# Sell-Side Analyst Breakfast

September 10, 2021

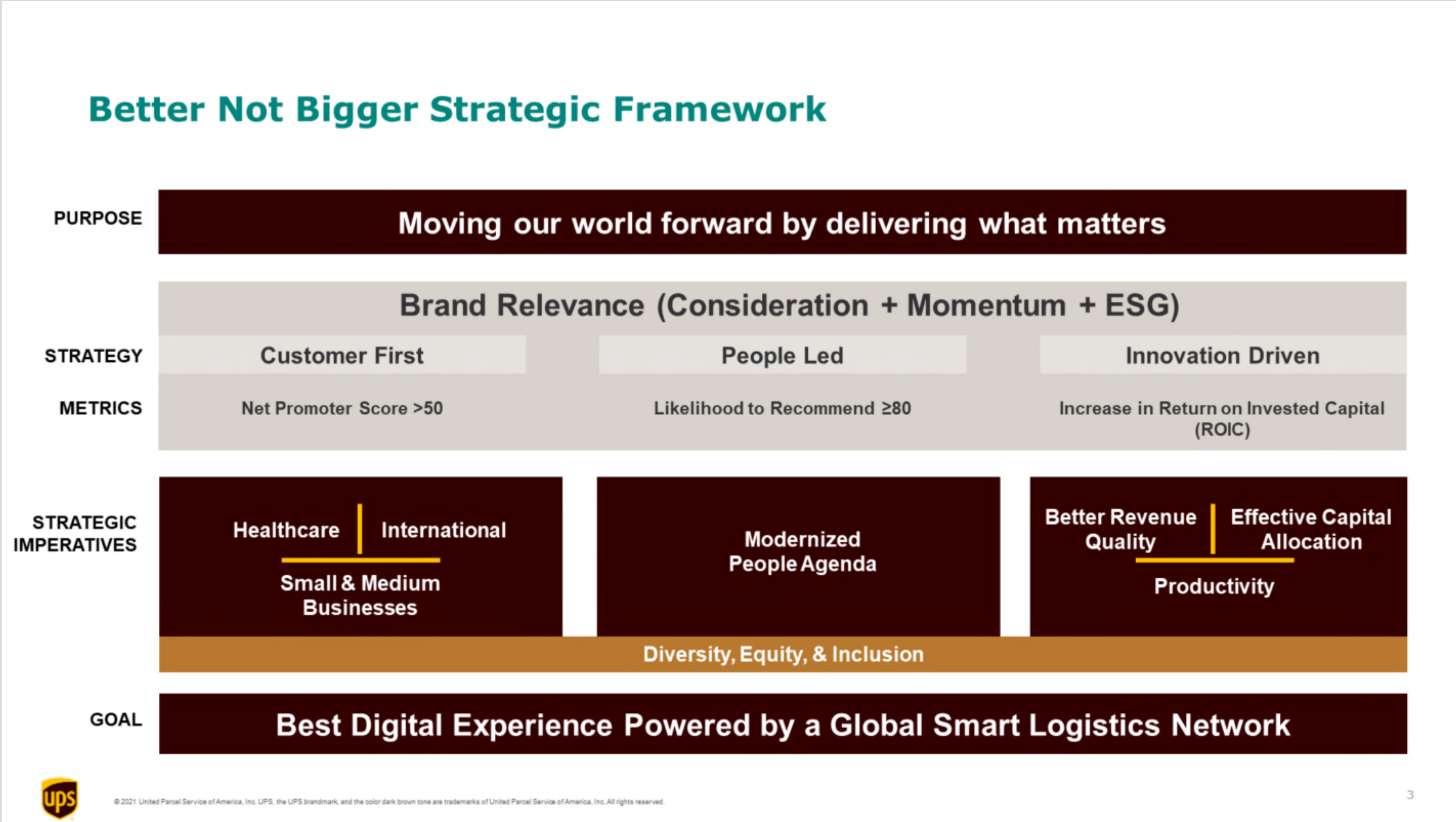
# Forward-Looking Statements

This presentation and our filings with the Securities and Exchange Commission contain and in the future may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements other than those of current or historical fact, and all statements accompanied by terms such as "will," "believe," "project," "expect," "estimate," "assume," "intend," "anticipate," "target," "plan," and similar terms, are intended to be forward-looking statements. Forward-looking statements are made subject to the safe harbor provisions 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.

From time to time, we also include written or oral forward-looking statements in other publicly disclosed materials. Such statements may relate to our intent, belief, forecasts of, or current expectations about our strategic direction, prospects, future results, or 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 forward-looking statements because such statements speak only as of the date when made and the future, by its very nature, cannot be predicted with certainty.

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: continued uncertainties related to the impact of the COVID-19 pandemic on our business and operations, financial performance and liquidity, our customers and suppliers, and on the global economy; 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; changes in the regulatory environment in the U.S. or internationally; increased or more complex physical or data security requirements; legal, regulatory or market responses to global climate change; results of negotiations and ratifications of labor contracts; strikes, work stoppages or 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; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; our ability to maintain our brand image; our ability to attract and retain qualified employees; breaches in data security; disruptions to the Internet or our technology infrastructure; interruptions in or impacts on our business from natural or man-made events or disasters including terrorist attacks, epidemics or pandemics; 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 impairment of our assets; increases in our expenses or funding obligations relating to employee health, retiree health and/or pension benefits; potential additional U.S. or international tax liabilities; potential claims or 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, dispositions, joint ventures or strategic alliances; our ability to realize the anticipated benefits from our transformation initiatives; cyclical and seasonal fluctuations in our operating results; 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, 2020 and subsequently filed reports. 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, except as required by law.

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

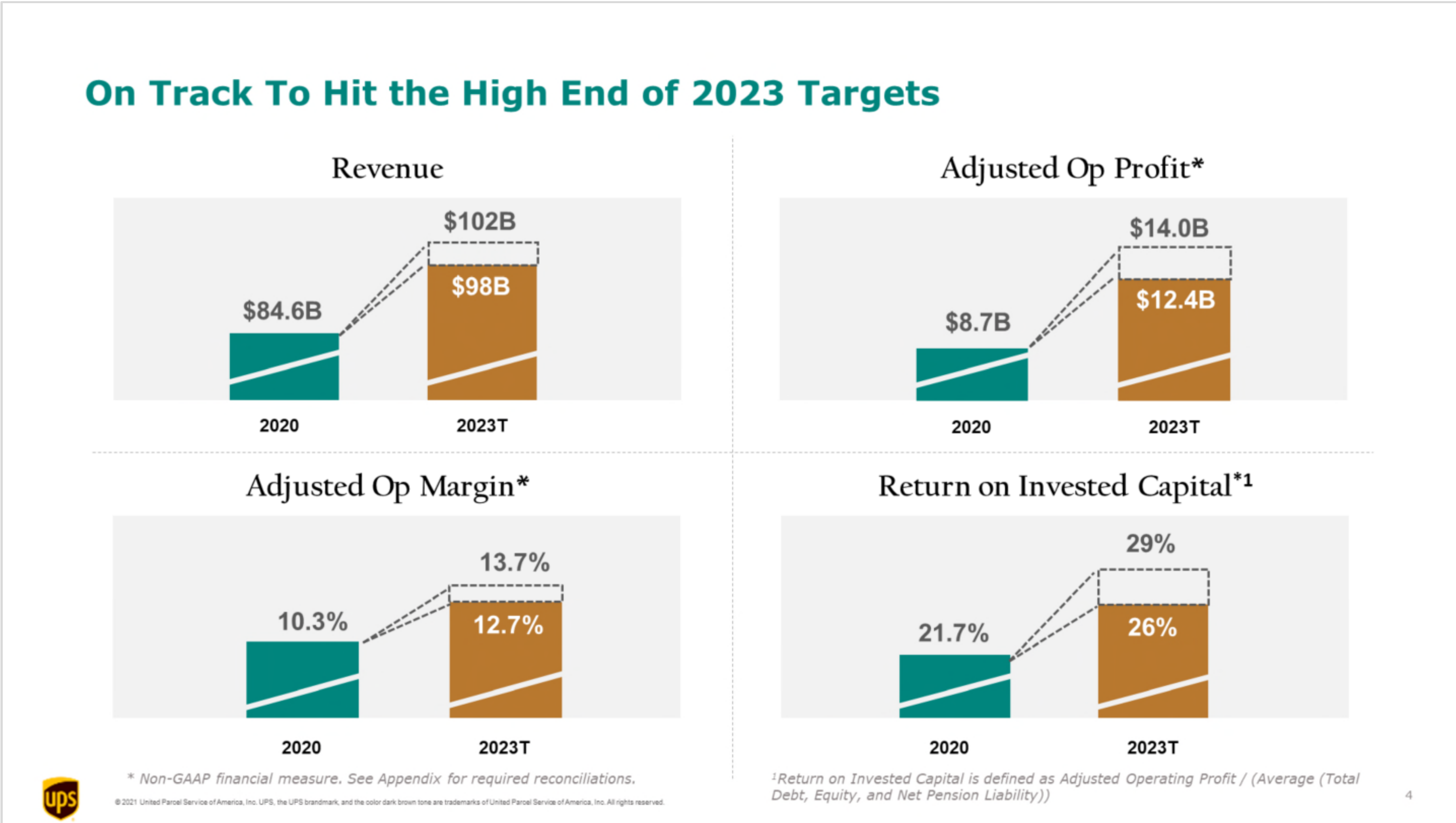



We have assigned specific metrics to measure our progress executing our Customer First, People Led, Innovation Driven strategy:

- Customer First is measured by gains in Net Promoter Score (NPS) with a 2023 NPS target of 50 or higher.
- People Led is measured by a "likelihood to recommend" target of 80% or higher in 2023.
- Innovation Driven is measured by a consistent increase in Return on Invested Capital (ROIC).

We are laser focused on executing the wildly important strategic imperatives that will provide the most impactful results. Its these wildly important initiatives that enable our strategy:

- Customer First is about winning in the most attractive parts of the market like SMBs, healthcare and international.
- People Led is focused on the employee experience and making UPS a great place to work.
- Innovation Driven is about taking a more disciplined approach to capital allocation, driving more productivity from the assets we own and improving U.S. revenue quality to generate better bottom-line results.




As we told you in July, the current economic outlook, coupled with the early results through June 30 from our revenue-quality and productivity initiatives, has put us well on our way to achieving the high end of the 2023 targets we shared at our June investor conference.

We have many levers to pull that will enable us to hit the high end of our 2023 targets including: SMB growth, revenue-quality initiatives, productivity improvements, and cost elimination. Our path forward includes creating the capabilities and customer experiences that drive sustainable bottom line improvements.

## Our Next Chapter....

| Old | | New |
|---|---|---|
| Short-Term Focus | to | Long-Term Focus |
| Volume Share | to | Value Share |
| Transformation | to | Virtuous Productivity Cycle |
| Undisciplined Capital Allocation | to | Disciplined Capital Allocation |

***Resulting in:***

| | | |
|---|---|---|
| Declining ROIC | to | Increasing ROIC |





In our next chapter, our strategy transitions the company to generating stronger bottom line financial results.

We are making decisions today that will optimize the long-term financial performance of the company and enable us to achieve our 2023 targets.

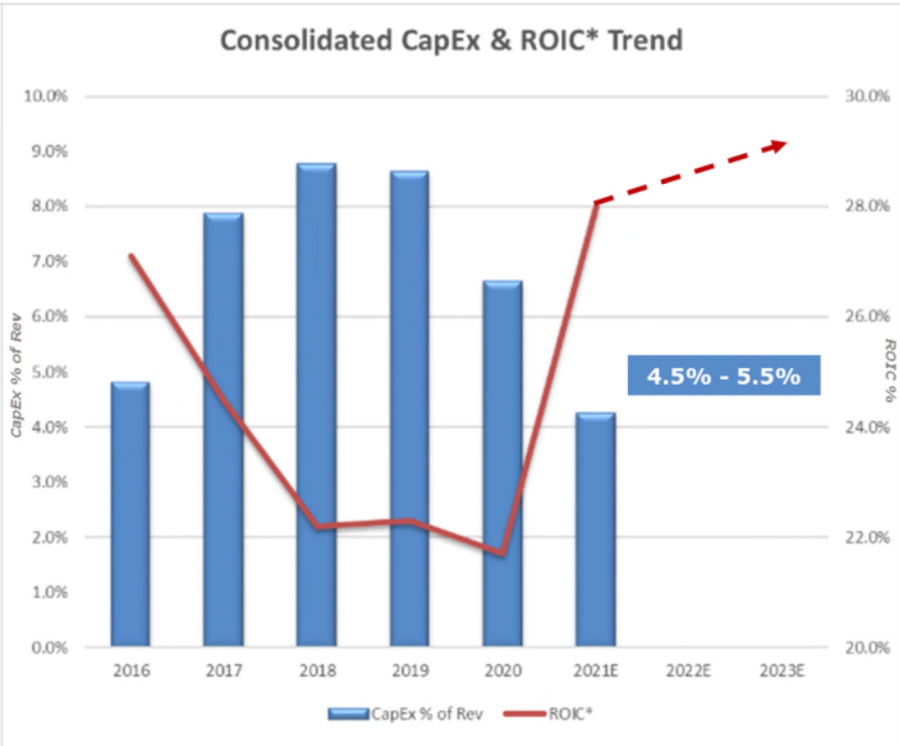
By focusing on value share, we are creating new capabilities to win in the most attractive parts of the market, and that will result in sustainable financial improvement.

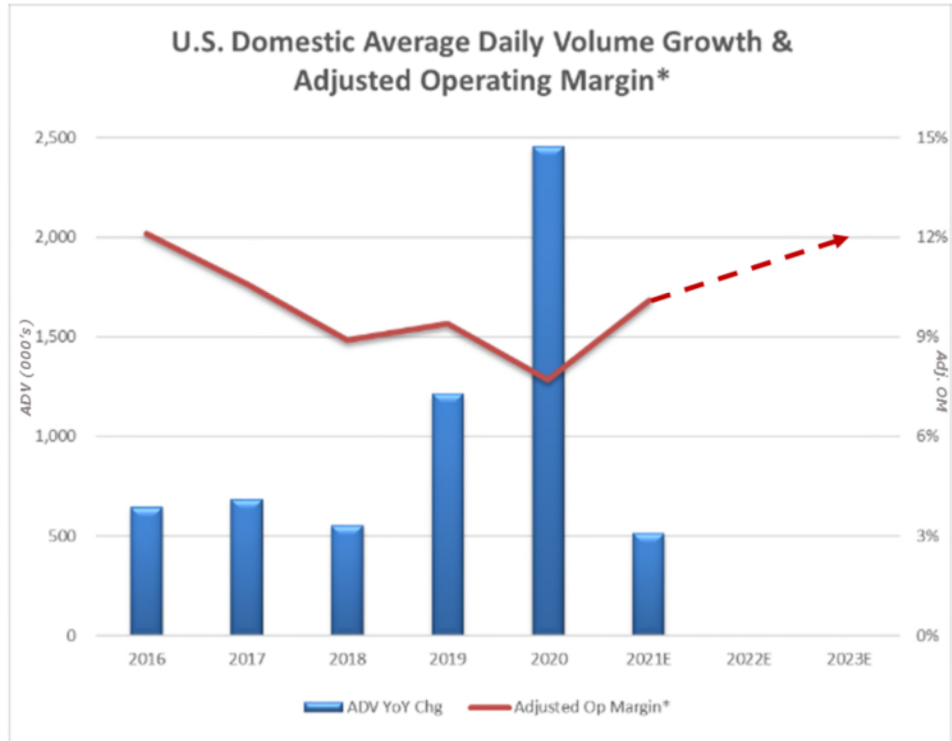
In our view, productivity will become a virtuous cycle and we are implementing numerous improvements to increase productivity across the network.

We are taking a disciplined approach to capital allocation and are investing in the parts of our business that generate the highest financial returns.

As a result of these efforts, we expect to increase our return on invested capital.

## Better Not Bigger Targets




* Non-GAAP financial measure. See Appendix for required reconciliations.

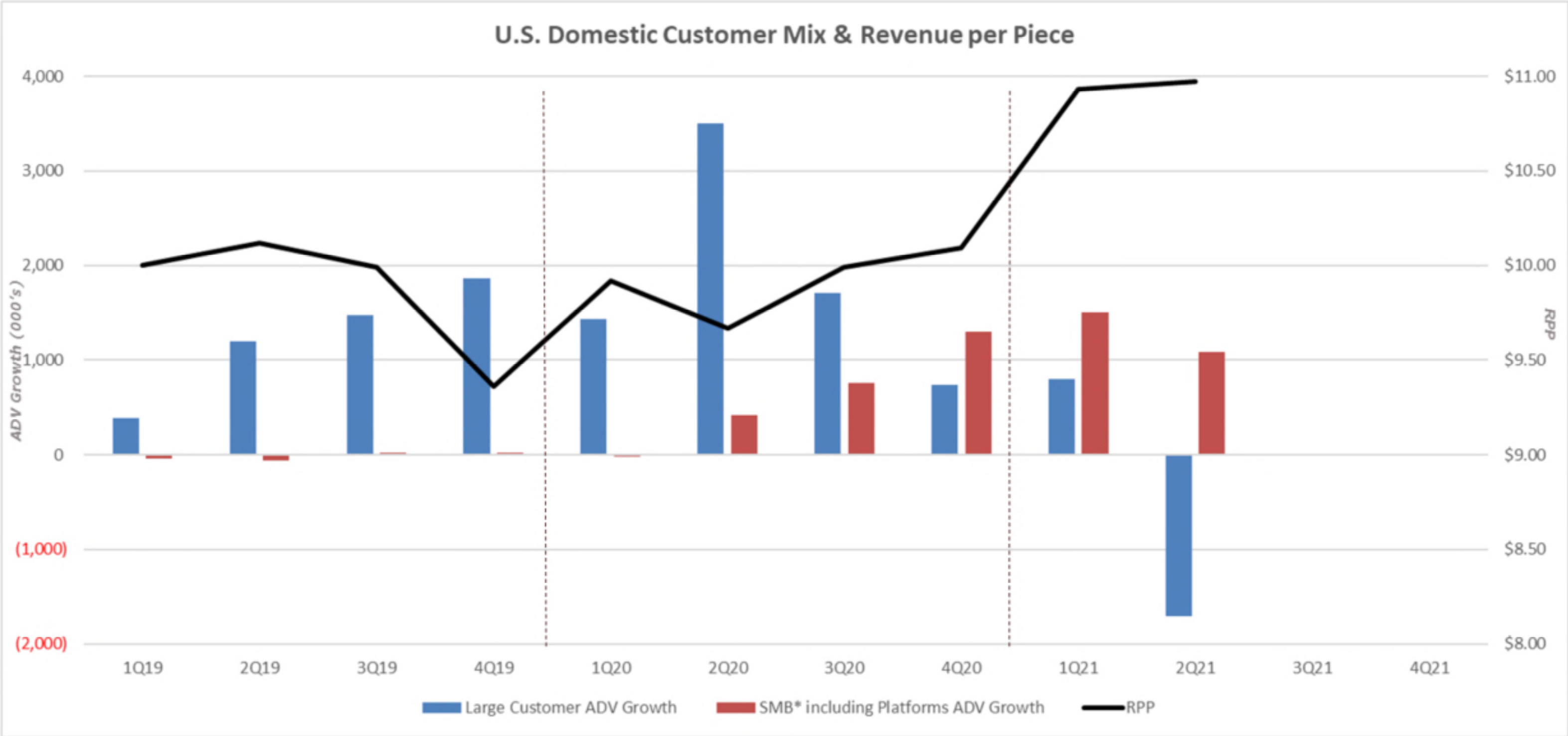




Our more disciplined approach to capital allocation has reversed a multi-year downward ROIC trend. Now, we are generating higher returns on invested capital, and, based on results through June 30, we are well on our way to achieving the high end of our 2023 ROIC target of 29%.

Additionally, we are increasing U.S. Domestic operating margin through our better not bigger approach, which includes growing SMB volume faster than volume from large customers, improving revenue quality and reducing our cost to serve through productivity and cost take-out initiatives.

# Customer Mix Drives Revenue Quality




* Small and Medium-Sized Businesses (SMB)





We are focused on growing in the most attractive parts of the market with initiatives to grow SMB volume at a faster rate than volume from our large customers. SMB volume has grown over the past five quarters and made up more than 27% of our total U.S. volume in 2Q21.

Under the better not bigger framework, we will continue to be selective on the volume we bring into the network. On our 2Q21 earnings call, we said to expect U.S. volume in 2H21 to grow around 1%, and 3Q21 volume is expected to be down a similar percentage as 2Q21. This is a different volume trend relative to the past several years, which will impact the magnitude of scale benefit from the network in the short term.

We are investing in enabling capabilities and the customer experience to grow volume from SMBs and other high yielding parts of the market.

# U.S. Domestic Operating Margin

**1H21 vs 2H21**

- Peak to non-peak transition in 1Q21 drove higher operating margin
- Transition to better not bigger framework
    - Disciplined capacity expansion
    - Value share NOT volume share
    - Volume expectations in 2H21 different than past
- Contractual wage increase effective in August
- Market rate adjustments necessary in certain geographies
- Q4 typically has higher percentage of large customer B2C volume
- Timing of initiatives like the weekend expansion





We expect the better not bigger framework to deliver margin expansion and are seeing early results; however, historical seasonality does not apply as we transition the business.

We fundamentally changed the way we operated in 1Q21 by eliminating peak expenses much faster than in the past, which boosted 1H21 margins.

Year-over-year comps, transition to our better not bigger framework, incremental market rate adjustments, the layering of initiatives, and other items are influencing patterns within our business.

## We Expect Productivity and Cost Initiatives to Contribute to U.S. Margin Expansion

Non-Operating Cost Initiatives

- As of 2Q21, on track for $500M reduction in 2021
- Additional $500M of opportunity in 2022

Operating Cost Initiatives

- Reduce casualty costs
- Automation deployment
- Smart package RFID technology
- Improve cube utilization
- Reduce package selection time

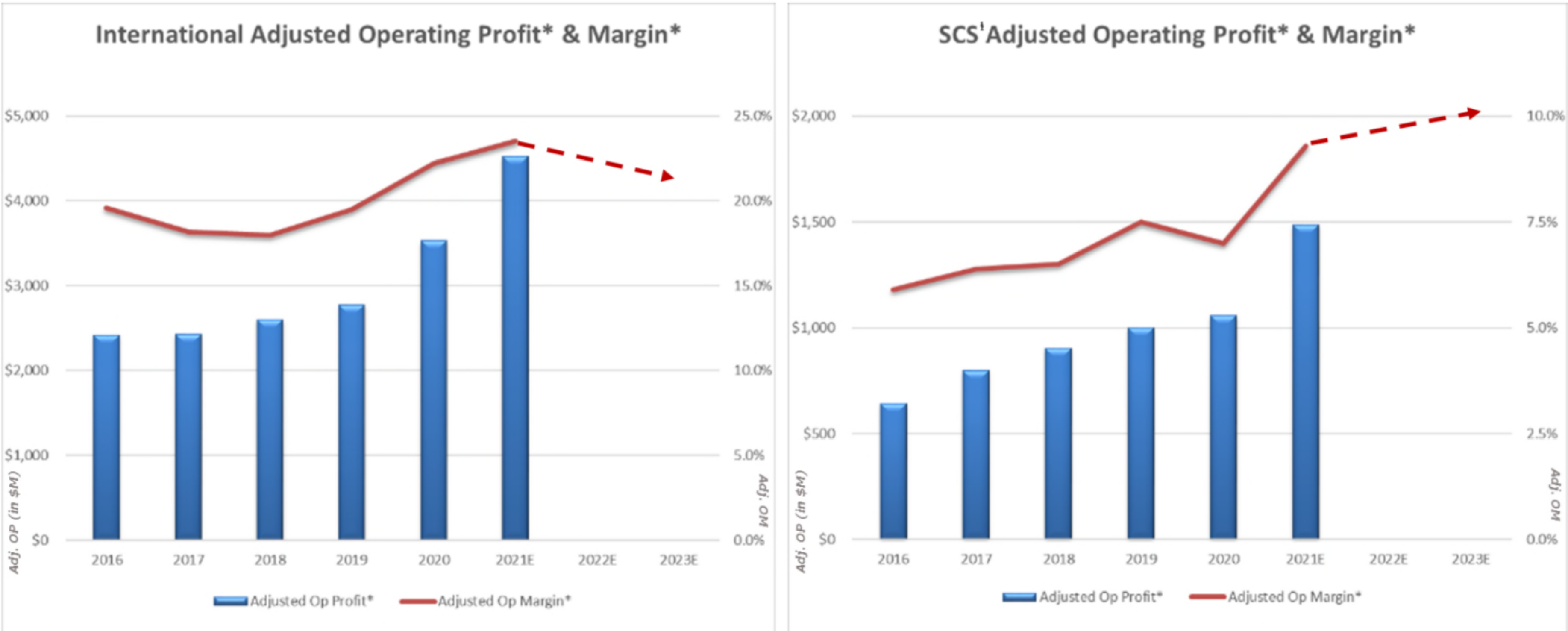




In our view, productivity will become a virtuous cycle, rather than a transformation event. We are operating our business in an opportunity-rich environment and continue to drive numerous productivity improvements across the network, reducing our cost to serve, including:

- An anticipated $500M in non-operating cost reductions in 2021, with an additional $500M of opportunity in 2022.
- Operating cost initiatives including reducing casualty costs, leveraging network automation and robotics, deploying Smart Package RFID technology, further improving cube utilization, reducing driver package selection time, and others.

## International and Supply Chain Solutions




* Non-GAAP financial measure. See Appendix for required reconciliations.



[1]SCS results include UPS Freight until April 30, 2021.



Looking at the International segment, there is tremendous opportunity for us to grow cross-border e-commerce and expand our market presence through an asset-light strategy. Our aim is to grow market share and operating profit, while maintaining our industry-leading margins.

And in the Supply Chain Solutions segment, the actions we have taken have moved the needle on operating margin, which averaged 6.6% over the past five years, and in the second quarter of 2021 increased to 9.7%. In July we told you that we expect margins in the Supply Chain Solutions segment to remain elevated and contribute to overall margin expansion.

# Questions & Answers


# Appendix

# Non-GAAP Financial Measures; Reconciliations

From time to time we supplement the reporting of our financial information determined under generally accepted accounting principles ("GAAP") with certain non-GAAP financial measures. These include: "adjusted" compensation and benefits; operating expenses; earnings before interest, taxes, depreciation and amortization ("EBITDA"); operating profit; operating margin; other income and (expense); income before income taxes; income tax expense; effective tax rate; net income; and earnings per share. We present revenue and revenue per piece on a constant currency basis. Additionally, we disclose free cash flow, return on invested capital ("ROIC") and the ratio of adjusted total debt to adjusted EBITDA.

We believe that these non-GAAP measures provide meaningful information to assist users of our financial statements in more fully understanding our financial results and 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. These non-GAAP measures are used internally by management for business unit operating performance analysis, business unit resource allocation and in connection with incentive compensation award determinations.

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 adjusted financial information does not represent a comprehensive basis of accounting. Therefore, our adjusted financial information may not be comparable to similarly titled information reported by other companies.

*Restructuring and Other Charges*

Adjusted EBITDA, operating profit, operating margin, income before income taxes, net income and earnings per share may exclude the impact of charges related to any restructuring programs, including transformation costs and asset impairments.

*Costs Related to Legal Contingencies and Expenses*

Adjusted EBITDA, operating profit, operating margin, pre-tax income, net income and earnings per share may exclude the impact of costs related to certain of our legal contingencies and expenses that are associated with non-routine legal matters. We believe this adjusted information provides a useful comparison of year-to-year financial performance without considering the impact of these non-routine contingencies and expenses. We evaluate our performance on this adjusted basis.

*Return on Invested Capital*

ROIC is calculated as the trailing twelve months ("TTM") of adjusted operating income divided by the average of total debt, non-current pension and postretirement benefit obligations and shareowners' equity, at the current period end and the corresponding period end of the prior year. Because ROIC is not a measure defined by GAAP, we calculate it, in part, using non-GAAP financial measures that we believe are most indicative of our ongoing business performance. We consider ROIC to be a useful measure for evaluating the effectiveness and efficiency of our long-term capital investments.

*Forward-Looking Non-GAAP Metrics*

From time to time when presenting forward-looking non-GAAP metrics, we are unable to provide quantitative reconciliations to the most closely correlated GAAP measure due to the uncertainty in the timing, amount or nature of any adjustments, which could be material in any period.

# Reconciliations

### Operating Profit and Margin

**Operating Profit**

| | Q2 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | |
| Reported / GAAP | $ 3,258 | $ 7,684 | $ 7,798 | $ 7,024 | $ 7,529 | $ 7,688 |
| Restructuring & Other | 15 | 1,034 | 255 | 360 | - | - |
| Legal Contingencies and Expenses | - | - | 97 | - | - | - |
| Adjusted | $ 3,273 | $ 8,718 | $ 8,150 | $ 7,384 | $ 7,529 | $ 7,688 |
| **U.S. Domestic Package** | | | | | | |
| Reported / GAAP | $ 1,567 | $ 3,891 | $ 4,164 | $ 3,643 | $ 4,303 | $ 4,628 |
| Restructuring & Other | 108 | 237 | 108 | 235 | - | - |
| Legal Contingencies and Expenses | - | - | 97 | - | - | - |
| Adjusted | $ 1,675 | $ 4,128 | $ 4,369 | $ 3,878 | $ 4,303 | $ 4,628 |
| **International Package** | | | | | | |
| Reported / GAAP | $ 1,184 | $ 3,436 | $ 2,657 | $ 2,529 | $ 2,429 | $ 2,417 |
| Restructuring & Other | 6 | 96 | 122 | 76 | - | - |
| Legal Contingencies and Expenses | - | - | - | - | - | - |
| Adjusted | $ 1,190 | $ 3,532 | $ 2,779 | $ 2,605 | $ 2,429 | $ 2,417 |
| **Supply Chain Solutions[1]** | | | | | | |
| Reported / GAAP | $ 507 | $ 357 | $ 977 | $ 852 | $ 797 | $ 643 |
| Restructuring & Other | (99) | 701 | 25 | 49 | - | - |
| Legal Contingencies and Expenses | - | - | - | - | - | - |
| Adjusted | $ 408 | $ 1,058 | $ 1,002 | $ 901 | $ 797 | $ 643 |

**YOY Change**

| | 2020 vs. 2019 | 2019 vs. 2018 | 2018 vs. 2017 | 2017 vs. 2016 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Reported / GAAP | -1.5% | 11.0% | -6.7% | -2.1% |
| Adjusted | 7.0% | 10.4% | -1.9% | -2.1% |
| **U.S. Domestic Package** | | | | |
| Reported / GAAP | -6.6% | 14.3% | -15.3% | -7.0% |
| Adjusted | -5.5% | 12.7% | -9.9% | -7.0% |
| **International Package** | | | | |
| Reported / GAAP | 29.3% | 5.1% | 4.1% | 0.5% |
| Adjusted | 27.1% | 6.7% | 7.2% | 0.5% |
| **Supply Chain Solutions[1]** | | | | |
| Reported / GAAP | -63.5% | 14.7% | 6.9% | 24.0% |
| Adjusted | 5.6% | 11.2% | 13.0% | 24.0% |

**Operating Margin**

| | Q2 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | |
| Reported / GAAP | 13.9% | 9.1% | 10.5% | 9.8% | 11.3% | 12.5% |
| Restructuring & Other | 0.1% | 1.2% | 0.4% | 0.5% | 0.0% | 0.0% |
| Legal Contingencies and Expenses | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% |
| Adjusted | 14.0% | 10.3% | 11.0% | 10.3% | 11.3% | 12.5% |
| **U.S. Domestic Package** | | | | | | |
| Reported / GAAP | 10.9% | 7.3% | 9.0% | 8.4% | 10.6% | 12.1% |
| Restructuring & Other | 0.7% | 0.4% | 0.2% | 0.5% | 0.0% | 0.0% |
| Legal Contingencies and Expenses | 0.0% | 0.0% | 0.2% | 0.0% | 0.0% | 0.0% |
| Adjusted | 11.6% | 7.7% | 9.4% | 8.9% | 10.6% | 12.1% |
| **International Package** | | | | | | |
| Reported / GAAP | 24.6% | 21.5% | 18.7% | 17.5% | 18.2% | 19.6% |
| Restructuring & Other | 0.1% | 0.7% | 0.8% | 0.5% | 0.0% | 0.0% |
| Legal Contingencies and Expenses | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Adjusted | 24.7% | 22.2% | 19.5% | 18.0% | 18.2% | 19.6% |
| **Supply Chain Solutions[1]** | | | | | | |
| Reported / GAAP | 12.1% | 2.4% | 7.3% | 6.2% | 6.4% | 5.9% |
| Restructuring & Other | -2.4% | 4.6% | 0.2% | 0.4% | 0.0% | 0.0% |
| Legal Contingencies and Expenses | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Adjusted | 9.7% | 7.0% | 7.5% | 6.5% | 6.4% | 5.9% |

[1]Supply Chain Solutions results include UPS Freight until April 30, 2021

# Reconciliations

**Return on Invested Capital (Non-GAAP)**
**(in millions):**
**Twelve Months Ended December 31,**

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Net income | $ 1,343 | $ 4,440 | $ 4,791 | $ 4,905 | $ 3,422 |
| Add back (deduct): | | | | | |
| Income tax expense | 501 | 1,212 | 1,228 | 2,232 | 1,699 |
| Interest expense | 701 | 653 | 605 | 453 | 381 |
| Investment (income) expense and other | 5,139 | 1,493 | 400 | (61) | 2,186 |
| Operating profit | 7,684 | 7,798 | 7,024 | 7,529 | 7,688 |
| Restructuring and other | 1,034 | 255 | 360 | — | — |
| Legal Contingencies and Expenses | — | 97 | — | — | — |
| Adjusted operating profit | $ 8,718 | $ 8,150 | $ 7,384 | $ 7,529 | $ 7,688 |
| Average debt and finance leases, including current maturities | $ 24,946 | $ 23,987 | $ 23,513 | $ 20,182 | $ 15,205 |
| Average pension and postretirement benefit obligations | 13,209 | 9,474 | 7,704 | 9,878 | 11,666 |
| Average shareowners' equity | 1,976 | 3,160 | 2,031 | 727 | 1,461 |
| Average Invested Capital | $ 40,131 | $ 36,621 | $ 33,248 | $ 30,787 | $ 28,332 |
| Net income to average invested capital | 3.3% | 12.1% | 14.4% | 15.9% | 12.1% |
| Adjusted Return on Invested Capital | 21.7% | 22.3% | 22.2% | 24.5% | 27.1% |