



UNITED PARCEL SERVICE ANALYST REPORT

2016-2017 UConn Student Managed Fund

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Report Highlights

United Parcel Service, Inc. (NYSE: UPS)

Sector: Industrials

Current Price	Price Target	52-Week High	52-Week Low	P/E	Market Cap.	Recommendation
\$104.99	\$129.47	\$120.44	\$100.05	27.25x	\$91.21B	Buy

Figure 1: UPS vs. SPY Return

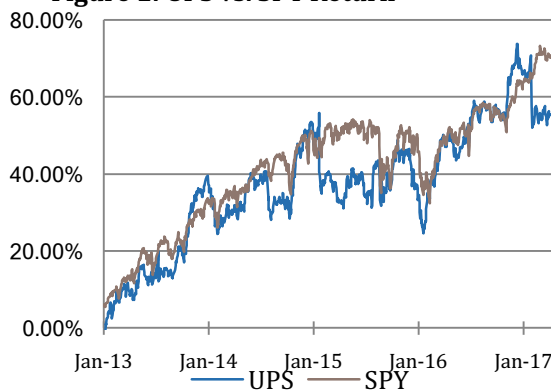


Figure 2: UPS Market Share

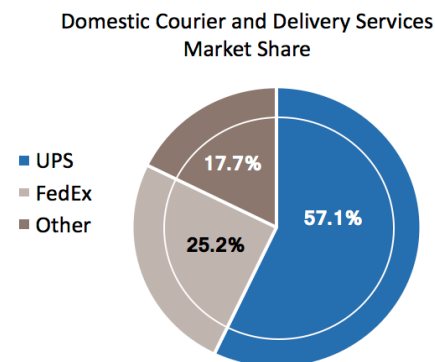
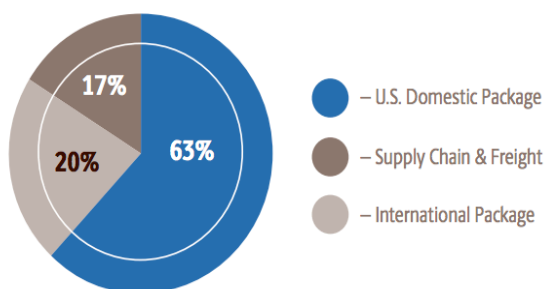


Figure 3: UPS Revenue by Segment



Basis for Recommendation

We recommend a **Buy** rating for UPS based on a price target of \$129.47 per share, offering a 23.3% margin of safety over the closing price of \$104.99 per share as of April 7, 2017. Our recommendation is primarily driven by three factors:

- 1. High barriers to entry within the industry** – UPS maintains an industry leading 57% market share in the domestic courier and delivery services space over its two main competitors, FedEx and USPS.
- 2. Growth of e-commerce and healthcare logistics** – UPS is positioned to experience increased revenue growth from the surge in e-commerce both domestically and internationally. Likewise, its recent push into the healthcare logistics space through acquisitions will enable it to capitalize from the growing global biopharma industry.
- 3. Cost efficient technological capabilities** – UPS's ORION logistics technology will continue to reduce costs, increase margins, and enlarge its logistics solutions business exposure through its Supply Chain and Freight segments.

Business Description

UPS is the world's largest package delivery company, a leader in the U.S. less-than-truckload industry, and the premier provider of global supply chain management solutions. UPS delivers packages each business day for 1.6 million shipping customers to 8.7 million receivers in over 220 countries and territories. In 2016, the company delivered an average of 19.1 million packages per day, or a total of 4.9 billion packages throughout the year. Total revenue in 2016 was \$60.9 B. Revenue breakdown based on percent of revenue in 2016 is shown in Figure 3. UPS also serves the global market for logistics services, which include transportation, distribution, contract logistics, ground freight, ocean freight, air freight, customs brokerage, insurance, and financing.

Industry Overview and Trends

Figure 4: UPS and FedEx Comparison

	Market Cap.	Revenue (2016)	Net Income (2016)	P/E	Packages Delivered Daily
UPS	\$91.2B	\$61B	\$3.4B	27.3x	19.1M
FedEx	\$52.3B	\$50B	\$1.8B	27.7x	3.4M



Industry Overview

The domestic courier and delivery services industry is primarily composed of three major firms: UPS, FedEx, and the United States Postal Service (USPS). UPS specializes in freight and ground shipping with a fleet of 240 aircraft and 114,000 ground vehicles. FedEx specializes in next-day air service deliveries with a fleet of 650 aircraft and 50,000 ground vehicles. The USPS specializes in residential mail and small package delivery and do not own any of their own aircraft, choosing to contract commercial aircraft. USPS owns a ground fleet of 211,000 vehicles. As shown in Figure 2, UPS dominates the industry with 57% market share with FedEx securing ~25% of the market. See Figure 4 for a UPS and FedEx comparison.

Figure 5: Global E-Commerce Growth



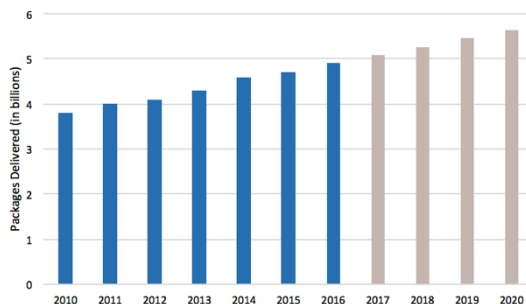
Growth of E-Commerce

The courier industry is highly correlated to the e-commerce industry. From 2015-2016, domestic online shopping increased by 15.6% from \$341B to \$395B (Mintel). The growth in the domestic e-commerce industry is projected to continue to grow at an average annual rate of 15% to a market of \$600B by 2020. Global e-commerce sales are poised to grow 112% over the next four years to a \$4 trillion market (Statista). UPS has recognized the growth in this industry and announced the purchase of 14 Boeing 747-8 jumbo freighters in Q3 of 2016 to supplement its existing capacity for overseas delivery. The company also operates facilities in over 220 countries to accompany the increased demand.

The 15 developed and emerging markets we've prioritized offer between \$80B and \$90B in opportunity across all our business units.

~ UPS CEO David Abney

Figure 6: UPS Global Delivery Growth



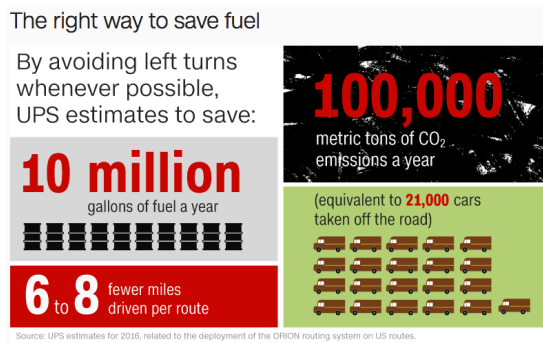
Expansion of Global Trade

UPS has been committed to expanding in both developed and emerging markets. Over the next ten years, emerging markets are expected to contribute to much of global GDP growth and an increasing portion of global trade. To take advantage of these opportunities, UPS has made long-term investments in China, Poland, and Turkey, with facilities in Warsaw and Istanbul, coupled with air hubs in Shanghai, Shenzhen, and Hong Kong. The addition of 14 Boeing 747-8s to its fleet will help it serve the emerging markets of India, Latin America, Africa, Eastern Europe, and parts of the Middle East. UPS plays an important role in both global and regional trade and is well positioned to take advantage of trade growth, wherever it occurs. The company's global presence and productivity by enhancing technologies have allowed its customer base to efficiently expand, leading to new markets and opportunities.

Figure 7: UPS Drone Delivery System



Figure 8: UPS Fuel Efficiency Metrics



Shift to Automated Delivery Systems

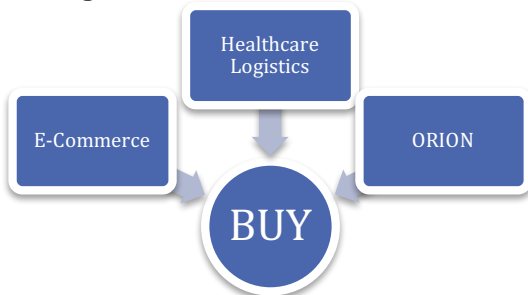
UPS has acknowledged the emergence of autonomous driving and related delivery systems. Each of their 2,600 Class 8 delivery trucks have already been equipped with full collision avoidance systems to alert drivers of obstacles on all sides of the vehicle. Likewise, on February 21, 2017 UPS unveiled its drone package delivery system that will begin accompanying all vehicles in the summer of 2017, allowing multiple packages to be delivered simultaneously in remote locations (by both driver and drone).

Greater Fuel Efficiency

8,100 of UPS's delivery vehicles run on alternative fuel sources, such as electric and natural gas. The company has also created an algorithm in its ORION (On-Road Integrated Optimization and Navigation) system that reduces the amount of "right-hand" turns a driver makes over the course of delivery. The company states that this technology has saved 10 million gallons of fuel a year and has reduced CO₂ output by over 100,000 metric tons (the equivalent of 21,000 cars). These resources show that UPS has made a conscious effort to adapt to a more self-reliant energy trend and has positioned itself to succeed in an environmental-sustaining way.

Investment Thesis

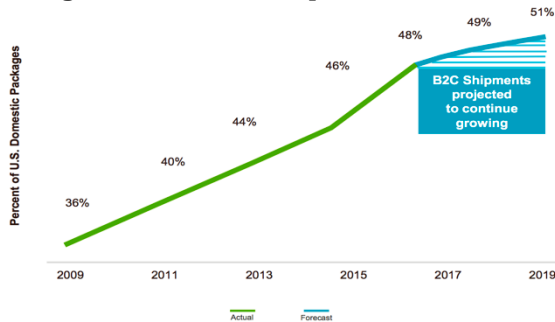
Figure 9: UPS Investment Thesis



Thesis

UPS is best positioned in the industry to succeed from significant growth in the e-commerce industry through their strategic partnership with Amazon and technological resources. Likewise, the company's acquisitions in the healthcare logistics space provide significant growth opportunities in an expanding industry. Lastly, UPS's full rollout of their ORION system will increase UPS's operating margins by reducing costs and expenses.

Figure 10: B2C Mix Expected to Climb



E-Commerce and Amazon Partnership

As aforementioned, the trend of e-commerce has increased the demand for shipping services globally. UPS has already begun to capitalize from an increasing volume in shipping. Business-to-consumer shipments, which represented more than 48% of total U.S. Domestic Package volume in 2016, grew nearly 9% for the year and 11.5% in the fourth quarter, which drove increases in both air and ground shipments. Likewise, Next Day Air volume increased 5.2% in 2016 due to strong growth in e-commerce.

Figure 11: Growth of Online Retail

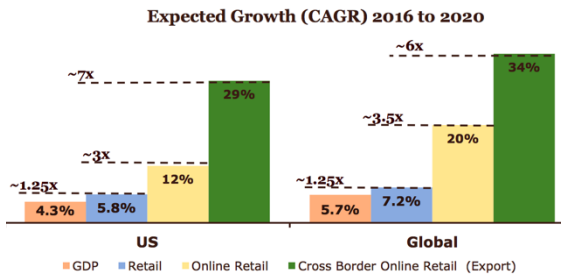


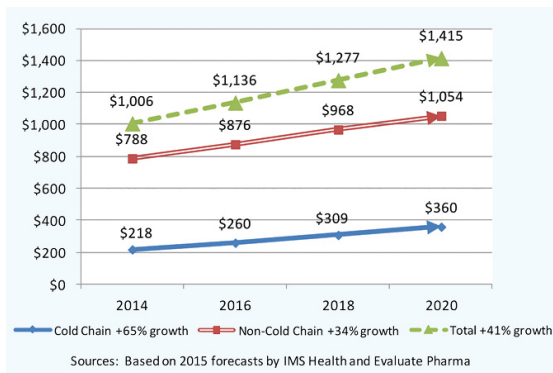
Figure 12: UPS My Choice



Figure 13: UPS Delivers Amazon Parcels



Figure 14: Global Biopharma Sales Trend



To accommodate the rise in parcel shipping as a result of the boom in e-commerce, UPS has developed the proper resources. The company offers cost-effective solutions such as UPS SurePost, for U.S. domestic shipments, and UPS i-parcel for a low-cost deferred cross border solution. They also offer customizable solutions, such as UPS My Choice, a service that provides more than 32 million members with visibility and control of their inbound shipments. The scope of UPS My Choice has been enhanced over the past year with the addition of UPS Follow My Delivery for time-sensitive shipments. This service offers map-based tracking from a package's delivery departure to a UPS My Choice member's residence.

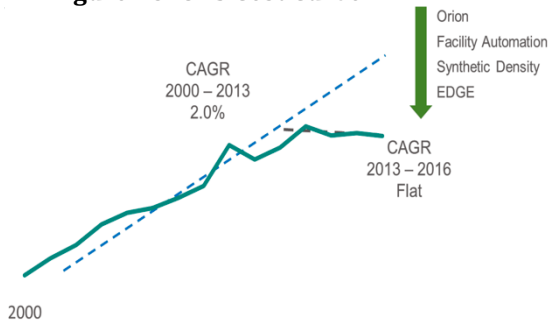
UPS My Choice members have the added flexibility to direct packages to UPS Access Point locations when they will not be home to accept a delivery. UPS Access Point locations are convenient places – such as The UPS Store and other local businesses – that offer easy package drop-off and pick-up. With evening and weekend hours, UPS Access Point locations better fit some consumers' schedules. Merchants in 50 countries and territories can already ship directly to UPS Access Point locations, giving international merchants and consumers greater control over package deliveries.

UPS's relationship with e-commerce giant Amazon.com, Inc. has led to UPS handling about 30% of Amazon's 600 million packages within the United States (or an estimated \$1B in revenue to UPS a year). This volume has grown 500% over the past 10 years and is poised to continue to grow given the growth prospects of both Amazon and online shopping.

Healthcare Logistics

UPS has recently been pushing into healthcare logistics, recognizing the increased demand for healthcare services. The continuous advances in medicine, along with an aging world population, creates a need for logistics partners who can provide specialized temperature, chain-of-custody, and speed-in-transit that today's healthcare companies require. With global biopharma sales projected to grow 41% through 2020 (Figure 14), the healthcare shipping logistics industry is poised to directly benefit UPS. In 2016, UPS expanded its healthcare capabilities by acquiring Marken, a global provider of supply chain solutions to the life sciences industry, primarily serving the clinical trials logistics space. Clinical trials are subject to strict regulatory compliance (certified by the FDA), require temperature-controlled logistics services, and are typically global in reach. Marken operates a global network of clinical supply chain services to meet the increasingly complex demands of its clients. The acquisition doubles UPS's health care dedicated facilities to over 100 and expands its healthcare logistics services portfolio.

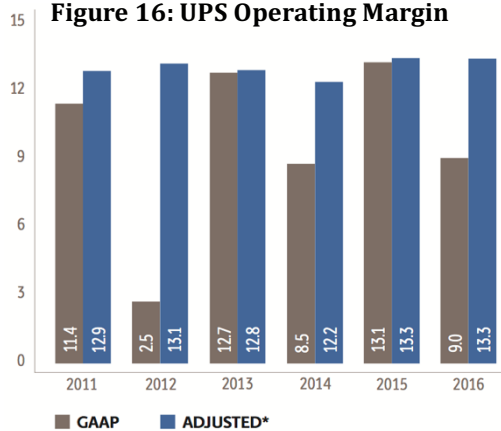
Figure 15: UPS Cost Curve



ORION

UPS completed Phase 1 of deployment of its On-Road Integrated Optimization and Navigation (ORION) system in 2016 and plans on having it fully implemented by 2019. ORION uses expansive fleet telematics and advanced algorithms to gather and calculate countless amounts of data to provide UPS drivers with optimized routes. The technology helps UPS drivers to determine the optimal way to deliver and pick-up packages within a set of stops defined by start time, commit time, pick-up windows, and special customer needs.

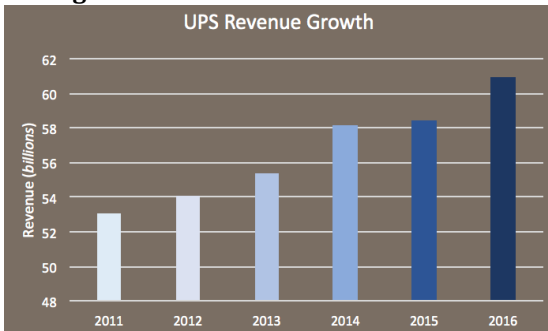
Figure 16: UPS Operating Margin



ORION saved the company \$400 million in 2016 and generated NPV of more than \$700 million. Going forward, the company expects savings of \$300-400 million annually from ORION's implementation, boosting operating margins and bending the cost curve (Figure 15). The reduction in miles driven is also expected to cut greenhouse gas emissions by 100,000 metric tons annually. ORION's technology advances also supply UPS with the ability to efficiently route customers of its logistics businesses, giving it a competitive advantage over FedEx and other logistic specialist companies.

Financials

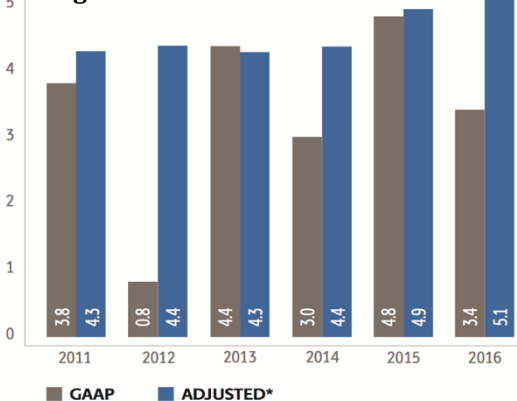
Figure 17: UPS Revenue Growth



Consistent Revenue and Profit Growth

Overall, UPS has maintained a healthy financial picture, and we expect this strong growth to continue going forward. UPS's revenues have grown steadily over the past five years, while net income has remained relatively stable on an adjusted basis. The U.S. Domestic segment in 2016 produced solid revenue growth of 4.2% over the prior year, while the Supply Chain and Freight segment experienced even stronger revenue growth of 8.3% YoY. Meanwhile, robust export shipment growth of 5.1% was the primary contributor to total International daily shipments rising 4.4%.

Figure 18: UPS Net Income



The company expects revenues to reach \$64 billion in 2017 with hopes of reaching \$70 billion by 2020. Meanwhile, profits grew 4% in 2016 over the previous year due to cost savings from ORION and top-line revenue growth. As our investment thesis plays out and UPS continues to deliver for customers, investors should continue to see strong revenue and profit performance.

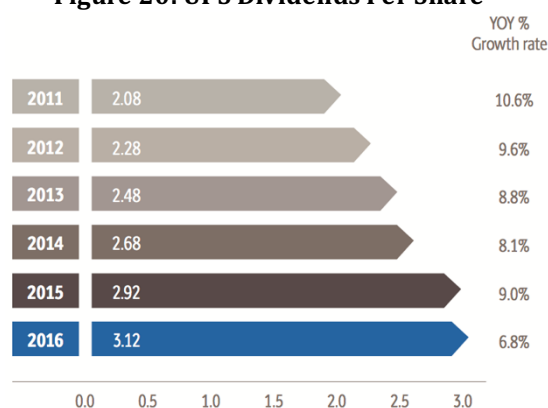
Figure 19: Financial Metrics

Metric (TTM)	UPS	FedEx
ROA	8.72%	4.50%
ROE	238.68%	12.90%
ROIC	22.15%	7.22%
Operating Margin	8.98%	5.89%
Net Profit Margin	8.43%	5.10%

Healthy Financial Picture

UPS's earnings picture is strong, as evidenced by its industry leading financial ratios and metrics. UPS has consistently outperformed its main competitor, FedEx, in profitability. Its 8.72% return on assets and 238.68% return on equity figures highlight management's ability to select profitable investment opportunities, such as the research and development placed into their ORION system. Meanwhile, operating and net profit margins of 8.98% and 8.43%, respectively, emphasize the company's focus on bending the cost curve while growing revenues.

Figure 20: UPS Dividends Per Share



Commitment to Maximizing Shareholder Return

UPS has a long history of share buybacks and has increased its dividend for 16 consecutive years with a 3-year annualized growth rate of 8.0%. Currently, its dividend yield is 3.16%, which is 61% higher than the S&P 500 average dividend yield of 1.96%. Since 2011, UPS has bought back \$16.2 billion worth of shares. In 2016, adjusted diluted EPS increased 6% to \$5.75, an all-time high, while the company returned over 100% of net income to shareowners by paying \$2.8 billion in dividends and repurchasing \$2.7 billion in shares. Therefore, it is evident that UPS will return a significant amount of cash to shareholders in the future, whether through share repurchases or dividend increases.

Valuation

Figure 21: Valuation Summary

Model	Price	Weight
DCF	\$129.81	50%
DDM	\$129.12	50%
Target Price	\$129.47	
Current Price	\$104.99	
Margin of Safety	23.3%	

Discounted Cash Flow Model (50% weight)

Our DCF assumptions include a short-term revenue growth rate of 3.3%, a terminal free cash flow growth rate of 2.5%, and a WACC of 6.0%. We based our revenue growth rate on the average of UPS's growth over the past 5 years, as well as management's projections for the future. Likewise, we factored in the anticipated growth of e-commerce and healthcare logistics, and ultimately believe our 3.3% growth rate is relatively conservative. The assumed 2.5% terminal growth is reflective of the U.S. long-term GDP growth rate. Our WACC of 6.0% was calculated using data provided by Bloomberg, in addition to the Capital Asset Pricing Model to accurately estimate cost of equity.

Figure 22: DCF Model

DCF Assumptions	
Short Term Growth Rate	3.3%
Terminal Growth Rate	2.5%
WACC	6.0%

We arrived at a per share value of \$129.81, which we weighted at 50% of our target price. Our full DCF model, including a sensitivity analysis, can be found in Appendix G.

Figure 23: DDM Model

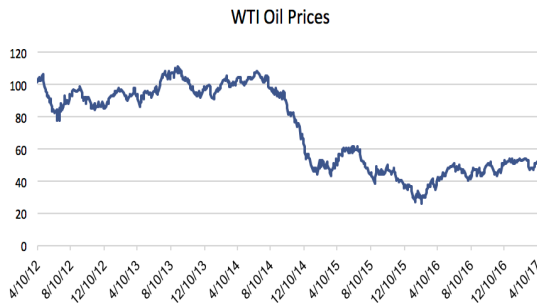
DDM Assumptions	
Terminal Growth Rate	2.5%
WACC	6.0%
Dividend Growth Rate	6.1%-5.0%
Share Repurchase Rate	2.0%

Dividend Discount Model (50% weight)

Our DDM assumptions included the same terminal growth rate of 2.5%, as well as a WACC of 6.0%. Our future dividends paid growth rate of 6.1% was calculated as a historical average rate from 2007-2015. However, we gradually walked this number down to 5% over the 10-year projected period to reflect the company’s expected maturation. We also assumed the company would continue its historical trend of repurchasing 2% of its shares each year. We arrived at a per share value of \$129.12, which we weighted at 50% of our target price. Our full DDM model, including a sensitivity analysis, can be found in Appendix H.

Risks to Investment Thesis

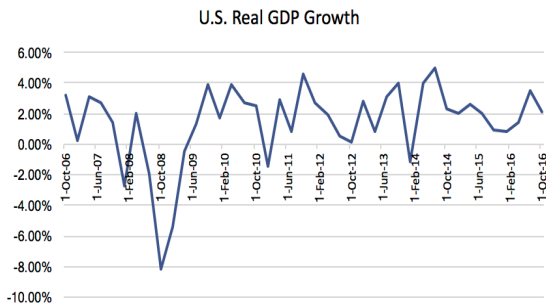
Figure 24: Oil Prices Since 2012



Rising Fuel Prices

UPS is exposed to changes in the price of gasoline, diesel, and jet fuel, as these energy sources fuel UPS’s ground and air fleets. Therefore, higher fuel costs could adversely impact UPS’s operating results. However, to mitigate their exposure to changing fuel prices, the company enters into hedging transactions to lock in current oil prices and reduce variability. With oil trading near its lowest prices in years, UPS has been able to reduce its cost of operations and employ hedging strategies to take advantage of the oil supply glut. However, even if oil prices begin to rise, we believe UPS’s efforts to transform its ground fleet from one dependent on gasoline and diesel to a fleet that is more reliant on alternative energy sources will help lessen the impact of rising prices.

Figure 25: GDP Growth Since 2006



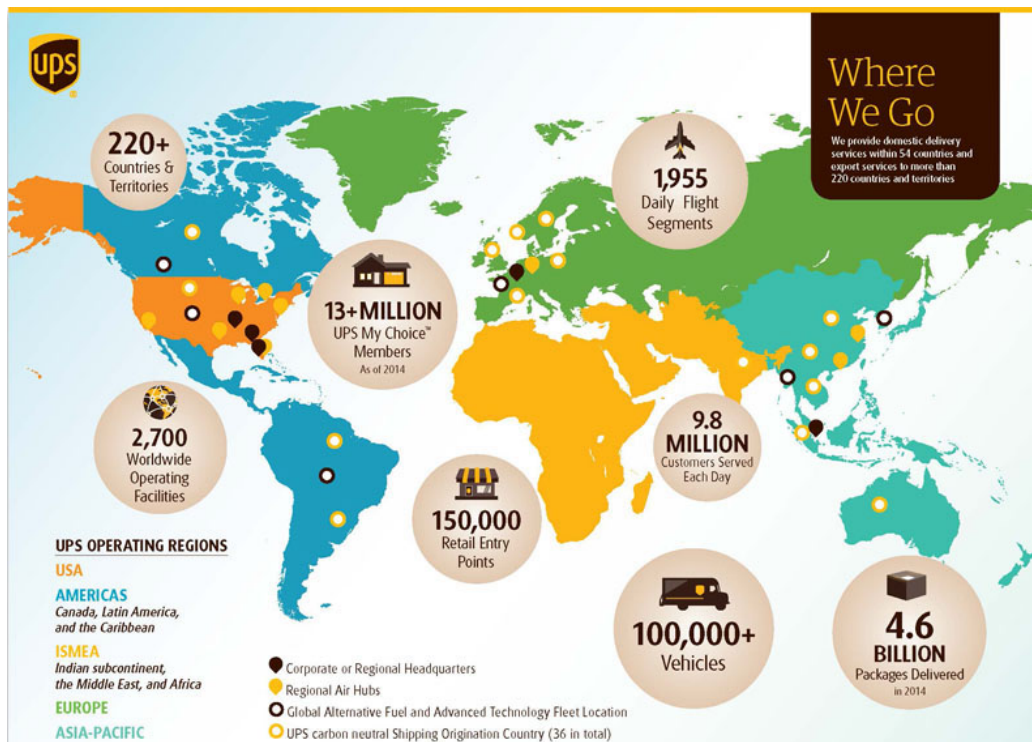
Economic Conditions: Domestic and Abroad

UPS conducts operations in over 220 countries and territories. Its U.S. and international operations are subject to normal business cycles affecting the economy in general. Since the factors that create cyclical changes to the economy and to UPS’s business are beyond its control, it may be difficult to mitigate the impact of these factors. In particular, UPS’s business is affected by levels of industrial production, consumer spending, and retail activity. Internationally, the United Kingdom’s vote to leave the European Union could also result in economic uncertainty and instability, resulting in fewer goods being transported globally. However, we believe that the current Trump administration’s pro-growth policies, particularly those focused on increased infrastructure spending and tax cuts will allow UPS to transport goods more efficiently, as well as boost domestic GDP and consumer spending.

Protectionist Trade Policies

UPS currently derives 21% of its revenues from international markets and has made long term investments to accommodate the growth in these markets, such as package sorting facilities and increasing its air fleet. Thus, free global trade is vital to UPS's business. With the potential for protectionist trade policies domestically and globally (Brexit), UPS may face an increased cost in transporting cross-border. However, UPS still operates mainly in the United States (which comprises 79% of its revenues) and maintains a geographical diversity of its international operations to ensure that the company is not overly reliant on a single foreign region or country.

Figure 26: UPS Global Footprint



Conclusion

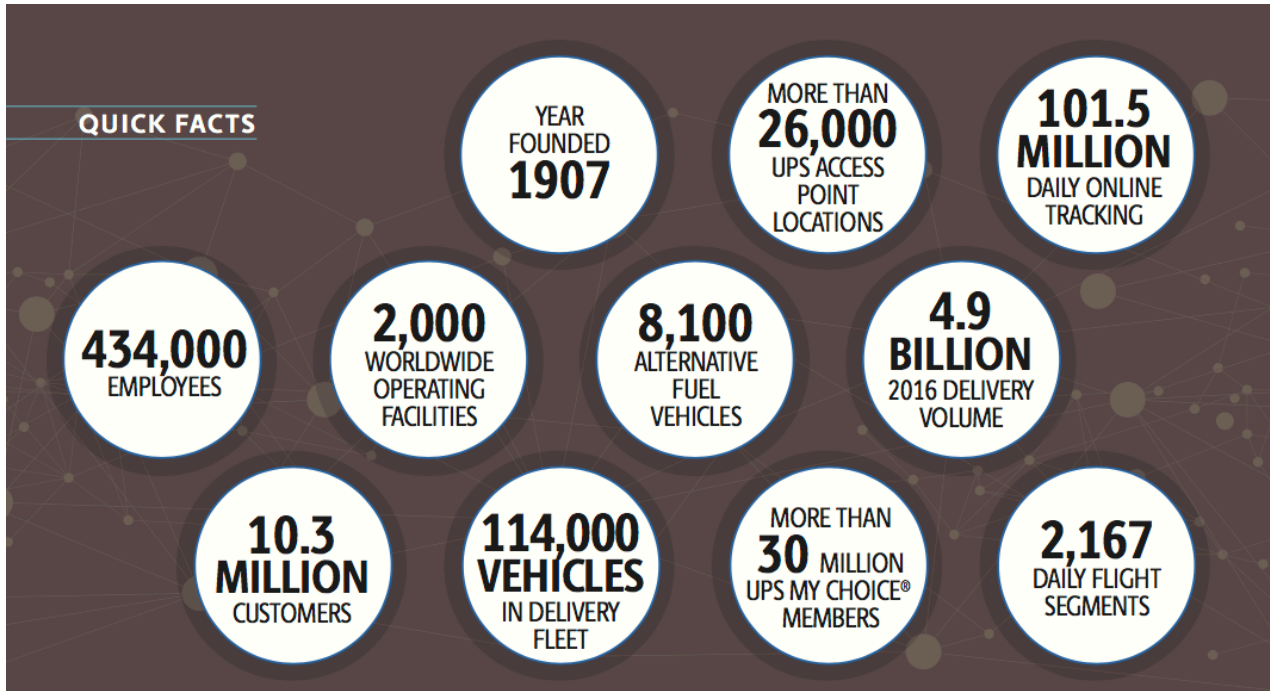
In conclusion, we reiterate our **Buy** rating of UPS with a price target of \$129.47 per share, which provides a 23.3% margin of safety over its current price of \$104.99. UPS is poised to provide a strong return for investors over the next 10 years due to its leading position in the parcel delivery and courier industry, which it hopes to grow given the company's long-term investments made abroad. Likewise, we believe e-commerce and healthcare logistics provide UPS with many opportunities to grow revenues and capitalize on shifts driven by technology. Lastly, UPS's ability to recognize changes in delivery automation and fuel independence by investing in autonomous transport technologies, drones, and alternative fuel vehicles has positioned the company to succeed into the foreseeable future.



WE ♥ LOGISTICS[™]

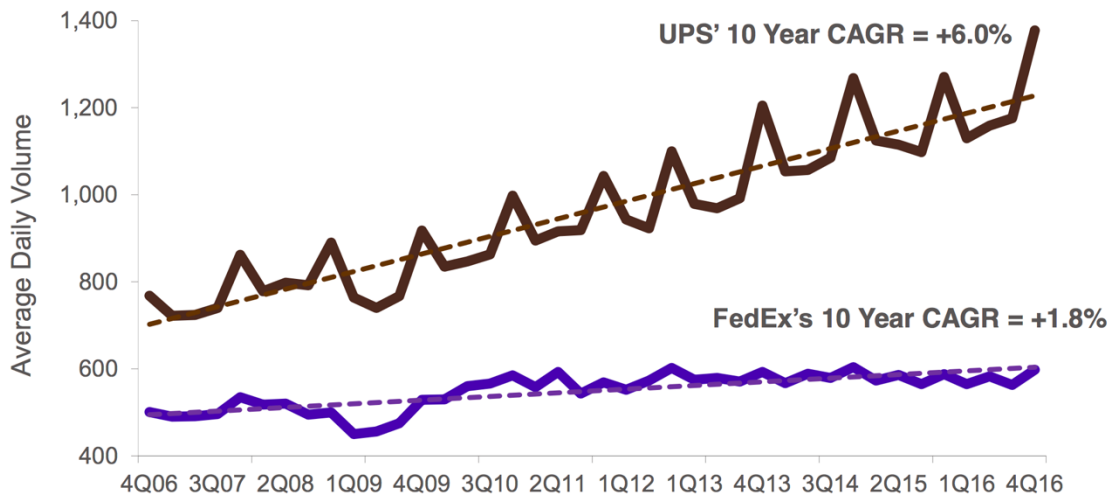
Appendices

Appendix A: UPS Quick Facts



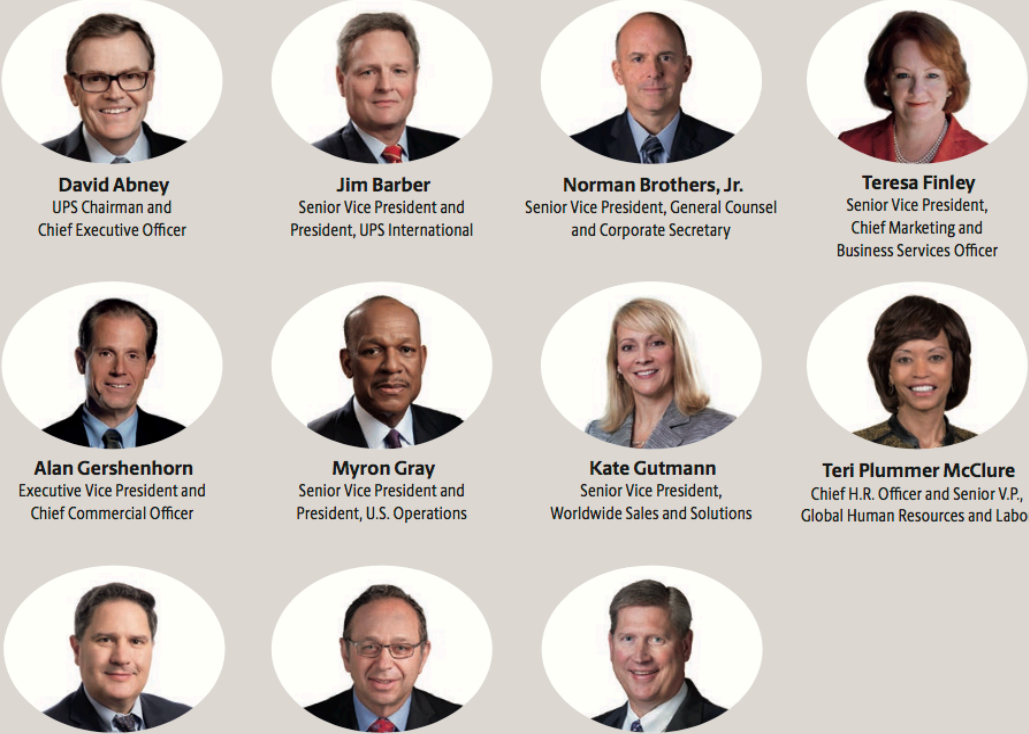
Appendix B: International Shipping Trend - UPS vs. FedEx












International Export Volume Trends



Appendix C: UPS Management

MANAGEMENT COMMITTEE



 David Abney UPS Chairman and Chief Executive Officer	 Jim Barber Senior Vice President and President, UPS International	 Norman Brothers, Jr. Senior Vice President, General Counsel and Corporate Secretary	 Teresa Finley Senior Vice President, Chief Marketing and Business Services Officer
 Alan Gershenhorn Executive Vice President and Chief Commercial Officer	 Myron Gray Senior Vice President and President, U.S. Operations	 Kate Gutmann Senior Vice President, Worldwide Sales and Solutions	 Teri Plummer McClure Chief H.R. Officer and Senior V.P., Global Human Resources and Labor
 Juan Perez Chief Information Officer	 Richard Peretz Senior Vice President, Chief Financial Officer and Treasurer	 Mark Wallace Senior Vice President, Global Engineering and Sustainability	

Appendix D: UPS Board of Directors

UPS BOARD OF DIRECTORS

David P. Abney
 Chairman and Chief Executive Officer
 Director since 2014

Rodney C. Adkins
 Former Senior Vice President of
 Corporate Strategy, IBM
 Director since 2013

Michael J. Burns
 Former Chairman, Chief Executive Officer and
 President, Dana Corporation
 Director since 2005

William R. Johnson
 Former Chairman, President and
 Chief Executive Officer, H.J. Heinz Company
 Director since 2009

Candace Kendle
 Co-founder and Former Chairman and
 Chief Executive Officer, Kendle International Inc.
 Director since 2011

Ann M. Livermore
 Former Executive Vice President,
 Hewlett-Packard Company
 Director since 1997

Rudy H.P. Markham
 Former Financial Director, Unilever
 Director since 2007

Franck Moison
 Vice Chairman
 Colgate-Palmolive Company
 Director since 2017

Clark T. Randt, Jr.
 Former U.S. Ambassador to the People's
 Republic of China, President of Randt & Co. LLC
 Director since 2010

John T. Stankey
 CEO AT&T Entertainment Group
 Director since 2014

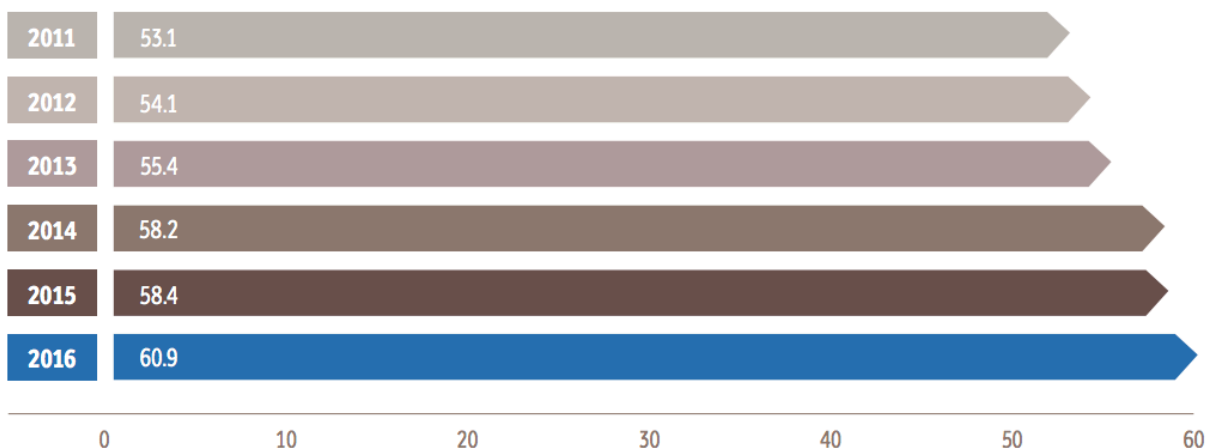
Carol B. Tomé
 Chief Financial Officer and Executive Vice
 President—Corporate Services,
 The Home Depot, Inc.
 Director since 2003

Kevin M. Warsh
 Former Member of the Board of
 Governors of the Federal Reserve System
 and Distinguished Visiting Fellow,
 Hoover Institution, Stanford University
 Director since 2012

Appendix E: UPS Revenue Metrics

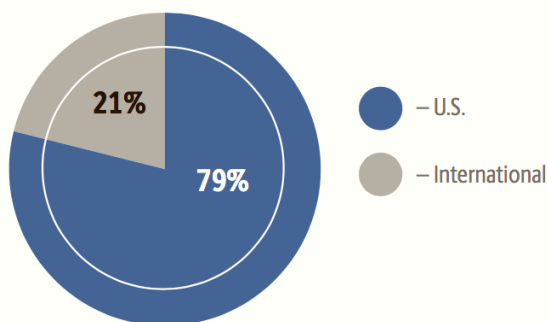
REVENUE

in billions of dollars



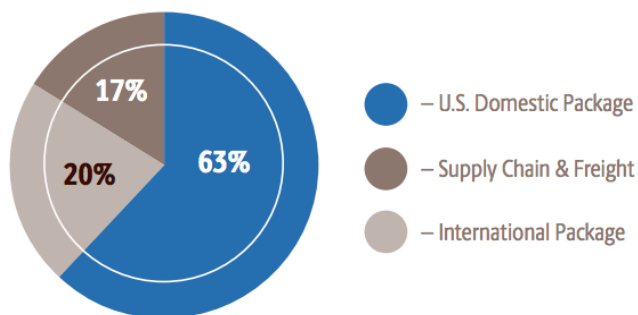
REVENUE BY GEOGRAPHY

percent



REVENUE BY SEGMENT

percent



Appendix F: UPS Financial Projections

Target

2017

2018 - 2019

Total Revenue 5% to 7%

4% to 6%

Adj. Operating Profit ~3%

5% to 9%

Adj. Earnings per Share 1% to 6%

5% to 10%

Appendix G: Discounted Cash Flow Model (50% weight)

UPS DCF Model	Historical Period					Projection Period				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	53,105.00	54,127.00	55,438.00	58,232.00	58,363.00	\$ 60,289.0	\$ 62,278.5	\$ 64,333.7	\$ 66,456.7	\$ 68,649.8
% growth		1.9%	2.4%	5.0%	0.2%	3.3%	3.3%	3.3%	3.3%	3.3%
Cost of Good Sold	41,921.00	47,632.00	43,177.00	47,682.00	45,037.00	46,950.5	47,898.0	48,857.0	49,827.1	50,808.0
Gross Margin	\$ 11,184.0	\$ 6,495.0	\$ 12,261.0	\$ 10,550.0	\$ 13,326.0	\$ 13,338.5	\$ 14,380.5	\$ 15,476.7	\$ 16,629.6	\$ 17,841.8
Gross Margin %	21.1%	12.0%	22.1%	18.1%	22.8%	22.1%	23.1%	24.1%	25.0%	26.0%
Operating Expenses	6,080.00	1,343.00	7,034.00	4,968.00	7,668.00	7458.9	8139.0	8819.1	9499.2	10179.3
Total Operating Expenses	\$ 6,080.0	\$ 1,343.0	\$ 7,034.0	\$ 4,968.0	\$ 7,668.0	\$ 7,458.9	\$ 8,139.0	\$ 8,819.1	\$ 9,499.2	\$ 10,179.3
% margin	11.4%	2.5%	12.7%	8.5%	13.1%	12.4%	13.1%	13.7%	14.3%	14.8%
EBITDA	\$ 6,886.0	\$ 7,010.0	\$ 7,094.0	\$ 7,505.0	\$ 7,742.0	\$ 7,990.6	\$ 8,423.5	\$ 8,912.6	\$ 9,460.4	\$ 10,070.5
% margin	13.0%	13.0%	12.8%	12.9%	13.3%	13.3%	13.5%	13.9%	14.2%	14.7%
Depreciation & Amortization	1,782.00	1,858.00	1,867.00	1,923.00	2,084.00	2,111.0	2,182.0	2,255.0	2,330.0	2,408.0
EBIT	\$ 5,104.0	\$ 5,152.0	\$ 5,227.0	\$ 5,582.0	\$ 5,658.0	\$ 5,879.6	\$ 6,241.5	\$ 6,657.6	\$ 7,130.4	\$ 7,662.5
% margin	9.6%	9.5%	9.4%	9.6%	9.7%	9.8%	10.0%	10.3%	10.7%	11.2%
Taxes	1,640.00	1743	1,654	1745	1,809	1,763.9	1,872.4	1,997.3	2,139.1	2,298.7
% tax	32.1%	33.8%	31.6%	31.3%	32.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBIAT	\$ 3,464.0	\$ 3,409.0	\$ 3,573.0	\$ 3,837.0	\$ 3,849.0	\$ 4,115.7	\$ 4,369.0	\$ 4,660.3	\$ 4,991.3	\$ 5,363.7
Plus: Depreciation & Amortization	1,782.00	1,858.00	1,867.00	1,923.00	2,084.00	2,111.0	2,182.0	2,255.0	2,330.0	2,408.0
Less: Capital Expenditures	2,005.00	2,153.00	2,065.00	2,328.00	2,379.00	2,372.0	2,452.0	2,534.0	2,618.0	2,706.0
Less: Increase in Net Working Capital	224.0	132.0	(34.0)	288.0	(254.0)	71.2	78.0	99.0	103.0	106.0
Plus: Other Operating Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	\$ 3,017.0	\$ 2,982.0	\$ 3,409.0	\$ 3,144.0	\$ 3,808.0	\$ 3,783.5	\$ 4,021.0	\$ 4,282.3	\$ 4,600.3	\$ 4,959.7
% growth		-1.2%	14.3%	-7.8%	21.1%	-0.6%	6.3%	6.5%	7.4%	7.8%
Discount Period						1	2	3	4	5
Discount Factor						0.94	0.89	0.84	0.79	0.75
Present Value of Free Cash Flow						\$ 3,569.4	\$ 3,578.7	\$ 3,595.5	\$ 3,643.9	\$ 3,706.2

Implied Equity Value and Share Price

PV of Cash Flows	\$ 18,093.6
PV of Terminal Value	\$ 108,538.7
Enterprise Value	\$ 126,632.3
Less: Total Debt	14,334
Less: Noncontrolling Interest	21
Plus: Cash and Cash Equivalents	2,730
Implied Equity Value	\$ 115,007.3
Fully Diluted Shares Outstanding	886.0
Implied Share Price	\$ 129.81

Implied Perpetuity Growth Rate

Terminal Year Free Cash Flow	\$ 4,959.7
WACC	6.0%
Terminal Value	\$ 145,249.2
Implied Perpetuity Growth Rate	2.5%

Sensitivity Analysis of Implied Share Price

		WACC				
		5.0%	5.5%	6.0%	6.5%	7.0%
Growth Rate	1.5%	\$ 135.09	\$ 116.28	\$ 101.65	\$ 89.95	\$ 80.39
	2.0%	\$ 157.02	\$ 132.42	\$ 113.97	\$ 99.62	\$ 88.15
	2.5%	\$ 187.73	\$ 153.94	\$ 129.81	\$ 111.71	\$ 97.64
	3.0%	\$ 233.78	\$ 184.06	\$ 150.92	\$ 127.25	\$ 109.51
	3.5%	\$ 310.54	\$ 229.25	\$ 180.48	\$ 147.97	\$ 124.76

Appendix H: Dividend Discount Model (50% weight)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Dividends Paid	-1,577.00	-1,703.00	-2,219.00	-1,751.00	-1,818.00	-1,997.00	-2,130.00	-2,260.00	-2,366.00	-2,525.00	-2,679.43	-2,843.31	-3,008.22	-3,182.70	-3,357.74	-3,542.42	-3,730.17	-3,927.87	-4,124.26	-4,330.47
Shares Outstanding	1,070.00	1,041.00	996.00	994.00	991.00	963.00	953.00	923.00	905.00	886.00	867.69	850.38	835.62	819.69	802.60	786.52	769.93	754.57	739.48	724.78
Dividends Per Share	1.47	1.64	2.23	1.76	1.83	2.07	2.24	2.45	2.61	2.85	3.09	3.34	3.60	3.88	4.18	4.50	4.84	5.21	5.58	5.97
<i>Metrics and assumptions</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Dividends Paid	13%	8%	30%	-21%	4%	10%	7%	6%	5%	7%	6.1%	6.1%	5.8%	5.8%	5.5%	5.5%	5.3%	5.3%	5.0%	5.0%
Shares Outstanding	-3%	-3%	-4%	0%	0%	-3%	-1%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%

Metrics and assumptions

Historical Data	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dividends Paid	8.0%	30.3%	-21.1%	3.8%	9.8%	6.7%	6.1%	4.7%	6.7%	6.1%
Shares Outstanding	-3%	-4%	0%	0%	-3%	-1%	-3%	-2%	-2%	-2%
Projected Assumptions	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Dividends Paid	6.1%	6.1%	5.8%	5.8%	5.5%	5.5%	5.3%	5.3%	5.0%	5.0%
Shares Outstanding	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%

DDM	
Growth Rate	2.5%
Discount Rate	6.0%
Terminal Value	\$174.98
Present Value of Terminal Value	\$97.71
Present Value of Dividends	\$31.41
Stock Value	\$129.12

SENSITIVITY ANALYSIS: TERMINAL GROWTH VS. DISCOUNT RATE

		WACC				
		5.0%	5.5%	6.0%	6.5%	7.0%
Growth Rate	1.5%	139.52	121.02	106.67	95.21	85.86
	2.0%	157.86	134.20	116.49	102.74	91.77
	2.5%	183.54	151.77	129.12	112.16	98.99
	3.0%	222.05	176.38	145.96	124.27	108.02
	3.5%	286.24	213.28	169.54	140.41	119.63

Appendix I: Income Statement

Period Ended	2016	2015	2014	2013	2012
<i>(In millions of USD)</i>					
Revenue	60,906.00	58,363.00	58,232.00	55,438.00	54,127.00
Cost of Goods Sold	11,247.00	10,527.00	12,358.00	11,513.00	11,444.00
Gross Profit	49,659.00	47,836.00	45,874.00	43,925.00	42,683.00
Operating Expenses					
Selling / General / Administrative Expense	2,575.00	2,422.00	2,415.00	2,190.00	2,130.00
Labor & Related Expense	34,770.00	31,028.00	32,045.00	28,557.00	33,102.00
Selling / General / Administrative Expenses, Total	37,345.00	33,450.00	34,460.00	30,747.00	35,232.00
Depreciation / Amortization	2,224.00	2,084.00	1,923.00	1,867.00	1,858.00
Investment Income - Operating	0	20	12	72	19
Interest / Investment Income - Operating	0	20	12	72	19
Interest Expense (Income), Net-Operating, Total	0	20	12	72	19
Other Operating Expense	4,623.00	4,614.00	4,511.00	4,205.00	4,231.00
Total Operating Expense	55,439.00	50,695.00	53,264.00	48,404.00	52,784.00
Operating Income	5,467.00	7,668.00	4,968.00	7,034.00	1,343.00
Interest Expense - Non- Operating	-373	-334	-348	-376	-381
Investment Income - Non- Operating	42	8	17	16	12
Interest Income (Expense), Net-Non-Operating, Total	-331	-326	-331	-360	-369
Net Income Before Taxes	5,136.00	7,342.00	4,637.00	6,674.00	974
Provision for Income Taxes	1,705.00	2,498.00	1,605.00	2,302.00	167
Net Income (After Tax)	3,431.00	4,844.00	3,032.00	4,372.00	807

Appendix J: Balance Sheet

Period Ended	2016	2015	2014	2013	2012
<i>(in millions of USD)</i>					
Assets					
Current assets					
Cash					
Cash and cash equivalents	3,476.00	2,730.00	2,291.00	4,665.00	7,327.00
Short-term investments	1,091.00	1,996.00	992.00	580.00	597.00
Total cash	4,567.00	4,726.00	3,283.00	5,245.00	7,924.00
Receivables	7,695.00	7,134.00	6,661.00	6,502.00	6,111.00
Deferred income taxes			590.00	684.00	583.00
Other current assets	1,587.00	1,348.00	1,274.00	956.00	973.00
Total current assets	13,849.00	13,208.00	11,808.00	13,387.00	15,591.00
Non-current assets					
Property, plant and equipment					
Gross property, plant and equipment	43,674.00	41,918.00	40,620.00	39,151.00	38,041.00
Accumulated Depreciation	(24,874.00)	(23,566.00)	(22,339.00)	(21,190.00)	(20,147.00)
Net property, plant and equipment	18,800.00	18,352.00	18,281.00	17,961.00	17,894.00
Equity and other investments	476.00	473.00			
Goodwill	3,757.00	3,419.00	2,184.00	2,190.00	2,173.00
Intangible assets	1,758.00	1,549.00	847.00	775.00	603.00
Deferred income taxes	591.00	255.00	652.00	110.00	684.00
Other long-term assets	1,146.00	1,055.00	1,699.00	1,789.00	1,918.00
Total non-current assets	26,528.00	25,103.00	23,663.00	22,825.00	23,272.00
Total assets	40,377.00	38,311.00	35,471.00	36,212.00	38,863.00
Liabilities					
Current liabilities					
Short-term debt	3,681.00	3,018.00	923.00	48.00	1,781.00
Accounts payable	3,042.00	2,587.00	2,754.00	2,478.00	2,278.00
Accrued liabilities	3,585.00	2,910.00	3,029.00	3,044.00	2,690.00
Other current liabilities	1,422.00	2,181.00	1,933.00	1,561.00	1,641.00
Total current liabilities	11,730.00	10,696.00	8,639.00	7,131.00	8,390.00
Non-current liabilities					
Long-term debt	12,394.00	11,316.00	9,864.00	10,824.00	11,089.00
Deferred taxes liabilities	112.00	115.00	83.00	1,244.00	48.00
Pensions and other benefits	12,694.00	10,638.00	11,452.00	7,051.00	11,068.00
Minority interest	24.00	21.00	17.00	14.00	80.00
Other long-term liabilities	3,018.00	3,055.00	3,275.00	3,474.00	3,535.00
Total non-current liabilities	28,242.00	25,145.00	24,691.00	22,607.00	25,820.00
Total liabilities	39,972.00	35,841.00	33,330.00	29,738.00	34,210.00
Stockholders' equity					
Common stock	9.00	9.00	9.00	9.00	10.00
Retained earnings	4,879.00	6,001.00	5,726.00	6,925.00	7,997.00
Treasury stock	(45.00)	(51.00)	(59.00)	(69.00)	(78.00)
Accumulated other comprehensive income	(4,438.00)	(3,489.00)	(3,535.00)	(391.00)	(3,276.00)
Total stockholders' equity	405.00	2,470.00	2,141.00	6,474.00	4,653.00
Total liabilities and stockholders' equity	40,377.00	38,311.00	35,471.00	36,212.00	38,863.00

Appendix K: Statement of Cash Flows

Period Ended	2016	2015	2014	2013	2012
<i>(in millions of USD)</i>					
Cash Flows From Operating Activities					
Net income	3,431.00	4,844.00	3,032.00	4,372.00	807.00
Depreciation & amortization	2,224.00	2,084.00	1,923.00	1,867.00	1,858.00
Deferred income taxes	123.00	540.00	385.00	(246.00)	(1,199.00)
Stock based compensation	591.00	574.00	536.00	513.00	547.00
Accounts receivable	(704.00)	(452.00)	(523.00)	(515.00)	(124.00)
Accounts payable	461.00	(147.00)	276.00	218.00	(58.00)
Accrued liabilities	109.00	(63.00)	106.00	416.00	98.00
Other working capital	(575.00)	408.00	429.00	(153.00)	216.00
Other non-cash items	813.00	(358.00)	(438.00)	832.00	5,071.00
Net cash provided by operating activities	6,473.00	7,430.00	5,726.00	7,304.00	7,216.00
Cash Flows From Investing Activities					
Investments in property, plant, and equipment	(2,965.00)	(2,379.00)	(2,328.00)	(2,065.00)	(2,153.00)
Property, plant, and equipment reductions	88.00	26.00	53.00	104.00	95.00
Acquisitions, net	(547.00)	(1,904.00)	(88.00)	(22.00)	(100.00)
Purchases of investments	(4,816.00)	(7,415.00)	(3,525.00)	(2,948.00)	(2,357.00)
Sales/Maturities of investments	5,724.00	6,388.00	3,106.00	2,957.00	3,086.00
Other investing activities	(50.00)	(25.00)	(19.00)	(140.00)	94.00
Net cash used for investing activities	(2,566.00)	(5,309.00)	(2,801.00)	(2,114.00)	(1,335.00)
Cash Flows From Financing Activities					
Debt issued	5,927.00	3,783.00	1,525.00	100.00	1,745.00
Debt repayment	(3,805.00)	(2,724.00)	(1,694.00)	(1,875.00)	(16.00)
Common stock issued	245.00	249.00	274.00	491.00	301.00
Repurchases of treasury stock	(2,678.00)	(2,702.00)	(2,695.00)	(3,838.00)	(1,621.00)
Cash dividends paid	(2,643.00)	(2,525.00)	(2,366.00)	(2,260.00)	(2,130.00)
Other financing activities	(186.00)	2,354.00	(205.00)	(425.00)	(96.00)
Net cash provided by (used for) financing activities	(3,140.00)	(1,565.00)	(5,161.00)	(7,807.00)	(1,817.00)
Effect of exchange rate changes	(21.00)	(117.00)	(138.00)	(45.00)	229.00
Net change in cash	746.00	439.00	(2,374.00)	(2,662.00)	4,293.00
Cash at beginning of period	2,730.00	2,291.00	4,665.00	7,327.00	3,034.00
Cash at end of period	3,476.00	2,730.00	2,291.00	4,665.00	7,327.00

Appendix L: Sources

UPS 10-K, UPS Investor Relations

UPS 2016 Presentation, UPS Investor Relations

FedEx 10-K, FedEx Investor Relations

Online and Mobile Shopping, Intel

Courier and Local Delivery Services in the US, IBISWorld

UPS Uses Drones to Deliver Packages, Wall Street Journal

Pharmaceutical Cold Chain Logistics, Pharmaceutical Commerce and IMS Health

Value Line Investment Survey

Morningstar

Bloomberg

Statista