

3Q21 Earnings Call

October 26, 2021





Scott Childress
Investor Relations Officer

UPS Speakers

Carol B. Tomé

Chief Executive Officer

Brian Newman

Chief Financial Officer



Forward-Looking Statements and Non-GAAP Reconciliations



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.

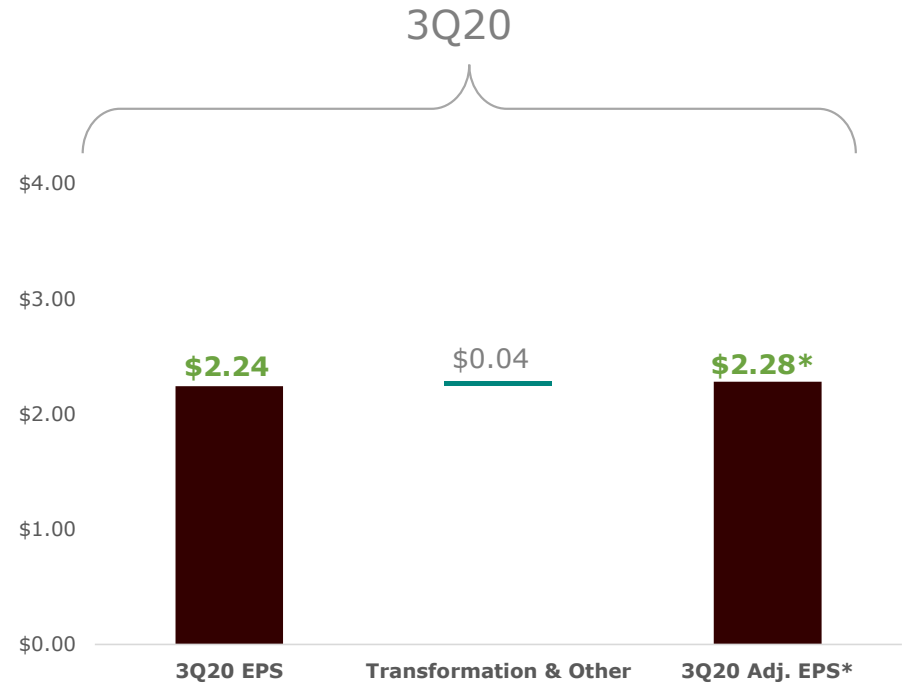
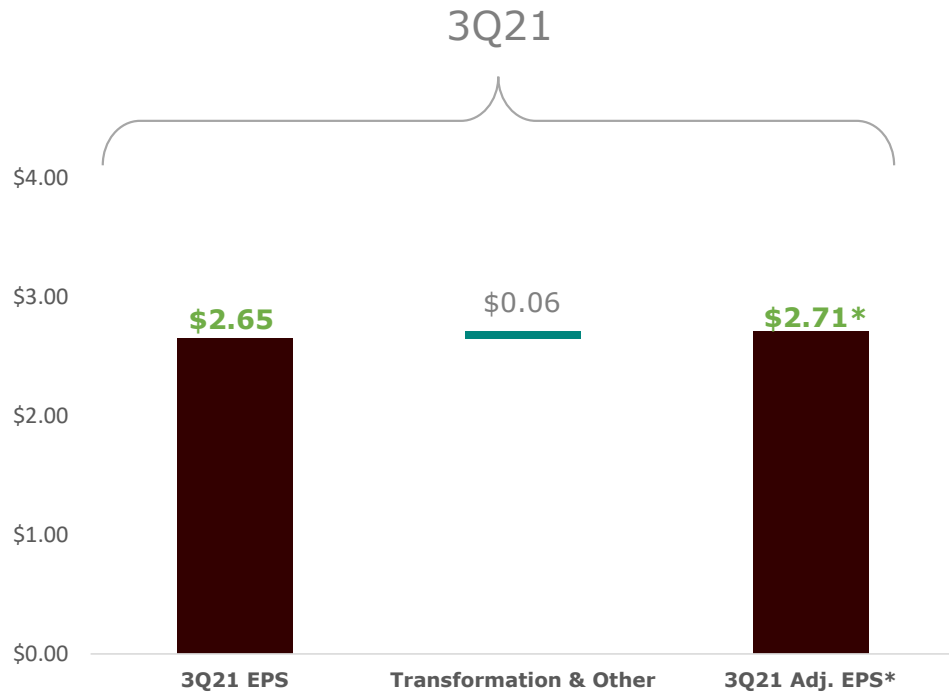
From time to time, we also include written or oral forward-looking statements in other publicly disclosed materials. Forward-looking statements may relate to our intent, belief, forecasts of, or current expectations about our strategic direction, prospects, future results, or future events; they do not 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.

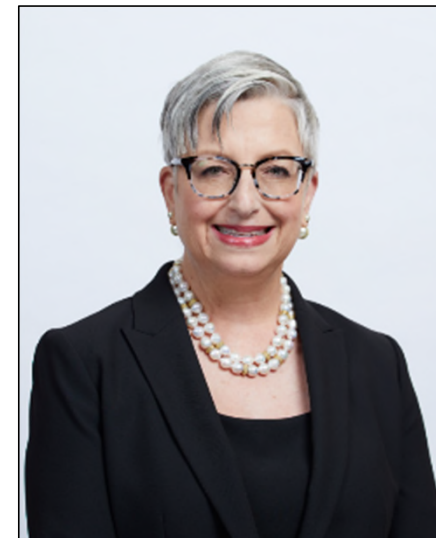
Information, including comparisons to prior periods, may reflect adjusted results. See the appendix for reconciliations of adjusted results and other non-GAAP financial measures.

Diluted EPS



* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.



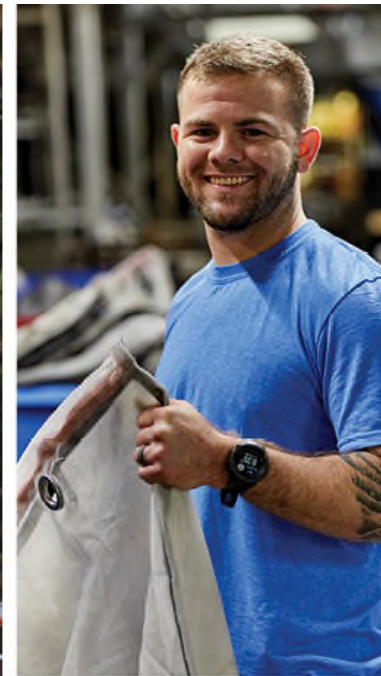


Carol B. Tomé
Chief Executive Officer



MOVING OUR WORLD
FORWARD
BY DELIVERING
WHAT MATTERS

Thank you
UPSers



Customer First, People Led, Innovation Driven

Through a better not bigger framework



Key Focus Areas

- Improve revenue quality, including growing SMB volume
- Reduce our cost to serve through productivity and cost take-out initiatives
- Effectively allocate capital to create a better customer experience, happier UPSers, and higher returns on the capital we deploy



Consolidated Results

GAAP

<i>In \$ Millions (except per share)</i>	3Q21	3Q20	% Change
Revenue	\$23,184	\$21,238	9.2%
Operating Profit	\$2,896	\$2,363	22.6%
Operating Margin	12.5%	11.1%	140 bps
Diluted EPS	\$2.65	\$2.24	18.3%

Adjusted

<i>In \$ Millions (except per share)</i>	3Q21	3Q20	% Change
Revenue	\$23,184	\$21,238	9.2%
Operating Profit*	\$2,970	\$2,407	23.4%
Operating Margin*	12.8%	11.3%	150 bps
Diluted EPS*	\$2.71	\$2.28	18.9%

* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.



Better Not Bigger Strategic Framework

Three focus areas

Improve Revenue Quality



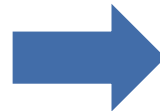
Weekend expansion will be completed later this week; in 3Q21 U.S. Domestic SMB ADV grew 10.9% and International SMB ADV up 3.9%

Reduce Cost to Serve



U.S. Domestic improved pieces per hour by 2.5%; on track to eliminate \$500M of non-operating expense in 2021 with an additional \$500M of opportunity in 2022

Disciplined Capital Allocation



Generated record \$9.3B of free cash flow* YTD; expect adjusted Return on Invested Capital* of ~29% for full-year 2021





We are Ready for Peak

- Collaborating with our customers to match their needs to our available capacity
- Leveraging proven tools to ensure network flexibility and control
- Digitized our job application process, enabling qualified candidates to receive a job offer within 30 minutes





Brian Newman
Chief Financial Officer

Macro Environment

Global economic environment remains strong



Strong growth in global economy in 3Q21 despite:

- COVID-19
- Inflation
- Inventory and labor shortages



Demand for UPS services remains high and the pricing environment in the industry was firm in the third quarter



Fourth-quarter global GDP expected to finish up **3.8%**; U.S. GDP is expected to grow **4.9%**

Source: IHS Markit



Consolidated Results

GAAP

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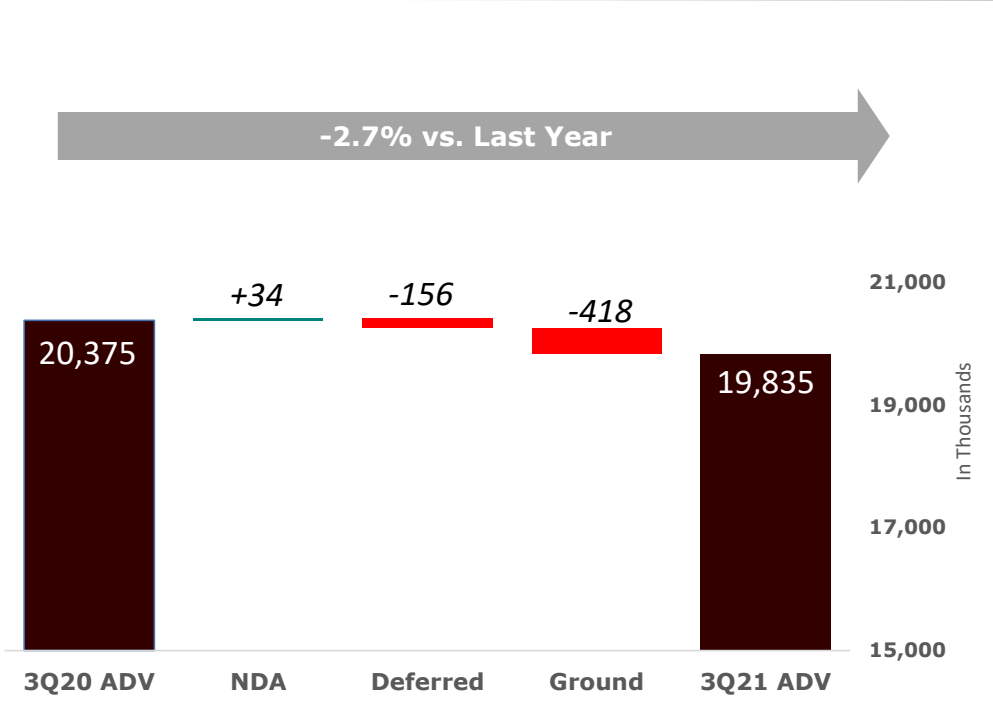
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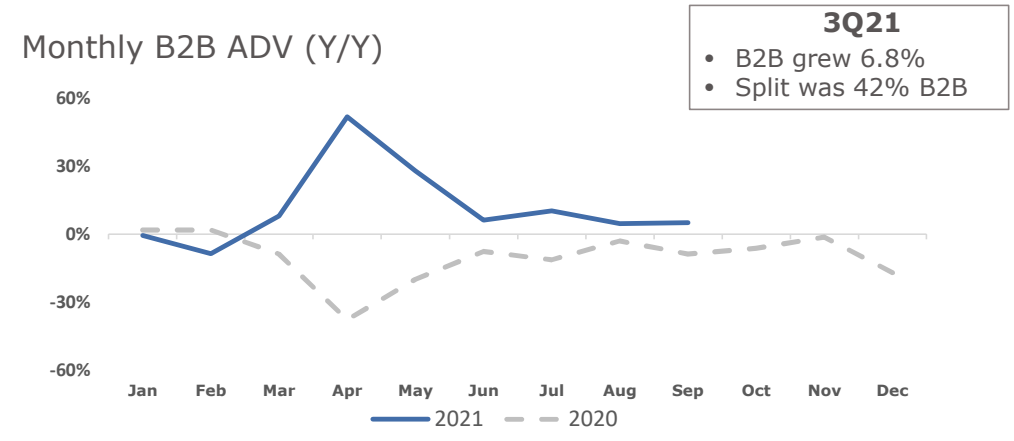
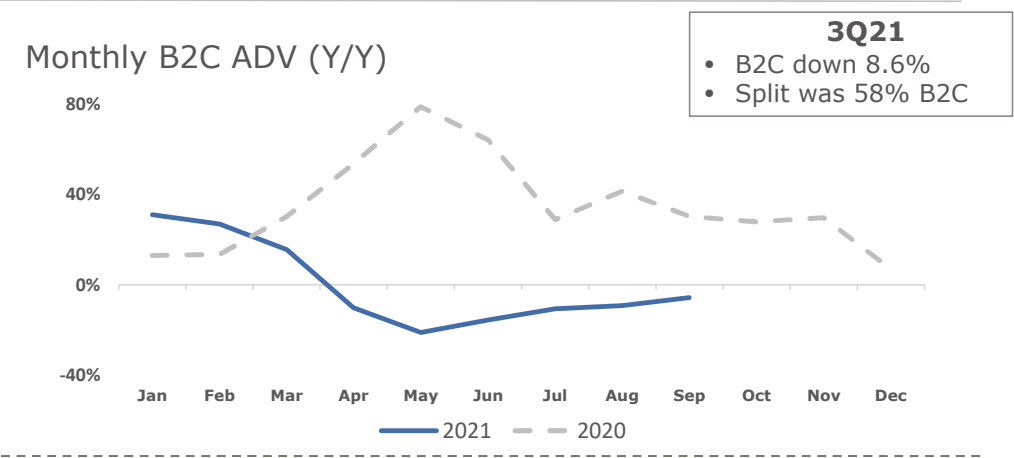


Unique YoY Comparisons Visible in Volume Mix

B2B volume continued to recover

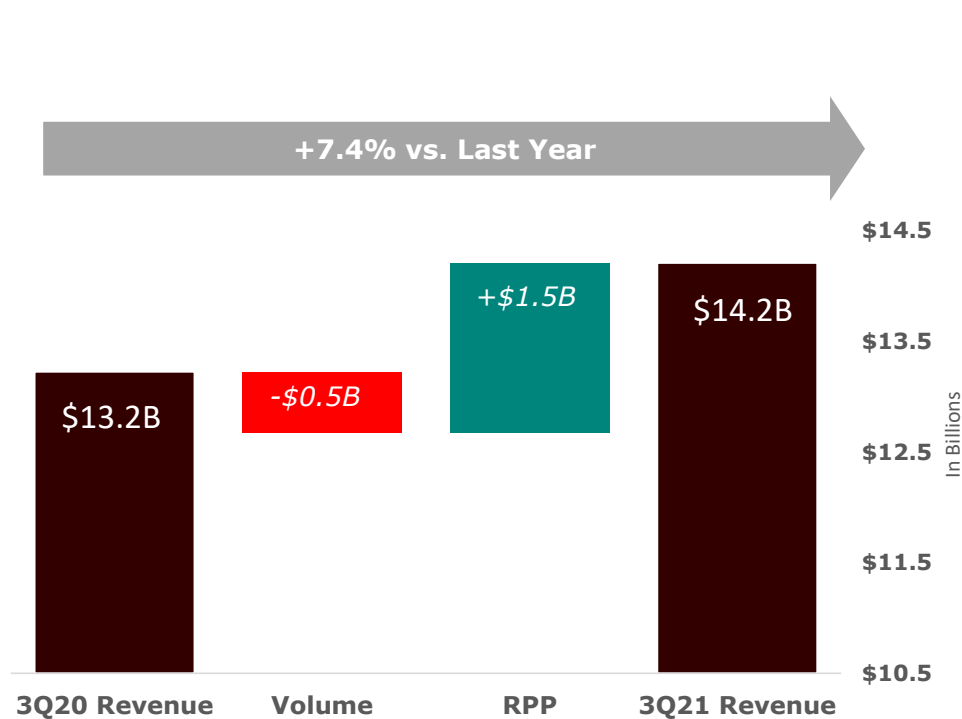


- Ground ADV decrease of 418K, includes SurePost decline of 576K

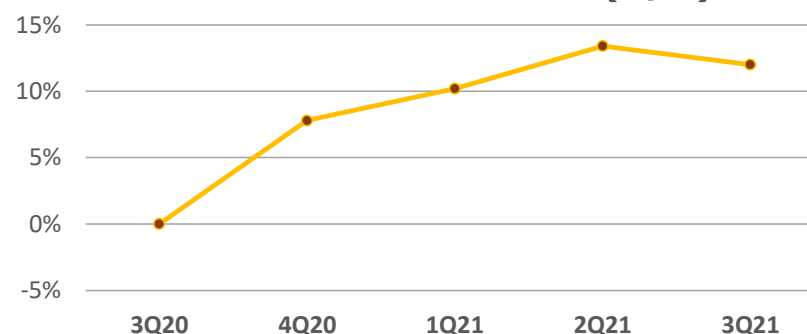


Revenue Increased 7.4% to \$14.2B

Driven by 12% increase in revenue per piece



U.S. Revenue Per Piece (Y/Y)



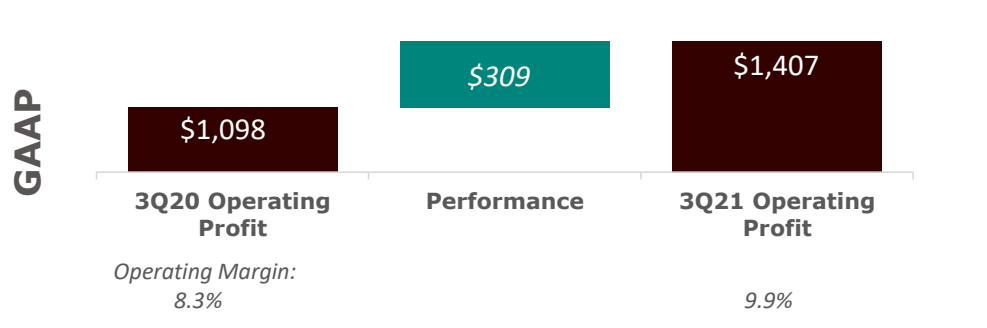
- Fuel drove 270 basis points of the revenue per piece growth rate
- Double-digit percentage revenue per piece growth in both Ground and Next Day Air products vs. LY



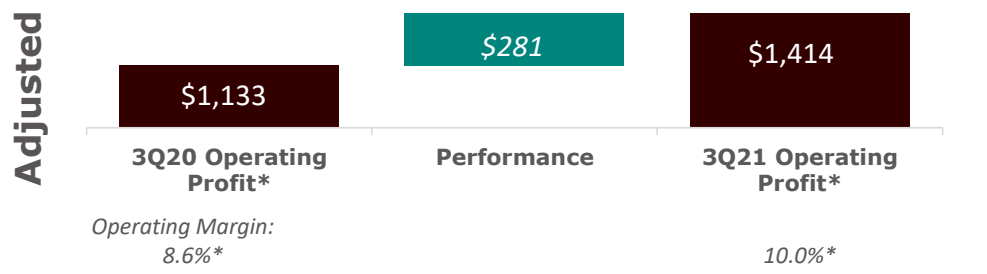
U.S. Domestic Operating Profit and Margin Increased YoY

Revenue growth above expense growth

Operating Profit (In Millions)



Operating Profit (In Millions)



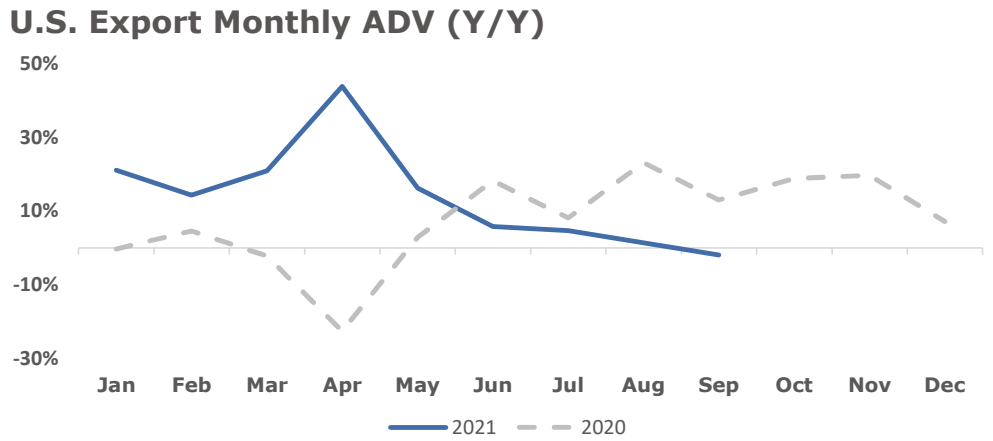
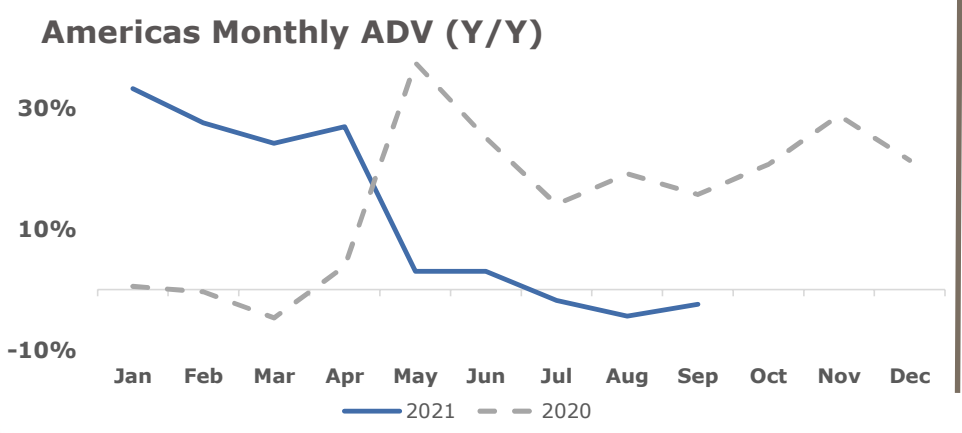
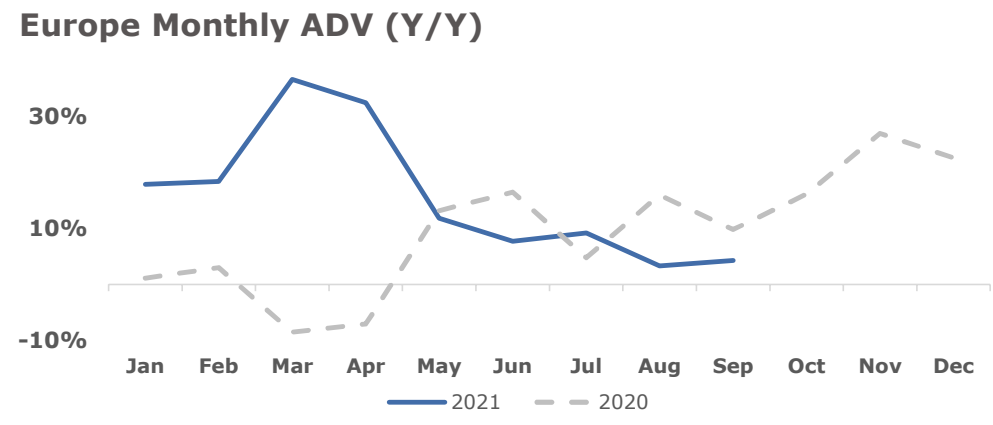
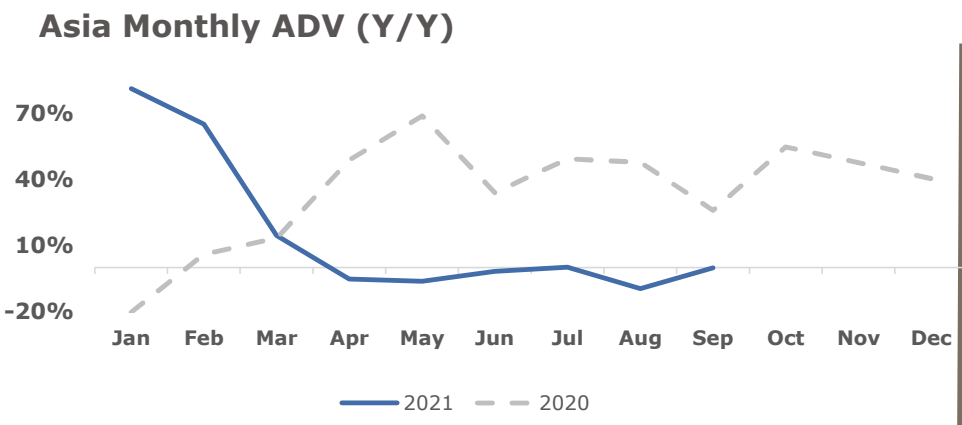
* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.

- Productivity improvements, led by inside sort operations and on-road, helped offset market rate adjustments and expansion of Saturday delivery
- Adjusted operating expense* grew 5.8%, with fuel driving 180 basis points of the year-over-year expense growth rate
- Adjusted operating margin* expanded 140 basis points to 10.0%



Average Daily Volume Up 1.9%; Up 14% on a 2-year Stack

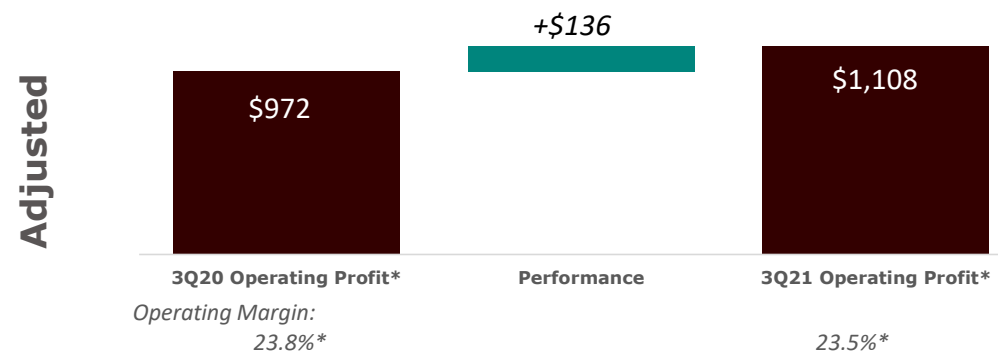
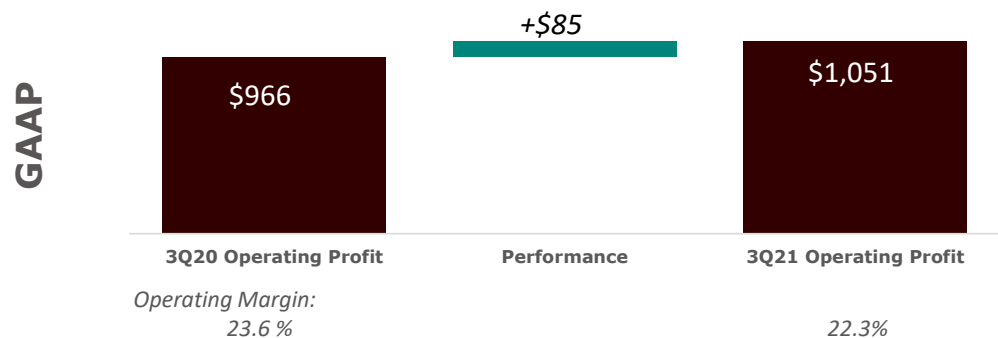
B2B ADV grew 3.8%



International Generated \$1.1B in Operating Profit

Fourth consecutive quarter of operating profit over \$1B

Operating Profit (In Millions)



- Revenue up 15.5% to \$4.7B
- Revenue per piece increased 14.0%
 - Includes 500 basis point benefit from fuel
 - Utilized surcharges to match demand with available capacity
- Adjusted operating margin* of 23.5%

* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.



Delivered Record Third-Quarter Top- and Bottom-Line Results

Operating Profit (In Millions)



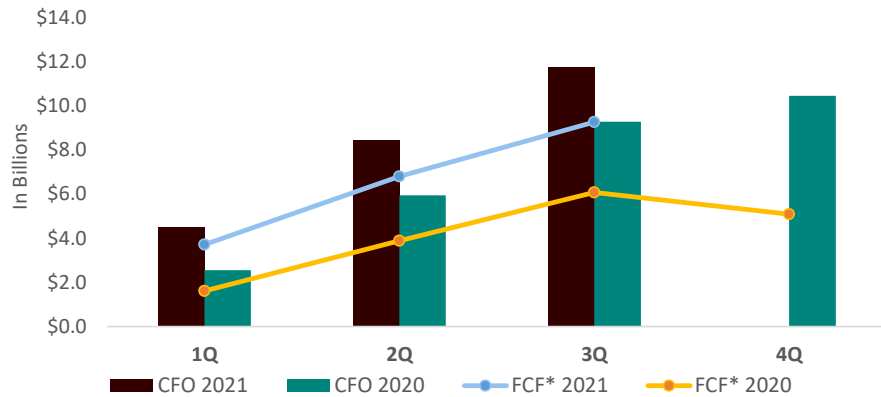
- All major business categories contributed to profit growth, led by Forwarding and Logistics
- Adjusted operating margin* of 10.5%
- First full quarter without UPS Freight results

* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.



Cash Flow and Debt Maturities

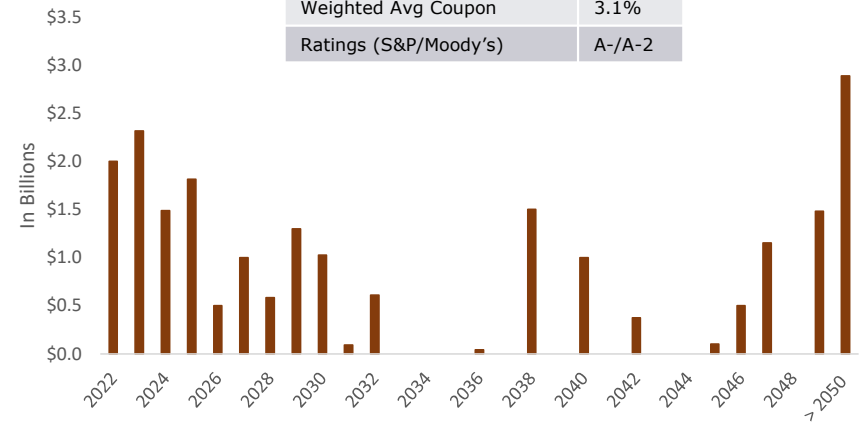
3Q21 YTD Cash from Operations of \$11.8B; YTD Free Cash Flow* of \$9.3B



*Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.
Note: 2020 results include \$1.1B benefit from CARES Act payroll tax deferral and total pension contributions of \$3.1B.

Debt Maturities

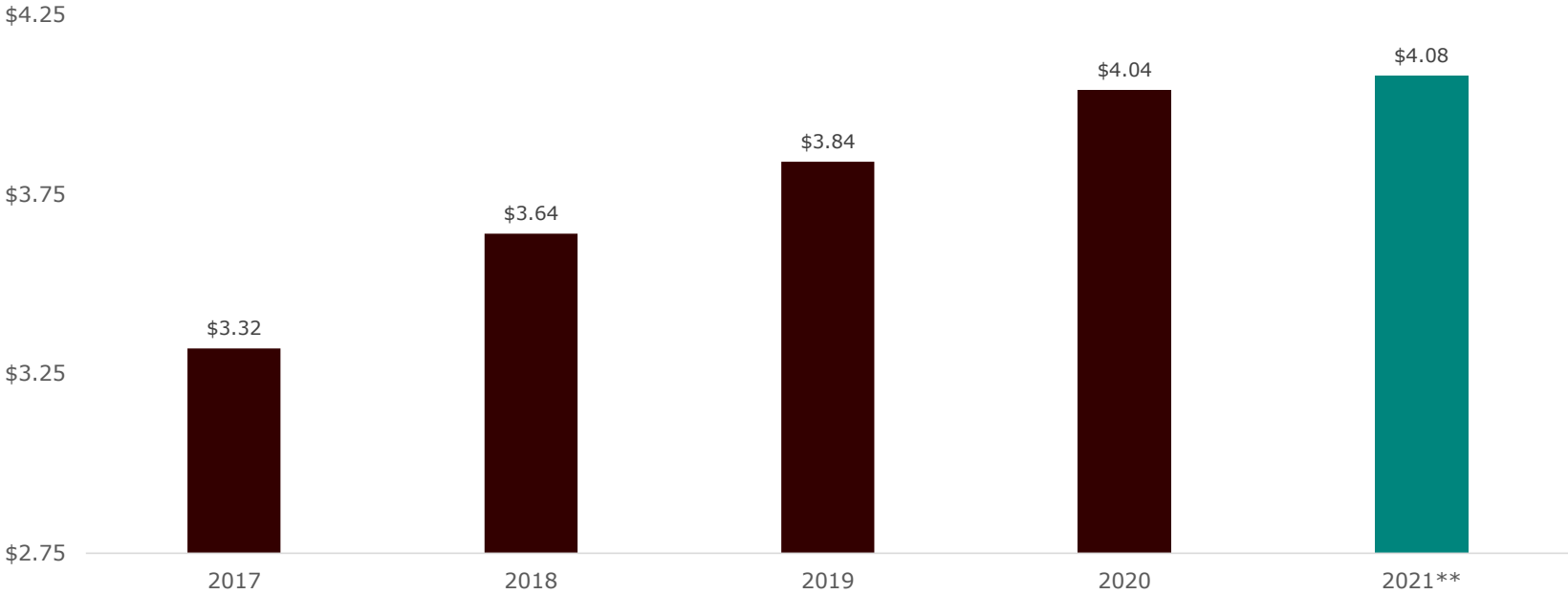
Total Debt*	\$22B
Weighted Avg Maturity	13.2 yrs
Weighted Avg Coupon	3.1%
Ratings (S&P/Moody's)	A-/A-2



* Includes ESOP and excludes finance lease obligations of \$542M at 09/30/21.



The UPS dividend is a hallmark of our financial strength



** Estimated based on 1Q21, 2Q21 and 3Q21 dividends declared per share.

As announced in June, UPS's dividend policy will target a payout ratio of ~50% of prior year adjusted net income



Raising Full-year 2021 Outlook

- Paying close attention to:
 - COVID-19
 - Inflationary pressures
 - Inventory and labor shortages
- Consumer demand is expected to be strong during peak season and in the fourth quarter
- Due to our strong 3Q21 performance, the progress we are making with our strategic initiatives and our increased 4Q forecast, **UPS is raising full-year guidance**

Full-year 2021 Outlook

- Consolidated:
 - Revenue growth ~13.8%
 - Adjusted operating margin* ~13%
 - Free cash flow* ~\$10.5B
 - Adjusted Return on Invested Capital* ~29%
 - Capital expenditures ~\$4.2B
- U.S. Domestic:
 - Revenue growth ~12.7%; adjusted operating margin* ~10.5%
- International:
 - Revenue growth ~20.7%; adjusted operating margin* ~23.9%
- Supply Chain Solutions:
 - Revenue growth ~10.3%; adjusted operating margin* ~10%





Questions & Answers





Appendix

Reconciliation of GAAP and Non-GAAP Financial Measures

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.

Changes in Foreign Currency Exchange Rates and Hedging Activities

Currency-neutral revenue, revenue per piece and operating profit exclude the period over period impact of foreign currency exchange rate changes and any foreign currency hedging activities. These measures 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 impact of any 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 foreign currency exchange rates and hedging activities.

Mark-To-Market Pension and Postretirement Adjustments

We recognize changes in the fair value of plan assets and net actuarial gains and losses in excess of a 10% corridor for our pension and postretirement defined benefit plans immediately as part of other pension income (expense). We supplement our presentation of certain financial data with non-GAAP measures that exclude the impact of gains and losses recognized in excess of the 10% corridor and the related income tax effects. We believe excluding these mark-to-market impacts provides important supplemental information by removing the volatility associated with short-term changes in market interest rates, equity values, and similar factors.

The deferred income tax effects of mark-to-market pension and postretirement adjustments are calculated by multiplying the statutory tax rates applicable in each tax jurisdiction, including the U.S. federal jurisdiction and various U.S. state and non-U.S. jurisdictions, by the adjustments.

Free Cash Flow

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. We believe free cash flow is an important indicator of how much cash is generated by our ongoing business operations and we use this as a measure of incremental cash available to invest in our business, meet our debt obligations and return cash to shareowners.

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

Reconciliation of GAAP and Non-GAAP Income Statement Items (in millions, except per share amounts):

Three Months Ended September 30, 2021				
	As-Reported (GAAP)	Transformation & Other Adj. ⁽¹⁾	As-Adjusted (Non-GAAP)	
Operating profit:				
U.S. Domestic Package	\$ 1,407	\$ 7	\$ 1,414	
International Package	1,051	57	1,108	
Supply Chain Solutions ⁽²⁾	438	10	448	
Total operating profit	\$ 2,896	\$ 74	\$ 2,970	
Other income and (expense):				
Other pension income (expense)	\$ 285	\$ -	\$ 285	
Investment income and other	(11)	-	(11)	
Interest expense	(177)	-	(177)	
Total other income and (expense)	\$ 97	\$ -	\$ 97	
Income before income taxes	2,993	74	3,067	
Income tax expense	664	20	684	
Net income	\$ 2,329	\$ 54	\$ 2,383	
Basic earnings per share	\$ 2.66	\$ 0.06	\$ 2.72	
Diluted earnings per share	\$ 2.65	\$ 0.06	\$ 2.71	

⁽¹⁾ Transformation & Other of \$74 million reflects other employee benefits costs of \$33 million and other costs of \$41 million. Adjusted operating expenses for U.S. Domestic Package, International Package, and Supply Chain Solutions exclude \$7, \$57, and \$10 million, respectively, of Transformation & Other costs.

⁽²⁾ The divestiture of UPS Freight was completed on April 30, 2021.

Reconciliation of GAAP and Non-GAAP Income Statement Items (in millions, except per share amounts):

Three Months Ended September 30, 2020				
	As-Reported (GAAP)	Transformation & Other Adj. ⁽¹⁾	As-Adjusted (Non-GAAP)	
Operating profit:				
U.S. Domestic Package	\$ 1,098	\$ 35	\$ 1,133	
International Package	966	6	972	
Supply Chain Solutions	299	3	302	
Total operating profit	\$ 2,363	\$ 44	\$ 2,407	
Other income and (expense):				
Other pension income (expense)	\$ 327	\$ -	\$ 327	
Investment income and other	11	-	11	
Interest expense	(176)	-	(176)	
Total other income and (expense)	\$ 162	\$ -	\$ 162	
Income before income taxes	2,525	44	2,569	
Income tax expense	568	11	579	
Net income	\$ 1,957	\$ 33	\$ 1,990	
Basic earnings per share	\$ 2.25	\$ 0.04	\$ 2.29	
Diluted earnings per share	\$ 2.24	\$ 0.04	\$ 2.28	

⁽¹⁾ Transformation & Other of \$44 million reflects other employee benefits costs of \$18 million and other costs of \$26 million. Adjusted operating expenses for U.S. Domestic Package, International Package, and Supply Chain Solutions exclude \$35, \$6, and \$3 million, respectively, of Transformation & Other costs.



Reconciliations

Reconciliation of Currency Adjusted Revenue, Revenue Per Piece, and Adjusted Operating Profit (in millions, except per piece amounts):

Three Months Ended September 30,						
	2021 As-Reported (GAAP)	2020 As-Reported (GAAP)	% Change (GAAP)	Currency Impact	2021 Currency- Neutral (Non-GAAP) ⁽¹⁾	% Change (Non-GAAP)
Average Revenue Per Piece:						
International Package:						
Domestic	\$ 7.19	\$ 6.61	8.8%	\$ (0.16)	\$ 7.03	6.4%
Export	33.56	28.98	15.8%	(0.36)	33.20	14.6%
Total International Package	<u>\$ 19.80</u>	<u>\$ 17.37</u>	14.0%	<u>\$ (0.26)</u>	<u>\$ 19.54</u>	12.5%
Consolidated	<u>\$ 12.50</u>	<u>\$ 11.06</u>	13.0%	<u>\$ (0.04)</u>	<u>\$ 12.46</u>	12.7%
Revenue:						
U.S. Domestic Package	\$ 14,208	\$ 13,225	7.4%	\$ -	\$ 14,208	7.4%
International Package	4,720	4,087	15.5%	(58)	4,662	14.1%
Supply Chain Solutions ⁽²⁾	4,256	3,926	8.4%	(12)	4,244	8.1%
Total revenue	<u>\$ 23,184</u>	<u>\$ 21,238</u>	9.2%	<u>\$ (70)</u>	<u>\$ 23,114</u>	8.8%

⁽¹⁾ Amounts adjusted for period over period foreign currency exchange rate and hedging differences

⁽²⁾ The divestiture of UPS Freight was completed on April 30, 2021.

	2021 As-Adjusted (Non-GAAP) ⁽¹⁾	2020 As-Adjusted (Non-GAAP) ⁽¹⁾	% Change (Non-GAAP)	Currency Impact	2021 As-Adjusted Currency- Neutral (Non-GAAP) ⁽²⁾	% Change (Non-GAAP)
As-Adjusted Operating Profit:						
U.S. Domestic Package	\$ 1,414	\$ 1,133	24.8%	\$ -	\$ 1,414	24.8%
International Package	1,108	972	14.0%	(20)	1,088	11.9%
Supply Chain Solutions ⁽³⁾	448	302	48.3%	17	465	54.0%
Total operating profit	<u>\$ 2,970</u>	<u>\$ 2,407</u>	23.4%	<u>\$ (3)</u>	<u>\$ 2,967</u>	23.3%

⁽¹⁾ Amounts adjusted for transformation & other

⁽²⁾ Amounts adjusted for transformation & other and period over period foreign currency exchange rate and hedging differences

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Reconciliations

Reconciliation of Free Cash Flow (Non-GAAP measure) (in millions):

	2020				2021		
	Q1 YTD	Q2 YTD	Q3 YTD	Q4 YTD	Q1 YTD	Q2 YTD	Q3 YTD
Cash flows from operating activities	\$ 2,550	\$ 5,947	\$ 9,283	\$ 10,459	\$ 4,531	\$ 8,454	\$ 11,761
Capital expenditures	(933)	(2,065)	(3,219)	(5,412)	(834)	(1,670)	(2,570)
Proceeds from disposals of PP&E	1	2	10	40	10	15	22
Net change in finance receivables	3	16	24	44	11	16	28
Other investing activities	(5)	(6)	(15)	(41)	(6)	(11)	24
Free Cash Flow (Non-GAAP measure)	\$ 1,616	\$ 3,894	\$ 6,083	\$ 5,090	\$ 3,712	\$ 6,804	\$ 9,265

