



**Worldwide Services**  
Synchronizing the world of commerce



Low Emission  
Hybrid Electric Vehicle

USDOT 027800

## 2Q20 Earnings Announcement

July 30, 2020

# Scott Childress

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## Investor Relations Officer





## UPS Speakers

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**Carol Tomé**  
Chief Executive Officer

**Brian Newman**  
Chief Financial Officer

# Forward-Looking Statements and Non-GAAP Reconciliations

This presentation, our Annual Report on Form 10-K for the year ended December 31, 2019 and our other filings with the Securities and Exchange Commission contain and refer to “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 “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof, 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.

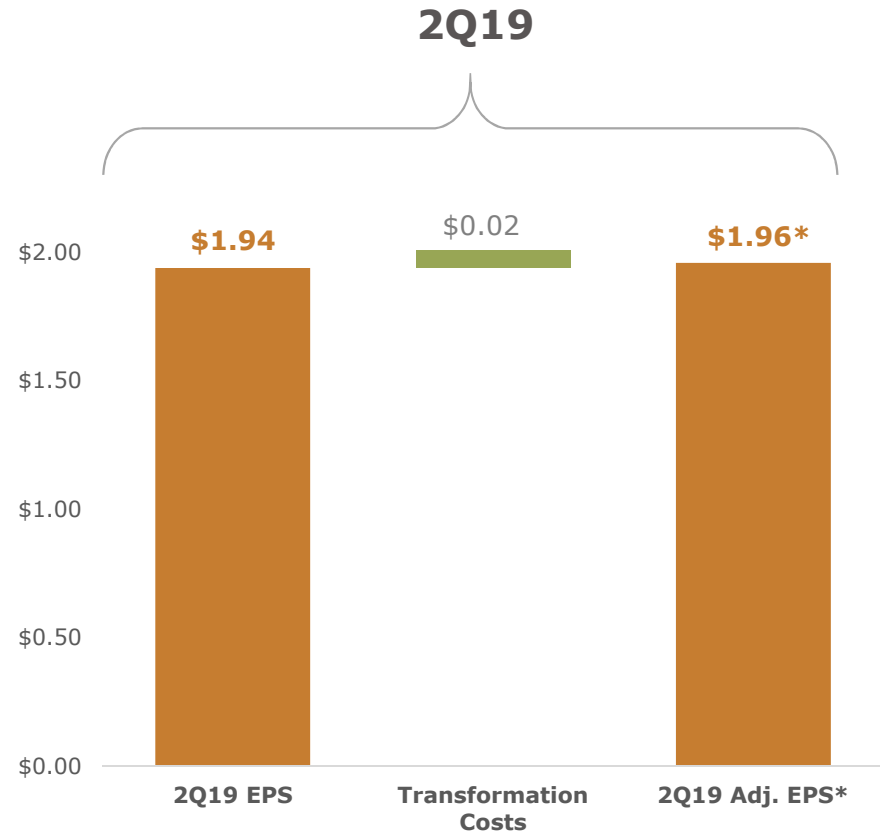
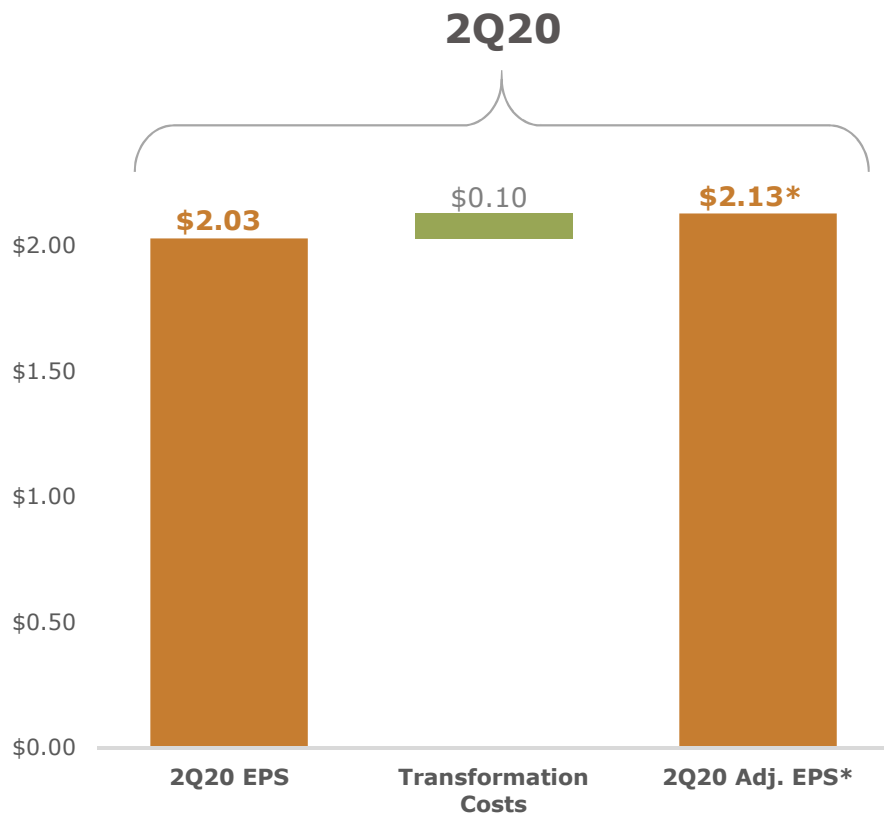
From time to time, we also include forward-looking statements in other publicly disclosed materials. Such statements may relate to our intent, belief and current expectations about our strategic direction, prospects and future results, and give our current expectations or forecasts of future events; 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 forward-looking statements because such statements speak only as of the date when made.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience, present expectations or anticipated results. These risks and uncertainties, many of which are outside of our control, include, but are not limited to: uncertainties related to the impact of the COVID-19 pandemic on our business and operations, financial condition, financial results and financial position, 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 complex and stringent regulation in the U.S. and internationally (including tax laws and regulations); 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; 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 the image of our brand; 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 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 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, 2019, our Quarterly Report on Form 10-Q for the quarter ended March 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 information 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.

# Diluted EPS



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

# Carol Tomé

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## Chief Executive Officer





# Thank You UPSers



## Consolidated Results Were Stronger Than Expected

### GAAP

<i>In Millions (except per share)</i>	2Q20	2Q19	% Change
Total Revenue	\$20,459	\$18,048	13.4%
Operating Profit	\$2,212	\$2,143	3.2%
Other Pension Income	\$327	\$192	70.3%
Interest Expense	-\$183	-\$159	15.1%
Effective Tax Rate	25.0%	23.5%	150 bps
Net Income	\$1,768	\$1,685	4.9%
Diluted EPS	\$2.03	\$1.94	4.6%

### Adjusted

<i>In Millions (except per share)</i>	2Q20	2Q19	% Change
Total Revenue	\$20,459	\$18,048	13.4%
Operating Profit*	\$2,324	\$2,164	7.4%
Other Pension Income	\$327	\$192	70.3%
Interest Expense	-\$183	-\$159	15.1%
Effective Tax Rate*	25.0%	23.5%	150 bps
Net Income*	\$1,851	\$1,702	8.8%
Diluted EPS*	\$2.13	\$1.96	8.7%

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



## 5 Core UPS Principles Underpin Our Actions

- Our values
- UPS dividend
- Strong investment grade credit rating
- Brand relevance
- Employee ownership



**Everything else is under review....**

## We Have The Right Strategy In Place

Over time we will share our actions and metrics so you can measure our progress

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**Create Value for Our Shareowners**

## Recovery Is Difficult To Predict

- Continued uncertainty from COVID-19
- We will control what we can control
- UPS is making the right decisions to pivot toward opportunity
- We are focused on **enabling success** for all UPSers and **creating value** for our shareowners



# Brian Newman

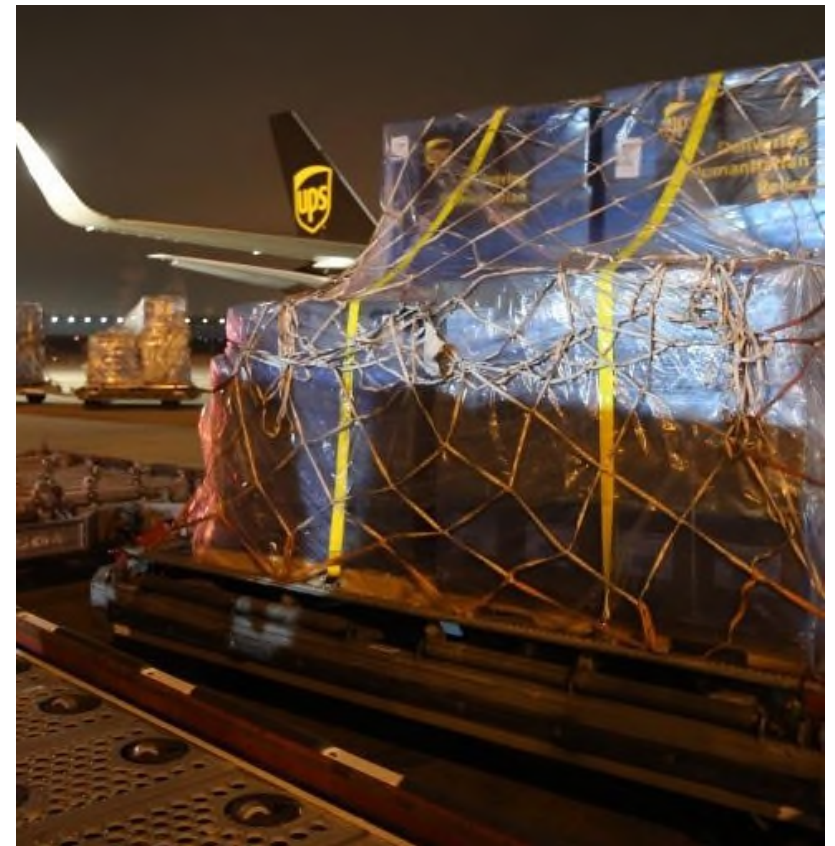
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## Chief Financial Officer



## UPS Leaned Into Changes In Demand

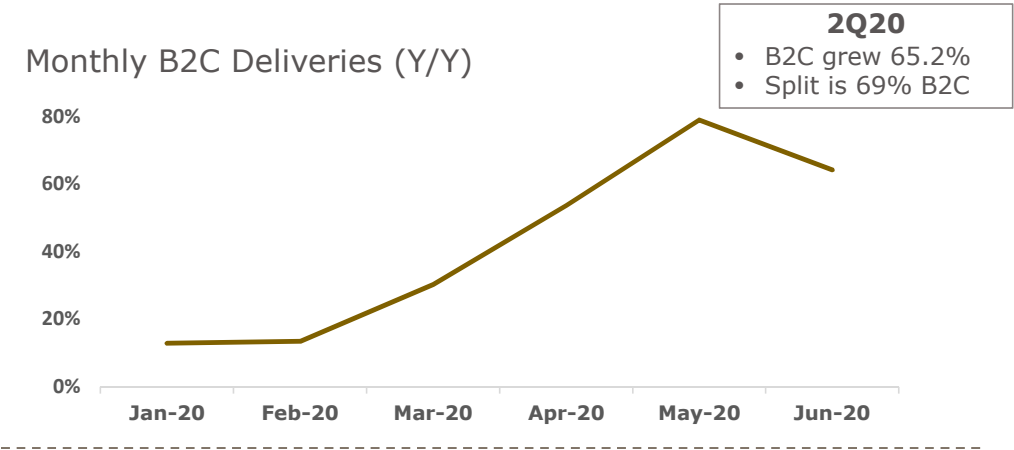
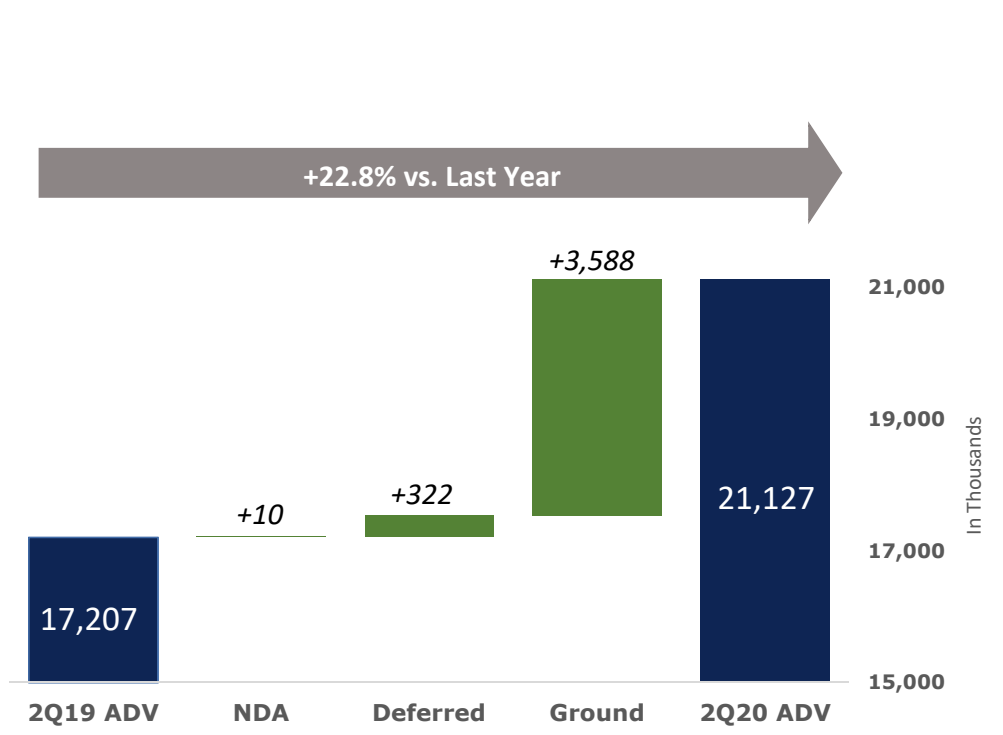
- Responded to strong demand out of Asia
  - Added about 635 flights
- Supported surge of e-commerce through the UPS Digital Access Program
  - 120,000 new SMB customer accounts
- Met the urgent need for PPE and testing supplies
  - UPS moved over 11 million kilos of PPE





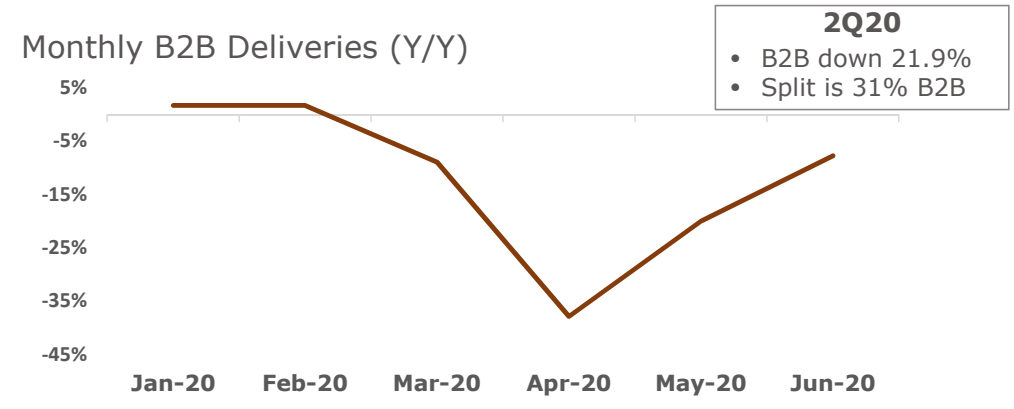
# B2C Demand Surged, Increasing Average Daily Volume 22.8%

SurePost represented 53% of total U.S. Domestic volume growth



**2Q20**

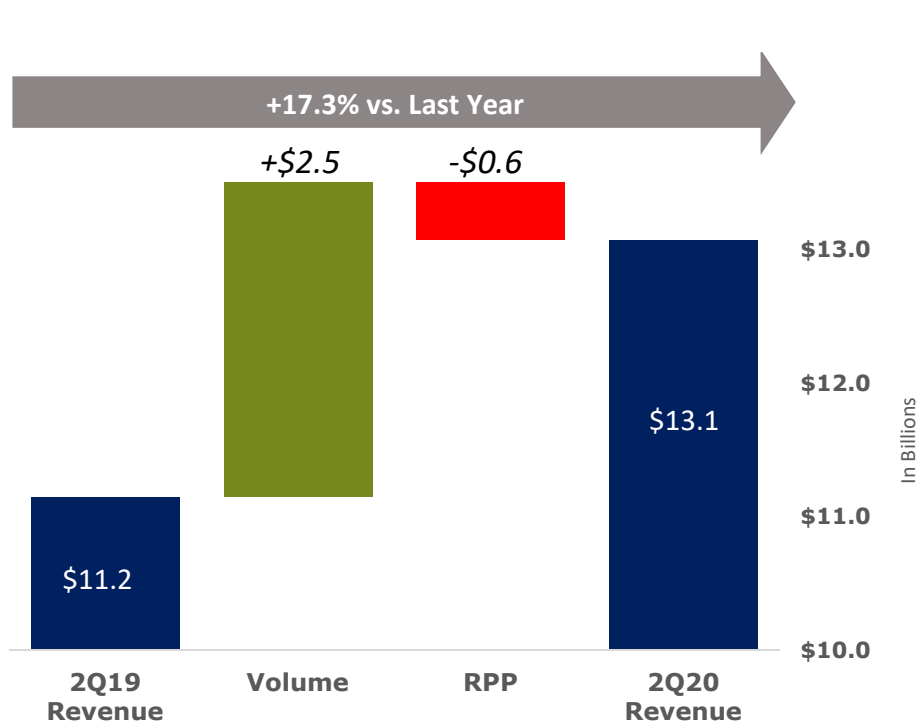
- B2C grew 65.2%
- Split is 69% B2C



**2Q20**

- B2B down 21.9%
- Split is 31% B2B

## Revenue Increased 17.3%, Driven Primarily By Ground Products



- Total ground revenue increased by over \$1.9 billion
- Revenue per piece declined 4.4% due to two main factors:
  - Lower fuel prices (-180 bps)
  - Magnitude of SurePost growth (-410 bps)

## Operating Margin Declined Y/Y; Sequential Margins Improved

Operating Profit (In Millions)



- Cost per piece improved Y/Y and sequentially
  - Network scale and lower fuel prices offset other cost pressures

- Operating profit includes:

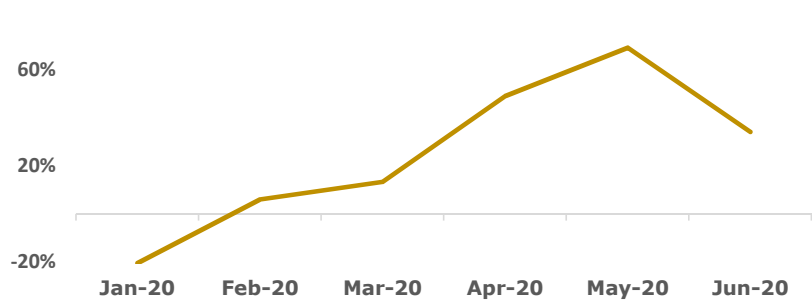
Item	Impact
Coronavirus, net	- \$44M
Pension Discount Rate	- \$63M
Employee Incentives	- \$51M
Lower Fuel Costs	+ \$61M

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

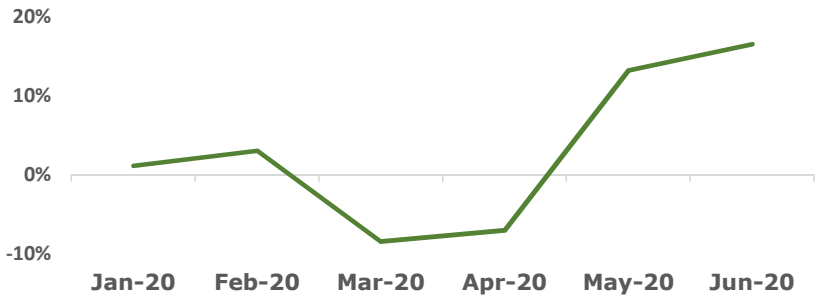
# Total Volume Up 9.8%, Peaking In May And Moderating In June

Export Volume Grew 11.4%; Domestic Volume Up 8.5%

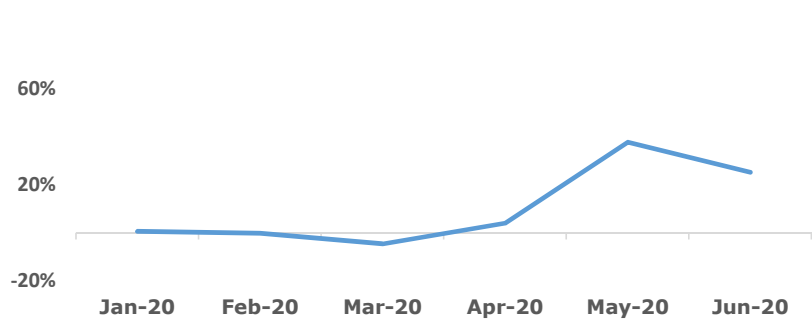
### Asia Monthly Volume (Y/Y)



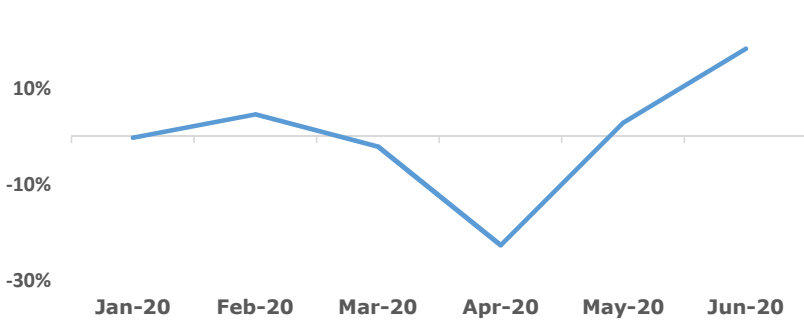
### Europe Monthly Volume (Y/Y)



### Americas Monthly Volume (Y/Y)

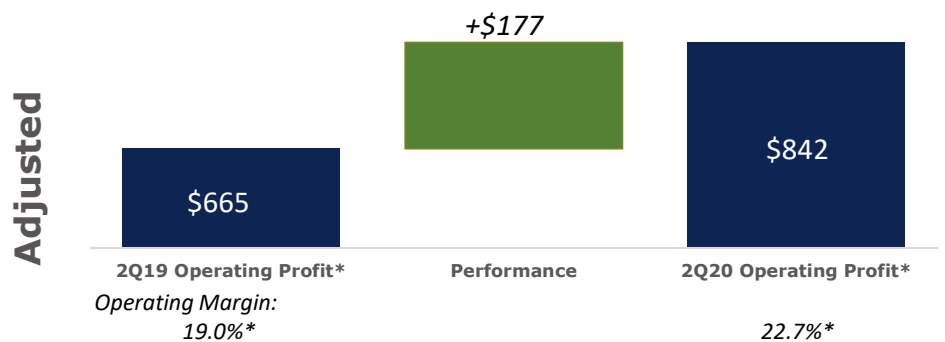
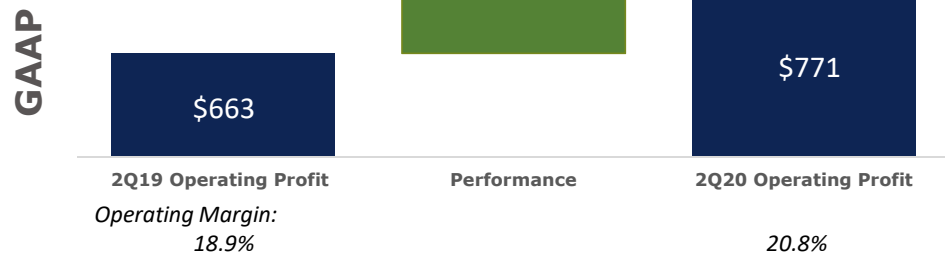


### U.S. Export Monthly Volume (Y/Y)



## Operating Profit Grew And Margin Expanded vs. LY

### Operating Profit (In Millions)



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

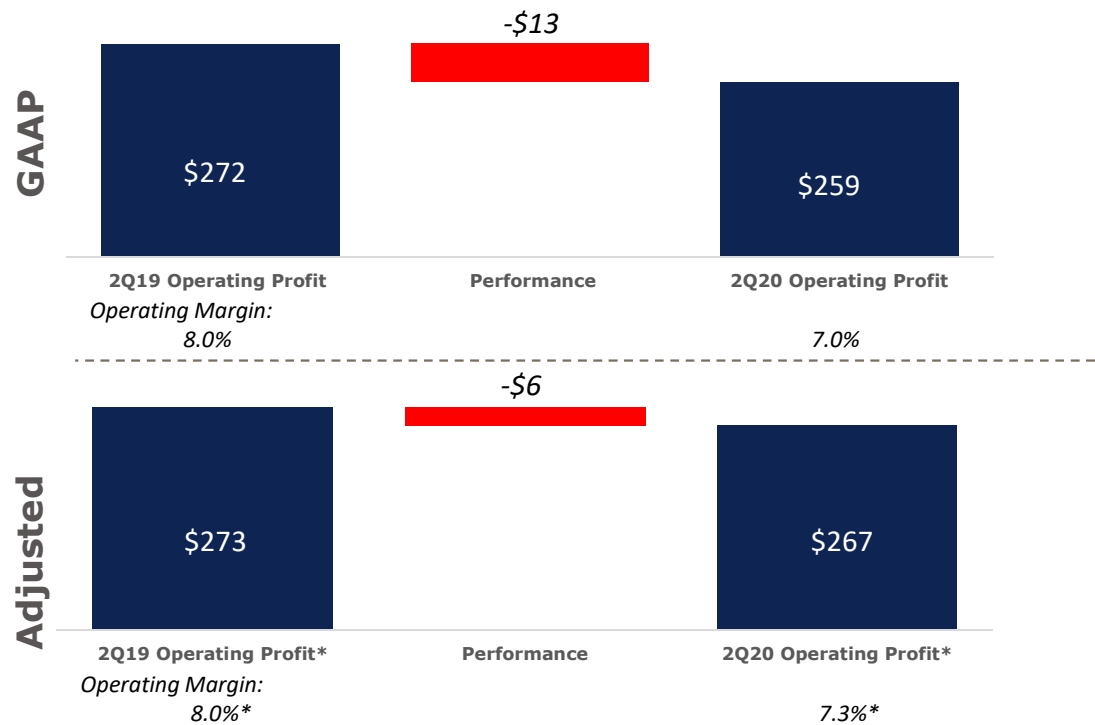
- Asia flexed the network to meet strong demand
  - Outbound volume +46.8%
  - Provided 335 additional flights above normal schedules
- B2C volume increased 95% led by cross-border in Europe



## Revenue Increased 8.5%; Operating Profit Declined

Revenue growth driven by high air freight forwarding demand out of Asia

### Operating Profit (In Millions)

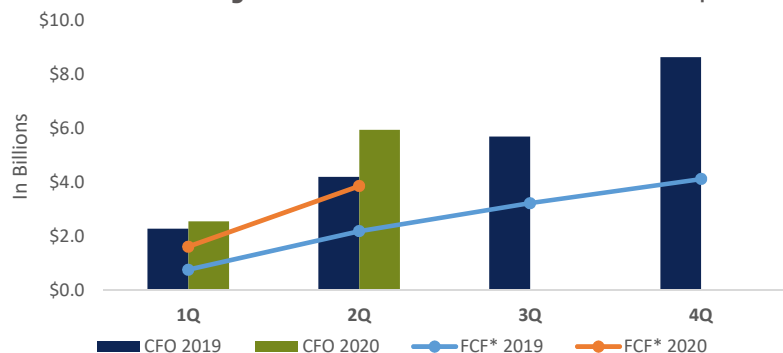


- Air freight led the segment due to the surge in market rates out of Asia
- Secured about 300 charters out of Asia
- LTL and truckload brokerage faced excess capacity and reduced demand early in the quarter

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

# UPS Cash Flow Remains Strong

Cumulative Cash from Operations of \$5.9B and Adjusted Free Cash Flow\* of \$3.9B



\*Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure. Note: CARES Act payroll tax deferral provides ~ \$370M benefit in 2020.

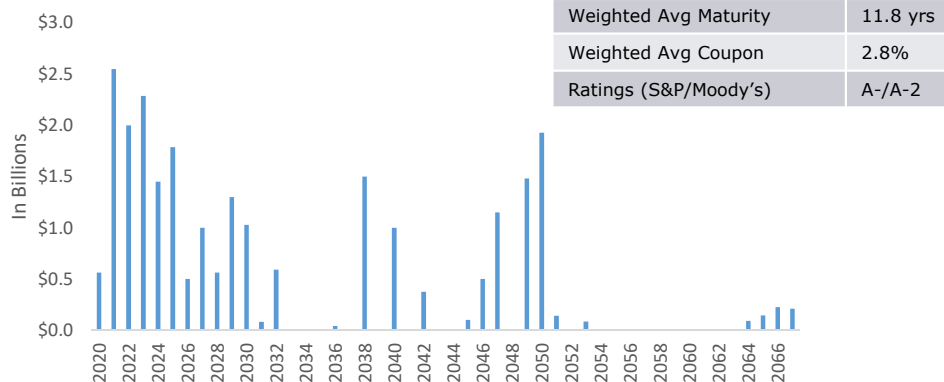
## Capital Expenditures

(In Billions)	1H20A	2H20E*	2020E*
Buildings & Facilities	\$1.0	\$1.7	\$2.7
Aircraft & Parts	\$0.5	\$0.8	\$1.3
Vehicles	\$0.2	\$0.6	\$0.8
IT	\$0.4	\$0.4	\$0.8
<b>Total CapEx</b>	<b>\$2.1</b>	<b>\$3.5</b>	<b>\$5.6</b>

<b>Dep. &amp; Amortization</b>	<b>\$1.3</b>	<b>\$1.4</b>	<b>\$2.7</b>
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\* Estimated

## Debt Maturities



\* Includes Commercial Paper, excludes finance lease obligations of \$515M at 06/30/20.

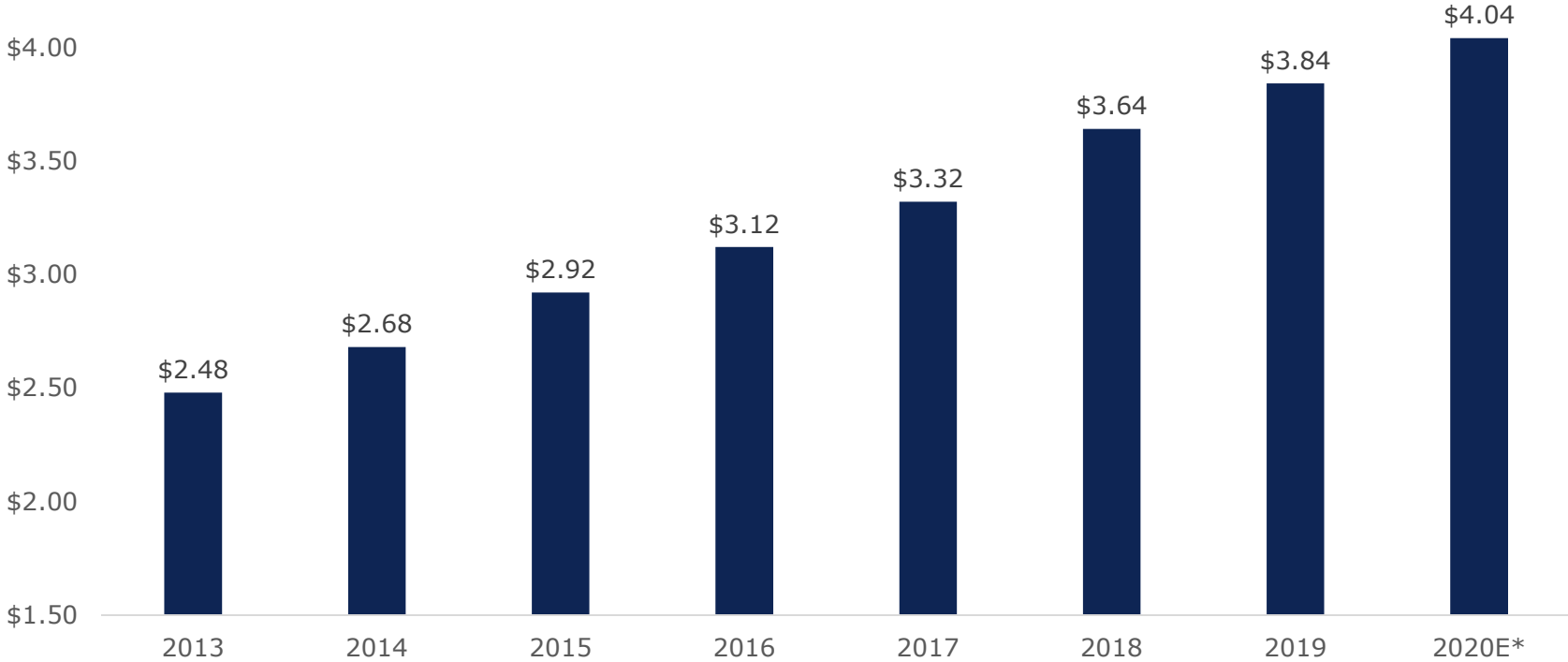
## Liquidity

**\$8.8B**  
Cash and Cash  
Equivalents

**\$2.0B**  
Syndicated  
Credit Facility  
expires Dec  
2020  
(undrawn)

**\$2.5B**  
Syndicated  
Credit Facility  
expires Dec  
2023  
(undrawn)

# The UPS Dividend Is a Hallmark Of Our Financial Strength



\*Estimated based on 1Q20 and 2Q20 dividends declared per share and are subject to Board approval.

# Questions & Answers



# Reconciliation of GAAP and Non-GAAP Financial Measures

## **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 "adjusted" compensation and benefits, operating profit, operating margin, other income (expense), income before income taxes, income tax expense, effective tax rate, net income and earnings per share. We also supplement the reporting of 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. Additionally, we periodically disclose free cash flow, free cash flow excluding discretionary pension contributions, and capital expenditures including principal repayments of capital lease obligations. The equivalent measures determined in accordance with GAAP are also referred to as "reported" or "unadjusted."

We believe that these non-GAAP measures provide additional meaningful information to assist users of our financial statements in 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.

### *Costs Related to Restructuring Programs; Transformation Strategy Costs*

Non-GAAP operating profit, operating margin, pre-tax income, net income and earnings per share exclude the impact of costs related to restructuring programs, including Transformation strategy costs. We believe this provides a useful comparison of year-to-year financial performance without considering the short-term impact of restructuring costs.

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

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.

### *Impact of Changes in Pension Discount Rates*

Non-GAAP pension discount rate-neutral operating profit excludes the period over period impact of discount rate changes on pension service cost. Effective January 1, 2020, we began evaluating our segments using pension discount rate-neutral operating profit in addition to our current segment operating profit measure.

Pension discount rate-neutral operating profit is calculated by discounting the value of benefits attributable to employee service in the current period utilizing the prior year discount rate applicable to each of our company-sponsored defined benefit plans. The difference between this derived amount and the current period reported service cost is the period over period impact of pension discount rate movements on operating profit.

### *Free Cash Flow and Adjusted Capital Expenditures*

We believe free cash flow, free cash flow excluding discretionary pension contributions and free cash flow adjusted for principal repayments of finance lease obligations are important indicators of how much cash is generated by regular business operations and we use them 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 finance 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.

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.



# Reconciliations

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

Three Months Ended June 30, 2020

	As-Reported (GAAP)	Transformation Strategy Costs <sup>(1)</sup>	As-Adjusted (Non-GAAP)
Operating profit:			
U.S. Domestic Package	\$ 1,182	\$ 33	\$ 1,215
International Package	771	71	842
Supply Chain & Freight	259	8	267
Total operating profit	\$ 2,212	\$ 112	\$ 2,324
Income before income taxes	\$ 2,357	\$ 112	\$ 2,469
Income tax expense	\$ 589	\$ 29	\$ 618
Net income	\$ 1,768	\$ 83	\$ 1,851
Diluted earnings per share	\$ 2.03	\$ 0.10	\$ 2.13

<sup>(1)</sup> Reflects other employee benefits costs of \$81 million and other costs of \$31 million.

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

Three Months Ended June 30, 2019

	As-Reported (GAAP)	Transformation Strategy Costs <sup>(1)</sup>	As-Adjusted (Non-GAAP)
Operating profit:			
U.S. Domestic Package	\$ 1,208	\$ 18	\$ 1,226
International Package	663	2	665
Supply Chain & Freight	272	1	273
Total operating profit	\$ 2,143	\$ 21	\$ 2,164
Income before income taxes	\$ 2,204	\$ 21	\$ 2,225
Income tax expense	\$ 519	\$ 4	\$ 523
Net income	\$ 1,685	\$ 17	\$ 1,702
Diluted earnings per share	\$ 1.94	\$ 0.02	\$ 1.96

<sup>(1)</sup> Transformation strategy costs include other employee benefits costs of \$2 million, and other costs of \$19 million

# Reconciliations

## Reconciliation of GAAP and Non-GAAP Revenue, Revenue Per Piece, and Adjusted Operating Profit (in millions, except per piece amounts):

Three Months Ended June 30						
	2020 As-Reported (GAAP)	2019 As-Reported (GAAP)	% Change (GAAP)	Currency Impact	2020 Currency Neutral (Non-GAAP) <sup>(1)</sup>	% Change (Non-GAAP)
<b>Average Revenue Per Piece:</b>						
International Package:						
Domestic	\$ 6.37	\$ 6.63	-3.9%	\$ 0.16	\$ 6.53	-1.5%
Export	28.56	30.06	-5.0%	0.18	28.74	-4.4%
Total International Package	<u>\$ 16.73</u>	<u>\$ 17.41</u>	-3.9%	<u>\$ 0.17</u>	<u>\$ 16.90</u>	-2.9%
Consolidated	<u>\$ 10.63</u>	<u>\$ 11.21</u>	-5.2%	<u>\$ 0.02</u>	<u>\$ 10.65</u>	-5.0%
<b>Revenue:</b>						
U.S. Domestic Package	\$ 13,074	\$ 11,150	17.3%	\$ -	\$ 13,074	17.3%
International Package	3,705	3,505	5.7%	38	3,743	6.8%
Supply Chain & Freight	3,680	3,393	8.5%	52	3,732	10.0%
Total revenue	<u>\$ 20,459</u>	<u>\$ 18,048</u>	13.4%	<u>\$ 90</u>	<u>\$ 20,549</u>	13.9%

<sup>(1)</sup> Amounts adjusted for period over period foreign currency exchange rate and hedging differences

	2020 As-Adjusted (Non-GAAP) <sup>(1)</sup>	2019 As-Adjusted (Non-GAAP) <sup>(1)</sup>	% Change (Non-GAAP)	Currency Impact	2020 As-Adjusted Currency Neutral (Non-GAAP) <sup>(2)</sup>	% Change (Non-GAAP)
<b>As-Adjusted Operating Profit:</b>						
U.S. Domestic Package	\$ 1,215	\$ 1,226	-0.9%	\$ -	\$ 1,215	-0.9%
International Package	842	665	26.6%	(8)	834	25.4%
Supply Chain & Freight	267	273	-2.2%	(7)	260	-4.8%
Total operating profit	<u>\$ 2,324</u>	<u>\$ 2,164</u>	7.4%	<u>\$ (15)</u>	<u>\$ 2,309</u>	6.7%

<sup>(1)</sup> Amounts adjusted for transformation strategy costs

<sup>(2)</sup> Amounts adjusted for transformation strategy costs and period over period foreign currency exchange rate and hedging differences

# Reconciliations

## Reconciliation of Non-GAAP Pension Discount Rate Neutral Operating Profit and Margin (in millions):

Three Months Ended June 30						
	2020	2019	% Change	Pension	2020	% Change
	As-Adjusted	As-Adjusted	(Non-GAAP)		As-Adjusted	(Non-GAAP)
	(Non-GAAP) <sup>(1)</sup>	(Non-GAAP) <sup>(1)</sup>	(Non-GAAP)		Pension Discount	(Non-GAAP) <sup>(2)</sup>
					Rate Neutral	
					(Non-GAAP) <sup>(2)</sup>	(Non-GAAP)
<b>As-Adjusted Operating Profit:</b>						
U.S. Domestic Package	\$ 1,215	\$ 1,226	-0.9%	\$ 63	\$ 1,278	4.2%
International Package	842	665	26.6%	4	846	27.2%
Supply Chain & Freight	267	273	-2.2%	6	273	0.0%
Total operating profit	<u>\$ 2,324</u>	<u>\$ 2,164</u>	<u>7.4%</u>	<u>\$ 73</u>	<u>\$ 2,397</u>	<u>10.8%</u>
	2020	2019	% Change	Pension	2020	% Change
	As-Adjusted	As-Adjusted	(Non-GAAP)		As-Adjusted	(Non-GAAP)
	(Non-GAAP) <sup>(1)</sup>	(Non-GAAP) <sup>(1)</sup>	(Non-GAAP)		Pension Discount	(Non-GAAP) <sup>(2)</sup>
					Rate Neutral	
					(Non-GAAP) <sup>(2)</sup>	(Non-GAAP)
<b>As-Adjusted Operating Margin:</b>						
U.S. Domestic Package	9.3%	11.0%	-1.7%	0.5%	9.8%	-1.2%
International Package	22.7%	19.0%	3.7%	0.1%	22.8%	3.8%
Supply Chain & Freight	7.3%	8.0%	-0.7%	0.1%	7.4%	-0.6%
Total operating margin	<u>11.4%</u>	<u>12.0%</u>	<u>-0.6%</u>	<u>0.3%</u>	<u>11.7%</u>	<u>-0.3%</u>

<sup>(1)</sup> Amounts adjusted for transformation strategy costs

<sup>(2)</sup> Amounts adjusted for transformation strategy costs and period over period impact of discount rates on pension service cost

# Reconciliations

## Reconciliation of Adjusted Capital Expenditures and Free Cash Flow (Non-GAAP measures) (in millions):

	2019				2020	
	Q1 YTD	Q2 YTD	Q3 YTD	Q4 YTD	Q1 YTD	Q2 YTD
Cash flows from operating activities	\$ 2,277	\$ 4,207	\$ 5,693	\$ 8,639	\$ 2,550	\$ 5,947
Capital expenditures	(1,514)	(2,861)	(4,336)	(6,380)	(933)	(2,065)
Principal repayments of finance lease obligations	(4)	(85)	(120)	(140)	(6)	(33)
Adjusted Capital Expenditures (Non-GAAP measure)	(1,518)	(2,946)	(4,456)	(6,520)	(939)	(2,098)
Proceeds from disposals of PP&E	4	6	61	65	1	2
Net change in finance receivables	10	8	8	13	3	16
Other investing activities	(16)	(96)	(84)	(75)	(5)	(6)
Adjusted Free Cash Flow (Non-GAAP measure)	\$ 757	\$ 1,179	\$ 1,222	\$ 2,122	\$ 1,610	\$ 3,861
Discretionary pension contributions	-	1,005	2,000	2,000	-	-
Adjusted Free cash flow (Non-GAAP measure) excluding discretionary pension contributions	\$ 757	\$ 2,184	\$ 3,222	\$ 4,122	\$ 1,610	\$ 3,861