

Streamlite Closes Doors - (Very Slight) Net Positive for FedEx/UPS

Parcel consolidator, Streamlite, Inc., has shut down operations, which is a net positive for both FedEx (FDX: \$86.84; Buy) and UPS (UPS: \$77.37; Hold), but more so for FedEx, in our view, given its stronger market position in the parcel consolidator market with industry-leader FedEx SmartPost. From our prior meetings with Streamlite management, we estimate it had ~\$200mm of annual revenue and delivered roughly 200,000-250,000 packages per day. The company's (price-sensitive) customers should find their way first into the networks of FedEx SmartPost, DHL Global Mail, and Newgistics, in our view, as those are the main remaining small package consolidator options (vs. the faster and more expensive FedEx Ground or UPS Ground products). It is good for the remaining players, in our view, when a competitor shuts its doors, but due to the relative size of Streamlite, we believe EPS accretion to FedEx from additional volume should be minimal and practically immaterial.

- The parcel consolidator industry [note: parcel consolidators use the U.S. Postal Service for last-mile delivery and try to feed as many packages as they can as deep as they can into the USPS network to lower costs - also known as zone-skipping] is littered with failures, and we now add Streamlite to the list that includes APX Logistics, Parcel Corporation of America, and DDU Express. There is significant density required to run the business (even if it's an asset-light operation) to make money, and most companies struggle to grow profitably.
- Of the \$200mm in business going back out to the market, we estimate anywhere from 20%-50% should find its way to FedEx SmartPost (likely toward the lower end of that range). Even at the high end of that range, assuming an 85% operating ratio on the business, it would mean an incremental \$15mm in EBIT, or an incremental \$0.03 per share, which would be <1% accretive on our current \$7.41 EPS estimate for 2013. Still, more EBIT is better than less EBIT.
- For UPS, the volume gains are less likely, as the company does not have a stand-alone consolidator product offering (a shipper has to use other UPS products to access its SurePost option) and the accretion potential is even less than at FedEx, as UPS handles many more packages than FedEx already and one would have to (at best) round up to get \$0.01 of EPS accretion, which is immaterial on our 2013 EPS estimate of \$5.50.

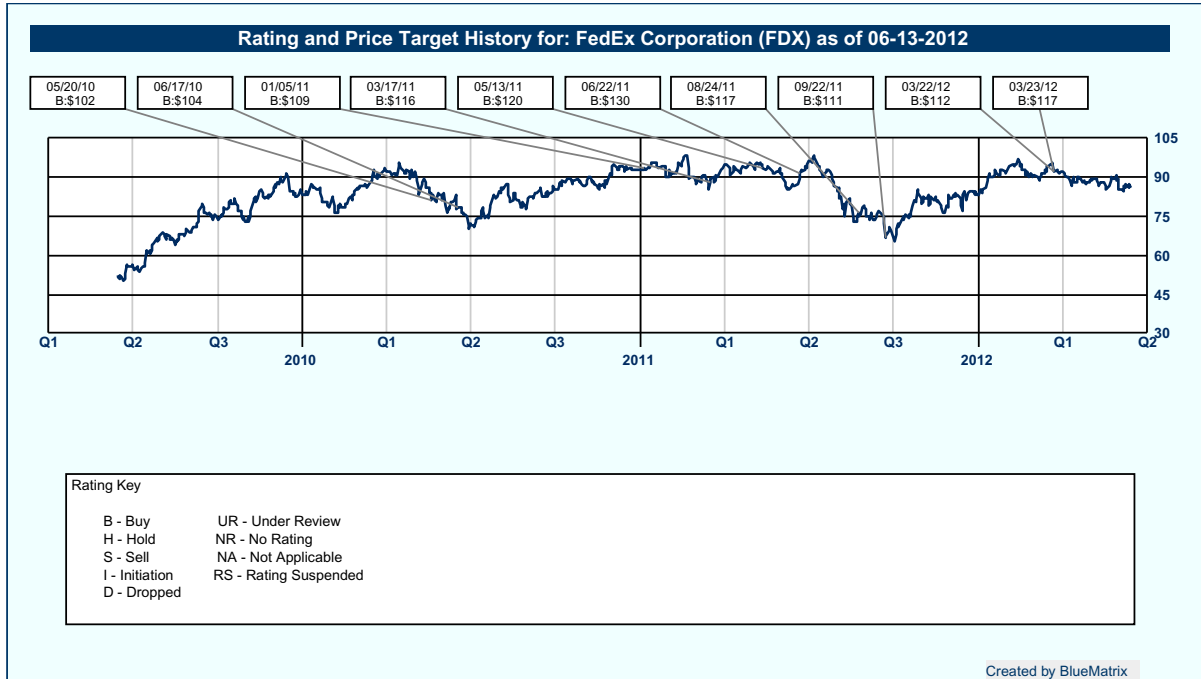
Price is as of the close, June 14, 2012.

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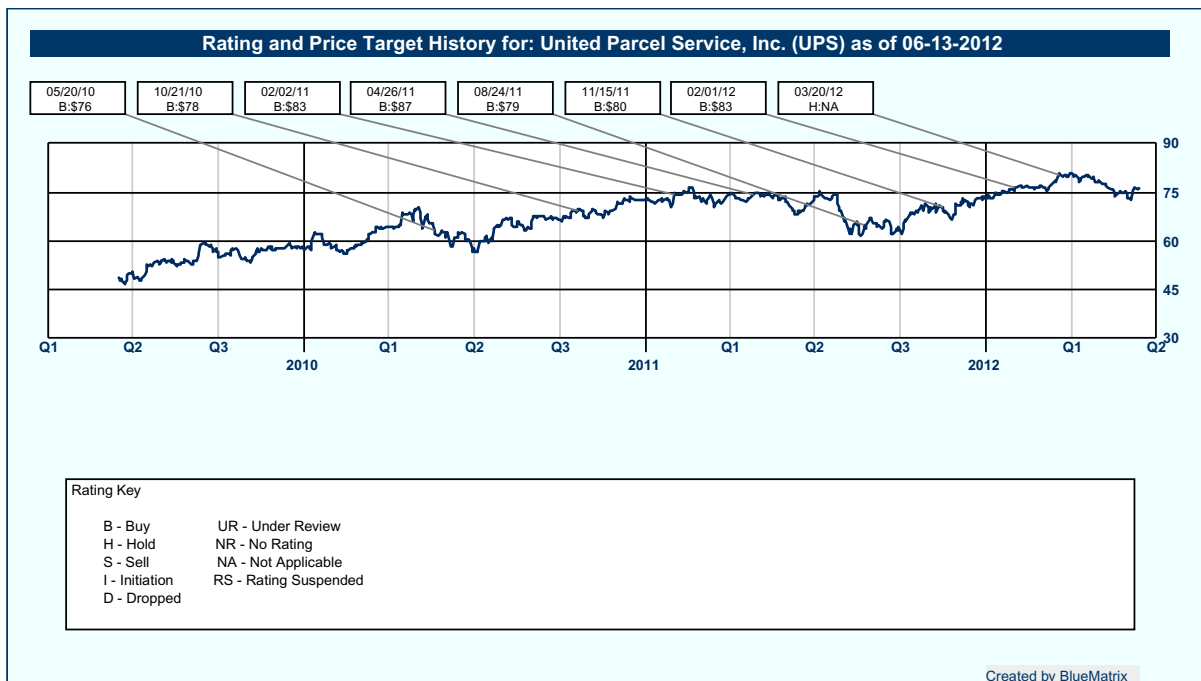
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