | -3.9% | 19 | 3,240 | -3.4% |
| Total revenue | $ 17,160 | $ 17,113 | 0.3% | $ 136 | $ 17,296 | 1.1% |

| | 2019 As-Adjusted (non-GAAP) | 2018 As-Reported (GAAP) | % Change (non-GAAP) | Currency Impact | 2019 Currency Neutral (non-GAAP) | % Change (non-GAAP) |
|---|---|---|---|---|---|---|
| **Operating Profit:** | | | | | | |
| U.S. Domestic Package | $ 694 | $ 756 | -8.2% | $ - | $ 694 | -8.2% |
| International Package | 612 | 594 | 3.0% | (4) | 608 | 2.4% |
| Supply Chain & Freight | 211 | 170 | 24.1% | 1 | 212 | 24.7% |
| Total operating profit | $ 1,517 | $ 1,520 | -0.2% | $ (3) | $ 1,514 | -0.4% |

# Reconciliations

## Reconciliation of non-GAAP Liquidity Measures
**(in millions):**

**Three Months Ended March 31**

**Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash**

| | | **2019** |
|---|---|---|
| Cash flows from operating activities | $ | 2,277 |
| Cash flows used in investing activities | | (1,416) |
| Cash flows used in financing activities | | (695) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | | 9 |
| Net increase in cash, cash equivalents and restricted cash | $ | 175 |

**Reconciliation of Adjusted Capital Expenditures and Free Cash Flow**
**(non-GAAP measures)**

| | | **2019** |
|---|---|---|
| Cash flows from operating activities (GAAP) | $ | 2,277 |
| Capital expenditures | | (1,514) |
| Principal repayments of capital lease obligations | | (4) |
| Adjusted capital expenditures (non-GAAP measure) | $ | (1,518) |
| Proceeds from disposals of PP&E | | 4 |
| Net change in finance receivables | | 10 |
| Other investing activities | | (16) |
| Adjusted free cash flow (non-GAAP measure) | $ | 757 |