

<b>Company:</b> United Parcel Service Inc	<b>Ticker:</b> UPS	<b>Current Price:</b> \$ 103.3	<b>Industry:</b> Industrials	<b>Sub Industry:</b> Air Freight & Logistics
Target Price: \$128.5	TTM P/E: 24.9		Beta: 0.89	Market Cap: \$92.76b
Stop Loss: \$82.64	Forward P/E: 20.12		Credit Rating: A+ (S&P)	Avg Vol ( 12 M): 1.11m
52 Week High/ Low: \$114.40 / \$ 93.64	EPS: \$4.75		Rating Outlook: Positive	Dividend Yield: 2.83%

#### Company Background:

United Parcel Service, Inc. is the world's largest integrated air and ground package delivery carrier. Also provides specialized transportation and logistics services. Service is offered throughout the U.S. and in over 220 other countries. Domestic package operations accounted for 62% of '14 revenues; international (22%); supply chain & freight (16%)

#### Industry Outlook:

The fundamental outlook for the air freight and logistics industry for the next 12 months is positive. Fundamentals in domestic shipping are likely to strengthen and the valuations of many logistics companies are likely to expand on improved investor sentiment should signs emerge that the U.S. and global economies are improving. We see improving volume and yield trends on expanding shipping demand and improved pricing over the coming year. According to data from the U.S. Board of Transport Statistics, total cargo rose 5.2% in 2014 - international up 6.9% and domestic up 3.4%. YTD May 2015, total cargo rose 5.0%, with international up 6.2% and domestic up 3.6% & with the holiday season still remaining. Demand for international shipping is believed to be driven by export activity out of Asia and developing economies throughout the world. Growth in e-commerce & increase in disposable income will fuel this industry.

#### Investment Thesis:

UPS is the giant among global parcel shipment companies having assembled an integrated global shipping network that's unlikely to be matched. Despite its extensive unionization and asset intensity, UPS produces returns on invested capital about double its cost of capital and margins well above its competitors' due to the firm's leading package density and outstanding operational efficiency. UPS has turned to health care markets and developing nations for growth. Even existing operations have revenue expansion potential via pricing power and operational efficiency via low oil prices, because UPS operates within a somewhat rational oligopoly market. UPS earns its wide economic moat from efficient scale, cost advantage, and the network effect. Extensive express, ground, and freight networks demand a huge quantity of trucks, trailers, terminals, sorting equipment, IT systems, and skilled labor. Replicating these assets in the absence of sufficient package flow would be costly. As evidenced by DHL's worthy effort, such a project would require at least a decade of effort.

#### Investment Risks:

- Slower than expected economic recovery
- Periods of tremendous volume volatility may affect UPS's integrated (ground & express) handling system
- Confusion in previous two holiday seasons causing delays in shipment

#### 3-5 take away from last quarter investor call transcript:

- Positive Momentum Continues with 3Q EPS up 5.3%; revenue misses forecast marginally due to currency fluctuation and lower fuel surcharge
- International Operating Profit Increased 10%
- Strong Air Shipment Growth in U.S. Domestic market
- The company's guidance for 2015 full-year diluted earnings per share is \$5.05 to \$5.30, an increase of 6% to 12% over adjusted 2014 results.

#### Financial Performance:

	2012	2013	2014	Q1-2015	Q2-2015	Q3-2015
Revenue	\$54.13b	\$55.43b	\$58.23b	\$13.98b	\$14.01b	\$14.254b
Operating Profit	\$7.07b	\$7.09b	\$7.13b	\$1.67b	\$1.96b	\$1.98b
Net Income	\$4.39b	\$4.34b	\$4.39b	\$1.03b	\$1.23b	\$1.26b
Revenue Growth %	7.2%	1.9%	2.4%	1.4%	-1.2%	-0.4%
EBITDA%	16.5%	16.1%	15.5%	15.6%	17.5%	17.6%
Operating Profit %	13.1%	12.8%	12.2%	12%	13.9%	13.9%
Net Income Margin	8.1%	7.8%	7.5%	7.3%	8.7%	8.8%
D/E	2.72	1.69	5.0	7.09	6.68	NA
Interest Coverage	3.27	17.85	13.65	18.59	22.02	23.90
EPS	4.5	4.57	4.75	1.12	1.35	1.39
PE Ratio	97.65	20.22	30.28	28.54	23.33	24.9
Current Ratio	1.86	1.88	1.37	1.31	1.34	NA
ROE	13.8%	78.6%	70.4%	77.9%	104.4%	NA
ROA	2.2%	11.7%	8.5%	8.5%	10.9%	NA
Dividend Per share	2.28	2.48	2.68	0.73	0.73	0.73
CF from Operations	\$7.2b	\$7.3b	\$5.7b	\$2.75b	\$1.49b	NA

#### Discounted Cash Flow

	2010-14	2015-19
Avg Revenue growth	5%	6%
Avg EBITDA Margin	16%	18%
Avg Net Income Margin	8%	10%
Avg Debt/Equity	2.46	3.0
Avg FCF / Margin	7.6%	6.4%
Cost of Debt		1.51%
Tax Rate		34%
Cost of Equity		8.46%
WACC		7.6%
Perpetuity growth rate		3.1%

#### Analyst Opinion

Buy: 8	Hold: 11	Sell: 0
	Rating	Target
S&P Net Advantage	****	\$120
Morning Star	***	\$136
Value Line	Timeless 3	\$130-160

#### Relative Valuation

FY2014	UPS	FDX	Ind. Average
P/E	24.13	41.41	18.18
P/B	48.10	2.94	NA
Dividend Yield	2.83%	0.64%	NA
PEG Ratio	1.94	0.99	1.55
EPS	4.29	3.80	0.50
Revn Grth	-0.01%	0.05%	0.13%
NI Grth	3.54%	5.97%	NA
Operating Margin	11%	10%	6%
Debt / Equity	5.0	0.5	NA
Market Cap	92.76B	44.39B	2.17B
Revenue	\$58.2b	\$44.93b	\$2.35b
Net Income	~\$4.0b	~\$1.1b	NA

#### 5 Year Stock Performance



#### Total Return

	UPS	Sector	S&P 500
YTD	-5.36%	NA	2.70%
2014	18.75%	NA	16.70%
Last 3 Years	14.84%	NA	16.20%
Last 5 Years	11.34%	NA	14.33%

#### CSR Characteristics

	UPS	Industry
Human Rights	1	1
Governance Disclosure Score	71.43	63.84
ESG Disclosure:	59.92	46.69
Social Disclosure Score	52.63	42.11
Environmental Disclosure Score	58.14	41.28