AIRFINANCE GLOBAL

FedEx to take tariff hit every quarter

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FedEx reported net income of $820 million for the first fiscal quarter, compared with $790 million in the same period last year, despite weaker international volumes following the end of "de minimis" exemptions, which previously allowed shipments valued under $800 to enter the USA duty-free.

Adjusted for its FedEx Freight spin-off costs and other changes, net income totalled $910 million.

The company said tariffs reduced first-quarter revenue by $150 million to $22.24 billion. The tariff impact will continue every quarter, chief customer officer Brie Carere said.

"In the first quarter, the vast majority of the $150 million was impacted by a reduction in top-line revenue, primarily due to de minimis impacts from the China lane. We anticipate that it will continue to flow through the year."

The USA ended the de minimis exemptions for packages from China and Hong Kong in May.

In addition to the $150 million per quarter, FedEx is "planning for incremental pressure because of the global de minimis change", which took place in August.

Together with other revenue pressures and expenses, trade policies represent a $1 billion headwind for the year, Carere explained, primarily due to a reduction in top-line revenue, as the USA to China is a "highly profitable market for FedEx."

In the year-earlier period, FedEx reported $21.6 billion in first-quarter revenue.

Knowing FedEx's strongest international lane would be under pressure, Carere said FedEx pivoted to capturing demand out of Southeast Asia and Europe.

"This provided a partial offset against the headwinds to demand on the China to the USA export lane. The team has done a great job of maximising US outbound capacity. We are seeing improving trends in both outbound weight and volume, supported by strong growth in our healthcare vertical."

Operating results for the Federal Express segment improved during the quarter, driven by higher US domestic and international priority package yields, continued cost savings from transformation initiatives, and increased US domestic package volume.

Higher wages partially offset these factors, including the impact of the evolving global trade environment on international export package demand, and the expiration of the US Postal Service contract.

“Our first quarter results demonstrate our commitment to improving stockholder returns while executing on our strategic initiatives,” said John Dietrich, FedEx's executive vice president and chief financial officer. “Looking ahead, we are prepared to navigate a range of scenarios, while remaining focused on value creation and maintaining a disciplined approach to capital allocation.

Total international average daily export volume was down 3%, but overall average daily volume, including domestic parcels, rose 4% for the quarter, and revenue per package increased by 2%.

“Our earnings growth underscores the success of our strategic initiatives, as we are flexing our network and reducing our cost-to-serve, while further enhancing our value proposition and customer experience,” said Raj Subramaniam, FedEx president and chief executive officer. “Our strategic initiatives, paired with our unique operational data platform from moving 17 million packages through our network daily, position us well to serve our customers in any environment and to create long-term value for our stockholders.”

The company ended the quarter with cash on hand of $6.2 billion and with investment-grade credit ratings from the major agencies.

It recently completed a euro-denominated bond offering that was oversubscribed. The two-tranche offering included a €500 million 7-year bond and a €500 million 12-year bond. JP Morgan Securities acted as stabilisation coordinator for FedEx.

First quarter capex was $623 million, driven by facility enhancements, hub modernisation and continued investments to maintain its fleet of aircraft and vehicles.

It also completed $500 million of share repurchases in the quarter and is on track to spin off its freight segment by June 2026.

Once separated, FedEx Freight will be a separately traded public company, listed on the New York Stock Exchange under the ticker symbol FDXF.

As previously announced, effective January 2026, FedEx Parcel and FedEx Freight LTL shipping rates will increase by an average of 5.9%.

FedEx is reaffirming its fiscal 2026 forecast of permanent cost reductions of $1 billion in transformation-related savings from structural cost reductions and the advancement of Network 2.0.

It also affirms capital spending of $4.5 billion, with a priority on investments in network optimisation and efficiency improvement, including fleet and facility modernisation and automation.

“Despite significant volatility and uncertainty around the global trade environment, our results demonstrate the resilience we have built into our network,” Subramaniam added.