UPS (2021 Investor Day)
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Corporate Speakers:

- Scott Childress; United Parcel Service, Inc.; VP & IR Officer
- Carol Tomé; United Parcel Service, Inc; CEO
- Kevin Warren; United Parcel Service, Inc.; Chief Marketing Officer
- Kate Gutmann; United Parcel Service, Inc.; Chief Sales & Solutions Officer
- Scott Price; United Parcel Service, Inc.; President of UPS International
- Philippe Gilbert; United Parcel Service, Inc.; President of UPS Supply Chain Solutions
- Juan Perez; United Parcel Service, Inc.; Chief Information & Engineering Officer
- Nando Cesarone; United Parcel Service, Inc.; President of U.S. Operations
- Brian Newman; United Parcel Service, Inc.; CFO
- Norm Brothers; United Parcel Service, Inc.; Chief Legal & Compliance Officer
- Unidentified Company Representative;;

Participants:

- Fadi Chamoun; BMO Capital Markets; Analyst
- Scott Group; Wolfe Research, LLC; Analyst
- Tom Wadewitz; UBS Investment Bank; Analyst
- Amit Mehrotra; Deutsche Bank AG; Analyst
- Jordan Alliger; Goldman Sachs Group, Inc.; Analyst
- Allison Poliniak; Wells Fargo Securities, LLC; Analyst
- Chris Wetherbee; Citigroup Inc.; Analyst
- David Vernon; Sanford C. Bernstein & Co., LLC; Analyst
- Helane Becker; Cowen Inc.; Analyst
- Ravi Shanker; Morgan Stanley; Analyst
- Jeff Kauffman; Vertical Research Partners, LLC; Analyst
- Brian Ossenbeck; JPMorgan Chase & Co.; Analyst
- Ken Hoexter; BofA Securities, Inc.; Analyst
- Allison Landry; Credit Suisse Group AG; Analyst
- Bascome Majors; Susquehanna Financial Group, LLLP; Analyst
- Brandon Oglenski; Barclays Bank PLC; Analyst
- Scott Schneeberger; Oppenheimer Holdings; Analyst
- Jack Atkins; Stephens Inc.; Analyst

PRESENTATION

Scott Childress^ Good morning. Welcome to the UPS 2021 Investor and Analyst Day.

This morning you'll hear from Carol Tomé, our CEO; Kevin Warren, our Chief Marketing Officer; Kate Gutmann, our Chief Sales and Solutions Officer, and Executive Vice President of UPS Global Healthcare; Scott Price, President of UPS International; Philippe Gilbert, President of UPS Supply Chain Solutions; Juan Perez, our Chief

Information and Engineering Officer; Nando Cesarone, President of our U.S. Operation; and Brian Newman, our Chief Financial Officer.

Also joining us from the UPS leadership team are Norm Brothers, Chief Legal and Compliance Officer; Darrell Ford, Chief Human Resources Officer; Laura Lane, Chief Corporate Affairs, Communications and Sustainability Officer; and Charlene Thomas, Chief Diversity, Equity and Inclusion Officer.

After our prepared remarks, we will take a short break, then move into a Q&A session. As a reminder, today's presentations are being webcast and will also be available for replay on the UPS Investor Relations website.

Some of the comments we'll make today are forward-looking statements within the federal securities laws and address our expectation for the future performance or operating results of our company. These statements are subject to risk and uncertainty, which are discussed in our 2020 Form 10-K, subsequently filed Form 10-Qs and other reports we file with the Securities and Exchange Commission. These reports, when filed, are available on the UPS Investor Relations website and from the SEC.

During our discussions today, we will refer to adjusted and other non-GAAP financial metrics. The required reconciliations of these metrics are included in the presentation slides being posted on our Investor Relations website in connection with today's conference.

I also want to draw your attention to a change in naming convention within the UPS segments. As previously disclosed, as a result of the sale of UPS Freight, the Supply Chain and Freight segment is being renamed the Supply Chain Solutions segment.

We have a great program for you, so let's get started. It is my pleasure to introduce our CEO, Carol Tomé.

Carol Tomé^ Good morning… and on behalf of the UPS Executive Leadership Team, thank you for joining us.

Here’s a brief overview of what you can expect today…We’ll share greater detail on our Customer First, People Led, Innovation Driven strategy…including our wildly important initiatives. We will update you on our ESG commitments and provide you with our 2023 financial targets. And lastly, through our Q&A session and various breakout groups, you’ll have an opportunity to interact with the UPS executives who are implementing our strategy.

The desired outcome of today’s meeting is for you to leave with confidence that our strategy is working and that our actions will deliver our 2023 financial targets and our ESG targets.

I'd like to take you back to June 1st of 2020, when I stepped into the CEO role. That week, the UPS executive leadership team established five core UPS principles… principles that we did not intend to change and principles that would underpin our actions. As a reminder, those principles are…our values, our commitment to a stable and growing dividend, retaining a strong balance sheet and credit rating, our focus on brand relevance, and finally, the importance of employee ownership.

In that first week, we declared that other than our five principles, everything else was under review. And we also set our accountability goals. We will talk today about how our strategy is enabling us to achieve these goals.

In the year and eight days since I arrived, we have been pushing ourselves to evaluate every aspect of our business and make the appropriate changes. We are using our framework of better not bigger to focus on what matters the most to our customers and drive improvement in our financial performance.

We've made good progress… let's review some recent accomplishments. We launched revenue-quality efforts to focus on the best opportunities in the market and ensure we are compensated for the value we provide. We've greatly improved our competitive position through Our Fastest Ground Ever and weekend initiatives and Digital Access Program. We've focused on diversity and inclusion training and empowering our people to bring their authentic self to work. We realigned our performance-based compensation metrics with the interests of shareowners. We changed the way we allocate capital… to focus on the highest returning parts of our portfolio. We adjusted the network to respond to the changing global market. We sold UPS Freight… eliminating a low-margin and highly capital intensive business. We dramatically expanded our Healthcare logistics business and, as of late May, we've delivered more than 300 million COVID-19 vaccine doses worldwide, with 99.9 percent on-time delivery. We reverse-engineered many of our past practices that with time had become over-engineered; and we moved to a more agile decision-making environment. We've strengthened our balance sheet by repaying $2.55 billion of long-term debt… and reduced our pension liabilities by $6.4 billion…and we've done a whole lot more.

But what's most inspiring to me is that UPSers did all of this while managing through COVID-19… and for that I am so very proud of our team. We are not taking these accomplishments for granted… in fact, we're just getting started… we are writing the next chapter of the UPS story.

The next chapter of UPS is multi-faceted. In short, to borrow from Jim Collins' Good to Great, it's about focusing on what we are passionate about, what we are the best in the world at, and what drives our economic engine.

So what is UPS passionate about? We are passionate about our purpose… Moving our world forward by delivering what matters. This is not just what we do but why we do it. Our purpose taps into our desire to serve our customers, inspire our people, care for our communities and live our values.

And, what are we the best in the world at? We believe our global smart logistics network is best… it is the most extensive ground and air network in the industry. Our highly integrated portfolio creates industry-leading leverage and efficiency as well as best-in-class service levels. But it isn't just about the network, it's about the customer experience. We aspire to provide the best digital experience powered by our global smart logistics network.

And lastly, what are the drivers of the UPS economic engine? It starts with effective capital allocation and making investments to give UPS the right to win in the market, as well as drive productivity and efficiency. We are pushing ourselves in terms of reimagining our network design, adopting new technologies and sweating our assets.

Most importantly, we believe productivity should be a virtuous cycle, not a transformation event. Once the productivity wheel starts turning, it doesn't stop. You'll hear from Nando and Juan later today on how we've started to ignite the productivity flywheel.

Today's session is about looking forward. UPS operates in a large and growing marketplace. This chart represents the total global small package market. The market is projected to grow to about $600 billion by 2023, driven in large part by expected strong growth in cross-border e-commerce.

Looking across the chart… the global small package market reached an inflection point in 2020 due to the onset of the pandemic. Prior to 2020, revenue in the market was growing around 10 percent per year… then in 2020 the annual growth rate jumped to 13 percent...

This pull forward of demand outpaced supply. The market is expected to continue with a double-digit growth rate through 2023 so we anticipate global demand for small package services to outpace capacity in the industry for the next several years.

Now turning to our view of the U.S. market… we expect the market will more than double over a six year timeframe… going from $91 billion in 2017 to $195 billion in 2023… providing plenty of growth opportunity for UPS.

Our focus is on capturing value share, not volume share. Today we are the number one small package carrier in the U.S. as measured by value share, or in other words revenue, and we expect to remain the leader here.

Now let's dive a little deeper into projected U.S. market growth…

Over the next three years, we expect strong growth across all delivery zones. We believe the market will grow fastest in shorter zones because more retailers will leverage their physical locations to serve both in-store and online demand.

The mid- to long- zone portions of the market are also expected to grow above pre-pandemic norms… we estimate average daily volume here to grow nearly 20 percent between 2020 and 2023. This part of the market is more complex and requires extensive nationwide capabilities. And in this area, our integrated network provides us a significant competitive advantage.

As the number of online SKUs… and online consumers… continue to grow, the complexity of supply chains will increase even further. As a result, we expect demand for end-to-end delivery services to remain high.

So what does all this mean for UPS?

It means that in the U.S., UPS intends to grow in the parts of the market that value our network, like B2B, healthcare, and SMBs. Kate and Kevin will address our growth plans in these areas later today. Outside of the U.S., we also intend to grab value share, as Scott will describe.

But intent is not a strategy and vision without action is just a dream. So let me turn and talk about our wildly important initiatives that enable our Customer First, People Led and Innovation Driven strategy.

Starting with Customer First… this begins with providing a frictionless end-to-end customer experience… in other words making the experience simple and helpful. When we listen to our customers and provide the capabilities that matter the most to them, they stay with us. While we've made some progress here, we've got more work to do. We will track our progress by measuring gains in our Net Promoter Score, or NPS.

In 2019 in the U.S., our NPS was 37 on a scale of 1 to 100. We want to take our NPS to greater than 50, which will be market leading in today's world.

Customer First also means being brand relevant. In the U.S., UPS has high brand awareness but our relevancy falls short with some targeted customer segments. We have plans to address both the customer experience and brand relevancy; which Kevin will describe.

Now let's move to the second element of our strategy, People Led. People Led focuses on the employee experience and making UPS a great place to work. Our performance here is measured by how likely an employee is to recommend others to work at UPS. At the end of 2019, our likelihood to recommend metric stood at 51 percent globally. On a scale of one to 100, that's not where we want to be, so we've wasted no time getting to work on this.

To elevate diversity and inclusion across our company, we established the role of Chief Diversity, Equity and Inclusion Officer on the Executive Leadership Team. We've also invested in training, modernized our appearance standards to be more inclusive, and reorganized our functional structures to create fewer, but more impactful jobs.

Additionally, we have adjusted our management performance measures to better align with the interests of our shareowners. Starting this year, our incentive performance measures include consolidated revenue growth, consolidated operating profit and return on invested capital.

Our People Led goal is to move our likelihood to recommend to greater than 80 percent. And, I'm happy to report early progress here… so far, we've seen a 6 percentage point improvement in this metric from one year ago.

Moving to the last leg of our strategic platform… Innovation Driven will be measured by a consistent increase in Return on Invested Capital. As you will hear from Brian, we aim to drive our return on invested capital to as high as 29 percent by 2023.

To get there, we intend to drive more productivity from the assets we own. We will leverage our network to improve time in transit, including weekend deliveries, which adds capacity without adding capital investment… we will invest in automation and we will continue to invest in a digital experience for our Supply Chain Solutions customers.

Juan, Nando and Philippe will give you more details in this area.

Now I want to focus on a topic that's extremely important… and that's ESG. My comments today will focus on our environmental sustainability goals.

As an innovation-driven company guided by a strong purpose, our culture centers around the values established by our founder Jim Casey. Jim believed that we should give back to the communities we serve, and that we have a responsibility to all stakeholders for social and environmental stewardship.

We have a long history of environmental sustainability… in fact, we operate a "rolling laboratory" of over 13,000 alternative fuel and advanced technology vehicles that drive more than one million miles per day. And our plans are to do much more…

I'm pleased to announce our pledge to be carbon neutral in all of our operations by 2050. Our commitment takes a comprehensive approach across scope 1, 2 and 3 emissions.

Our roadmap to 2050 is based on sound engineering principles and a fiscally-responsible approach. We have set targets along the way to help show our progress. They include…by 2025… 25 percent renewable electricity for our facilities and 40 percent alternative fuel for our ground vehicles. By 2035… a 50 percent reduction in CO_2 per package delivered, for our global small package operations. And by 2035, we will power 100 percent of our facilities with renewable electricity… and we'll run our air fleet with 30 percent sustainable aviation fuel.

Brian will provide more details, but let me end by sharing our 2023 consolidated financial targets. By 2023, we are targeting revenues in the range of $98 to $102 billion;

operating margin in the range of 12.7 to 13.7 percent and return on invested capital as high as 29 percent.

I'm so excited about what the future holds for UPS. Through our better not bigger strategic framework, we are writing the next chapter of the UPS story, a story of a company with a proud past and even brighter future.

Thank you for attending today and now I'll turn it over to Kevin.

Kevin Warren^ For UPS, SMB represents a huge opportunity … on a global basis, according to The World Bank, 90% of all businesses are categorized as small or medium enterprises, and we are underpenetrated. It's a global addressable market of 37.5 million packages per day, based on 2020 data.

While we've made good progress, we still have opportunities to improve and gain market share by focusing on the wildly important… which is led by enhanced digital experiences.

Before we dive in, I'd like to broaden the conversation around who our SMB customers are … and where the opportunity lies.

The term "SMB" includes everything from a single person shipping on a platform, enabled by our Digital Access Program, or DAP … all the way to a medium-sized business that has hundreds of employees.

While we serve many medium and small businesses, the sheer quantity of micro and platform businesses represents a large opportunity for UPS.

Now, let's dive a little deeper into that opportunity. SMB volume growth in the U.S. small package market in 2020 was greater than a typical year, propelled by pandemic-driven e-commerce growth.

This market growth is not only expected to hold, but accelerate further over the next few years.

Much of this acceleration… like pre-pandemic trends… we expect to be in B2C … and volume growth from SMBs is expected to accelerate from e-commerce opportunities.

The B2B portion is also expected to experience faster growth in the next few years, benefiting from a multi-year inventory-restocking and business-investment cycle. And SMBs are expected to play a significant role here as well.

In fact, volume in the overall SMB portion of the market is expected to accelerate from a pre-pandemic growth trend of 3% to a post-pandemic growth trend of 8%... giving plenty of room for us to grow.

While much of this market acceleration should occur in medium-sized businesses, nearly half of all SMB market growth is expected among platform and marketplace merchants.

There's no doubt that our industry is evolving – supply chains are becoming more digital, and customers are expecting frictionless experiences.

And when I say customers, I'm not only talking about shippers… I'm also talking about recipients, including businesses, consumers and patients… and these recipients are more empowered by technology than ever.

So, what gives us the right to win with SMBs? UPS's success has always been rooted in the advantages our integrated network provides to customers and our industry-leading reliability.

And as you know, we've added more speed on the ground between key markets in the U.S., and we're making enhancements to our weekend capabilities to increase our competitive position.

Future success for UPS will also require us to seize adjacent opportunities – including pricing agility, e-commerce platforms and fulfillment.

We're also improving the UPS experience through capabilities and technologies that SMB customers value … and are willing to pay for. In addition, we're improving how we acquire, engage and support customers across 16 journeys. And as Carol discussed, we're tracking our progress using the Net Promoter System.

Through this process we've learned that we're strong in some areas – like reliable delivery – but we have some work to do in others… like onboarding and support.

To illustrate our progress, I'll take you through the journey of a customer… we'll call her Nicole. Let's say that Nicole is selling skateboards via her website. She has a great product and solid marketing channels. She's ready to partner with UPS… and she wants our help to get set up, and understand what it will cost to ship with us. Up until this year, this initial step of pricing our services wasn't easy for customers like Nicole.

Our customers told us we needed a pricing process that was faster and easier to understand. We listened… and over the next year and a half we're rolling out our new global pricing platform, enabled by our Next Generation Profit initiative, which Brian will tell you more about shortly.

Our new pricing platform uses a world-class SaaS solution to simplify and expedite the pricing process. And it uses pricing science to help us get the pricing right the first

time… ultimately helping our sales people be more effective, and enabling our customers to begin shipping sooner by saving up to 3 days of valuable time. This initiative includes self-serve capabilities on ups.com, designed specifically with SMBs like Nicole in mind.

So Fast forward… Nicole's UPS account is set up… and she's started shipping her skateboards to customers. Now, as recipients, we've all experienced this before… you order something online… get the tracking notification… and then refresh that page religiously until your shipment arrives.

There are 61 million customers tracking packages on ups.com… every… single… day. Tracking is an important touch point on the UPS journey, but our experience lagged the competition. So, we raised the bar. In just four months, we launched over 150 enhancements to our core tracking experience… with further improvements coming this summer.

Fast forward again… It's time for Nicole to pay her bill. Until recently, our customers told us that our billing system was too complex and too hard to navigate.

So we introduced a new industry-leading billing solution, which includes self-serve tools and transparent problem resolution. This will be particularly helpful for our SMB customers who don't have the time or resources to navigate complicated billing systems.

Our final stop on Nicole's journey is claims. Our customers told us that the UPS claims process was too slow… So we piloted a new claims approach. Through automation and procedure changes, we reduced the average amount of time it takes to process a claim from 20 days to just five. And our ultimate aim is to resolve standard claims during the initial engagement. Plans are now in the works to scale this pilot to all U.S. SMBs.

We're making the investments needed to create the best digital experience powered by our global smart logistics network. We're reimagining the UPS digital experience to be more helpful and simpler for our customers.

I already mentioned our tracking and billing improvements... we are also revamping other parts of ups.com … including design, navigation, and our mobile experience. Of course, we can't talk about the digital experience without a progress update on DAP. DAP is connecting UPS to more SMBs than ever before.

The program has grown to nearly 1 million customer accounts – and we're on track to exceed our $1 billion revenue goal this year. And that's just in the U.S…we're exploring more opportunities to expand our DAP program… including advancing new partnerships and leveraging existing relationships. And new pilot expansions are currently underway in the UK and Canada with near term plans to expand around the globe... a perfect fit with our International growth initiatives.

As we look toward the future, we know that we need to continue to up our game. And we need to make inroads across generations… especially emerging, GenZ, and diverse decision makers.

As Carol mentioned, we're measuring our Brand Relevance by evaluating customer perception of UPS across three areas: consideration, momentum, and Environmental, Social and Governance, or ESG.

We talked to SMB shipping decision makers to understand how the UPS brand is perceived in key markets around the world.

We asked them: if you saw UPS at a bar, who would we be? The answer: Middle-aged man… with a comb over… drinking a whiskey. We want to be seen as modern… and moving forward. Not your grandfather's UPS.

So we are taking action to advance our reputation from trusted, but stodgy shipper… to a contemporary, digital-forward, global logistics leader. And Our Be Unstoppable digital marketing campaign, along with other efforts, is helping position UPS as a modern, innovative brand that's moving the world forward.

We want to get SMBs excited about what we can do together. In conclusion, I'm confident that UPS is creating the solutions that matter the most to our customers, with great experiences that will continue to win with SMBs. We've made significant progress already… and we're just getting started. We are incredibly excited to continue down this path of helping our SMB customers be unstoppable.

Thank you… and now I'll turn it over to Kate.

Kate Gutmann^ Eighteen months ago, in January 2020, we announced the formation of UPS Healthcare, with the aim of becoming the global leader in healthcare logistics. Little did we know that just around the corner was the biggest pandemic the world has ever seen. It was the exact right time to connect our healthcare capabilities, products and experts.

We brought together…20 years of healthcare supply chain experience, with over 11 million square feet of warehouse space across 32 countries, including significant capacity that is compliant with Good Distribution and Good Manufacturing Practices, enabling us to store biologics, pharmaceuticals, and medical devices. And finally, our portfolio that serves lab and specimen logistics, the end-to-end cold chain needs of the pharma industry, and the specialty services of our clinical trials and cell and gene solutions.

Our healthcare solutions were well aligned to help fight the pandemic. Most importantly, leveraging our expertise and end-to-end capabilities, we worked closely with pharmaceutical manufacturers during the clinical trial phase of COVID-19 vaccine

development… giving us early insights into the unique logistics requirements for many COVID-19 vaccines.

From this...we quickly expanded our cold storage capabilities and stood up freezer farms, we implemented our own dry ice production, and we leveraged UPS Premier to provide priority handling and enhanced visibility and monitoring to COVID-19 vaccine shipments.

As of late May we have delivered over 300 million COVID-19 vaccine doses in more than 90 countries and territories. It's amazing how far we've come in a short time. We have more capabilities now than we had just 12 months ago… in fact, in 2020 we saw healthcare revenue increase by $860 million across all segments… and we are targeting even higher growth each year through 2023.

Now I'll share what we see happening in the marketplace and some of the growth opportunities going forward…The pandemic accelerated the need for better global infrastructure and other critical healthcare-focused innovations. We view this as a structural shift in the marketplace, and one that offers tremendous growth opportunities.

So here are some numbers… Today, over 55% of the pharmaceutical drug pipeline is comprised of biologically-derived, temperature-controlled pharmaceuticals, which are being developed at a very rapid pace. By 2025, the biologic drug industry will be over $560 billion and will represent over 48% of all pharmaceutical sales.

Lifestyle diseases such as heart disease, cancer and diabetes continue to grow at a rapid pace. In the U.S. alone, six out of ten adults have one chronic condition, and four out of ten have two or more chronic conditions.

In addition, our global populations are suffering from these conditions earlier in life… however biologics are extending life spans. This means that more biologics will be needed by more people, and over a longer period of time. As we look ahead, we anticipate there will be accelerated demand for global healthcare logistics.

All of the expertise we have is to serve the needs of highly complex and high-touch healthcare supply chains. End-to-end temperature control, speed, precision and compliance are non-negotiables. We will meet the demands of the industry by providing the solutions that matter the most to our customers.

In total across our three segments, we expect healthcare revenues to grow at a 12.3% CAGR from 2020 and reach around $10 billion by 2023.

And generally speaking, as complexity increases so do margins, which makes healthcare among the most profitable shipments in our business.

So what are we doing to achieve our growth goals? We recently launched UPS Cold Chain Solutions, a comprehensive suite of cold chain technologies and capabilities that provide complete, end-to-end temperature-controlled logistics.

And in terms of technology… our UPS Premier product offers an upgrade for healthcare shipments, with advanced sensor technology. All of our U.S. COVID-19 vaccine shipments are using UPS Premier, and it is this product that enables our near-perfect delivery performance. We have plans to expand UPS Premier to Europe and Asia in the coming months.

Moving over to our efforts in packaging… we continue to generate new and unique operating models to offer our customers best-in-class cold chain packaging options. We pride ourselves on being able to furnish packaging for any transit duration, at any temperature, and in any size. We will be standing up a packaging center of excellence in Louisville, Kentucky, which will include a variety of sustainable options.

Furthermore, the same lifestyle diseases that are driving the surge in biologics are also increasing the need for regulated and non-regulated medical devices, such as heart stents, insulin monitors and diagnostics equipment… which increases demand for our healthcare offerings.

Moving to labs and diagnostics… we are continuing to make gains including new technology and tools to enhance the clinical site customer experience. Take for example our early extract program… which provides specimen delivery to labs well before the sun comes up. This gives us a competitive advantage, and has enabled us to both win new customers and grow existing ones. We have plans to expand our lab program in Europe, and continue to invest in creating new solutions for the lab industry.

And looking at Marken… we are investing in a new nursing network to better support growing cell and gene therapy programs. We refer to it as “needle-to-needle” logistics. Envision a home visit by a nurse, who extracts a blood draw or other biological sample from a patient. The sample is then delivered by UPS to a manufacturing location, where its cells are reengineered for treatment. The therapy is then delivered back to the patient’s home by UPS, and again administered by a nurse.

The pandemic has accelerated home healthcare demand… and this kind of patient-focused, end-to-end solution was not possible a few years ago. But the speed of our network, technology and expertise in the space make this possible today.

To close with our highest priority… we can’t talk about healthcare without discussing the investments we’ve made in our Quality System. Quality is at the core of our solutions… which are designed with a high level of service excellence to ensure the safety and efficacy of the products that impact the lives and wellbeing of patients around the globe.

We’ve invested in a world-class Quality Management System that enables effectiveness, agility and regulatory compliance. We also know that delivering high quality provides us with a competitive advantage.

We see many opportunities ahead within the healthcare industry… and UPS Healthcare is well positioned to continue leading the market.

Thank you… next up is Scott Price.

(video playing)

Scott Price^ That video is a great behind-the-scenes look at our international air operations … an agile integrated network with industry-leading expertise supporting UPS customers in more than 220 countries and territories.

Today I’ll provide an overview of the international market and discuss our wildly important initiatives. But first, let me highlight some of what makes our international business unique, and the most profitable in the industry. As you can image… it is the combination of multiple elements: First, is our fully integrated global air and ground network… which includes 22 747-8 freighters… the largest and most efficient freighter aircraft in the world. And our fleet will grow to 28 747-8 freighters by early 2022. Second… UPS has the fastest transborder network in Europe, which is supported by more than 45 years of local market know-how. Third, UPS provides access to the largest U.S. delivery footprint of all the integrators. Next is our people and their global expertise to help our customers optimize even the most complex supply chains. And finally… is the flexibility and scalability of an asset-light delivery network with highly variable costs.

The power of our International business model is clearly visible within our financial performance and we expect to continue to lead the industry moving forward. Now let’s turn to the market….

In 2020, the total international small package addressable market was $86 billion, with around 58% of the market made up of cross-border shipments, and the remainder being domestic volume in countries other than the U.S. In 2020, UPS’s market share was only 17%… and in fact… we are underpenetrated in almost all geographies around the world.

And we project the international addressable market revenue will grow at a 6% CAGR from 2020 to 2023. What a great growth opportunity for us to continue to expand our market share, grow profits and maintain high margins with our asset-light approach.

Additionally, air capacity is expected to remain constrained. We estimate that belly space will not fully return to the most material trade lane… the Asia outbound lane… until 2023. And we anticipate keeping our new customers, even after passenger belly space fully recovers… due in part because the services and value we offer will be difficult for customers to do without.

In addition… heightened demand for cross-border e-commerce is anticipated to extend the capacity imbalance in the small package market. For UPS in 2020, we saw B2C volumes increase by 75.3%... and we see numerous channels for additional growth moving forward.

So while the market is expected to grow at a CAGR of 6%, our objective is to gain share and grow faster than the market... just like we have over the past few quarters.

Now let's talk about the actions we are taking to do that. It comes down to three wildly important initiatives. First is enhancing our network capabilities like time in transit. Second is expanding into new and existing markets through our asset-light strategies. And third is continuing to enhance the customer digital experience.

Let's start with transit times… we are already fast… but there are a few areas where we can be even faster. We will make additional improvements between markets in Europe over and above the time-in-transit advantages we enjoy today.

Additionally, we have identified significant opportunities to improve connections on intra-Asia air lanes. Beginning next month, we are launching a new daily flight from Osaka to Shenzhen that better connects multiple countries within Asia. This will improve time-in-transit by a day between the countries that generate over 80% of Asia Pacific's GDP and from Japan to nearly all of Europe.

There are similar changes ahead in other parts of our air network and you can expect more announcements like this moving forward.

As I mentioned in my opening remarks, the asset-light approach of our business offers us a great pathway for accelerated growth.

We've identified around 40 markets… mostly in Asia, West Africa and Latin America… where UPS is under-penetrated and has the highest opportunity for market share gain through asset-light expansion.

Our asset-light plans include expanding partnerships with companies around the world that offer cost effective in-country deliveries and that bring new export business into the UPS network. These partnerships will take the form of joint ventures, agents or outside service providers, also called OSPs, depending on the competitive situation and norms of the market.

To accelerate growth with our OSPs, we are launching a new program called Partner Hub that provides our existing OSPs procurement scale… and more tools to improve service, and lower delivery costs by optimizing routes, which better allows them to win faster in the market. OSPs also value the global reach of UPS and the credibility of the UPS brand. This program will allow us to gain share within the existing markets we serve and also attract new OSP partners.

Much like what Kevin talked about earlier today, we see many opportunities to improve our digital experiences, especially for SMB customers.

Given our global scale and ability to optimize complex supply chains… we have historically been successful attracting and serving large and medium-sized businesses. We have an opportunity to better address the specific needs of the smallest and most profitable customers in the market.

Let me tell you how.

We are making it much easier for small customers to connect and ship an international package with UPS. To give you some context… last year customers that went to our website to ship a package had to enter 10 pieces of information… including the full origin and destination address information and exact measurements for length, width and height of the package before getting a price or creating a label.

In fact, because of the complexity, many customers simply abandoned the process at ups.com and shipped with another carrier.

We looked at that poor customer experience… as an opportunity. We have completely redesigned our shipping process in many countries. Now, customers can use a mobile app that allows them to take a picture of a package, select the origin and destination country, get a price and then ship within minutes… how easy is that!

As a result of our changes, small businesses are now 32% more likely to complete the shipping transaction at ups.com. And most importantly… UPS adds high-yielding SMB packages to our network and greatly improves our odds for gaining repeat customers.

And to make access to UPS services even easier, we are rolling out our Digital Access Program, or DAP, internationally. DAP has improved the digital experience in the U.S. and we believe it can also simplify shipping for platform-users in other markets. Negotiations with potential DAP partners are currently underway in many geographies and we expect to begin multiple implementations in the coming months.

Making international shipping easier includes making the customs experience easier too. You can't ship across borders without the required customs documents and sometimes duties and taxes. We know shipping a package across a border can be very complicated... and even intimidating. There are forms to fill out, harmonized tariffs codes that are needed, categories to decipher and values to declare. Incorrect or incomplete documentation can result in significant overpaying and worse yet, your package may end up being held by customs. And it will not move again until the discrepancy is resolved. For many SMBs… this can be a real expansion barrier.

To make the whole experience easier and less intimidating, UPS launched what we call the "International Knowledge Base" on UPS.com… it is a behind the scenes tool that uses AI to get to know each customer.

For example, it looks at past shipments to identify the products a customer typically ships, and guides the customer to correctly identify the harmonized tariff code. Customers experience fewer delays, and shipments get to recipients on time. The tool also provides shippers with the "landed cost"… so no surprise taxes or fees after the package has shipped. The result… fewer returned shipments and happier customers.

International Knowledge Base is currently facilitating around 8% of our global export packages and we anticipate a ramp-up to around 60% by January 2022.

And I'll quickly add, that when we focus on improving the customer experience, we mean shippers and recipients. Given the growth in B2C shipments, the recipient is a very important part of the transaction. So we are making investments to better serve recipients too, like providing a 2-4 hour delivery window on the day before delivery… and the ability to "Follow my Package" through a live map view on the day of delivery.

With new technologies like these, doing business across international borders is as easy as doing business across town.

We are focused on what matters the most to our international customers… speed, ease and no surprises. And though we've made a lot of progress, there is more to come….

And… we fully expect our initiatives to translate into market share gains and help us achieve our goal of growing operating profit.

In fact we are targeting to increase International operating profit… from $3.5 billion in 2020 to between $4.3 and $4.6 billion in 2023.

Brian will share the details with you shortly.

And now I'll turn it over to Philippe.

Philippe Gilbert^ Good morning. The world is changing… and becoming more digital every day... And that is absolutely true with supply chains… So our goal is to provide the best digital experience powered by our global smart logistics network.

Supply Chain Solutions… comprised of forwarding, truckload brokerage, logistics and distribution… is continuing to invest in creating frictionless and interconnected digital experiences for our customers.

We are very busy in this space... it's about making it easier for all customers to do business with UPS… large, medium or small… next door or on another continent. And… as e-commerce becomes a larger part of the global economy, our digital capabilities must be extremely flexible and connect across the entire supply chain.

So what does the digital experience look like? It's digital connectivity that goes across hundreds of UPS warehouses, all modes of transportation, customs data and much, much more. Everything… accessible and connected through mobile apps, dashboards and platforms, giving our customers access to real-time information, visibility and more control over their supply chains.

Let me give you three examples of how we are helping customers.

Take e-commerce and inventory management... in today's world e-commerce companies sell products every day on multiple platforms. And in some cases it's a different product on each platform. So you can see how supply chain complexity can quickly overwhelm companies. Without clear visibility across the entire fulfillment process, delays, stockouts and missed sales can be the result.

With UPS eFulfillment… our online fulfillment portal… we take over the entire supply chain, doing everything from inventory management through pick, pack and ship… freeing up our customers to focus on increasing their reach and growing their businesses.

And eFulfillment customers stay in control… with shipment visibility, competitive and dynamic pricing rules, and inventory management… and it's all inside the cloud and available anytime on any device.

These capabilities became essential to many of our customers during the pandemic… in fact, we saw eFulfillment revenue more than double year over year in 2020... and it's just getting started.

Over at Coyote, UPS's truckload brokerage operations, we use a similar approach… giving customers the power of visibility and control in the palm of their hand as a core part of the digital customer experience.

Thanks to CoyoteGO, our on-demand web portal and mobile app, even our smallest customers can go online… get quotes… book their shipment… track progress… and pay their bills with an easy-to-use interface that doesn't require them to be an expert in logistics.

In fact, when we look at the first quarter of 2021 compared to a year earlier, active shippers on CoyoteGO more than doubled, and revenue on the platform was up 57%.

We're not just bringing customers to the platform… we're keeping them on it and they are growing their business with us. In addition, we've made it easier for commercial drivers to do business with Coyote too. CoyoteGO allows drivers to signal their availability… immediately book a shipment and pre-set rate or negotiate directly with Coyote… and provide status updates along the way to the shipper.

And because there are more trucks on the road these days trying to serve the boom of e-commerce, there's an increase in demand for parking and staging spaces.

That's a huge problem for commercial drivers. They are burning time on the road looking for a place to park…So, we integrated CoyoteGO for drivers with TruckPark… allowing carriers to see available parking on the app and website. It makes the transactions more productive by avoiding wasted time and gives the drivers confidence that they will be able to make the pick-up and get on their way.

Providing digital connections between supply and demand… between shippers and recipients… enables greater control and a better experience for everyone. And in a world where minutes matter, we are embracing digital across our portfolio… another example is what's happening in global freight forwarding. Previously, most of our freight forwarding customers booked and confirmed shipments via email or over the phone… this was slow and time-consuming. To speed up bookings and eliminate overhead, UPS customers can now book freight forwarding shipments completely online.

Customers can simply go to the UPS Forwarding Hub… via mobile, desktop or tablets… and get air or ocean freight quotes… schedule pickup and delivery… move shipments between modes… manage customs brokerage… and track progress… all from a simple and highly-intuitive interface.

And we're evaluating additional enhancements to the UPS Forwarding Hub. We are not stopping with the three services we just covered. As supply chains grow more complex, customers are demanding greater access to information… and it all needs to be in one virtual place and available as it happens.

And we're giving our customers what they want… we are in the early phase of rolling out an advanced supply chain portal called Symphony.

Symphony supports medium to large distribution customers. As the lead logistics provider, UPS gives near real-time visibility to product flows across their supply chains… including data from numerous third parties… and all through a single sign-on. The Symphony platform has been built to be intuitive, secure and keep customers connected and in control.

What's more... Symphony is extremely flexible. We are using agile development to enable quick turnaround when introducing new enhancements. Our vision is to evolve Symphony into predictive and prescriptive analytics… enabling customers to better analyze results, identify trends, and lean into new opportunities. And we are using customer input and machine learning to get us there.

Supply Chain Solutions is building fully digital ecosystems that will provide unparalleled levels of automation and efficiency for our operations. And, we are providing our customers with greater visibility and control. Through improvements in customer experience and sticky digital solutions… we are ensuring they continue to ship with us.

This is what I call a win, win. We look forward to updating you on our digital progress. Thank you… Juan is up next to share the latest with our technology efforts.

Juan Perez^ Good morning. At UPS … our second-to-none technology underpins everything we do. It is critical to advancing our wildly important initiatives as we continue to improve the efficiency in our operations and provide the best digital experience to our customers.

Today, UPS is truly a technology company that provides logistics services to our customers … and this morning I am going to talk about how we are using technology to make our smart logistics network even smarter.

It's about technology that achieves multiple objectives including… enhancing the customer experience… optimizing our network… better utilizing existing capacity… and reducing our carbon footprint.

During our technology journey, we're taking a blended approach. We're advancing our internal technologies like our Network Planning Tools, known as NPT, our ORION … short for On Road Integrated Optimization and Navigation. We are leveraging cloud technology… and we've expanded use of best-in-class software-as-a-service providers in areas where it makes sense, like with HR, billing, sales, customer service and others.

And we are currently working on and testing cutting-edge solutions in our operations and customer facing solutions like robotics, artificial intelligence, virtual reality, data analytics, virtual assistants, and so much more. Our Advanced Technology Group continues to support our drone delivery efforts through Flight Forward and the use of vision systems to improve the utilization of trailers and many other assets across the network.

Additionally, over the past four years, we have added more than 22.5 million square feet of automated sorting capacity to our global network through expansions and many upgrades. This equates to about 1.3 million additional pieces per hour of capacity and, very importantly, a reduction in the number of times that we handle a package. What's more… it is all digitally enabled.

We've definitely been busy, and our progress is evident. In fact, these digital and technological advancements have greatly improved the agility of our global network and have allowed us to better serve our customers. And, as a result of our capacity and technology investments, we have been able to support unprecedented demand for our services and enable our financial performance… the good news is that there is much more to come.

Moving forward, we will continue to invest in technology and growth capacity in more cost effective and innovative ways… more to come on that…

Our air and ground network optimization programs and our asset-light expansions are enabling us to get more out of our existing assets, especially during the weekend. And with new innovative technologies, we are better able to respond to changes in market demand, volume surges and shocks related to weather and of course COVID-19.

Here's a recent example… when severe weather struck the southeast in February, NPT helped us minimize network disruptions by applying advanced analytics to help us route volume around impacted areas, adjust to volume shifts, and ensure that we provided capacity where it was ultimately needed.

We have completed the development of several components of our NPT platform including demand planning, package flow planning, load planning, and movement scheduling. This year we will complete development of the NPT platform with additional movement and scheduling optimization capabilities, helping us make our network more efficient. This technology has allowed UPS to avoid approximately $250 million of cost in our transportation network since 2019, with additional benefits expected this year and in 2022.

And in terms of our delivery driver routes, we are also seeing significant benefits with our latest enhancements to ORION. We call this latest version Dynamic ORION. The new features present our drivers with reoptimized routes based on changing conditions and provide them with turn-by-turn directions to reduce excess miles. Initial results point to a reduction of an additional 2-4 miles per driver per day. This is in addition to the reduction of 8 miles per driver per day from the original ORION deployment. I'm happy to say we are now 97% complete in this latest deployment wave and expect full deployment by the end of July.

This is truly a win for UPS productivity and for the environment… and amounts to a reduction of more than 130 million miles driven and 10 million gallons of fuel saved each year.

And we see other opportunities to unite technology, productivity, and sustainability through all of our solutions.

To this end, we have also invested in a company called Arrival, which makes electric vehicles with autonomous capabilities. UPS has already committed to the purchase of up to 10,000 electric Arrival vehicles and we have secured an option to buy another 10,000. We are conducting initial tests now within our network. And early results are very positive. They will start joining our fleet beginning next year. These vehicles offer sustainability benefits as well as fuel and maintenance savings. And we remain committed to exploring many other choices as new companies and solutions emerge.

We also are testing electric shifters on UPS property. These are vehicles that move trailers within our yards. These shifters have zero tailpipe emissions and include unique battery-swap technology, which greatly reduces the idle time necessary for recharging

them. As an added bonus, the vehicles are fully equipped with cameras, sensors, and sophisticated algorithms to improve safety.

Let me share yet another example with you. I am extremely excited about this one… UPS's recent commitment to purchase 10 electric vertical takeoff and landing aircraft from Beta Technologies… and we have the option to buy 140 more. At this time, these aircraft have a range of about 250 miles and can carry up to 1,400 pounds. It takes only an hour to recharge the batteries. So simply imagine the possibilities with the ability to fly packages directly from airports to our facilities and eventually even to our customers' locations.

This type of technology solution will speed up our network, will improve productivity, and could eliminate ground feeds, package handles, small gas feeder aircraft, as well as carbon emissions. As this technology gets proven, we see more opportunities to expand its use within our network.

Whether it's our existing rolling laboratory of more than 13,000 alternative-fuel vehicles, new technologies like Arrival and the Beta aircraft or our Eco Responsible Packaging Programs, UPS is fully committed to achieving the sustainability targets that Carol laid out earlier.

And we see many more opportunity to leverage technology to meet our customers' need for growth capacity. Everything I just covered… our automated facilities… NPT… ORION… electric vehicles… and the Beta aircraft that we will soon add to our network… work just as well on a Saturday as they do on a Tuesday.

So, we are further expanding our weekend operations… in fact we can add significant network capacity without a lot of CapEx. Our plans are to expand today's Saturday coverage from approximately 75% of the U.S. population to around 90% by October of this year. This measured and well-coordinated expansion allows us to smooth peaks in volume throughout the week, speed up our network, and expand our Sunday SurePost delivery coverage.

Additionally, our SurePost matching rules still apply… meaning if there is a UPS package and a SurePost package destined for the same address, our algorithm will automatically match them together so they are delivered by UPS… creating density and reducing our delivery costs.

But most importantly, UPS customers get expanded services for residential as well as for commercial pickup and delivery. This is especially important to our small and medium-sized business customers.

Now let me tell you a little bit about how technology is enhancing the customer experience in terms of visibility and control. And in these areas, we are developing innovations that will again transform the way we enhance our services and manage our network.

One example is the advancements that we've made within our healthcare solutions with the use of smart sensor technology. Our UPS Premier packages are wrapped in sensors that ensure their place in a priority lane within our network. This technology gives us a level of visibility and control unlike anything we've had before.

Think about this… our CACH facility in Chicago is about 1.9 million square feet… that's equivalent to more than 39 football fields. With UPS Premier sensor technology, we can pinpoint the location of a critical healthcare package to within 2 meters inside of CACH. It is that proverbial finding a needle in a haystack problem!

Our objective is to expand the use of this solution to other packages in the entire network providing improved visibility for our customers as well as benefits in network productivity by eliminating manual scanning tasks.

There are many other ways we are expanding the use of technology inside our operations. And we are continuing to explore and implement robotics solutions in our facilities and automate small sorts to get more productivity out of our existing assets. We know well that small changes within a vast network can make material differences.
To better describe the impact of new technology solutions in our operations, let me share yet another example.

We developed a UPS mobile delivery app that turns personal cell phones into DIADs – those handheld Delivery Information Acquisition Devices our delivery drivers use every day. This solution allows us to quickly enable resources to perform work for UPS during periods of high demand without the need for expensive hardware.

With almost 40,000 downloads during our peak period last year, the app enabled industry-leading service during our busiest peak ever… and we'll do more of that this year. And through the use of mobile technologies we have simplified and reduced the time it takes to train resources during preparation for peak.

Technology that leads to efficiency and better customer service… that is what we love… and there is much more on the way…like automated systems for package loading and unloading… which we are now working on and experimenting with. We expect these kinds of initiatives to have material benefits in efficiency, safety, and in service.

One of our technology visions is to enable our global smart logistics network to be "self-healing." A self-healing network monitors itself and automatically fixes problems in real time using artificial intelligence and machine learning and is supported by automation.

Let me paint a picture for you… sudden spikes in service requests on ups.com and other data feeds will allow UPS to anticipate demand and automatically adjust and move shipments in the most efficient way possible and by using automation we will continue to reduce the dependency on manual intervention.

And as technologies like 5G, digital twins, and quantum computing mature and become more available, we will definitely advance even further. We are developing best-in-class customer technologies and a smarter, self-healing network right now, and we're getting closer with every technological advancement.

Clearly, we live in dynamic times. UPS is in a constant state of technology improvement and change… and each new technology added to our network makes it smarter… makes it more connected… makes it more sustainable.

And the cool thing… we are just scratching the surface. Thank you… and now I'll hand it over to Nando.

Nando Cesarone^ Good morning. It is my pleasure to share our plans to achieve operational excellence in the U.S. And the great news… is that we are starting from a position of strength. We have the best and brightest people in the industry. And we run a massive, fully integrated air and ground smart logistics network.

So… how do we move from good to excellent? Well… we've already made a number of impactful improvements across several significant KPIs… including handles, driver package selection and others. I'll cover more detail in a moment.

When I moved over to U.S. Domestic in August of 2020, the team and I immediately started looking for opportunities to simplify areas that had been over-engineered. The first step we took… to drive the change we need… was to get the right structure in place and define a few… but very clear objectives.

We addressed this right away in the second half of last year. We restructured our U.S. package operations and our transportation group… and redefined their objectives in terms of safety, service and efficiency. This allowed us to speed up decision making and implement our cost savings initiatives faster.

Starting with package operations… we reshaped geographies… and we gave our teams more direct engineering and human resource support, without adding staff. And importantly, we removed business elements that were outside of their new objectives.

For example, prior to the change, our package teams were buried in KPIs and reports. They were expected to manage and be accountable to 462 KPI elements on a weekly basis. How could anyone make real gains with so many competing priorities?

So we eliminated hundreds of elements, and now each team manages fewer than 10 highly impactful KPI metrics to drive improvement across safety, service and efficiency metrics.

And as for our transportation group… they are the core of our operations and are responsible for synchronizing line-haul, hub and gateway activities in the most efficient

manner. Here, we centralized decision making and assigned coordinators across geographies.

The changes we've put into place have improved cost ownership and spending visibility, which have been enabled by a new alignment of procurement and budgeting controls.

Further… this restructure has allowed us to speed-up the network… igniting the productivity flywheel, and better optimizing overall network efficiency.

Here are some early outcomes from of our restructure…We delivered a very successful 2020 peak season, with industry-leading service as recognized by a third-party. We minimized weather impacts to service and cost during the February winter storms, as Juan highlighted. And we quickly transitioned the network from peak operating levels… which are roughly 1.75 times our normal average daily volume… back to non-peak operating levels… significantly eliminating unnecessary cost.

And we are committed to reducing our cost to serve even further. In fact, as Carol says… it is wildly important to all of us. Now let's shift over to some of our most impactful productivity initiatives. We view them as good for UPS and good for our customers.

Let's start with weekend operations. The world is running seven days a week and so are we. And by the end of October, we will cover around 90% of the U.S. population on Saturday. To achieve our plan, we are expanding coverage in our existing delivery centers that are operating on Saturday, and opening 214 new Saturday sites.

We are simply getting more from our existing assets… and we expect UPS weekend delivery volume to increase by 46%.

And for customers, our Saturday service is unmatched in the market because our integrated network allows us to offer both commercial and residential pickup and delivery. Plus we are able to move U.S. export packages one day sooner, enabling faster delivery around the world.

This expansion will also open up more capacity for Sunday SurePost deliveries.

Most importantly… we are fully committed to expanding our weekend capabilities and U.S. operating margin at the same time.

Technology plays a very important role here… let me tell you more about how we are using technology to drive efficiency and productivity.

As you probably already know, we measure nearly everything and collect a lot of data. Our investments over the past four years are enabling us to collect even more valuable data and create new digital connections throughout our network. We are using these new data connections to identify previously hidden opportunities for improvement.

For example, we recently confirmed through a pilot program that we can reduce driver package selection time by up to 25%.

We uncovered this opportunity by evaluating data from our delivery process. We then connected the delivery insights to our preload activities. The data revealed that our drivers were spending more time than needed to select packages… as measured by the span of time from when they open the bulkhead door of the package car until it is closed again.

Using this insight, we followed the data and identified that packages could be better sequenced during our preload process, which would speed-up package selection for our drivers. As a result, we are rolling out preload changes across the U.S. network that will improve productivity for the more than 95,000 UPS drivers that we have on our payroll.

We used a similar data driven approach to identify hidden improvement opportunities related to the utilization of cubic space within our network.

Our automated hubs capture dimensional details on every single package that moves down our conveyers. And we know the cubic availability of our trailers and air containers. We are connecting this data to optimize every load… this has resulted in around a 10% improvement in our cube utilization, meaning we get more packages in every single container.

It's like solving a jigsaw puzzle, where you have to get all of the pieces in just the right location to fill it out.

These gains, combined with our Network Planning Tool technology, which optimizes routing throughout the network, allowed us to eliminate approximately 11,000 container movements each week… it's a material improvement.

Our Network Planning Tools are helping our operating teams improve productivity and create capacity in other areas too.

Take package handles as an example. Every time a package is touched, we count that as a handle. And, every handle means added expense and use of resources. Thus, by reducing handles we can eliminate expense and become more efficient.

Our NPT technology and the scale of automation within our hubs are allowing us to build more direct loads to final delivery centers. This means we are skipping intermediate stops and sorts across the network… in short, we are eliminating handles and improving overall network speed and efficiency.

Another benefit of NPT technology is… when combined with Our Fastest Ground Ever initiative… it increases our ability to move air volume over the ground. This reduces the amount of air lift needed to meet our service commitments. We are seeing great results from our efforts to reduce handles… in February, we reduced handles by 7.6% on

average daily volume flowing through 17 of our largest automated hubs… a significant win for productivity and efficiency.

I mentioned earlier that we measure nearly everything… so I want to share another productivity metric with you that we are very focused on improving… and that is Packages Per Direct Labor Hour. In the first quarter of 2021, we were able to hold that number nearly flat compared to last year… despite a significant shift in B2C volume… which went from 55% of total volume in the first quarter of 2020, to 60% in the first quarter of 2021. In our business, productivity is all about packages per hour… and we are confident that our initiatives will help improve productivity moving forward.

All of these gains are putting us further down the path to achieving our operational excellence goals… and we have many more initiatives underway.
We also aim to improve employee safety within our facilities and over the roads… another key area of focus for our teams.

We believe that every UPSer should leave work the same way they arrived . . . accident and injury free… which leads to: highly motivated and productive employees, lower operating cost and better service for our customers.

In the U.S. our annual casualty expense exceeded $1 billion in 2020, and was driven primarily by on the job injuries and vehicle accidents. This is not good for our people or our business so we are taking action to reduce both.

On the injury side, we have redesigned training programs and included targeted injury KPIs as one the most impactful elements for the U.S. team to manage.

For example, our data tells us that 37% of all injuries occur in the first year on the job… and of that… around 50% of injuries occur in an employee's first 90 days. Our training programs are using information like this to ensure our training is focused during this most impactful time and that it is structured with intentional touch-points to reinforce the right behaviors.

We are making early progress here. April results in lost time frequency have improved 1.3% since we launched our new training in February. Good progress indeed… but with more to go.

And in terms of driver safety training…

As Carol mentioned on our last earnings call, we have re-imagined our driver training program by creating mobile units that can be rapidly deployed across the country to the areas where training is most needed. Plus, in addition to training, we are installing more safety features on our vehicles.

For example, we will add 10,500 forward-facing cameras to our vehicles by the end of this year. These cameras include technology that helps prevent accidents by providing on-board audio alerts to our drivers when a risk is detected.

These efforts are in addition to our long-time use of telematics data and advanced safety features on all new vehicles we purchase.

An important and impactful change here is that we have created a cycle of improvement by establishing a continuous loop between data, analytics and training. Data collected from our safety systems is analyzed for patterns and the insights are fed back to improve our training programs.

We are seeing progress here… we achieved our first-quarter auto frequency goal and saw a 6% improvement in the frequency of our most severe auto accidents.

Let me finish with a few comments on service and reliability… also a key focus in the U.S.

Service wins in the market. It always has and always will. We recognize this and we are adding network capabilities that enable us to win the right volume at the right price among SMBs and our larger customers.

We've made significant improvements in time-in-transit... but there is no finish line here… and we see even more ways to speed-up our network and leverage the flexibility we've built in.

In fact, we sped up our ground time-in-transit on hundreds of millions of zip-to-zip pairs. And our customers have noticed. In the first quarter of this year, volume on enhanced lanes grew 32.7% since the lanes were enhanced, compared to growth of 11.8% on lanes without enhancements… That's the third consecutive quarter of greater than 30% growth on our enhanced lanes…. paying back the investments we've made in Our Fastest Ground Ever initiative.

Today you've heard us say that we are just getting started and seeing great results. We are pursuing operational excellence at every turn… with opportunities to put even more volume through our network in a capital efficient way.

When you add all of this up, as Brian will share in a moment, we expect significant expansion in U.S. operating margin.

Clearly the best is yet to come in the U.S business. Thank you… and now Brian will provide you with the financial details.

Brian Newman^ Good morning everyone. As you've heard today, momentum is building at UPS… and it's beginning to show up in our financial results. In my comments, I'll cover four topics…First, picking up on our wildly important initiatives, I'll describe our Next Generation Profit program. Second, I will share our perspective on the macro-economic environment over the next three years. Then, I'll detail our 2023 financial targets. And finally, I'll review our capital allocation priorities.

Okay… let's start with an introduction to our Next Generation Profit initiative in the U.S. This is an integrated, cross-functional program that will enhance customer experience, reduce overhead expense and drive our revenue-quality efforts.

On the customer and revenue side, this new platform combines enhanced customer segmentation with real-time data on what is happening inside our network. It allows us to optimize pricing for each customer and better align our cost to serve with the value we create. The platform is based on a fully-allocated cost basis, ensuring that every penny is accounted for… including our cost of capital. And lastly, the platform is also used to assess customer compliance and support our contract renewal process.

This is a big step in the right direction… and we've seen proof points over the last 12 months. We are replacing a mostly manual process with technology that leverages AI. And we are continuing to evolve the platform to leverage technology that will adjust pricing in a more dynamic manner to maximize overall profitability.

But the real power of this tool can be found in its ability to link revenue quality and cost to serve at the package, product and customer levels.

We review this weekly in meetings as a cross functional team. Our approach ensures that our teams are in lockstep in terms of supporting our customers with services they value, aligning investment decisions and halting any non-value added work.

We strive for the best economical outcome and the ability to promptly provide customers with pricing quotes.
We have gone from working at a speed measured by a calendar to charting our progress with a watch.

The success of our Next Generation Profit initiative will be measured by sustained growth in profit per piece and significant improvements in return on invested capital or ROIC. Now moving to our market outlook, let me begin with the macro…

Starting with GDP estimates from IHS… and using 2020 as the base, global real GDP is projected to grow at a compounded annual growth rate or CAGR of 4.2% through 2023. Forecasts are moving higher based on solid incoming economic data, encouraging vaccine rollouts and heightened consumer demand. And as I mentioned on our last earnings call, we continue to monitor the inventory-to-sales ratio as evidence to support our confidence that demand will sustain over the mid-term.

Exports are expected to remain strong as demand builds in key economies… with Asia expected to lead other parts of the world. Looking at the U.S. and again using 2020 as the base… Real GDP is expected to grow at a 4.4% CAGR through 2023… driven by two factors…First is the strength of American consumers… who are sitting on an estimated $2.6 trillion of savings… a record amount. And second is the combination of fiscal and monetary stimulus programs… which are driving strong growth in both B2B and B2C demand.

In the U.S., nominal retail sales are anticipated to grow at a 6.4% CAGR, and electronic sales and mail orders, the proxy we use for e-commerce, are expected to grow at a 7.3% CAGR by 2023. Furthermore, in 2023, e-commerce is expected to reach 21.8% of retail sales, excluding auto and gas.

The outlook for the commercial side of the U.S. economy is also encouraging. Full-year industrial production is forecasted to grow at a 4.5% CAGR through 2023.

These macro projections provide a strong backdrop for our business moving forward. In fact, based on this data, we expect consumer demand to continue to drive a capacity imbalance in the small package market. And clearly, these trends support the doubling of the market that Carol discussed… which provide plenty of growth opportunities for UPS.

Now let's turn to our financial targets. Starting with a recap of our consolidated 2020 results, which we are using as our base. Revenue was $84.6 billion. Operating profit was $8.7 billion, an all-time high for our company. Consolidated operating margin was 10.3%. And return on invested capital was 21.7%.

So where are we forecasting to be in 2023… based on the current outlook from IHS and our initiatives? Well… on a consolidated basis, by 2023 we aim to…Grow revenue to between $98 and $102 billion. Grow operating profit to between $12.4 and $14 billion. Improve overall operating margin by 240 to 340 basis points. And increase our return on invested capital by 430 to 730 basis points over 2020.

At the heart of our efforts is improving revenue quality and lowering our cost to serve. Let me give you more details by breaking down the components of our 2023 targets…

Let's start with revenue…

We plan to grow consolidated revenue from $84.6 billion in 2020 to between $98 and $102 billion in 2023. Keep in mind our 2020 base includes $3.1 billion of revenue from UPS Freight.

We expect U.S. Domestic to contribute around 70% of the total revenue growth, with revenue per piece growing significantly faster than the volume growth rate as we execute our revenue-quality initiatives.

We expect volume growth in both B2B and B2C, with B2C continuing to represent a larger portion of our total volume. We anticipate SMB volume will grow at a low-double digit CAGR from 2020, with SMB B2C volume growing faster than SMB B2B volume. Additionally, we expect SMB volume growth to outpace our larger customers.

Revenue quality will continue to be a major focus. Our path forward here was outlined by Kevin and Kate… and includes winning with SMBs, customer experience, brand relevance and healthcare. Creating capabilities and improving within these areas gives us the right to win in the most attractive parts of the market. And in the U.S., we also expect to gain share in the mid- to long-zone portions of the market by leveraging the capabilities of our nationwide integrated network.

The International segment is expected to be our fastest growing segment, and will contribute the balance of our consolidated revenue growth. Our targeted expansion initiatives are expected to generate a revenue growth CAGR in the high-single to low-double digits compared to 2020, with balanced growth across all regions.

Additionally, we will continue to apply demand surcharges for as long as market conditions warrant. For planning purposes, we expect demand surcharges to moderate in 2022.

As we continue to evaluate the role which each business segment plays in our portfolio, revenue from Supply Chain Solutions is expected to be relatively flat in 2023, as compared to 2020. Revenue growth in Healthcare, Coyote and Logistics will offset the $3.1 billion reduction in revenue from the sale of UPS Freight.

Moving over to operating margin…

Our consolidated operating margin is expected to improve 240 to 340 basis points in 2023, up from the 10.3% we posted in 2020, which gives us a consolidated operating margin range of 12.7% to 13.7%. Additionally, we expect over half of our consolidated margin expansion to come in 2021.

The largest contributor to growth in consolidated operating margin will come from the operating margin expansion in our U.S. Domestic segment.

We also expect the Supply Chain Solution segment to contribute to overall margin expansion. And lastly… International, our highest margin segment, is planned to grow revenue faster than our other segments, and so will also contribute to consolidated operating margin expansion from a mix perspective.

On the cost side, we expect to lower our cost to serve, particularly in U.S. Domestic where compensation and benefits is our largest expense bucket. Nando covered several initiatives that are underway that will drive higher productivity in our U.S. operations. And Juan shared our efforts to use technology like Orion and NPT to reduce our miles… and he highlighted new technologies that will further improve our efficiency. These

initiatives, combined with reductions from non-ops, are anticipated to eliminate well over $1 billion in expense through 2023… helping to offset cost increases in other areas like wages, inflation and investments in enabling capabilities.

Throughout the day, we've talked about a virtuous cycle of improvement and capabilities that matter. Thus we will take a portion of the productivity and revenue-quality gains and put them back into the business to create new capabilities that will generate future financial benefits. For example, you saw the benefits of Our Fastest Ground Ever initiative show up in a big way during the first quarter of 2021… and now we are using a portion of those gains to further our weekend capabilities this year.

Touching on the segments for a moment… we expect to expand margins in the U.S. Domestic segment and anticipate the operating margin will be between 10.5% and 12% in 2023... with revenue per piece growing faster than cost per piece.

And as for margin in the International segment, we expect operating margin to be around 21.5% in 2023. As Scott discussed, we are taking decisive steps to grow EBIT dollars and market share. There is a tremendous opportunity for us to grow cross-border e-commerce and expand our market presence through an asset-light strategy.

Moving to consolidated operating profit… it is expected to reach between $12.4 to $14 billion, with about two-thirds growth coming from margin expansion and the remainder coming from revenue growth.

As earlier speakers have explained, the UPS integrated network is well positioned for value creation. And as we execute our wildly important initiatives, we expect significant ROIC expansion. As Carol stated, the Innovation Driven part of our strategic platform will be measured by the increase in ROIC. As a result of our actions, we anticipate our ROIC in 2023 to expand between 430 and 730 basis points over 2020.

We also know that capital allocation is important to investors…

UPS has the potential to generate a tremendous amount of cash. From 2021 to 2023 we project cumulative free cash flow generated of between $24 and $27 billion. This is a good problem to have and allows us to reinvest in the business and return cash to shareowners. Let's take a closer look at our capital priorities.

Our capital priorities remain consistent… First we will reinvest in the business. Next we are committed to a stable and growing dividend. Third is a strong balance sheet and credit rating, and lastly, we will use excess liquidity to repurchase shares as long as it is value creating.

When reinvesting in the business we are applying a more disciplined approach to how we deploy capital and are focused on shorter payback periods. For the three years between 2021 and 2023, we expect CapEx as a percentage of revenue to decrease to a range of 4.5% to 5.5%. Total capital expenditures are expected to be between $13.5 and $14.5

billion dollars with… 35% to be deployed as maintenance CapEx. And around 65% allocated to growth projects, specifically toward enabling capabilities and automated capacity.

Furthermore, we expect that this level of CapEx will fully support the investments needed to reach our ESG targets.

After investing in our business, next comes our commitment to a stable and growing dividend… which is one of our five core principles. Our target is to pay out approximately 50% of prior year net income with a goal of increasing our dividend every year.

Third in our capital priorities is a strong balance sheet and credit rating, also one of our five core principles. At the end of 2020 we had $24.7 billion of debt with staggered maturities through 2067. $6.9 billion of that will mature between 2021 and 2023 and we intend to repay on the following schedule, $2.55 billion in debt has already been repaid this year. We then plan to repay $2 billion in debt in 2022 and $2.36 billion in 2023.

By the end of 2023, we are targeting an adjusted debt to EBITDA ratio of 1.4 to 1.5. This target supports a strong credit rating, which provides the financial flexibility we need to competitively run the business.

And finally in terms of capital priorities, we will use excess cash to repurchase shares, as long as it is value creating. By executing our strategy under the better not bigger framework, UPS exited 2020 with significant momentum and a clear focus on improving our financial performance moving forward. When combined with the roadmap we shared today and a strong economic backdrop, we have confidence in our ability to achieve our 2023 targets.

We are creating the next chapter for our company. We are investing in the capabilities that matter most to our customers and create value for our shareowners.

Thank you for your investment and interest in UPS… and we will now take a short 10-minute break before moving to Q&A.

We’ll speak to you again shortly.

QUESTIONS AND ANSWERS

Operator^ Ladies and gentlemen, good morning. My name is Steven, and I will be your facilitator today. I would like to welcome everyone to the UPS 2021 Investor and Analyst Day Question-and-Answer session.

(Operator Instructions)

It is now my pleasure to turn the floor over to your host, Mr. Scott Childress, our Investor Relations Officer. Sir, the floor is yours.

Scott Childress^ Welcome back, everyone.

(Scott Childress Instructions)

Stephen, please open the line to our first question.

Operator^ Our first question will come from the line of Fadi Chamoun of BMO Capital Markets.

Fadi Chamoun^ Yes good morning and thank you for the presentation, comprehensive outlook here. How much of the -- this is a question on the domestic side. If you can give us kind of how much of the UPS revenue you would characterize now being in the short-haul zone. If you can tell us, how do you characterize your competitive position in that short haul zone of the market? How do you characterize your unit costs relative to some of the competitor that you see in that kind of short haul or the market. And ultimately, how strategically important is it for UPS to have a strong position in that probably more competitive end of the market.

Carol Tomé^ Well, thank you very much for your question, and thanks for joining us for today. I'll kick it off, and I think I'll start big picture talking about how we think about opportunities for growth in the U.S. domestic market. We're looking at it through the lens of value share and not volume share. Why? Because to your point, not all packages are equal. There are different sizes and shapes and weights and zones and candidly, not all packages are attractive to us. We're leaning into the segment of the market that values our end-to-end network and our specialized handling capabilities. So that's why you heard us talk about SMB and health care and the commercial business.

And to make this concept of value versus volume share come to life, let's look at 2020. Revenue for the small package business in the United States in 2020 was about $138 billion. UPS is on the top of the leaderboard there from a value share perspective, followed by FedEx, the Post Office and then Amazon. It's a different story when you look at it through the lens of volume share. Volume in the United States was about 74 million ADV. And when you look at the shares in that -- or through that lens, you can see that UPS and the post office were tied at about 31% of volume share followed by FedEx and then Amazon.

So we're leaning into value share. We're leaning into the segment of the market that values us. SMB growth is a critical part of the growth projections that we laid out today. At the high end, we expect our SMB penetration to be over 30% coming from 23% last year. So we're leaning into that in a big way.

And clearly, if you look at the growth rates, now going back to your specific questions about zones, that growth rate in the mid- to long zone where we play best is very growthy and we're going to capture more than our fair share, we believe.

Operator^ Our next question will come from the line of Scott Group of Wolfe Research.

Scott Group^ So I want to ask on the U.S. margins, the 10.5% to 12% guidance. We did 10.4% in the first quarter. So it doesn't seem to imply much, if any, margin improvement from current levels. I guess, can you give us some thoughts on maybe the U.S. margin outlook for this year? Do you expect U.S. margin improvement in each of the next 3 years? And then maybe bigger picture, Carol, we've had a lot of pricing momentum that I think people thought would lead to continued margin improvement. Do you see continued pricing momentum the next few years?

Carol Tomé^ Well, let's have Brian describe how we put together the range that we're sharing with you today.

Brian Newman^ Scott, thanks for the question. So yes, you're right. We had a good print in terms of margin in the first quarter. And I think we expect to see sequential improvement in the second quarter. So the momentum continues. As we build out the 2023 target of 10.5% to 12%, the real variable in that, Scott, is the SMB penetration. Carol alluded the fact that we're expecting to get north of 30% in terms of the mix of SMBs. The low end of the range was predicated on more of a high 20s in terms of mix. And so that's the real delta. But we do expect to see continued growth in rate mix surcharge, that's going to drive over half of the lift in the domestic margin over the 3-year period.

Carol Tomé^ And I would say, if there's a bias in the forecast, the bias is truly up. When we started the year, we didn't expect to see the SMB growth that we experienced in the first quarter. And to Brian's point, that SMB growth continues. So if there's a bias here, the bias is towards the up.

On the question on pricing, as we talked about the market, there is a demand/supply imbalance right now. So that suggests that pricing will remain firm. While we look at what competitors do, of course, we price our products independently, separately. And if there's any changes to our pricing, well, you'll hear about it.

Operator^ Our next question will be from the line of Tom Wadewitz of UBS.

Tom Wadewitz^ Yes. I wanted to see if you could offer some thoughts on how large customers or I guess, to be direct, how Amazon fits into this equation? And if you assume that there's kind of a stabilization in revenue or you assume there's a decline in revenue with your largest customer when you look at the next several years?

Carol Tomé^ Well, I'm happy to address that question. As you've heard us talk about our emphasis on SMB and targeting on the high side, a 31% penetration of SMB. That means our SMB customers is going to grow faster than our enterprise customers, and enterprise customers would include Amazon. So you're going to see a shift in the mix of business in our space by 2023.

Tom Wadewitz^ So the shift in mix, is that absolute? Like is there an assumption around continued absolute growth or absolute decline with your largest customers?

Carol Tomé^ We would expect our enterprise customers from a penetration perspective to be lower by the end of '23 and they are today. We're growing. We've got ADV growth in the United States over the next 3 years. But there's to be a significant shift in the penetration based on our focus on those customer segments that value our end-to-end network and our specialized handling capabilities.

Operator^ Our next question will come from the line of Amit Mehrotra of Deutsche Bank.

Amit Mehrotra^ Brian, I want to come back to the domestic margin question, maybe in a slightly different way. You obviously have revenue targets. I have to take my ruler out to make some calculations here, but you obviously have the revenue number and the margin number. Can you just help us in terms of what the cumulative incremental margin implied between 2020 and 2023 and the cadence of that incremental as some of these productivity actions go through?

And then just related to that -- related to that, but separately, on your capital allocation plan, you've left the share repurchase a little bit vague, obviously, on purpose. But any help on kind of how to think about share repurchase annually '21, '22, '23?

Brian Newman^ Yes. I mean, happy to take the question on margin and then share repurchase. So as you think about the starting point of 2020, which was 7.7% in terms of domestic margin, and as Carol said, I'll use the high end of 12%, given that's our bias has become. That would imply about $3.9 billion of profit improvement over that time period.

As you think of the deconstruct, a little under half of that is going to come from productivity. Half of that will be basically non op and the other -- some of the operating initiatives that Juan and Nando walked through. And so as we think about the cadence of it, we will see a fair amount of the lift this year, as I mentioned, with the sequential improvement in Q2.

We've got some tougher comps in the back end of this year. But we are seeing good margin momentum and lift in 2021. So you'll see a fair amount of lift. I guess the color I would offer, Amit, is I guess the 12% is not a destination, it's a mile marker. And so to the extent we can reach it, we will come back and reset targets along the way. So that's a little bit of color on the margin.

On the share repo, look, I think I laid out in the capital allocation and framework, how we're thinking about the prioritization. First, it's reinvesting in the business with the type of ROICs we're looking to grow. That's a great investment for us to make. Then it's the dividend. And obviously, the 50% target implies a large step-up in the dividend and then you've got the strong balance sheet. And then with the excess cash, we would then allocate that to the share repurchase.

Carol Tomé^ So for modeling purposes, Brian, you would suggest they should put some share repurchases in their model.

Brian Newman^ I would. Yes.

Carol Tomé^ $1 billion a year or something?

Brian Newman^ I wouldn't start this year. I say, $1 billion a year starting next year is probably a good round number.

Carol Tomé^ Hopefully, that's helpful.

Operator^ And we have a question from the line of Jordan Alliger of Goldman Sachs.

Jordan Alliger^ Just a question for you. On some of the operational improvement stuff that you guys have talked about in terms of network planning and what have you. Can you maybe draw a little bit more of a math in terms of -- because I assume that's Transformation 3.0, which is what you guys have talked about previously, some of those operational things, network planning, throw a little bit more of a map or how to frame, how much cost could come from that or how much dollar improvement or margin improvement that will ultimately translate to?

Brian Newman^ Yes, Jordan, Happy to take that. As you think about UPS. I just laid out the math for the domestic segment, but we're going up about $5.3 billion, if you take the high end of the range from a margin perspective or profit perspective. As you think about that $5.3 billion, roughly $2 billion would be in the productivity initiatives, $1 billion of it would come from non-ops and we're expecting to get about $0.5 billion this year, as I've communicated previously. So that we leave another $0.5 billion in the non-operating side over '22 and '23 to come through. And then the other $1 billion is really driven by automation, robotics, NPT, as you referenced, purchase transportation. Nando talked about the big opportunity in casualty.

I think the need to think about this. It's sort of a perpetual flywheel that we're going to continue to drive. There's no end in that productivity. We spent $6 billion in non-op and we'll glide down to $5 billion based on the $1 billion reduction spent $50 billion in the operations. And so you can expect those numbers to keep on moving and giving gift of giving in the years to come.

Carol Tomé^ And just on that flywheel comment, I might make an observation about delivery density. You didn't hear us talk about that today, did you? Although we've been chasing that opportunity for a while. I think back in 2018, at the last investor conference, we talked about our desire to improve our delivery against it. Well, here's the truth, for a 1/10 improvement the number of packages delivered per stop, it's a $300 million value unlock. So as we think about how we can improve delivery density with the new tools that we're introducing, a different way of seeing keen about delivery density. There's a value in unlock that is nowhere in any of these numbers.

And just to make that a little bit more real for you. We have been chasing this opportunity by thinking about it through downstream solutions. We haven't really solved the problem, have we? So now we're going all the way upstream. And when you think about upstream, if you're a retailer, you've got to -- your supply chain is upstream and downstream. Upstream is from the manufacturer to your stores or warehouses, downstream is from your stores or warehouses to the customers. We're going all the way upstream to think about how we might drive delivery density from the manufacturing point of view. So more to come in that regard, but this is just an example of how productivity doesn't stop and will not stop at UPS.

Operator^ Our next question will come from the line of Allison Poliniak of Wells Fargo.

Allison Poliniak^ Just want to go back to the commentary on SMB and the market penetration. I think, Carol, you had mentioned you're around 23% today going into the high 20s, low 30s, with obviously, the underlying growth of the market as well and you're outpacing that. Where would you find yourself at sort of that 20%, 23%? Do you feel more comfortable with that understanding that there's further penetration to have? Would that get you more in mind to where you think you should be at this point?

Carol Tomé^ Well, we know last year that SMBs made up about 25% of the market. I'm looking at Kevin. He's not new to it, and we were at 23%. So we were underpenetrated, right, Kevin?

Kevin Warren^ Yes.

Carol Tomé^ And then the growth rate in the first quarter was?

Kevin Warren^ 35%.

Carol Tomé^ 35%

Kevin Warren^ And so now we're about the 27% mark in the first quarter, and that's on track in the second quarter. So we're on our way. We're bullish with our fastest ground ever, building out our weekly capability, the DAP program. We've got lots of things going on to make us bullish that we will continue to improve our penetration from an SMB perspective.

Allison Poliniak^ That's great. So you're no longer underpenetrated now it's really just about capturing more share here is my understanding?

Carol Tomé^ Definitely.

Operator^ Our next question will come from the line of Chris Wetherbee of Citi.

Chris Wetherbee^ A couple of quick questions on the outlook -- the domestic outlook. So thinking first about sort of revenue growth and you've outlined the SMB targets. And I know you mentioned yield sort of outpacing volume growth. It seems that maybe some of the top line assumptions you've given us, maybe for the total company seemed like maybe it undershot some of what you think some of these individual segments are growing like. So I was just wondering if there are some dynamics there? Do you feel confident about your ability to take share within SMBs and maybe your comments about share across the broader parcel market in the US?

And then coming back to domestic margins, can maybe we think about the cost per piece of this? I think, Brian, you mentioned $1 billion potentially plus of cost takeout, but also maybe some reinvestment in the business. Is that where maybe some of the friction is coming from in terms of the domestic margin uplift? Is that a headwind to potential domestic margin uplift because it would seem that the price would be able to offset all of this to provide maybe a little bit of a higher-margin opportunity for you through the forecast period.

Carol Tomé^ Well, maybe I'll start and then kick it over to you, Brian. As a team, we believe in building financial plans that are grounded in reality and then doing better than that. So based on everything that we've shared with you today, on the macro outlook and the initiatives that we have, we believe our plans are grounded in reality, and our intent is to do better than that.

So if you may say there's a little bit of conservatism in the forecast, I think that's fair. But we're not going to disappoint. We are going to deliver on the commitments and then to Brian's point, we will reset. Now on to the comments about cost.

Brian Newman^ Yes. So just picking up on that thread, the ADV, Chris, with low single digits, and I commented that our revenue RPP will grow a lot faster than that. So to your point, the math would yield delivering that 12%. We do feel comfortable that that's a realistic milestone on the cost side. As I mentioned, the reinvestment of some of that potential upside, it would go into areas like weekend -- last year, we did a fastest ground ever, it showed up in a big way in SMB in the first and second quarter this year, and we've been seeing sequential improvement. So those are the capabilities we're reinvesting in the business. But I just would reiterate we have confidence in the 12% out there.

Operator^ Our next question will be from the line of Mr. David Vernon of Bernstein.

David Vernon^ Maybe on a similar line, if you look at where we're ending up in 2021, getting to $100 billion is like 3% to 4% a year revenue growth relative to those targets that you laid out or at least those market growth estimates that came out there, which were pointing more towards double digits. I guess the question is really, are there headwinds baked into the top line that we're not aware of? And why couldn't you do better?

And then if you think about kind of the growth for the earnings of the business, how would you characterize what an investor is investing in here? Are we really just looking at a temporary supply-demand imbalance that makes us a good market? Or what is UPS doing to make an investment in UPS about something other than that supply-demand dynamic? I apologize for the multiple questions in there, but I just want to kind of address whether there are some marketing headwinds we don't understand. And then if you could kind of talk to what makes this something other than a temporary supply-demand imbalance opportunity for investors.

Carol Tomé^ So the value proposition that we are offering is ride the margin expansion in a growing market -- growing and healthy market where we're underpenetrated outside of the United States, where we're investing in a simple, frictionless experience for the customer, which allows us to drop all that productivity to the bottom line. You're investing in a company that's all strong is going to pay out 50% of its earnings in the dividend. So there's been a compelling value proposition that lasts past this demand for client imbalance. If we think about the growth opportunities around the world, we will be the largest health care logistics player, bar none.

And as Kate described, and Kate, you might just reemphasize how growthy that is and how profitable that business can be.

Kate Gutmann^ Absolutely. I mentioned that we'll be $10 billion by 2023 and growing well past that 12.3% growth. But think about that opportunity I mentioned as well as we go into the specialty side at over 56 -- about $560 billion of opportunity in that specialized space. We are looking at investments in that area. And so the growth opportunities continue. And again, this is the most accretive part of the market. So that's where it drops directly to the bottom line when you grow this health care specialized business.

Carol Tomé^ And Scott, you might talk about the growth opportunities outside the United States because this is not just a domestic story any longer.

Scott Price^ Yes. Very consistent with the value share focus. We're in a 17% penetration outside the United States, which means that there's an enormous opportunity for us to focus our investments in our growth in the areas where we continue to support the very industry-leading margins that we have today.

In terms of the supply-demand, I think, as emphasized by Brian, we will deliver a 21.5% margin in 2023, which has no surcharges in it. So there is a question as to whether or not

there's still a surcharge opportunity in '23. It's still unclear relative to when BSA will come back in terms of passenger taking some of the relief of that supply-demand. So as I think Carol reiterated, we built a very credible plan and have every intention of delivering it.

Carol Tomé^ And volume can choke the network. And as Nando said, service wins every day. And the investments that we are making to make sure that we have leading service were paying off. And maybe Nando, do you want to talk a little bit more about those investments, I'm sure, the levels are high.

Nando Cesarone^ Absolutely. The first one goes into what we talked about earlier today related to capacity. And the capacity expansion in the company doesn't end in 2021, we have a couple of hundred thousand pieces more that we'll add again in 2022 and additional capacity built into 2023. That capacity, as automated as it is, it gives great flexibility to the network, it actually allows us to become more efficient in what we do. So it provides great, great capabilities to the organization. And the technological advances that I spoke about earlier today, combined with new things we're working on. We didn't disclose everything that we're working on today are really creating great value to the network.

We talked about Orion in that presentation. Dynamic Orion right now is giving us about 2 to 3 miles per driver per day in savings. And just want you to remember this, Brian alluded to this bit, every mile we save per driver in the course of a year across all of our drivers in the US, saves us in excess of $60 million a year. Those are good things for the organization and provide great capabilities to us.

Brian Newman^ And David, just you asked if you were missing anything, just I want to make sure we're clear. The sale of the freight business, as you mentioned $100 billion number out in 2023. There's obviously $3 billion of revenue that is not in that number because we sold the business, and we did that because it was a low-margin, high-capital business, and so it helps our margin and ROIC. But just on an apples-to-apples basis, you had in $3 billion in the base that's not in the $100 billion number, and we're offsetting that with international health care. So just to clean that up.

Operator^ Our next question will come from the line of Ms. Helane Becker of Cowen.

Helane Becker^ As you think about these gains that you are forecasting where we get from '20 last year to 2023, how much should we think about it being market share gains from existing competitors versus organic gains from new customers that are not currently doing business with one of your competitors? And have you thought about, which I'm sure you have, but if you could comment on there, what you think your competitive reactions are going to be?

Carol Tomé^ Well, as Kevin pointed out in his remarks, we expect the SMB market to grow at 8%, and our forecast has us growing faster than that. So we're capturing share in each of the next 3 years. The share givers, if you will, well, they're all over the fort, aren't

they? And so our jobs ahead of competitive reactions by making the experience the best experience because we know, Kevin, they do stay with us, right?

Kevin Warren^ Yes, absolutely. So the better the digital experience, combined with our Industry-leading reliability, once we get them they stay. And by the way, we think from an SMB perspective, half of the market growth is going to be in platforms and indirect. And so when you have a consolidated integrated experience to more and more customers, they want to integrate experience. They want to be able to do demand gen and checkout and fulfillment and delivering returns in an integrated fashion versus just a la carte.

That is, by nature, more sticky. So our digital access program and platforms are positioning us to grow -- take share from our competitors. But also with the growth of e-commerce, there's going to be some inorganic just some marketplace growth than when these new customers come to market and start doing business, they'll come to UPS.

Carol Tomé^ I think our platform, our DAP platform was a proof of concept in the second quarter of 2019, and now while will be over $1 billion in revenue this year. So it just showcases just the shift in how the business is moving towards more platform like business.

Operator^ Our next question will come from the line of Ravi Shanker of Morgan Stanley.

Ravi Shanker^ Carol, if I can just follow up on that question. How much of your guidance is predicated on your competitors also being disciplined to capacity? Kind of if you have some of the larger -- the newer competitors, if you will, kind of adding significant amounts of capacity in the industry, how much does that kind of keep that demand-supply equation kind of a little bit under pressure?

And as a follow-up on the international side, I just wanted to confirm, does the guidance assume that international belly capacity kind of restores back to where it was prior to the pandemic by 2023? Or do you expect it to still remain tight in that time horizon?

Carol Tomé^ Well, why don't we answer the international question, Scott, please.

Scott Price^ Yes, Ravi. So as I mentioned earlier, our 21.5% does not include any demand surcharge, which means we're planning that there is a balancing out. But again, you're talking about growth in a market where capacity needs to be expanded just simply because we believe a lot of this cross-border B2C e-commerce behavior will continue. So we've not planned for surcharges and demand-supply mismatch until the end of '23. But again, we believe it's a realistic plan, well, we will see as we progress.

Carol Tomé^ And our projected growth is based on the parts of the industry and where we want to lean into. We know that our competitors are leaning into other areas as well. But we are niching out where we want to play because we are providing an experience that customers value. And not all packages are the same. If all packages are the same, and

this is going to be a very, very different discussion. And we'd all be talking about how much we're adding, how much shortened capacity that we're adding. But that's just not the case for any longer. The packages are not the same. And so we are niching out and leaning into the areas of the markets that we want to serve.

Now I will make a comment on same day and what you're seeing across the world actually in terms of gig economy and pop up players who want to play in the same-day world. We don't have the same day product today, as you know, and so we're looking at it. Now when I think about same day, I think about it very much like the way I think about health care. Health care, as you heard Kate described, is a network with inside our network. Same day could be a network outside of our network, a different product, a different offering.

We don't have this all the way figured out, but we've got team of people looking at it. And once we got some pilots underway and once we get some more experience under our belt and a stronger point of view, we'll come back and talk to you about that. But I think there's an opportunity there that will be very different than what we've done in the past. And clearly, not in any of these numbers that was just shared with you. It's just something that we're thinking about strategically.

Because here's the thing about the strategic flywheel, it can't stop, even though we're laying out a 3-year plan for you today, and we're talking about our initiatives. We got -- our minds are wheeling around about other things that we can do. It just doesn't stop in 2023. And in fact, if we hit our targets earlier, just to Brian's point, we'll reset and move on. So it just doesn't stop. The wheels are moving.

Operator^ Our next question is from the line of Jeff Kauffman of Vertical Research Partners.

Jeff Kauffman^ I wanted to delve a little bit into your environmental investments. And you mentioned the 10,000 delivery vehicles you're looking at with an option for 10,000, the biofuels. A lot of the companies we've been talking to on the electric vehicle side, have been talking about the TOC savings, our TCO, I guess, savings, that these vehicles require less maintenance, more uptime. That there's tremendous cost advantages to crossing over specials as we look out, say, 5 years, 10 years.

Can you talk about where those investments are going to be? Are those 10,000 initial vehicles going to be entirely in the domestic U.S. When you look at the next slug of vehicles, what are you looking to do globally with that? And can you talk a little bit -- you've talked about domestic cost savings from productivity and automation. Can you talk about what you're looking to get back in terms of this investment in the environmentally-friendly vehicles?

Carol Tomé^ Yes. We're very pleased with our carbon-neutral announcement today and part of that are these electric vehicles. So Juan, if you could take that question?

Juan Perez^ Yes, absolutely. Excited about this. We only talked about Arrival today. Let me make sure that it's clear. This is not the only company that we're working with. We're looking at these technologies in many different areas. We see progress in the way that the technology is evolving and the capabilities that it's going to bring for UPS. We speak about Arrival extensively because they're building a modular type of vehicle that we see already based on what they're testing and the work that we're doing with them, bringing significant capabilities to UPS in the way that we'll be able to maintain and support those vehicles.

In fact, it's not only maintaining the vehicles, but it's also the fact that they have less moving parts, its carbon engines that we see today are complex, they burn, they get tired over time. They have to be replaced. The electric motors in these vehicles are very sophisticated, very advanced, but also very reliable. So we also see the life of these vehicles extending. And of course, the downtime for maintenance purpose is also going down.

Now we haven't really quantified exactly how all this is going to return in terms of overall savings to the automotive work that we do in supporting these vehicles. We're at the early stages of bringing these technologies into our network. But the details are there in terms of the capabilities and the potential that this technology has for UPS.

Now you asked a question about where these vehicles will go. These vehicles will go to all the places we have, where we have large fleets. Of course, the U.S. is 1 of those. We will have a large presence of electric vehicles here in the U.S., but we have other markets like Canada, the U.K., multiple locations in Europe, where we believe that this technology will be pervasive. So we're excited.

Now we're also working closely with our public affairs team and with government agencies to make sure that these vehicles are properly accepted. But at the same time, making sure that the infrastructure itself is in place to support these types of vehicles in the network. Exciting times, more to come, we expect these vehicles to be pretty pervasive in our network in 2023 and 2024.

Jeff Kauffman^ If I could just follow up on that point on the vehicle introduction. Are you looking also at vehicles, not just for delivery, but on the Class 8 basis and just kind of give us your thoughts on electric versus hydrogen there?

Juan Perez^ Absolutely. We are definitely working with some of our partners in the tractor space to bring that type of vehicle to the network. Not only that. I've mentioned it briefly in my presentation, but I'm also excited about this those shifters, those jockeys that we use instead of our yards to move trailers around. We see that technology advancing also very rapidly. And we have a couple of those units already in operation in our facilities. They are moving a number of loads every single day with high levels of efficiency. So that technology is advancing as well.

So just to answer your question, we will definitely be in that space. We are committed, and we have great partners that are providing really -- really neat solutions for us. I think this is going to evolve very rapidly during the next couple of years.

Scott Childress^ We have an online question. The question comes from Fadi Chamoun from BMO. This question is, is the 4.5% and 5.5% CapEx range, something you think is sustainable longer term? Or would growth CapEx have to step back up.

Carol Tomé^ We're just taking a different look at how we allocate capital than in the past. Think about the growth that we're going to have outside of the United States. Most of that is asset light. Now we do need aircraft. The dollars that Brian described to you that we'll be spending over the next 3 years, we've got plans to acquire about 27 aircraft.

Some of that includes the big freighters that Scott needs to move cargo around the world. Some of it is actually replacing our older MD11 fleet. We've got about 40 MD11s. They're average age -- they're the oldest aircraft we have in our fleet, the average age is up 27 years. So we're going to start to replace those aircraft at the end of this 3-year period. So that's just will almost become like maintenance spending, I think.

As you heard from Nando, we're expanding capacity by expanding weekend. We're not spending capital on that or we're spending some expense dollars. You might talk, Nando, what it means to expand the weekend.

Nando Cesarone^ Yes. Absolutely. I think when you think about the weekend, it's really an opportunity for us to really expand capacity and not add any additional CapEx. And there's a number of other initiatives that we are in pilot phases right now where we're using idle assets to expand capacity.

Just like running our day preload that typically run from 3:00 AM till 8:00 of the morning, running them through the day and providing additional capacity, service for our customers in addition to balancing of demand for day of week, which is a real winner for us in terms of capacity because that capacity is a little different each day. And so the better we do in balancing that type of capacity during the week. We leverage our weekend operations. And again, we do that with very little CapEx, and we sweat the assets as intended.

Carol Tomé^ Brian, can you want to add on this?

Brian Newman^ Yes. No, I thought the question, just to give you a little bit more color in terms of the $14 billion in that $21 billion to $23 billion range, approximately $5 billion of it for maintenance and $9 billion is for growth. The maintenance we talked about, replacing vehicles and maintaining our buildings. But we're adding, Carol, 5.7 million square feet of automated sort around the world, the aircraft you mentioned and investing about $1.5 billion in IT capabilities. So all in all, 65% of our CapEx is going towards growth, which we think is sufficient for what we need going forward.

Operator^ Our next question will come from the line of Brian Ossenbeck of JPMorgan.

Brian Ossenbeck^ So just a follow-up on the weekend expansion, if I could. Can you just talk about the costs that you might need to incur that maybe aren't CapEx to get that expansion done from an OpEx perspective and the timing of those? I assume they'd be mostly done through 2021.

And then when you look at the productivity, as you mentioned, balancing out the network. Is there any productivity savings that you're counting on in the numbers you just gave us from this initiative?

And then lastly, this relies on the postal service if you got to put more business through SurePost, Can you just give us your expectations and confidence in having that service and that capacity be there through the duration of the guidance here?

Carol Tomé^ Well, perhaps, I'll take the postal question and throw to Nando, you and Brian for the rest. On the postal, we love our SurePost product. It's part of the cadre products that we offer. We inject in delivery, we don't inject into their hub. And so the quality service levels is extraordinarily high with that product. The best thing about SurePost though, of course, is to redirect back into our business. In the first quarter, we had 40% redirect back into our business. That's a win-win-win all day long.

Now in terms of the productivity that we're getting off the weekend and first, the investments that we make and then the productivity that we're getting off of that.

Brian Newman^ So from the cadence of the timing or phasing, Brian, of the spend. There is weekend investment this year, and we factored into our targets or our plans weekend investment next year. It's going to be ongoing as we expand. Nando, if you want to hit the specific initiatives that we're investing in.

Nando Cesarone^ Yes, sure. So Brian, we're going to be by October, 90% of the U.S. population covered for Saturday. And we'll do more in 2022 and '23, as Brian had mentioned. I think as we look at production, we're looking from a combined Saturday, Monday point of view, those production indices, as we grow, which the expectation is we grow above 46%, allow us to continue to hone in on density and productivity. And we have demonstrated that Saturdays as we started venturing out Saturday expansion here in the last few weeks, is producing the desired results. So we have assumed certain production indices and costs. Those are built into the plan. We feel we can do -- we can achieve those targets.

And then I would also say working through Saturday and Monday, again, helps us to curb that demand on Tuesday, Wednesday, so giving us a more linear demand curve during the week, which can help our staffing and the bench that's required to cover those big days and also has some really great advantages on the capacity side.

Operator^ Our next question will come from the line of Ken Hoexter of Bank of America.

Ken Hoexter^ Carol, thanks for hosting the event. Investors on the stock move suggest they're still looking for more detail on why you put the 10.5% out there. What gets you there? It seems like the SMB is growing from 23% to 27% at worse, over 30% at the top end of your target. So is it that costs are going to outpace revenue gains and productivity improvements?

And then alternatively, given, Carol, you're usually conservative in your outlook historically, what gets you to 13% margins? And then how, Brian, how does that translate to sustainable EPS CAGR? Are we looking at upper single digits or double digits? Is there a target on the bottom line?

Carol Tomé^ Yes. So it's a very fair question on the range, and it really relates to our point of view of how quickly we can capture the share in SMBs. When we built the original plan, we assume that we would be in the high 20% penetration by the end of 2023 in SMB segment. And that got us to the low end of the range. Then first quarter came around. And by golly, that SMB business took off, it just took off and that continues into the second quarter.

As Brian mentioned, it continues to grow and we're like, oh, wait a minute, there's a chance that we can actually, based on what we're seeing in the business be in the low 30s. And so we put the range together because we started with where we thought we were going to be. And now we're business is moving in a different way.

So if you want to move off of the range and go to the high end of the range, as we said earlier today, if there's a bias in the forecast, the bias is to the high end of the range. But I think it's important for you to understand what the only difference is the SMB penetration. There aren't any different cost headwinds. There's nothing else in it. It's just the penetration of SMB. And you might want to talk about the 13, to get us to 13%. Well, more productivity and more penetration of SMB.

Brian Newman^ Yes. So mix and productivity, I think of the 2 things, Ken, that can lift us there. And so we're modeling different scenarios. I would just tell you, we started 7.7% last year, let us get to 12% and then lift up and focus on 13% after that. You also asked about EPS glidepath, Ken, I think just to help you with modeling and everyone. I would assume below the line, as you think about from 2020 to 2023, a couple of hundred million in benefit in terms of interest cost reduction and pension income. And then taxes, I think we've guided to 23% to 24% from a range perspective. That should take you to the high $12 area in 2023 based on the high end of the guidance. So hopefully, that answers your question, Ken.

Operator^ We have a question from the line of Allison Landry of Credit Suisse.

Allison Landry^ So you're guiding to pretty strong free cash flow over the next few years. But the $1 billion of buyback seems pretty low, and it does imply a pretty significant cash build up on the balance sheet even when considering the debt repayment. So I think first, do you have a targeted cash balance? And then would you say that you're being conservative with respect to the buyback guidance. You have -- are you favoring raising the dividend? So hoping you could really speak to the capital allocation priorities that we should be considering within the context of what looks like a significant cash build.

Carol Tomé^ Well, maybe I'll start philosophically. And then Brian, you can give color about how much cash is outside the United States versus inside the United States and how we think about that. So first, Allison, we believe it's important to have a conservative financial risk profile because of the pension liabilities we have on our balance sheet. Well, our condition has improved dramatically since the end of the year. We still have a lot of volatility in those pension liabilities. At the end of the year, our pension was about 81% funded, it's now about 90% funded, so it's better. But we still have an unfunded position, which should suggest that you should keep a pretty conservative financial risk profile, and one way of doing that is keeping cash on the balance sheet.

That being said, we've got initiatives underway to see how we might be able to minimize some of that unfunded volatility, and we're looking at those. There are things you can do synthetically to minimize that. We also believe that the cash is not ours, the building belongs to the shareholders, it's not our intent to keep cash on the balance sheet, so we'll put it to work. Once we get this volatility kind of put into bed, we'll put this cash to work.

The other thing and not signaling at all that we are going to do this. But it's always smart, we think, to have some firepower put aside so that if you do see an acquisition that is enabling capability, or perhaps an acquisition that brings talent or just positions us better for the future. We might want to make that. And so if you have a little bit of flexibility in your financial structure, that is helpful. But in terms of minimum cash, how much minimum cash should we maintain?

Brian Newman^ So I think the number is probably $4 or $5 billion, but I wanted to reiterate, Carol. The investment in the business, Allison, as we think about going forward, by $14 billion over 3 years. We're going to probably -- we've guided to $4 billion this year. That's a step up in CapEx because we're confident we can get the returns in terms of shorter payback, but that implies $10 billion over the next 2 years. So there's a step up there. The dividend, as I mentioned, which is the second priority, 50% of prior year net income, that implies a large step up there in terms of use of cash as well.

And then I mentioned earlier, the paying down of debt. We do have about 30% of cash trapped offshore or outside the U.S. And so we keep that in mind as well. And then share repo is the last piece of the capital allocation, but it might be a little bit like the 12% domestic margin. Let's get to where we are, and then we can move on beyond then.

Operator^ Our next question will come from the line of Bascome Majors of Susquehanna.

Bascome Majors^ Your union contract protects you from labor cost inflation quite a bit this year and next, but that becomes a point of uncertainty when it expires in mid-'23, presumably against the backdrop of a tight lager market and some new leadership and the team sees a union that are certainly going to campaign on promises to deliver gains from you guys, their largest employer. So Carol, could you just share with us a little high-level philosophy on labor relations and how that might look different than what we've seen from UPS historically? And Brian, is there anything that you would add for what's baked into the 2023 domestic profit and margin targets for the team's contract reset?

Carol Tomé^ Well, first, let me say how proud I am of our UPSers and all of our union workers around the world for what they've done over the past year. In the face of COVID-19, these men and when we got up every day, they put on their browns and they deliver packages and they flew our aircraft every day, and I'm proud of that. As it relates to the upcoming union contract, Norm Brothers is here. He's our General Counsel, but it's also responsible for labor. So Norm, maybe you could talk about how we're thinking about this.

Norm Brothers^ Sure, Carol. Well, we've been working with the Teamsters for decades. And they care about growth just like we do because it leads to job creation, and also career opportunities for our people. And we do talk to the Teamsters leadership and our people frequently about the dynamics and the current competitive environment, the opportunities and the challenges. Then you mentioned that the next agreement comes in 2023. And as always, our goals with negotiate like that is to have a win-win, something that's good for our company and good for our employees.

Carol Tomé^ And in terms of what we baked into our financial, Brian.

Brian Newman^ So Bascome -- the current labor contract has a 2.5% increase annually, and we basically just annualize that for the 2023 until we get better information. So that's what's plugging into the model.

Operator^ Our next question will come from the line of Brandon Oglenski of Barclays.

Brandon Oglenski^ I guess as a follow-up to the prior about what would it drive -- or what would it take to get you to like a 13% domestic margin? If we go back a few quarters, I think the mantra UPS has definitely been all about getting pricing higher, getting better margins returns, being better and not bigger. But it feels like now maybe the messaging is a little bit different like we need mix from SMB to get margins higher and potentially, with the surcharges rolling off next year. I guess just how can you help investors understand what the pricing trajectory looks for the next couple of years?

Carol Tomé^ Well, I think by focusing so much on SMB, we have diminished the importance of next-gen profits. And next-gen profit is a critical component of margin

expansion, coupled with all the wonderful productivity efforts that we have underway. So to Brian's point, we're not stopping at 12. When we get to 12, we'll reset. But next-gen profit, which is going to move to dynamic pricing across the customer base. It's a very important part of the value equation here.

And in fact, 1 reason half of the margin expansion that Brian talked about will occur this year is because we'll have the full year effect of all the great activity that took place last year on revenue quality. Kate, you might want to talk a little bit about that?

Kate Gutmann^ Yes, absolutely. One thing I would reinforce, when we talk about the value of our network and the SMB growth and our large customers paying the correlated price, it's about the service reliability that is resonating in the global marketplace and especially in the U.S. So we are gaining the rate increases as well as the long-term contracts with our largest customers as well as growing our small, medium-sized businesses in each of the segments of that critical sector because we are showing them a differentiated value proposition. We intend to continue that on.

You heard me talk about the healthcare opportunity, the most accretive packages in the market and the fact that we're going to be growing 12% and beyond, and that's the organic side. So a lot of opportunity. We're also modernizing for all size customers, our pricing process to really get speed and ease and then more precision, as Carol said. That means fully allocated, where every bit of cost stand also our capital outlay is factored in with the usage of the network. And that's a game changer for us. We're changing our systems to really support the mass, and we already have it underway right now customer by customer.

Operator^ Our next question will come from the line of Scott Schneeberger of Oppenheimer.

Scott Schneeberger^ Brian, I think this is primarily for you. Obviously, appreciate the 2023 long-term outlook. Just -- it sounds like you have a lot of momentum here in the second quarter on a lot of the commentary, but you had alluded to tough back half comps. No real share on 2021 guidance. Just curious, why you opted not to hear at this point of midyear? And if you could elaborate a little bit on maybe the back half comps and things you're seeing, just to give us maybe a feel for where you're exiting 2021 moving on to 2023.

Brian Newman^ Yes. Sure, Scott. Happy to take that. So today was intended to be about 2023 and where we're headed in terms of the road map. The comps in terms of getting tougher balance of the year, particularly in Asia, we have tough comps coming out of international, and so those are providing a bit of a challenge. And domestically, we're hoping that the commercial side comes back. We started to see signs of that, but that should provide some of the tailwind in the back end of the year to hopefully alleviate some of that pressure.

Carol Tomé^ And while we didn't give specific guidance for 2021, Brian, you did say that half of the margin expansion is coming this year?

Brian Newman^ I expected in '21, right?

Carol Tomé^ So that's guidance because you cut the margin expansion and half and put it into the year and back into it.

Brian Newman^ and back into it. Yes.

Operator^ Our next question will come from the line of Tom Wadewitz of UBS.

Tom Wadewitz^ Yes. Great. I wanted to -- I know you talked a fair bit about pricing. I wanted to get a little more sense of your view in domestic just supply/demand. So it sounds like you're optimistic on price, but how much -- how long do you think the market domestically stays tight, if you say the market's growing? Is there supply growing at a similar pace? Is it tied in '22 or '23?

And then I guess a related question, how much is the mid- and long haul market pricing connected to local? Because I think there's some concerns that crowd source or Amazon or whatever, expansion local could be greater. And I just wonder if you think the kind of network business you want is somewhat decoupled from local pricing or whether you think that's kind of a risk if there's too much capacity addition in the local market?

Carol Tomé^ Kate, do you want to take the question about mid and long haul?

Kate Gutmann^ I would. Yes. Tom, so when we actually price, we look at a customer and their total need. Their customers have nationwide needs and our value proposition resonates across each of the zones. I'll give you just 1 factor to ease that point on the short zone. There's a lot of players in the short mild zip to zip kind of movement. We have the largest ground 1-day footprint of anybody in the market. 150 miles of ground coverage from our hubs will get 99% of the U.S. recovery, okay? So that's a short zone. And then the long haul you've heard us talk about our fastest ground ever we've sped that business, and that is the toughest part of the market for competitors to replicate.

But when it comes to pricing, all of that is factored. And it's important to note customers give commitments back to us for the commitment that we give to them. That means contract compliance. And we ensure that, therefore, the short and the long is priced, understanding the cost to serve of both, and then the pricing reflects that value the total contract delivers for us.

Carol Tomé^ To your first question, it's hard to know how long this demand capacity shortfall will last because we don't know exactly how the capacity will be added. But it's estimated that the ADV shortfall this year will be about 7 million packages. That shortfall will continue into the next couple of years. It's going to narrow, but it will continue into the next couple of years in the US.

Operator^ Our next question will come from the line of Scott Group of Wolfe Research.

Scott Group^ Carol, I'm hoping you can help us because I'm struggling a little bit because everything about the message sounds so positive other than the actual guidance. And so maybe just help us with the right message here. And it sounds like maybe the 12% U.S. guidance, that's the high end should really be thought about as the base case. Should we be thinking about all of the guidance that way or should all the high end should be the base case?

When you talk about getting half the improvement this year, is it halfway to the 12%? Is it halfway to the middle? And then like do we -- is there a chance of margins and earnings in the U.S. not really growing in '22 and '23 relative to '21? I'm just -- I'm struggling a little bit, so hopefully you can help crystallize the message.

Carol Tomé^ Happy to try to help crystallize the message. We expect margin expansion in each of the next 3 years. Half of the margin expansion will come this year, that's half of the 12% will come this year. Why? Because we have a full year benefit of the pricing actions that we took last year as well as an increasing penetration of SMB.

So I am not accustomed to giving guidance in a range and having people go to the midpoint. I'm not accustomed to that. I'm new to this industry. Maybe I should have gotten accustomed to that. I'm not accustomed to that. What I'm accustomed to is giving ranges based on what our point of view is and then to do better than that. That's what I'm accustomed to doing. And we started with a point of view on what would happen with the industry and our SMB penetration, we're seeing difference, a higher performance in SMBs, and that takes us up to the high end.

Outside the United States, Scott, I think the same thing is true. We started with a point of view on what would happen with the growth, and it's gotten -- there's momentum outside the United States. So hopefully, that's helpful as you think about how does the message because this is a message of momentum, this is a message of a team that can get anything done. And we're going to deliver the numbers that we've laid out for you today. And Brian, anything you want to add?

Brian Newman^ Yes. No. Just, Scott, I think the level of confidence in the high end is strong. I think that's the message you heard from us we 12%, we have strong confidence in. And let's not put a 13% or 14% out there until we get to 12%, and then we'll come back and we will say, "we're resetting, and now here's the future guidance." So it's as I said, a mile marker, it's not the destination.

Scott Childress^ Stephen, we've got time for 1 more question, please.

Operator^ Our last question will come from the line of Jack Atkins of Stephens.

Jack Atkins^ Okay. I guess my question is on -- to 2-parter. First, on the international side, it certainly feels like the focus there is EBIT growth versus margin growth. When we think back over the last 5 or 6 years in the domestic business, that was sort of the message there as well and kind of fell into a trap of lower returns and lower profitability. How do you avoid that trap internationally when you're focusing on EBIT growth versus margins? Can you kind of walk us through that?

And then secondly, within the domestic package business, can you kind of put all of the capacity and efficiency comments together and help us think about how much your capacity is going to be growing in the domestic package business cumulatively between 2020 and 2023?

Carol Tomé^ Scott, do you want to take the international question?

Scott Price^ Yes. On the international, I think it's important to understand our starting point is a 17% share. So as I mentioned earlier, we're going to pick where we grow. But what's important, we're now in a position to leverage some of the great practices out of the United States. So Kevin talked about the DAP. That DAP will help us access profitable SMB outside the United States. Kate talked about pricing initiatives and pricing imperatives, that same discipline is coming outside the United States.

So we'll invest in the time in transit to have the right to win with those high-margin customers, we will continue to leverage the digital experience, and we'll pull the best practices out of the United States. So we will continue to maintain our margin. It will not be degraded, and we will grow a bit in market share at the same time.

Carol Tomé^ And Brian, do you want to have any wrap-up comments here?

Brian Newman^ In terms of ADV or -- yes. So look, we're expecting ADV growth in the low single digit as we look out. And the capacity we talked about during the capital discussion. We're looking for ways to expand capacity without spending a lot of capital. And so I think that's -- those are the weekend opportunities to bring in additional Saturday, Sunday volume opportunities. So Jack, that's what I would add from a capacity standpoint.

Operator^ I would now like to turn the floor back over to Mr. Scott Childress.

Scott Childress^ We would like to thank everyone for joining us today. Materials from today's conversation will be posted on the UPS Investor Relations website, and we would ask that you join or give the investor group or call. Thank you very much, and have a great day.