April 25, 2023

UPS Releases 1Q 2023 Earnings

- ***Consolidated Revenues of $22.9B, Compared to $24.4B Last Year***
- ***Consolidated Operating Profit of $2.5B; Adj. Consolidated Operating Profit of $2.6B***
- ***Consolidated Operating Margin of 11.1%***
- ***Diluted EPS of $2.19; Adj. Diluted EPS of $2.20, Compared to $3.05 Last Year***
- ***Updates 2023 Financial Guidance***

ATLANTA--(BUSINESS WIRE)-- UPS (NYSE:UPS) today announced first-quarter 2023 consolidated revenues of $22.9 billion, a 6.0% decrease from the first quarter of 2022. Consolidated operating profit was $2.5 billion, down 21.8% compared to the first quarter of 2022, and down 22.8% on an adjusted basis. Diluted earnings per share were $2.19 for the quarter; adjusted diluted earnings per share of $2.20 were 27.9% below the same period in 2022.

For the first quarter of 2023, GAAP results included after-tax transformation and other charges of $9.0 million, or $0.01 per diluted share.

“I want to thank all UPSers for delivering industry-leading service to our customers,” said Carol Tomé, UPS chief executive officer. “In the first quarter, deceleration in U.S. retail sales resulted in lower volume than we anticipated, and we faced ongoing demand weakness in Asia. In response, we focused on controlling what we could control and delivered first-quarter consolidated operating profit and operating margin in line with our base case targets. Given current macro conditions, we expect volume to remain under pressure. We will remain focused on driving productivity while investing in efficiency and growth initiatives, enabling us to come out of this demand cycle even stronger.”

U.S. Domestic Segment

	1Q 2023	Adjusted 1Q 2023	1Q 2022	Adjusted 1Q 2022
Revenue	$14,987 M		$15,124 M	
Operating profit	$1,466 M	$1,488 M	$1,662 M	$1,705 M

- Revenue decreased 0.9%, driven by a 5.4% decrease in average daily volume, which was nearly offset by a 4.8% increase in revenue per piece.

- Operating margin was 9.8%; adjusted operating margin was 9.9%.

International Segment

	1Q 2023	Adjusted 1Q 2023	1Q 2022	Adjusted 1Q 2022
Revenue	$4,543 M		$4,876 M	
Operating profit	$828 M	$806 M	$1,116 M	$1,120 M

- Revenue decreased 6.8%, driven by a 6.2% reduction in average daily volume due to lower domestic volume and softness in China trade lanes.
- Operating margin was 18.2%; adjusted operating margin was 17.7%.

Supply Chain Solutions[1]

	1Q 2023	Adjusted 1Q 2023	1Q 2022	Adjusted 1Q 2022
Revenue	$3,395 M		$4,378 M	
Operating profit	$247 M	$258 M	$473 M	$481 M

[1] Consists of operating segments that do not meet the criteria of a reportable segment under ASC Topic 280 – Segment Reporting.

- Revenue decreased 22.5% due to market rate and volume declines in forwarding, partially offset by growth in our healthcare business.
- Operating margin was 7.3%; adjusted operating margin was 7.6%.

2023 Outlook

The company provides certain guidance on an adjusted (non-GAAP) basis because it is not possible to predict or provide a reconciliation reflecting the impact of future pension adjustments or other unanticipated events, which would be included in reported (GAAP) results and could be material.

In January, UPS provided a range for its 2023 financial targets based on the macroeconomic forecast at that time. Over the first quarter of 2023, the global volume environment deteriorated due to challenging macro conditions and changes in consumer behavior. As a result, UPS expects full-year revenue and adjusted operating margin to be at the low end of its previously guided range.

2023 full-year financial targets are:

- Consolidated revenue of around $97.0 billion
- Consolidated adjusted operating margin of around 12.8%
- Capital expenditures of approximately $5.3 billion
- Dividend payments, subject to board approval, of about $5.4 billion
- Share repurchases targeted to be around $3 billion

* "Adjusted" amounts are non-GAAP financial measures. See the appendix to this release for a discussion of non-GAAP financial measures, including a reconciliation to the most closely correlated GAAP measure.

Conference Call Information

UPS CEO Carol Tomé and CFO Brian Newman will discuss first-quarter results with investors and analysts during a conference call at 8:30 a.m. ET, April 25, 2023. That call will be open to others through a live Webcast. To access the call, go to www.investors.ups.com and click on “Earnings Conference Call.” Additional financial information is included in the detailed financial schedules being posted on www.investors.ups.com under “Quarterly Earnings and Financials” and as furnished to the SEC as an exhibit to our Current Report on Form 8-K.

About UPS

UPS (NYSE: UPS) is one of the world’s largest companies, with 2022 revenue of $100.3 billion, and provides a broad range of integrated logistics solutions for customers in more than 220 countries and territories. Focused on its purpose statement, “Moving our world forward by delivering what matters,” the company’s more than 500,000 employees embrace a strategy that is simply stated and powerfully executed: Customer First. People Led. Innovation Driven. UPS is committed to reducing its impact on the environment and supporting the communities we serve around the world. UPS also takes an unwavering stance in support of diversity, equity and inclusion. More information can be found at www.ups.com, about.ups.com and www.investors.ups.com.

Forward-Looking Statements

This release, our Annual Report on Form 10-K for the year ended December 31, 2022 and our other 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 the impact of: continued uncertainties related to the COVID-19 pandemic; changes in general economic conditions, in the U.S. or internationally; industry evolution and significant competition; changes in our relationships with any of our significant customers; our ability to attract and retain qualified employees; strikes, work stoppages or slowdowns by our employees; results of negotiations and ratifications of labor contracts; our ability to maintain our brand image and corporate reputation; increased or more complex physical security requirements; a significant data breach or information technology system disruption; global climate change; interruptions in or impacts on our business from natural or man-made events or disasters including terrorist attacks, epidemics or pandemics; exposure to changing economic, political and social developments in international markets; our ability to realize the anticipated benefits from acquisitions, dispositions, joint ventures or strategic alliances; changing prices of energy, including gasoline, diesel and jet fuel, or interruptions in supplies of these commodities; changes in exchange rates or interest rates; our ability to accurately forecast our future capital investment needs; significant expenses and funding obligations relating to employee health, retiree health and/or pension benefits; our ability to manage insurance and claims expenses; changes in business strategy, government regulations, or economic or market conditions that may result in impairments of our assets; potential additional U.S. or international tax liabilities; increasingly stringent laws and regulations, including relating to climate change; potential claims or litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; 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, 2022, 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.

Reconciliation of GAAP and Non-GAAP Financial Measures

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.

Adjusted 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 measures do not represent a comprehensive basis of accounting and therefore may not be comparable to similarly titled measures reported by other companies.

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.

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.

Incentive Compensation Program Design Changes

During 2022, we undertook certain structural changes to the design of our incentive compensation programs that resulted in a one-time, non-cash charge in connection with the accelerated vesting of certain equity incentive awards that we do not expect to repeat. We supplement the presentation of our operating profit, operating margin, income before income taxes, net income and earnings per share with non-GAAP measures that exclude the impact of these changes. We believe excluding the impacts of such changes allows users of our financial statements to more appropriately identify underlying growth trends in compensation and benefits expense.

Long-lived Asset Estimated Residual Value Changes

During the fourth quarter of 2022, we incurred a one-time, non-cash charge resulting from a reduction in the estimated residual value of our MD-11 fleet. We supplement the presentation of our operating profit, operating margin, income before income taxes, net income and earnings per share with non-GAAP measures that exclude the impact of this charge. We believe excluding the impact of this charge better enables users of our financial statements to understand the ongoing cost associated with our long-lived assets.

Transformation 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 transformation activities, goodwill and asset impairments, and divestitures. We believe excluding the impact of these charges better enables users of our financial statements to view underlying business performance from the same perspective as management. We do not consider these costs when evaluating the operating performance of our business units, making decisions to allocate resources or in determining incentive compensation awards.

Defined Benefit Pension and Postretirement Medical Plan Gains and Losses

We recognize changes in the fair value of plan assets and net actuarial gains and losses in excess of a 10% corridor (defined as 10% of the greater of the fair value of plan assets or the plan's projected benefit obligation), as well as gains and losses resulting from plan curtailments and settlements, for our pension and postretirement defined benefit plans immediately as part of Investment income (expense) and other in the statements of consolidated income. We supplement the presentation of our income before income taxes, net income and earnings per share with adjusted measures that exclude the impact of these gains and losses and the related income tax effects. We believe excluding these defined benefit plan gains and losses provides important supplemental information by removing the volatility associated with plan amendments and short-term changes in market interest rates, equity values and similar factors.

The deferred income tax effects of 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 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.

Adjusted Return on Invested Capital

Adjusted 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 adjusted 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 adjusted ROIC to be a useful measure for evaluating the effectiveness and efficiency of our long-term capital investments.

Adjusted Total Debt / Adjusted EBITDA

Adjusted total debt is defined as our long-term debt and finance leases, including current maturities, plus non-current pension and postretirement benefit obligations. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization adjusted for the impacts of incentive compensation program redesign, transformation and other costs, defined benefit plan gains and losses and other income. We believe the ratio of adjusted total debt to adjusted EBITDA is an important indicator of our financial strength, and is a ratio used by third parties when evaluating the level of our indebtedness.

Reconciliation of GAAP and Non-GAAP Income Statement Items
(in millions, except per share data):
Three Months Ended March 31, 2023

	As Reported (GAAP)	Transformation & Other Adj.[1]	As Adjusted (Non-GAAP)
U.S. Domestic Package	$ 13,521	$ 22	$ 13,499
International Package	3,715	(22)	3,737
Supply Chain Solutions	3,148	11	3,137
Operating Expense	20,384	11	20,373
U.S. Domestic Package	1,466	22	1,488
International Package	828	(22)	806
Supply Chain Solutions	247	11	258
Operating Profit	2,541	11	2,552
Other Income and (Expense):			
Other pension income (expense)	66	—	66
Investment income (expense) and other	103	—	103
Interest expense	(188)	—	(188)
Total Other Income (Expense)	(19)	—	(19)
Income Before Income Taxes	2,522	11	2,533
Income Tax Expense	627	2	629
Net Income	$ 1,895	$ 9	$ 1,904
Basic Earnings Per Share	$ 2.20	$ 0.01	$ 2.21
Diluted Earnings Per Share	$ 2.19	$ 0.01	$ 2.20

(1) Reflects a goodwill impairment charge of $8 million within Supply Chain Solutions and other costs of $15 million, partially offset by a reduction in other employee benefits costs of $12 million.

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

Three Months Ended March 31,

	2023 As Reported (GAAP)	2022 As Reported (GAAP)	% Change (GAAP)	Currency Impact	2023 Currency Neutral (Non-GAAP)[1]	% Change (Non-GAAP)
Average Revenue Per Piece:						
International Package:						
Domestic	$ 7.59	$ 7.36	3.1%	$ 0.52	$ 8.11	10.2%
Export	33.00	34.10	(3.2)%	0.95	33.95	(0.4)%
Total International Package	$ 20.47	$ 20.45	0.1%	$ 0.75	$ 21.22	3.8%
Consolidated	$ 13.74	$ 13.26	3.6%	$ 0.11	$ 13.85	4.4%
Revenue:						
U.S. Domestic Package	$ 14,987	$ 15,124	(0.9)%	$ —	$ 14,987	(0.9)%
International Package	4,543	4,876	(6.8)%	161	4,704	(3.5)%
Supply Chain Solutions	3,395	4,378	(22.5)%	50	3,445	(21.3)%
Total revenue	$ 22,925	$ 24,378	(6.0)%	$ 211	$ 23,136	(5.1)%

	2023 As Adjusted (Non-GAAP)	2022 As Adjusted (Non-GAAP)	% Change (Non-GAAP)	Currency Impact	2023 As Adjusted Currency Neutral (Non-GAAP)[1]	% Change (Non-GAAP)
As Adjusted Operating Profit[2]:						
U.S. Domestic Package	$ 1,488	$ 1,705	(12.7)%	$ —	$ 1,488	(12.7)%
International Package	806	1,120	(28.0)%	51	857	(23.5)%
Supply Chain Solutions	258	481	(46.4)%	(5)	253	(47.4)%
Total operating profit	$ 2,552	$ 3,306	(22.8)%	$ 46	$ 2,598	(21.4)%

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

(2) Amounts adjusted for transformation & other.

Reconciliation of Free Cash Flow (Non-GAAP measure)
(in millions):
Three Months Ended March 31,

	2023
Cash flows from operating activities	$ 2,357
Capital expenditures	(609)
Proceeds from disposals of property, plant and equipment	5
Other investing activities	17
Free Cash Flow (Non-GAAP measure)	$ 1,770

Reconciliation of Adjusted Debt to Adjusted EBITDA (Non-GAAP measure)
(in millions):

	TTM[1] Ended March 31, 2023
Net income	$ 10,781
Add back:	
Income tax expense	3,174
Interest expense	718
Depreciation & amortization	3,258
EBITDA	$ 17,931
Add back (deduct):	
Incentive compensation program redesign	505
Transformation and other	134
Defined benefit plan (gains) and losses	(1,028)
Investment income and other pension income	(1,261)
Adjusted EBITDA	$ 16,281
Debt and finance leases, including current maturities	$ 22,188
Add back:	
Non-current pension and postretirement benefit obligations	4,602
Adjusted total debt	$ 26,790
Adjusted total debt/Net income	2.48
Adjusted total debt/adjusted EBITDA (Non-GAAP)	1.65

(1) Trailing twelve months.

Reconciliation of Adjusted Return on Invested Capital (Non-GAAP measure)
(in millions):

	TTM[1] Ended March 31, 2023
Net income	$ 10,781
Add back (deduct):	
Income tax expense	3,174
Interest expense	718
Other pension (income) expense	(1,986)
Investment (income) expense and other	(303)
Operating profit	12,384
Incentive compensation program redesign	505
Long-lived asset estimated residual value changes	76
Transformation and other	134
Adjusted operating profit	13,099
Average debt and finance leases, including current maturities	22,035
Average pension and postretirement benefit obligations	6,403
Average shareowners' equity	17,744
Average invested capital	$ 46,182
Net income to average invested capital	23.3%
Adjusted Return on Invested Capital (Non-GAAP)	28.4%

(1) Trailing twelve months.

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Source: UPS