

2017 outlook below targets as e-commerce investments pressure margins; PO to \$123

Reiterate Rating: BUY | PO: 123.00 USD | Price: 109.39 USD



Equity | 31 January 2017

2017 below tgt on ecommerce investments & hedge impact

UPS set 2017 targets for 1%-6% EPS growth (\$5.80-\$6.10), from 2016's \$5.75, placing our \$6.15 and Street's \$6.17 above its range. It noted next year would be impacted by \$400 million of currency headwinds, \$100 million above its prior target, or \$0.07/sh of the reduction to targets. After adjusting 2016's \$5.75 EPS for 300 bps of currency contribution it gained in 2016, or \$0.22/sh, adjusted EPS was \$5.53. Our revised \$6.00 2017 EPS target represents 8.5% year-year growth (or 4.5% growth on \$5.75), which may prove aggressive given its increasing e-commerce investments.

Accelerating capex to capture e-commerce

Ground volumes grew 5.4%, slightly ahead of our 5.0% target, but Domestic operating income was \$1.34 billion, \$171 million below our target (\$0.13/sh shy), due to lower margin e-commerce growth and continued weakness in industrial production. Business-to-Consumer (B2C) volumes were up 11% in 4Q, contributing 55% of volumes for the quarter (peaking at 63% in December), its highest B2C mix ever, as Business-to-Business (B2B) continued to decline. Similar to FedEx, UPS noted it plans to lean into the growth, accelerating its investments to handle growing volumes. It set 2017 capex at \$4 billion, from \$3 billion in 2016, which was already up 25% from a year ago. It is accelerating sort center upgrades and other investments, taking a near term operational penalty for long-term returns. We believe these investments will drag near term ROIC and EPS, as it grows lower margin products to keeps pace with industry growth.

Large 4Q miss offset by lower tax rate; PO to \$123

4Q16 adjusted EPS was \$1.63, up 4% year-year, but below our \$1.67 and Street's \$1.69. Revenues were \$16.93 billion, up 5.5% y-y, \$293 million below our target. Operating income was \$2.22 billion, up 2% y-y, but \$144 million below our target (\$0.11/sh shy of target). Domestic operating margin was 12.3%, down 80 bps y-y, below our 13.5% target and International op margin was 21.2%, up 150 bps y-y, above our 19.7% target. We lower our PO to \$123 from \$126, holding our 20.5x target on our reduced 2017 EPS estimate (the midpoint of its 16x-24x historical trading range). We lower 2017 and 2018E EPS 3% and 4%, to \$6.00 and \$6.45, from \$6.15 and \$6.70, respectively. We reiterate our Buy rating on UPS.

Estimates (Dec)

(US\$)	2015A	2016A	2017E	2018E	2019E
EPS	5.44	5.75	6.00	6.45	6.95
GAAP EPS	5.35	5.75	6.00	6.45	6.95
EPS Change (YoY)	14.5%	5.7%	4.3%	7.5%	7.8%
Consensus EPS (Bloomberg)			6.17	6.74	6.92
DPS	2.92	3.12	3.28	3.44	3.60

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	20.1x	19.0x	18.2x	17.0x	15.7x
GAAP P/E	20.4x	19.0x	18.2x	17.0x	15.7x
Dividend Yield	2.7%	2.9%	3.0%	3.1%	3.3%
EV / EBITDA*	12.7x	12.1x	11.6x	10.9x	10.3x
Free Cash Flow Yield*	5.2%	3.6%	3.1%	4.5%	4.8%

* For full definitions of *Qmethod*SM measures, see page 12.

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Refer to important disclosures on page 13 to 15. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

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Timestamp: 31 January 2017 03:04PM EST

Key Changes

(US\$)	Previous	Current
Price Obj.	126.00	123.00
2017E Rev (m)	64,457.8	64,019.0
2018E Rev (m)	67,527.1	67,054.3
2019E Rev (m)	NA	70,254.3
2017E EPS	6.15	6.00
2018E EPS	6.70	6.45
2019E EPS	NA	6.95

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Stock Data

Price	109.39 USD
Price Objective	123.00 USD
Date Established	31-Jan-2017
Investment Opinion	B-1-7
52-Week Range	92.04 USD - 120.44 USD
Mkt Val (mn) / Shares Out (mn)	97,685 USD / 893.0
Average Daily Value (mn)	237.41 USD
BofAML Ticker / Exchange	UPS / NYS
Bloomberg / Reuters	UPS US / UPS.N
ROE (2017E)	496.2%
Net Dbt to Eqty (Dec-2016A)	NA

iQmethodSM – Bus Performance*

(US\$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	17.6%	17.9%	18.5%	18.8%	18.9%
Return on Equity	211.8%	349.6%	496.2%	245.1%	148.7%
Operating Margin	13.3%	13.3%	13.1%	13.1%	13.2%
Free Cash Flow	5,051	3,508	3,027	4,381	4,667

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	1.5x	1.3x	1.3x	1.6x	1.6x
Asset Replacement Ratio	1.1x	1.3x	1.6x	1.6x	1.6x
Tax Rate	34.0%	34.5%	35.0%	35.0%	35.0%
Net Debt-to-Equity Ratio	465.8%	NM	NM	443.3%	247.9%
Interest Cover	22.8x	21.3x	20.9x	22.0x	23.2x

Income Statement Data (Dec)

(US\$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	58,363	60,906	64,019	67,054	70,254
% Change	0.2%	4.4%	5.1%	4.7%	4.8%
Gross Profit	54,481	57,250	59,834	62,711	65,786
% Change	2.8%	5.1%	4.5%	4.8%	4.9%
EBITDA	9,870	10,342	10,805	11,435	12,101
% Change	9.0%	4.8%	4.5%	5.8%	5.8%
Net Interest & Other Income	(326)	(331)	(352)	(352)	(344)
Net Income (Adjusted)	4,923	5,104	5,214	5,497	5,800
% Change	12.2%	3.7%	2.2%	5.4%	5.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	4,923	5,104	5,214	5,497	5,800
Depreciation & Amortization	2,084	2,224	2,430	2,626	2,833
Change in Working Capital	(307)	(782)	(1,025)	51	36
Deferred Taxation Charge	540	(170)	(80)	(80)	(80)
Other Adjustments, Net	190	97	490	490	490
Capital Expenditure	(2,379)	(2,965)	(4,003)	(4,203)	(4,413)
Free Cash Flow	5,051	3,508	3,027	4,381	4,667
% Change	48.6%	-30.5%	-13.7%	44.7%	6.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	2,730	4,657	1,041	110	65
Trade Receivables	7,134	5,701	7,114	7,449	7,807
Other Current Assets	3,344	3,120	3,509	3,519	3,529
Property, Plant & Equipment	18,352	18,800	22,003	24,083	26,297
Other Non-Current Assets	6,751	8,213	7,763	7,313	6,863
Total Assets	38,311	40,491	41,430	42,474	44,561
Short-Term Debt	3,018	540	540	540	540
Other Current Liabilities	7,678	11,315	11,300	11,353	11,414
Long-Term Debt	11,316	12,394	12,194	12,044	11,894
Other Non-Current Liabilities	13,808	15,723	15,723	15,723	15,723
Total Liabilities	35,820	39,972	39,757	39,660	39,571
Total Equity	2,491	429	1,673	2,814	4,990
Total Equity & Liabilities	38,311	40,401	41,430	42,474	44,561

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Air Freight

Company Description

UPS (UPS) provides logistics, freight (air sea ground rail) forwarding, international trade management and customs brokerage. It has more than 444,000 employees (362,000 US), serves more than 220 countries and territories, it operates a fleet of 237 UPS aircraft, as well as a ground fleet of more than 110,000 delivery vehicles. More than 46% of volume is business-to-consumer, and it delivers more than 18 million packages per day globally.

Investment Rationale

UPS, one of the three global integrators, is benefiting from its focus on pricing, e-commerce growth in the Domestic economy and Global sourcing. Cost increases from e-commerce had constrained domestic margins, but recent moves are countering that impact. UPS also remains focused on a cost controls. The company tends to be a concurrent economic indicator, resulting in shares that tend to move with the economy, with 50% of its international exposure to Europe, it is seeing a firming of volumes.

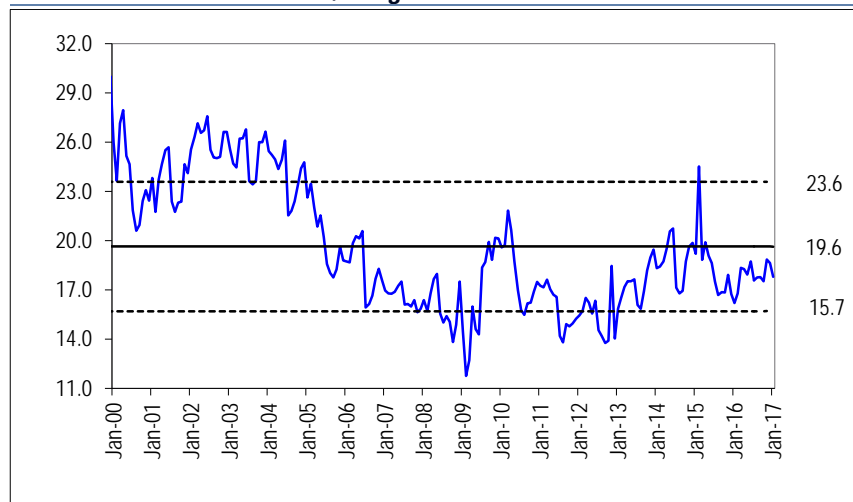
Stock Data

Average Daily Volume 2,170,330

Quarterly Earnings Estimates

	2016	2017
Q1	1.27A	1.29E
Q2	1.43A	1.49E
Q3	1.44A	1.49E
Q4	1.63A	1.73E

Exhibit 1: UPS historical forward P/E ranges between 16x-24x one-standard deviation.



Source: BofA Merrill Lynch Global Research estimates, company reports, Bloomberg, Factset, First Call, Reuters.

Investment pace accelerates. Int'l strength continues

GAAP EPS was a \$0.27 loss due to a non-cash, after-tax pension charge of \$1.90/sh. The company noted that results were challenged by an unfavorable shift in product mix, as well as continued weakness in industrial production, both of which are pushing UPS' business towards business-to-consumer volume, primarily driven by ecommerce shipments, and away from higher-margin business-to-business volume. UPS echoed many of the same issues being experienced at peer FedEx in noting that ecommerce traffic was causing greater volume to flow through its network, but that it needs better revenue initiatives to align price with cost and to manage seasonality of shipments. Like FedEx, UPS is undertaking significant investments to accommodate higher anticipated volumes and more demanding delivery windows, causing it to accelerate its capex plans.

4Q16 adjusted EPS was \$1.63, up 4% year-year, but below our \$1.67 and Street's \$1.69. Normalized Operating income was \$2.22 billion, \$144 million below our target (\$0.11/sh below target), excluding impact of Mark to Market Pension impact. Pre-tax pension market-to-market loss was adjusted for \$1.908 billion in Domestic, \$425 million in International, and \$318 million in Supply Chain & Freight. UPS's 4Q16 tax rate was 32.8%, below our 35.5% target, adding \$0.07/sh.

Domestic & Supply Chain/Freight missed targets, as Domestic operating income was \$1.34 billion, \$171 million below target (-\$0.13/sh below target) and Supply Chain & Freight operating income was \$179 million, \$21 million below our target (-\$0.02/sh). International topped our target, with operating income at \$706 million, \$49 million above our target (+\$0.04/sh), given better than expected currency gains..

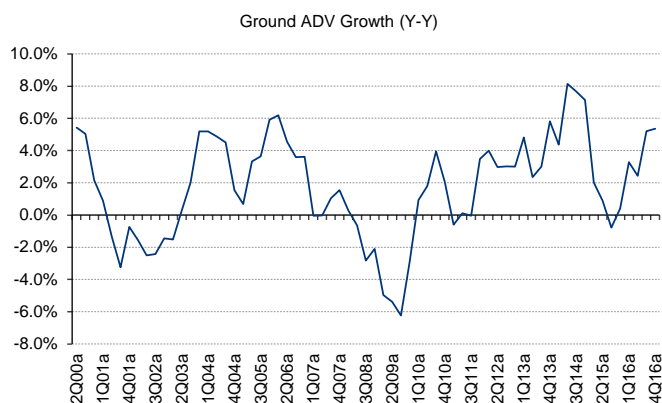
2017 guidance moves below Street

UPS expects 2017 adjusted EPS of \$5.80 to \$6.10, including \$400 million of pre-tax currency headwinds (total currency lowers adjusted EPS by \$0.30 in 2017, and decreases the growth rate by 500 bps). We/Street were at \$6.15/\$6.17 for 2017 and \$6.70/\$6.74 for 2018.

4Q16 consolidated results

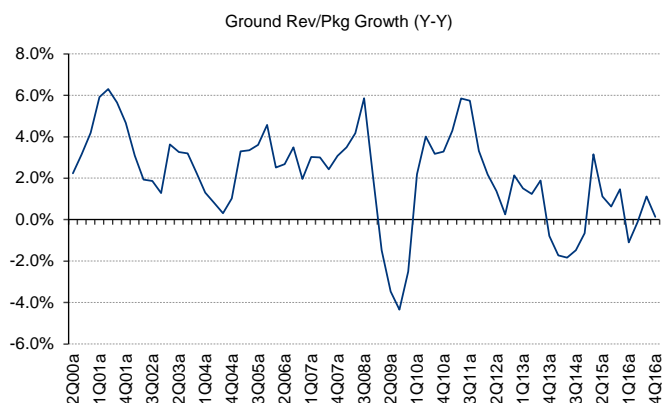
Revenues were \$16.93 billion, up 5.5% year-over-year, \$293 million below our target. Adjusted Operating expenses were \$14.71 billion, up 6% year-over-year, \$149 million below our estimate. Operating income was \$2.22 billion, up 2% year-over-year, \$144 million below our target (\$0.11/sh below). Operating margin was 13.1%, down 40 bps year-over-year, and 60 bps below our target.

Exhibit 2: Ground volumes up 5.4%, in-line with target



Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 3: Rev/Ground Package flat y-y, below our +1.5% target



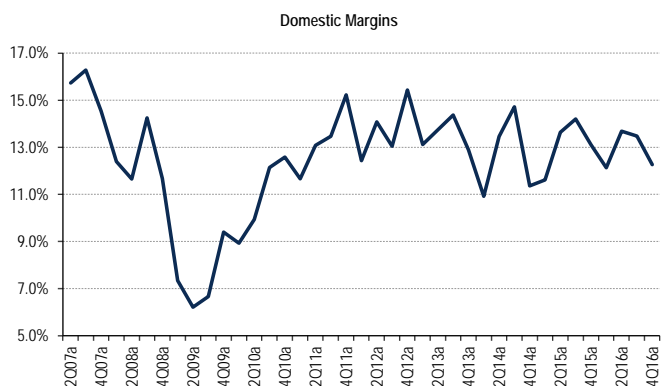
Source: BofA Merrill Lynch Global Research estimates and company reports.

Domestic: Revenue, Op Income and Margin miss targets; network in transition

Domestic revenues were \$10.91 billion, \$267 million below our target, and up 6% year-over-year. Domestic operating income was \$1.34 billion, \$171 million below our target and down 1% from a year ago (\$0.13/sh below). Domestic operating margin was 12.3%, 120 bps below our estimate and down 80 bps from a year ago.

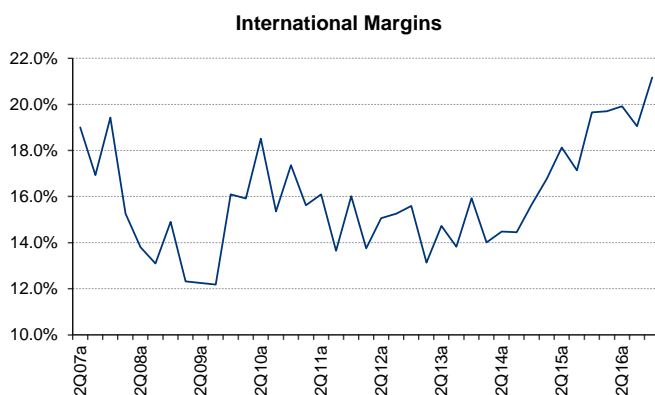
Volumes at Ground (16.14 mil.) were up 5.4%, in-line with our +5.0% estimate. Total Domestic volumes (19.55 mil.) were up 5.0%, also in-line with our +5.4% estimate. Yields at Ground (\$7.65) were up 0.1%, worse than our +1.5% estimate. Total Domestic yields (\$8.86) were down 0.4%, worse than our +1.6% estimate.

Exhibit 4: Domestic margins fall 80 bps y-y, and 120 bps shy of target; Notes will be constrained in 2017 given accelerating investments



Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 5: International margins hit record 21.2% given 300 bps benefit from currency hedges



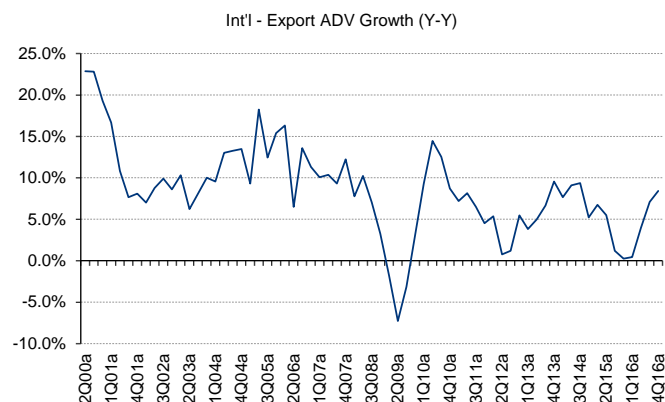
Source: BofA Merrill Lynch Global Research estimates and company reports.

International strength continues: Asia up 20% in 4Q16, inter-Europe exports +10%

International revenues were \$3.34 billion, in line with our target, and up 5% year-over-year. Operating income was \$706 million, \$49 million above our target, up 13% year-over-year (\$0.04/sh above). Operating margin was 21.2%, 150 bps above our target, and up 150 bps from a year ago.

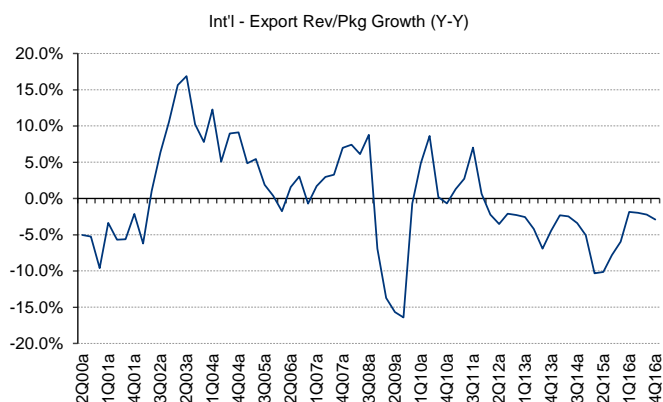
Total International volumes (3.19 mil.) were up 7.3%, above than our +5.9% estimate. Total International yields (\$15.90) were down -2.9%, worse than our -1.5% estimate.

Exhibit 6: International Exports posted 29th consecutive quarter of vol growth aided by stronger US\$



Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 7: International Export rev/pkg backs away from breakeven pricing (-3%), its 20th consecutive quarterly decline



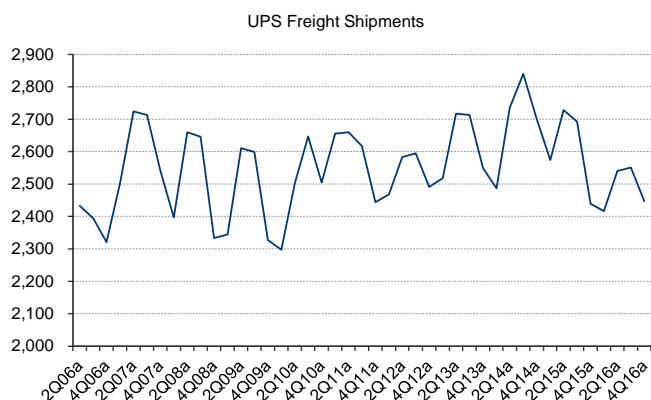
Source: BofA Merrill Lynch Global Research estimates and company reports.

Supply Chain & Freight: Revs and vol. grow, but excess capacity remains headwind

Supply chain & Freight revenues were \$2.68 billion, \$26 million below our target, and up 3% year-over-year. Operating income was \$179 million, \$21 million below our target (\$0.02/sh below). Operating margin was 6.7%, 70 bps below our target and down 90 bps from last year.

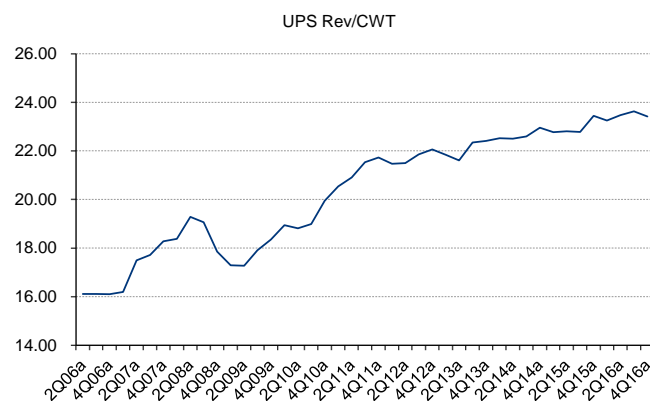
LTL Shipments (2.45 mil.) were up 0.3%, better than our -2.0% estimate. LTL Gross weight hauled (2.58 bil. lbs) was up 2.1%, better than our -3.0% estimate. LTL Freight Revenues (\$604 mil.) were up 2.0%, better than our +0.1% estimate. LTL Rev per hundredweight (\$23.42) was down -0.1%, worse than our +3.2% estimate.

Exhibit 8: LTL Shipments rise 0.3% year-over-year as manuf demand soft



Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 9: LTL rev/cwt at \$23.42, down 0.1% y-y, below target



Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 10: UPS Income Statement Model (\$ mil., except per share amounts)

	2015a	2016a	2017e	2018e	2019e	1Q16a	2Q16a	3Q16a	4Q16a	2016a	1Q17e	2Q17e	3Q17e	4Q17e	2017e
REVENUES															
Domestic															
Next Day Air	6,570	6,752	7,068	7,389	7,726	1,575	1,637	1,706	1,834	6,752	1,647	1,711	1,784	1,926	7,068
Deferred	3,903	4,082	4,228	4,420	4,621	915	899	967	1,301	4,082	964	944	966	1,353	4,228
Ground	26,274	27,467	28,926	30,195	31,569	6,594	6,479	6,616	7,778	27,467	6,988	6,935	6,894	8,109	28,926
Total Domestic Revenues	36,747	38,301	40,222	42,005	43,915	9,084	9,015	9,289	10,913	38,301	9,598	9,590	9,645	11,389	40,222
International															
Domestic	2,425	2,441	2,535	2,638	2,762	574	621	609	637	2,441	589	647	634	664	2,535
Export	9,092	9,374	9,711	10,402	11,088	2,203	2,326	2,284	2,561	9,374	2,235	2,375	2,401	2,699	9,711
Cargo	632	535	492	494	497	137	130	131	137	535	121	114	126	132	492
Total International Revenues	12,149	12,350	12,738	13,534	14,347	2,914	3,077	3,024	3,335	12,350	2,945	3,137	3,162	3,495	12,738
Total Letters and Package Revs	48,896	50,651	52,960	55,538	58,262	11,998	12,092	12,313	14,248	50,651	12,543	12,727	12,806	14,883	52,960
Forwarding & Logistics	5,900	6,793	7,472	7,771	8,082	1,586	1,659	1,735	1,813	6,793	1,745	1,825	1,909	1,994	7,472
Other Non-Package	686	726	744	766	789	178	185	179	184	726	182	189	184	190	744
UPS Freight Revenues	2,881	2,736	2,843	2,978	3,120	656	693	701	686	2,736	678	719	728	719	2,843
Total Supply Chain Revenues	9,467	10,255	11,059	11,516	11,992	2,420	2,537	2,615	2,683	10,255	2,604	2,733	2,820	2,902	11,059
Total Revenues	58,363	60,906	64,019	67,054	70,254	14,418	14,629	14,928	16,931	60,906	15,147	15,460	15,627	17,786	64,019
Revenue Growth Y-Y	0.2%	4.4%	5.1%	4.7%	4.8%	3.2%	3.8%	4.9%	5.5%	4.4%	5.1%	5.7%	4.7%	5.0%	5.1%
EXPENSES															
Compensation & Benefits	30,910	32,119	34,090	35,781	37,501	7,853	7,738	7,857	8,671	32,119	8,426	8,296	8,244	9,124	34,090
Repairs & Maintenance	1,400	1,538	1,625	1,697	1,770	381	383	386	388	1,538	407	409	403	406	1,625
Purchased Transportation	8,043	9,129	9,673	10,142	10,619	2,024	2,070	2,212	2,823	9,129	2,170	2,217	2,319	2,967	9,673
Fuel	2,482	2,118	2,561	2,646	2,699	434	505	541	638	2,118	577	639	638	707	2,561
Other Occupancy	1,022	1,037	1,101	1,156	1,211	269	245	248	275	1,037	289	263	260	289	1,101
Other Expenses	4,636	4,623	4,165	4,198	4,353	1,082	1,095	1,096	1,350	4,623	840	941	1,088	1,296	4,165
EBITDA	9,870	10,342	10,805	11,435	12,101	2,375	2,593	2,588	2,786	10,342	2,440	2,695	2,674	2,996	10,805
Depreciation & Amortization	2,084	2,224	2,430	2,626	2,833	552	555	554	563	2,224	610	613	598	610	2,430
Total Operating Expense	50,577	52,788	55,645	58,245	60,987	12,595	12,591	12,894	14,708	52,788	13,317	13,377	13,551	15,400	55,645
Operating Income (EBIT)	7,786	8,118	8,374	8,809	9,268	1,823	2,038	2,034	2,223	8,118	1,830	2,082	2,076	2,386	8,374
Operating Margin	13.3%	13.3%	13.1%	13.1%	13.2%	12.6%	13.9%	13.6%	13.1%	13.3%	12.1%	13.5%	13.3%	13.4%	13.1%
Interest Income	15	50	48	48	56	17	8	13	12	50	12	12	12	12	48
Interest Expense	341	381	400	400	400	93	94	94	100	381	100	100	100	100	400
Total Other Expense	(326)	(331)	(352)	(352)	(344)	(76)	(86)	(81)	(88)	(331)	(88)	(88)	(88)	(88)	(352)
Pretax Income	7,460	7,787	8,022	8,457	8,924	1,747	1,952	1,953	2,135	7,787	1,742	1,994	1,988	2,298	8,022
Income Tax	2,537	2,683	2,808	2,960	3,123	616	683	683	701	2,683	610	698	696	804	2,808
Normalized Net Income	4,923	5,104	5,214	5,497	5,800	1,131	1,269	1,270	1,434	5,104	1,132	1,296	1,292	1,494	5,214
Non Recurring Charges	(79)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Reported)	4,844	5,104	5,214	5,497	5,800	1,131	1,269	1,270	1,434	5,104	1,132	1,296	1,292	1,494	5,214
Normalized EPS (Fully Diluted)	5.44	5.75	6.00	6.45	6.95	1.27	1.43	1.44	1.63	5.75	1.29	1.49	1.49	1.73	6.00
Reported EPS (Fully Diluted)	5.35	5.75	6.00	6.45	6.95	1.27	1.43	1.44	1.63	5.75	1.29	1.49	1.49	1.73	6.00
Fully Diluted Shares Outstanding	906	888	870	852	835	894	890	885	881	888	876	872	867	863	870
Dividends	2.92	3.12	3.28	3.44	3.60	0.78	0.78	0.78	0.78	3.12	0.82	0.82	0.82	0.82	3.28
Dividend Payout Ratio	54%	54%	55%	53%	52%	62%	55%	54%	48%	54%	63%	55%	55%	47%	55%
Segment Operating Margin & Revenue Growth Analysis															
Domestic Operating Expenses	31,918	33,376	34,746	36,244	37,893	7,982	7,782	8,037	9,575	33,376	8,399	8,238	8,304	9,806	34,746
Domestic Package EBIT	4,829	4,925	5,476	5,760	6,022	1,102	1,233	1,252	1,338	4,925	1,200	1,352	1,341	1,583	5,476
Domestic Operating Margin	13.1%	12.9%	13.6%	13.7%	13.7%	12.1%	13.7%	13.5%	12.3%	12.9%	12.5%	14.1%	13.9%	13.9%	13.6%
International Operating Expenses	9,968	9,881	10,601	11,304	11,979	2,340	2,464	2,448	2,629	9,881	2,450	2,604	2,646	2,900	10,601
International Package EBIT	2,181	2,469	2,137	2,230	2,368	574	613	576	706	2,469	495	533	515	594	2,137
International Operating Margin	18.0%	20.0%	16.8%	16.5%	16.5%	19.7%	19.9%	19.0%	21.2%	20.0%	16.8%	17.0%	16.3%	17.0%	16.8%
Total Package Expenses	41,886	43,257	45,347	47,548	49,872	10,322	10,246	10,485	12,204	43,257	10,849	10,842	10,950	12,706	45,347
Total Package EBIT	7,010	7,394	7,613	7,990	8,391	1,676	1,846	1,828	2,044	7,394	1,695	1,885	1,856	2,177	7,613
Total Package Operating Margin	14.3%	14.6%	14.4%	14.4%	14.4%	14.0%	15.3%	14.8%	14.3%	14.6%	13.5%	14.8%	14.5%	14.6%	14.4%
Supply Chain Expenses	8,691	9,531	10,298	10,697	11,115	2,273	2,345	2,409	2,504	9,531	2,468	2,536	2,600	2,693	10,298
Supply Chain EBIT	776	724	761	819	877	147	192	206	179	724	135	197	220	209	761
Supply Chain Operating Margin	8.2%	7.1%	6.9%	7.1%	7.3%	6.1%	7.6%	7.9%	6.7%	7.1%	5.2%	7.2%	7.8%	7.2%	6.9%
Revenue Growth															
Domestic Revenue Growth	2.5%	4.2%	5.0%	4.4%	4.5%	3.1%	2.4%	4.8%	6.3%	4.2%	5.7%	6.4%	3.8%	4.4%	5.0%
International Revenue Growth	-6.5%	1.7%	3.1%	6.2%	6.0%	-1.9%	1.1%	2.2%	5.0%	1.7%	1.1%	1.9%	4.6%	4.8%	3.1%
Total Letters & Pkgs Rev Growth	0.1%	3.6%	4.6%	4.9%	4.9%	1.8%	2.0%	4.2%	6.0%	3.6%	4.5%	5.3%	4.0%	4.5%	4.6%
Total Non-Pkg Revenue Growth	0.8%	8.3%	7.8%	4.1%	4.1%	10.4%	13.2%	8.1%	2.6%	8.3%	7.6%	7.7%	7.9%	8.2%	7.8%
Expense Margins															
Compensation & Benefits	53.0%	52.7%	53.3%	53.4%	53.4%	54.5%	52.9%	52.6%	51.2%	52.7%	55.6%	53.7%	52.8%	51.3%	53.3%
Repairs & Maintenance	2.4%	2.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.3%	2.5%	2.7%	2.6%	2.6%	2.3%	2.5%
Purchased Transportation	13.8%	15.0%	15.1%	15.1%	15.1%	14.0%	14.1%	14.8%	16.7%	15.0%	14.3%	14.3%	14.8%	16.7%	15.1%
Fuel	4.3%	3.5%	4.0%	3.9%	3.8%	3.0%	3.5%	3.6%	3.8%	3.5%	3.8%	4.1%	4.1%	4.0%	4.0%
Other Occupancy	1.8%	1.7%	1.7%	1.7%	1.7%	1.9%	1.7%	1.7%	1.6%	1.7%	1.9%	1.7%	1.7%	1.6%	1.7%
Other Expenses	7.9%	7.6%	6.5%	6.3%	6.2%	7.5%	7.5%	7.3%	8.0%	7.6%	5.5%	6.1%	7.0%	7.3%	6.5%
Depreciation & Amortization	3.6%	3.7%	3.8%	3.9%	4.0%	3.8%	3.8%	3.7%	3.3%	3.7%	4.0%	4.0%	3.8%	3.4%	3.8%
Tax Rate	34.0%	34.5%	35.0%	35.0%	35.0%	35.3%	35.0%	35.0%	32.8%	34.5%	35.0%	35.0%	35.0%	35.0%	35.0%
EPS Growth	14.5%	5.8%	4.2%	7.6%	7.6%	12.6%	5.3%	3.1%	3.7%	5.8%	2.1%	4.3%	3.8%	6.3%	4.2%

Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 11: UPS Revenue Model (\$ mil.)

	2015a	2016a	2017e	2018e	2019e	1Q16a	2Q16a	3Q16a	4Q16a	2016a	1Q17e	2Q17e	3Q17e	4Q17e	2017e
OPERATING DAYS	254	255	255	255	255	64	64	64	63	255	64	64	64	63	255
% Change	0.4%	0.4%	0.0%	0.0%	0.0%	1.6%	0.0%	-1.5%	1.6%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
DOMESTIC REVENUE															
Next Day Air															
Average Daily Volume ('000s)	1,318	1,380	1,430	1,466	1,503	1,266	1,311	1,361	1,582	1,380	1,310	1,357	1,409	1,645	1,430
% change y-y	3.4%	4.7%	3.6%	2.5%	2.5%	3.0%	5.6%	5.9%	4.4%	4.7%	3.5%	3.5%	3.5%	4.0%	3.6%
Average Rev Per Package	\$19.65	\$19.20	\$19.39	\$19.78	\$20.17	\$19.44	\$19.51	\$19.59	\$18.40	\$19.20	\$19.63	\$19.71	\$19.79	\$18.58	\$19.39
% change y-y	-3.8%	-2.3%	1.0%	2.0%	2.0%	-3.3%	-2.6%	-1.6%	-2.8%	-2.3%	1.0%	1.0%	1.0%	1.0%	1.0%
Next Day Air Revenues	6,570	6,752	7,068	7,389	7,726	1,575	1,637	1,706	1,834	6,752	1,647	1,711	1,784	1,926	7,068
% change y-y	-0.2%	2.8%	4.7%	4.5%	4.5%	1.2%	2.9%	2.6%	4.2%	2.8%	4.5%	4.5%	4.6%	5.0%	4.7%
Deferred															
Average Daily Volume ('000s)	1,317	1,353	1,376	1,411	1,446	1,196	1,129	1,260	1,827	1,353	1,244	1,163	1,235	1,864	1,376
% change y-y	13.8%	2.7%	1.7%	2.5%	2.5%	-1.8%	-0.3%	10.4%	2.8%	2.7%	4.0%	3.0%	-2.0%	2.0%	1.7%
Average Rev Per Package	\$11.70	\$11.85	\$12.06	\$12.30	\$12.55	11.95	12.44	11.99	11.30	11.85	12.11	12.69	12.23	11.53	12.06
% change y-y	-6.9%	1.3%	1.8%	2.0%	2.0%	2.3%	2.6%	0.7%	0.0%	1.3%	1.3%	2.0%	2.0%	2.0%	1.8%
Deferred Revenues	3,903	4,082	4,228	4,420	4,621	915	899	967	1,301	4,082	964	944	966	1,353	4,228
% change y-y	6.3%	4.6%	3.6%	4.5%	4.5%	2.1%	2.4%	9.5%	4.4%	4.6%	5.3%	5.0%	-0.1%	4.0%	3.6%
Ground															
Average Daily Volume ('000s)	12,987	13,525	14,079	14,479	14,870	12,725	12,489	12,743	16,142	13,525	13,387	13,176	13,125	16,626	14,079
% change y-y	0.6%	4.1%	4.1%	2.8%	2.7%	3.3%	2.4%	5.2%	5.4%	4.1%	5.2%	5.5%	3.0%	3.0%	4.1%
Average Rev Per Package	\$7.98	\$7.97	\$8.06	\$8.18	\$8.33	8.10	8.11	8.11	7.65	7.97	8.16	8.22	8.21	7.74	8.06
% change y-y	1.6%	-0.1%	1.2%	1.5%	1.8%	-1.1%	-0.1%	1.1%	0.1%	-0.1%	0.7%	1.4%	1.2%	1.2%	1.2%
Ground Revenues	26,274	27,467	28,926	30,195	31,569	6,594	6,479	6,616	7,778	27,467	6,988	6,935	6,894	8,109	28,926
% change y-y	2.6%	4.5%	5.3%	4.4%	4.5%	3.7%	2.2%	4.8%	7.1%	4.5%	6.0%	7.0%	4.2%	4.3%	5.3%
TOTAL DOMESTIC REVENUE															
Average Daily Volume ('000s)	15,622	16,258	16,885	17,355	17,818	15,187	14,929	15,364	19,551	16,258	15,941	15,696	15,769	20,135	16,885
% change y-y	1.8%	4.1%	3.9%	2.8%	2.7%	2.8%	2.5%	5.7%	5.0%	4.1%	5.0%	5.1%	2.6%	3.0%	3.9%
Average Rev Per Package	\$9.28	\$9.25	\$9.35	\$9.50	\$9.67	\$9.35	\$9.44	\$9.45	\$8.86	\$9.25	\$9.41	\$9.55	\$9.56	\$8.98	\$9.35
% change y-y	0.3%	-0.3%	1.1%	1.6%	1.8%	-1.3%	-0.1%	0.8%	-0.4%	-0.3%	0.7%	1.2%	1.2%	1.3%	1.1%
Total Domestic Revenues	36,747	38,301	40,222	42,005	43,915	9,084	9,015	9,289	10,913	38,301	9,598	9,590	9,645	11,389	40,222
% change y-y	2.5%	4.2%	5.0%	4.4%	4.5%	3.1%	2.4%	4.8%	6.3%	4.2%	5.7%	6.4%	3.8%	4.4%	5.0%
INTERNATIONAL REVENUE															
Domestic															
Average Daily Volume ('000s)	1,577	1,636	1,698	1,745	1,791	1,517	1,599	1,612	1,815	1,636	1,605	1,650	1,664	1,873	1,698
% change y-y	-0.2%	3.8%	3.8%	2.8%	2.7%	-3.8%	4.5%	7.8%	6.5%	3.8%	5.8%	3.2%	3.2%	3.2%	3.8%
Average Rev Per Package	\$6.06	\$5.85	\$5.86	\$5.93	\$6.05	\$5.91	\$6.07	\$5.90	\$5.57	\$5.85	\$5.73	\$6.13	\$5.96	\$5.63	\$5.86
% change y-y	3.0%	-3.0%	3.0%	3.0%	3.0%	-3.0%	-1.0%	-3.4%	-6.1%	3.0%	-3.0%	1.0%	1.0%	1.0%	3.0%
Domestic Revenues	2,425	2,441	2,535	2,638	2,762	574	621	609	637	2,441	589	647	634	664	2,535
% change y-y	-12.9%	0.7%	3.8%	4.1%	4.7%	-5.1%	3.5%	2.5%	1.8%	0.7%	2.6%	4.3%	4.2%	4.2%	3.8%
Export															
Average Daily Volume ('000s)	1,152	1,211	1,289	1,347	1,401	1,130	1,159	1,176	1,378	1,211	1,215	1,246	1,241	1,454	1,289
% change y-y	3.2%	5.1%	6.4%	4.5%	4.0%	0.4%	3.9%	7.1%	8.4%	5.1%	7.5%	7.5%	5.5%	5.5%	6.4%
Average Rev Per Package	\$31.09	\$30.38	\$29.56	\$30.30	\$31.06	30.46	31.36	30.35	29.50	30.38	28.75	29.79	30.24	29.47	29.56
% change y-y	-8.5%	-2.3%	2.8%	2.5%	2.5%	-1.9%	-2.0%	-2.2%	-2.9%	-2.3%	-5.6%	-5.0%	-0.4%	-0.1%	2.8%
Export Revenues	9,092	9,374	9,711	10,402	11,088	2,203	2,326	2,284	2,561	9,374	2,235	2,375	2,401	2,699	9,711
% change y-y	-5.2%	3.1%	3.6%	7.1%	6.6%	0.1%	1.9%	3.1%	7.0%	3.1%	1.5%	2.1%	5.1%	5.4%	3.6%
Cargo															
Cargo Revenues	632	535	492	494	497	137	130	131	137	535	121	114	126	132	492
% change y-y	2.3%	-15.3%	-8.0%	0.4%	0.5%	-17.0%	-19.8%	-12.7%	-11.6%	-15.3%	-12.0%	-12.0%	-4.0%	-4.0%	-8.0%
TOTAL INTERNATIONAL REVS															
Average Daily Volume ('000s)	2,729	2,847	2,987	3,092	3,192	2,647	2,758	2,788	3,193	2,847	2,820	2,896	2,904	3,327	2,987
% change y-y	1.2%	4.3%	4.9%	3.5%	3.2%	-2.0%	4.3%	7.5%	7.3%	4.3%	6.5%	5.0%	4.2%	4.2%	4.9%
Average Rev Per Package	\$16.63	\$16.29	\$16.09	\$16.55	\$17.02	\$16.39	\$16.70	\$16.21	\$15.90	\$16.29	\$15.65	\$16.31	\$16.33	\$16.05	\$16.09
% change y-y	-8.4%	-2.1%	-1.2%	2.9%	2.9%	-0.5%	-2.0%	-2.7%	-2.9%	-2.1%	-4.5%	-2.3%	0.7%	0.9%	-1.2%
Total International Revenues	12,149	12,350	12,738	13,534	14,347	2,914	3,077	3,024	3,335	12,350	2,945	3,137	3,162	3,495	12,738
% change y-y	-6.5%	1.7%	3.1%	6.2%	6.0%	-1.9%	1.1%	2.2%	5.0%	1.7%	1.1%	1.9%	4.6%	4.8%	3.1%
TOTAL LETTER & PACKAGE REVS															
Average Daily Volume ('000s)	18,351	19,104	19,872	20,447	21,010	17,834	17,687	18,152	22,744	19,104	18,761	18,592	18,673	23,462	19,872
% change y-y	1.7%	4.1%	4.0%	2.9%	2.8%	2.1%	2.8%	5.9%	5.3%	4.1%	5.2%	5.1%	2.9%	3.2%	4.0%
Average Rev Per Package	\$10.37	\$10.30	\$10.36	\$10.56	\$10.79	\$10.39	\$10.57	\$10.49	\$9.85	\$10.30	\$10.35	\$10.60	\$10.61	\$9.98	\$10.36
% change y-y	-2.0%	-0.7%	0.6%	2.0%	2.1%	-1.6%	-0.4%	0.1%	-0.8%	-0.7%	-0.4%	0.3%	1.2%	1.3%	0.6%
Total Letter and Package Revs	48,896	50,651	52,960	55,538	58,262	11,998	12,092	12,313	14,248	50,651	12,543	12,727	12,806	14,883	52,960
% change y-y	0.1%	3.6%	4.6%	4.9%	4.9%	1.8%	2.0%	4.2%	6.0%	3.6%	4.5%	5.3%	4.0%	4.5%	4.6%
Fuel Surcharge- Ground	5.5%	4.9%	5.3%	5.3%	5.3%	4.9%	4.4%	5.1%	5.1%	4.9%	5.3%	5.3%	5.3%	5.3%	5.3%
Fuel Surcharge- Air	4.6%	3.6%	4.3%	4.3%	4.3%	3.2%	2.8%	4.1%	4.3%	3.6%	4.3%	4.3%	4.3%	4.3%	4.3%
Fuel Surcharge Change Y-Y Ground	-1.7%	-0.6%	0.4%	0.0%	0.0%	-1.3%	-0.9%	-0.2%	0.0%	-0.6%	0.3%	0.8%	0.2%	0.2%	0.4%
Fuel Surcharge Change Y-Y Air	-5.6%	-1.0%	0.7%	0.0%	0.0%	-2.0%	-1.8%	-0.5%	0.3%	-1.0%	1.1%	1.5%	0.2%	0.0%	0.7%
Pure Pricing Growth															
Domestic - Next Day Air	1.8%	-1.3%	0.3%	2.0%	2.0%	-1.3%	-0.8%	-1.1%	-2.1%	-1.3%	-0.1%	-0.5%	0.8%	1.0%	0.3%
Domestic - Deferred	-1.3%	2.3%	1.1%	2.0%	2.0%	4.3%	4.4%	1.2%	-0.3%	2.3%	0.2%	0.5%	1.8%	2.0%	1.1%
Domestic - Ground	3.4%	0.5%	0.8%	1.5%	1.8%	0.2%	0.8%	1.3%	0.1%	0.5%	0.4%	0.6%	1.0%	1.0%	0.8%
Intl - Domestic	-7.4%	-2.4%	-0.7%	1.3%	2.0%	-1.0%	0.8%	-2.9%	-6.3%	-2.4%	-4.1%	-0.5%	0.8%	1.0%	-0.7%
Intl - Export	-2.9%	-1.3%	-3.4%	2.5%	2.5%	0.1%	-0.2%	-1.7%	-3.1%	-1.3%	-6.7%	-6.5%	-0.5%	-0.1%	-3.4%

Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 12: UPS Supply Chain Revenue Model and Segment Analysis (\$ mil.)

	2015a	2016a	2017e	2018e	2019e	1Q16a	2Q16a	3Q16a	4Q16a	2016a	1Q17e	2Q17e	3Q17e	4Q17e	2017e
SUPPLY CHAIN & FREIGHT															
Freight Services & Logistics	5,900	6,793	7,472	7,771	8,082	1,586	1,659	1,735	1,813	6,793	1,745	1,825	1,909	1,994	7,472
% change y-y	2.5%	15.1%	10.0%	4.0%	4.0%	19.2%	25.8%	15.7%	3.5%	15.1%	10.0%	10.0%	10.0%	10.0%	10.0%
Other non-package revenue	686	726	744	766	789	178	185	179	184	726	182	189	184	190	744
% change y-y	16.9%	5.8%	2.5%	3.0%	3.0%	16.3%	8.2%	0.6%	0.0%	5.8%	2.0%	2.0%	3.0%	3.0%	2.5%
UPS FREIGHT															
Workdays	253	253	253	253	253	64	64	64	61	253	63	64	64	62	253
LTL Rev per CWT	22.95	23.44	23.74	24.33	24.94	23.25	23.47	23.63	23.42	23.44	23.37	23.70	23.87	24.01	23.74
% change y-y	1.4%	2.1%	1.3%	2.5%	2.5%	2.1%	2.9%	3.7%	-0.1%	2.1%	0.5%	1.0%	1.0%	2.5%	1.3%
LTL Shipments ('000s)	10,433	9,954	10,127	10,400	10,681	2,416	2,540	2,551	2,447	9,954	2,416	2,578	2,620	2,513	10,127
% change y-y	-3.1%	-4.6%	1.7%	2.7%	2.7%	-6.1%	-6.9%	-5.2%	0.3%	-4.6%	0.0%	1.5%	2.7%	2.7%	1.7%
LTL Shipments per day ('000s)	41.2	39.3	40.0	41.1	42.2	37.8	39.7	39.9	40.1	39.3	38.3	40.3	40.9	40.5	40.0
% change y-y	-3.1%	-4.6%	1.7%	2.7%	2.7%	-7.6%	-6.9%	-5.2%	2.0%	-4.6%	1.6%	1.5%	2.7%	1.0%	1.7%
LTL gross weight hauled (mil. lbs.)	10,808	10,167	10,462	10,734	11,013	2,426	2,556	2,607	2,578	10,167	2,499	2,633	2,685	2,645	10,462
% change y-y	-7.1%	-5.9%	2.9%	2.6%	2.6%	-9.3%	-9.9%	-5.9%	2.1%	-5.9%	3.0%	3.0%	3.0%	2.6%	2.9%
LTL Weight per Shipment (lbs.)	1,036	1,022	1,038	1,064	1,091	1,004	1,006	1,022	1,054	1,022	1,019	1,021	1,037	1,075	1,038
% change y-y	-4.1%	-1.4%	1.6%	2.5%	2.5%	-3.5%	-3.3%	-0.7%	1.7%	-1.4%	1.5%	1.5%	1.5%	2.0%	1.6%
LTL Revenue (\$ mil.)	2,479	2,384	2,484	2,612	2,747	564	600	616	604	2,384	584	624	641	635	2,484
% change y-y	-5.9%	-3.8%	4.2%	5.2%	5.2%	-7.4%	-7.3%	-2.4%	2.0%	-3.8%	3.5%	4.0%	4.0%	5.1%	4.2%
TOTAL EXPENSES															
Compensation & Benefits	30,910	32,119	34,090	35,781	37,501	7,853	7,738	7,857	8,671	32,119	8,426	8,296	8,244	9,124	34,090
Repairs and maintenance	1,400	1,538	1,625	1,697	1,770	381	383	386	388	1,538	407	409	403	406	1,625
Depreciation and amortization	2,084	2,224	2,430	2,626	2,833	552	555	554	563	2,224	610	613	598	610	2,430
Purchased transportation	8,043	9,129	9,673	10,142	10,619	2,024	2,070	2,212	2,823	9,129	2,170	2,217	2,319	2,967	9,673
Fuel	2,482	2,118	2,561	2,646	2,699	434	505	541	638	2,118	577	639	638	707	2,561
Other occupancy	1,022	1,037	1,101	1,156	1,211	269	245	248	275	1,037	289	263	260	289	1,101
Other expenses	4,636	4,623	4,165	4,198	4,353	1,082	1,095	1,096	1,350	4,623	840	941	1,088	1,296	4,165
Total Operating Expense	50,577	52,788	55,645	58,245	60,987	12,595	12,591	12,894	14,708	52,788	13,317	13,377	13,551	15,400	55,645
Year-Over-Year Growth															
Compensation & Benefits	3.3%	3.9%	6.1%	5.0%	4.8%	3.8%	3.1%	5.3%	3.4%	3.9%	7.3%	7.2%	4.9%	5.2%	6.1%
Repairs and maintenance	2.1%	9.9%	5.6%	4.4%	4.3%	8.9%	7.3%	6.6%	17.2%	9.9%	6.8%	6.7%	4.4%	4.7%	5.6%
Depreciation and amortization	8.4%	6.7%	9.3%	8.0%	7.9%	9.1%	8.8%	5.1%	4.1%	6.7%	10.5%	10.4%	8.0%	8.3%	9.3%
Purchased transportation	-4.9%	13.5%	6.0%	4.8%	4.7%	9.2%	16.5%	14.8%	13.6%	13.5%	7.2%	7.1%	4.8%	5.1%	6.0%
Fuel	-36.0%	-14.7%	20.9%	3.3%	2.0%	-32.6%	-21.0%	-12.3%	9.6%	-14.7%	32.8%	26.5%	17.9%	10.8%	20.9%
Other occupancy	-2.1%	1.5%	6.2%	5.0%	4.8%	-8.5%	6.5%	2.9%	7.0%	1.5%	7.3%	7.2%	4.9%	5.2%	6.2%
Other expenses	2.2%	-0.3%	-9.9%	0.8%	3.7%	-0.9%	-2.2%	-2.3%	3.7%	-0.3%	-22.4%	-14.1%	-0.7%	-4.0%	-9.9%
Total Operating Expense	-1.0%	4.4%	5.4%	4.7%	4.7%	2.4%	3.8%	5.2%	5.9%	4.4%	5.7%	6.2%	5.1%	4.7%	5.4%
Business Segment Recap															
Domestic															
Total Domestic Revenue	36,747	38,301	40,222	42,005	43,915	9,084	9,015	9,289	10,913	38,301	9,598	9,590	9,645	11,389	40,222
Domestic Operating Expenses	31,918	33,376	34,746	36,244	37,893	7,982	7,782	8,037	9,575	33,376	8,399	8,238	8,304	9,806	34,746
Domestic Package EBIT	4,829	4,925	5,476	5,760	6,022	1,102	1,233	1,252	1,338	4,925	1,200	1,352	1,341	1,583	5,476
Domestic Operating Margin	13.1%	12.9%	13.6%	13.7%	13.7%	12.1%	13.7%	13.5%	12.3%	12.9%	12.5%	14.1%	13.9%	13.9%	13.6%
Total Domestic Growth y-y	2.5%	4.2%	5.0%	4.4%	4.5%	3.1%	2.4%	4.8%	6.3%	4.2%	5.7%	6.4%	3.8%	4.4%	5.0%
Domestic Op. Expenses Growth y-y	1.8%	4.6%	4.1%	4.3%	4.5%	2.5%	2.3%	5.7%	7.4%	4.6%	5.2%	5.9%	3.3%	2.4%	4.1%
Domestic Package EBIT Growth y-y	7.1%	2.0%	11.2%	5.2%	4.5%	7.6%	2.7%	-0.5%	-0.6%	2.0%	8.9%	9.7%	7.1%	18.3%	11.2%
International															
Total International Revenue	12,149	12,350	12,738	13,534	14,347	2,914	3,077	3,024	3,335	12,350	2,945	3,137	3,162	3,495	12,738
International Operating Expenses	9,968	9,881	10,601	11,304	11,979	2,340	2,464	2,448	2,629	9,881	2,450	2,604	2,646	2,900	10,601
International Package EBIT	2,181	2,469	2,137	2,230	2,368	574	613	576	706	2,469	495	533	515	594	2,137
International Operating Margin	18.0%	20.0%	16.8%	16.5%	16.5%	19.7%	19.9%	19.0%	21.2%	20.0%	16.8%	17.0%	16.3%	17.0%	16.8%
Total International Revenue Growth y-y	-6.5%	1.7%	3.1%	6.2%	6.0%	-1.9%	1.1%	2.2%	5.0%	1.7%	1.1%	1.9%	4.6%	4.8%	3.1%
International Operating Expenses Growth y-y	-10.1%	-0.9%	7.3%	6.6%	6.0%	-5.3%	-1.2%	-0.2%	3.1%	-0.9%	4.7%	5.7%	8.1%	10.3%	7.3%
International Package EBIT Growth y-y	14.5%	13.2%	-13.4%	4.3%	6.2%	15.3%	11.1%	13.6%	13.1%	13.2%	-13.8%	-13.0%	-10.5%	-15.9%	-13.4%
Total Package															
Total Package Revenue	48,896	50,651	52,960	55,538	58,262	11,998	12,092	12,313	14,248	50,651	12,543	12,727	12,806	14,883	52,960
Total Package Expenses	41,886	43,257	45,347	47,548	49,872	10,322	10,246	10,485	12,204	43,257	10,849	10,842	10,950	12,706	45,347
Total Package EBIT	7,010	7,394	7,613	7,990	8,391	1,676	1,846	1,828	2,044	7,394	1,695	1,885	1,856	2,177	7,613
Total Package Operating Margin	14.3%	14.6%	14.4%	14.4%	14.4%	14.0%	15.3%	14.8%	14.3%	14.6%	13.5%	14.8%	14.5%	14.6%	14.4%
Total Package Revenue Growth y-y	0.1%	3.6%	4.6%	4.9%	4.9%	1.8%	2.0%	4.2%	6.0%	3.6%	4.5%	5.3%	4.0%	4.5%	4.6%
Total Package Expenses Growth y-y	-1.3%	3.3%	4.8%	4.9%	4.9%	0.6%	1.4%	4.3%	6.4%	3.3%	5.1%	5.8%	4.4%	4.1%	4.8%
Total Package EBIT Growth y-y	9.3%	5.5%	3.0%	4.9%	5.0%	10.1%	5.3%	3.6%	3.8%	5.5%	1.1%	2.1%	1.5%	6.5%	3.0%
Supply Chain Services															
Total Supply Chain Revenue	9,467	10,255	11,059	11,516	11,992	2,420	2,537	2,615	2,683	10,255	2,604	2,733	2,820	2,902	11,059
Supply Chain Expenses	8,691	9,531	10,298	10,697	11,115	2,273	2,345	2,409	2,504	9,531	2,468	2,536	2,600	2,693	10,298
Supply Chain EBIT	776	724	761	819	877	147	192	206	179	724	135	197	220	209	761
Supply Chain Operating Margin	8.2%	7.1%	6.9%	7.1%	7.3%	6.1%	7.6%	7.9%	6.7%	7.1%	5.2%	7.2%	7.8%	7.2%	6.9%
Total Supply Chain Revenue Growth y-y	0.8%	8.3%	7.8%	4.1%	4.1%	10.4%	13.2%	8.1%	2.6%	8.3%	7.6%	7.7%	7.9%	8.2%	7.8%
Supply Chain Expenses Growth y-y	0.2%	9.7%	8.0%	3.9%	3.9%	11.3%	15.2%	9.5%	3.7%	9.7%	8.6%	8.1%	7.9%	7.6%	8.0%
Supply Chain EBIT Growth y-y	8.1%	-6.7%	5.1%	7.1%	7.1%	-2.6%	-7.2%	-5.9%	-10.1%	-6.7%	-7.9%	2.5%	6.8%	16.7%	5.1%

Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 13: UPS Balance Sheet Model (\$ mil.)

	2015a	2016a	2017e	2018e	1Q16a	2Q16a	3Q16a	4Q16a	1Q17e	2Q17e	3Q17e	4Q17e
Assets												
Current Assets												
Cash & Cash Equivalents	2,730	4,657	1,041	110	3,887	3,059	3,299	4,657	2,878	2,701	2,140	1,041
Accounts Receivable	7,134	5,701	7,114	7,449	6,241	6,111	6,272	5,701	6,059	6,184	6,251	7,114
Finance Receivables	-	(4)	-	-	-	-	-	(4)	-	-	-	-
Marketable Securities	1,996	2,271	2,271	2,271	2,380	2,613	2,059	2,271	2,271	2,271	2,271	2,271
Prepaid Employee Benefit Costs	-	-	5	5	-	-	-	-	5	5	5	5
Other Current (Mats, Oth Prepaid Exp)	1,348	1,223	1,233	1,243	1,404	1,340	1,223	1,223	1,233	1,233	1,233	1,233
Common Stock Held	-	(370)	-	-	-	-	-	(370)	-	-	-	-
Total Current Assets	13,208	13,478	11,664	11,079	13,912	13,123	12,853	13,478	12,446	12,394	11,899	11,664
Vehicles	-	-	-	-	-	-	-	-	-	-	-	-
Aircraft (Includes Capital Leases)	-	-	-	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Buildings	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-
Plant Equipment	-	-	-	-	-	-	-	-	-	-	-	-
Construction-in-Progress	-	-	-	-	-	-	-	-	-	-	-	-
Gross PP&E	41,917	43,674	47,677	50,357	42,306	42,600	43,185	43,674	44,250	44,974	46,154	47,677
Accumulated Depreciation	(23,565)	(24,874)	(25,674)	(26,274)	(24,021)	(24,349)	(24,696)	(24,874)	(25,074)	(25,274)	(25,474)	(25,674)
Net PP&E	18,352	18,800	22,003	24,083	18,285	18,251	18,489	18,800	19,176	19,700	20,680	22,003
Prepaid Pension Costs	-	-	50	100	-	-	-	-	50	50	50	50
Other Long-Term Assets	6,751	8,213	7,713	7,213	6,971	6,965	7,000	8,213	7,713	7,713	7,713	7,713
Total Other Assets	25,103	27,013	29,766	31,396	25,256	25,216	25,489	27,013	26,939	27,463	28,443	29,766
Total Assets	38,311	40,491	41,430	42,474	39,168	38,339	38,342	40,491	39,385	39,857	40,342	41,430
Total Liabilities and Stockholders' Equity												
Current Liabilities												
Short-Term Debt (Commercial Paper)	-	-	-	-	-	-	-	-	-	-	-	-
Current Portion of Long-Term Debt	3,018	540	540	540	3,869	2,816	3,820	540	545	540	540	540
Accounts Payable	2,587	2,385	2,505	2,623	2,040	2,405	2,287	2,385	2,404	2,209	2,170	2,505
Accrued Wages & Withholdings	2,253	6,388	6,138	5,988	2,131	2,149	2,270	6,388	6,438	6,338	6,238	6,138
Deferred Income Tax (payable)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Payable	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Liabilities (Incl. Divs)	2,838	2,542	2,657	2,742	3,058	2,591	2,512	2,542	2,567	2,597	2,627	2,657
Total Current Liabilities	10,696	11,855	11,840	11,893	11,098	9,961	10,889	11,855	11,955	11,684	11,576	11,840
Long-Term Debt, Less Current Portion	11,316	12,394	12,194	12,044	11,569	11,550	11,506	12,394	12,344	12,294	12,244	12,194
Deferred Income Taxes	115	72	72	72	104	72	72	72	72	72	72	72
Other L-T Liabs (Accum. PBO, Net)	3,055	3,029	3,029	3,029	3,078	3,077	3,056	3,029	3,029	3,029	3,029	3,029
Long-Term Liabilities	25,124	28,117	27,917	27,767	25,590	25,728	24,686	28,117	28,067	28,017	27,967	27,917
Total Liabilities	35,820	39,972	39,757	39,660	36,688	35,689	35,575	39,972	40,022	39,701	39,543	39,757
Stockholders' Equity												
Common Stock	9	9	9	9	9	9	9	9	9	9	9	9
Additional Paid-In Capital	-	-	-	-	-	-	-	-	-	-	-	-
Retained Earnings	6,001	4,047	1,994	3,135	6,095	6,223	6,385	4,047	(315)	477	1,121	1,994
Accum. Other Comprehensive Inc	(3,519)	(3,627)	(330)	(330)	(3,624)	(3,582)	(3,627)	(3,627)	(330)	(330)	(330)	(330)
Deferred Comp. Arrangements	51	44	44	44	43	44	44	44	44	44	44	44
Treasury Stock	(51)	(44)	(44)	(44)	(43)	(44)	(44)	(44)	(44)	(44)	(44)	(44)
Total Stockholders' Equity	2,491	429	1,673	2,814	2,480	2,650	2,767	429	(636)	156	800	1,673
Total Liabilities and Equity	38,311	40,401	41,430	42,474	39,168	38,339	38,342	40,401	39,385	39,857	40,342	41,430
RATIOS												
All-in Debt to Total Capital	85.6%	96.9%	88.6%	81.7%	86.7%	85.0%	85.2%	96.9%	105.0%	98.8%	94.2%	88.6%
Return on Equity	211.8%	349.6%	496.2%	304.2%	232.4%	219.4%	215.5%	349.6%	553.9%	365.8%	289.0%	496.2%
Return on Invested Capital	29.6%	35.8%	37.4%	37.2%	28.4%	29.3%	29.4%	35.8%	42.5%	40.4%	39.0%	37.4%
Debt (Includes Capital Leases)	14,334	12,934	12,734	12,584	15,438	14,366	15,326	12,934	12,889	12,834	12,784	12,734
PV of Operating Leases (pre'01=rent)	499	477	214	17	720	639	558	477	411	346	280	214
Total Debt	14,833	13,411	12,948	12,601	16,158	15,005	15,884	13,411	13,300	13,180	13,064	12,948

Source: BofA Merrill Lynch Global Research estimates and company reports.

Exhibit 14: UPS Free Cash Flow Model (\$ mil.)

	2015a	2016a	2017e	2018e	2019e	1Q16a	2Q16a	3Q16a	4Q16a	2016a	1Q17e	2Q17e	3Q17e	4Q17e	2017e
Free Cash Flow															
Net Income Avail. to Common Shrls.	4,844	5,104	5,214	5,497	5,800	1,131	1,269	1,270	1,434	5,104	1,132	1,296	1,292	1,494	5,214
+ Depreciation & Amortization	2,084	2,224	2,430	2,626	2,833	552	555	554	563	2,224	610	613	598	610	2,430
+ (-) Working Capital	(307)	(782)	(1,025)	51	36	682	(129)	(145)	(1,190)	(782)	(353)	(146)	(60)	(466)	(1,025)
+ (-) Other Operating Activities	809	(73)	410	410	410	305	328	(1,009)	303	(73)	115	100	100	95	410
Operating Cash Flow	7,430	6,473	7,030	8,584	9,080	2,670	2,023	670	1,110	6,473	1,504	1,863	1,931	1,733	7,030
- Capital Expenditures	(2,379)	(2,965)	(4,003)	(4,203)	(4,413)	(427)	(536)	(874)	(1,128)	(2,965)	(576)	(724)	(1,180)	(1,523)	(4,003)
- Common Dividends Paid	(2,550)	(2,698)	(2,836)	(2,913)	(2,988)	(693)	(661)	(660)	(683)	(2,698)	(715)	(711)	(707)	(704)	(2,836)
Free Cash Flow	2,501	811	191	1,468	1,679	1,550	826	(864)	(701)	811	213	429	43	(494)	191
- Acquisitions, Net of Cash	(1,904)	-	-	-	-	(6)	3	-	3	-	-	-	-	-	-
+ (-) Marketable Securities	(1,027)	-	-	-	-	(625)	(166)	579	212	-	-	-	-	-	-
+ (-) Other Investing	1	130	80	80	80	(50)	13	62	105	130	20	20	20	20	80
Purchases of Treasury Stock	(2,702)	(2,682)	(2,700)	(2,700)	(2,025)	(640)	(689)	(678)	(675)	(2,682)	(675)	(675)	(675)	(675)	(2,700)
+ (-) Other Financings	3,687	2,239	200	200	200	893	(794)	1,141	999	2,239	50	50	50	50	200
Change of Cash	439	519	(2,208)	(931)	(45)	1,157	(828)	240	(50)	519	(371)	(176)	(562)	(1,099)	(2,208)
EOP Cash	2,730	3,249	1,041	110	65	3,887	3,059	3,299	3,249	3,249	2,878	2,701	2,140	1,041	1,041
FCF Margin	4.3%	1.3%	0.3%	2.2%	2.4%	10.7%	5.6%	-5.8%	-4.1%	1.3%	1.4%	2.8%	0.3%	-2.8%	0.3%
Cash Flow Statement (Quarterly)															
Operating Activities															
Net Earnings	4,844	5,104	5,214	5,497	5,800	1,131	1,269	1,270	1,434	5,104	1,132	1,296	1,292	1,494	5,214
Adjustments to Net Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Cash Expenses:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	2,084	2,224	2,430	2,626	2,833	552	555	554	563	2,224	610	613	598	610	2,430
Postretirement Benefits	(40)	(474)	90	90	90	224	224	(942)	20	(474)	35	20	20	15	90
Deferred Taxes	540	(170)	(80)	(80)	(80)	5	(36)	(119)	(20)	(170)	(20)	(20)	(20)	(20)	(80)
Stock Award Plans	574	571	400	400	400	215	131	125	100	571	100	100	100	100	400
Other	(265)	-	-	-	-	(139)	9	(73)	203	-	-	-	-	-	-
Total Non-Cash Expenses	2,893	2,151	2,840	3,036	3,243	857	883	(455)	866	2,151	725	713	698	705	2,840
Working Capital Changes:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	(452)	1,353	(1,413)	(335)	(358)	1,082	(28)	(272)	571	1,353	(358)	(125)	(67)	(864)	(1,413)
Finance Receivables	5	-	-	-	-	(20)	7	17	(4)	-	-	-	-	-	-
Prepaid Employee Benefit Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid Pension Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mats/Supplies/Oth Prepaid/Current Exp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Curr Assts (common stock held)	414	-	-	-	-	135	95	140	(370)	-	-	-	-	-	-
Accounts Payable	(147)	(178)	120	118	126	(571)	261	34	98	(178)	20	(196)	(38)	335	120
Accrued Wages & Withholdings	(63)	109	109	109	109	(108)	35	119	63	109	25	25	25	34	109
Dividends Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Taxes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Liabilities	(6)	(471)	89	89	89	136	(492)	(135)	20	(471)	20	20	20	29	89
Other Changes in Working Capital	(53)	(1,594)	70	70	70	8	-	(31)	(1,571)	(1,594)	(60)	130	-	-	70
Changes in Working Capital	(307)	(782)	(1,025)	51	36	682	(129)	(145)	(1,190)	(782)	(353)	(146)	(60)	(466)	(1,025)
Net Cash From Operating Activities	7,430	6,473	7,030	8,584	9,080	2,670	2,023	670	1,110	6,473	1,504	1,863	1,931	1,733	7,030
Investing Activities															
Capital Expenditures	(2,379)	(2,965)	(4,003)	(4,203)	(4,413)	(427)	(536)	(874)	(1,128)	(2,965)	(576)	(724)	(1,180)	(1,523)	(4,003)
Proceeds from Sales/Disp. of PP&E	26	130	80	80	80	3	8	65	54	130	20	20	20	20	80
Purchases of Marketable Securities	(7,415)	-	-	-	-	(1,599)	(1,532)	(1,119)	4,250	-	-	-	-	-	-
Sale of Marketable Securities	6,388	-	-	-	-	974	1,366	1,698	(4,038)	-	-	-	-	-	-
Construction Funds in Escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments for Acqs., Net of Cash Acq.	(1,904)	-	-	-	-	(6)	3	-	3	-	-	-	-	-	-
Other Asset Receipts	(30)	-	-	-	-	(33)	(2)	(20)	55	-	-	-	-	-	-
Cash From Investing	(5,309)	(2,835)	(3,923)	(4,123)	(4,333)	(1,108)	(686)	(233)	(808)	(2,835)	(556)	(704)	(1,160)	(1,503)	(3,923)
Financing Activities															
Proceeds From Borrowings	3,783	3,329	-	-	-	1,042	67	2,220	-	3,329	-	-	-	-	-
Repayment of Borrowings	(2,724)	(2,323)	200	200	200	(223)	(911)	(1,189)	-	(2,323)	50	50	50	50	200
Purchases of Treasury Stock	(2,702)	(2,682)	(2,700)	(2,700)	(2,025)	(640)	(689)	(678)	(675)	(2,682)	(675)	(675)	(675)	(675)	(2,700)
Issuances of Treasury Stock	249	1,195	-	-	-	83	64	49	999	1,195	-	-	-	-	-
Reclassification of Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	(2,550)	(2,698)	(2,836)	(2,913)	(2,988)	(693)	(661)	(660)	(683)	(2,698)	(715)	(711)	(707)	(704)	(2,836)
Other Transactions	2,354	11	-	-	-	(36)	(14)	61	-	11	-	-	-	-	-
Net Cash Provided by Financing	(1,565)	(3,140)	(5,336)	(5,413)	(4,813)	(440)	(2,144)	(197)	(359)	(3,140)	(1,340)	(1,336)	(1,332)	(1,329)	(5,336)
Effect of Exchange Rate on Cash	(117)	21	21	21	21	35	(21)	-	7	21	21	-	-	-	21
Net Change in Cash	439	519	(2,208)	(931)	(45)	1,157	(828)	240	(50)	519	(371)	(176)	(562)	(1,099)	(2,208)
BOP Cash	2,291	2,730	3,249	1,041	110	2,730	3,887	3,059	3,299	2,730	3,249	2,878	2,701	2,140	3,249
EOP Cash	2,730	3,249	1,041	110	65	3,887	3,059	3,299	3,249	3,249	2,878	2,701	2,140	1,041	1,041

Source: BofA Merrill Lynch Global Research estimates and company reports.

Price objective basis & risk

UPS (UPS)

Our \$123 price objective is based on a 20.5x multiple on our 2017 EPS estimate of \$6.00. Our target multiple is the mid-point of its 15-year historical one-standard deviation trading range of 16x-24x, as we anticipate improving operating leverage, pure pricing and efficiency gains to support EPS growth, offset by hedge declines and accelerating investments. Nevertheless, the macro overhang may work to constrain outsized EPS growth.

Risks to our price objective are a weaker-than-expected domestic or global economic performance, and external impacts to global trade (such as protectionism, trade wars, or tariffs), weather impacts, higher-than-expected fuel prices, increased ground delivery and price competition, disruptions with its employee-union relationships (while new master agreement was settled, various supplemental agreements, its Freight, and pilot contracts remain outstanding), and external disruptions to its cargo facilities or aircraft. Additionally, it may incur sizeable pension expense (\$3.2-\$3.8 billion) given ongoing Central States multi-employer pension plan appeals to the Department of Treasury for it to reduce benefits to its members, for which UPS may be held accountable.

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US - Transportation Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Railway	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	Fortress Transportation & Infrastructure	FTAI	FTAI US	Ariel Rosa
	Golar LNG Limited	GLNG	GLNG US	Ken Hoexter
	Golar LNG Partners LP	GMLP	GMLP US	Ken Hoexter
	Hoegh LNG Partners LP	HMLP	HMLP US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Swift Transportation	SWFT	SWFT US	Ken Hoexter
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
NEUTRAL				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	Canadian National	CNI	CNI US	Ken Hoexter
	Genesee & Wyoming	GWR	GWR US	Ken Hoexter
	Kansas City Southern	KSU	KSU US	Ken Hoexter
	Knight Transport	KNX	KNX US	Ken Hoexter
	Navios Maritime Midstream Partners L.P.	NAP	NAP US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
UNDERPERFORM				
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ariel Rosa
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Seaspan Corp	SSW	SSW US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
RSTR				
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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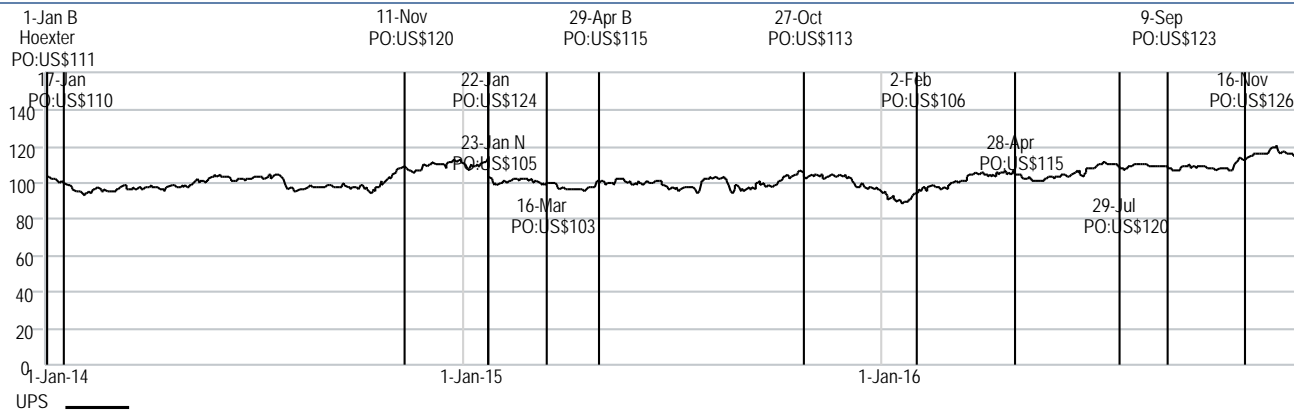
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UPS Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	52.03%	Buy	44	57.14%
Hold	31	20.95%	Hold	16	51.61%
Sell	40	27.03%	Sell	16	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1590	50.64%	Buy	989	62.20%
Hold	702	22.36%	Hold	438	62.39%
Sell	848	27.01%	Sell	406	47.88%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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