

**United Parcel Service Inc. (UPS)**

Entry Price: \$85.60

*This contains backwards looking information. The position was initiated on October 16th, 2025 at \$85.60, ahead of Q3 earnings; research was completed and this memo was finalized on November 6th, 2025 (post-Q3, with shares at ~\$93.66), and it is now being prepared to be publicized as of May 28th, 2026. Upside figures in this memo are quoted from the November 6th publication price unless noted; the realized entry basis is \$85.60.*

**EXECUTIVE SUMMARY**

United Parcel Service is the world's largest integrated package-delivery and supply-chain company, ~400,000 employees, service in 220+ countries, ~5.7B packages a year across three segments: U.S. Domestic Package (67% of 2024 revenue, 6.5% op margin), International Package (21%, 19.1% op margin), and Supply Chain Solutions (12%, 15.1% op margin). FY2024 revenue was \$91B. Shares trade at \$93.66 as of this writing (entry basis \$85.60), with a ~7% dividend yield and a \$82-\$139 52-week range. The market is treating a timing mismatch, front-loaded labor, pension, dividend, and Network-of-the-Future CapEx obligations compressing FCF against macro-soft revenue, as structural decline. Q3 2025 (reported Oct 28) began to disprove that. The October 16 entry (ahead of Q3) was deliberately timed to this expectations setup: with guidance withdrawn and a history of misses, sentiment was depressed and the bar was on the floor, making a beat a high-probability re-rating catalyst. **I recommend a LONG position with a 12-month price target of \$119.16 (+27% from publication; greater from the entry basis) on three pillars:**

- 1) **The market is mispricing a timing mismatch as structural decline:** Revenue has stagnated on weak consumer spending, tariffs, and soft manufacturing, while FCF is temporarily constrained by the Teamsters contract, pension funding, dividend, and transformation CapEx. Together these create the *appearance* of decline; in reality they are long-term efficiency investments hitting in the same window. Q3 validated the thesis: adjusted EPS of \$1.74 beat consensus by 33.8%, adjusted operating margin expanded 110bps y/y to 10.0%, and revenue per piece rose 9.8% (a 3-year high) even as volume fell 12.3% by design. With ~\$1.3B of remaining cost savings still to flow through, the market has only partially re-rated.
- 2) **The Andlauer acquisition opens a high-margin pharma cold-chain runway:** The \$1.6B Andlauer acquisition (closed Nov 2025), on top of January's Frigo-Trans and BPL deals, positions UPS in temperature-controlled pharma logistics (a North American healthcare-logistics market growing 8-10% annually from ~\$45B (2025) toward \$60B+ (2030) with demographic tailwinds (65+ population 61M→73M) and a GLP-1 surge requiring 100% validated cold-chain. At a conservative 25% logistics share, I estimate \$87-178M of incremental operating profit today, scaling to \$189-385M by 2030 at 18-22% margins, a margin mix UPS's legacy Amazon business (5-6% margin) cannot match.
- 3) **Operational efficiency is insulating Q4 from a soft consumer:** UPS has deliberately exited low-margin B2C (Amazon volume -21.2% in Q3, targeting -50% by end-2026) and pivoted to more resilient SMB/B2B shippers (now 28.9% of U.S. volume, targeting 30%+), who are less price-elastic in a compressed 27-day holiday window. Management reinstated Q4 guidance (~\$24B revenue, 11.0-11.5% op margin) after withdrawing it, a confidence signal, and called Q4 "the leanest we have ever been during a peak season." With most cash obligations now paid (pension, buybacks, the bulk of dividends), cash available to equity holders should rise meaningfully going forward.

## EXPANDED THESIS

### 1) TIMING MISMATCH

UPS looks broken on the surface: stagnant revenue from weak consumer spending, tariff-contracted international volume, and soft manufacturing, layered on FCF compressed by front-loaded obligations (the Teamsters contract, pension funding, a sustained dividend, and Network-of-the-Future CapEx). Together these create the illusion of structural decline when they are really a timing mismatch; investments in long-term efficiency clustered in one window. The market's misread is amplified by an unfair FedEx comparison: FDX absorbed the same macro more smoothly via its asset-light, less-unionized structure, enabling faster cost cuts, but that outperformance is cyclical, not structural. On fundamentals UPS is the stronger operator: TTM EBITDA margin 14.1% vs FDX 10.84%, ROIC 14.7% against a ~8.5% WACC (FDX 5.75% ROIC / 7.3% WACC), and an 8.42% operating margin vs FDX 5.33%. Q3 2025 (Oct 28) supported the call directly: adjusted EPS \$1.74 (+33.8% vs consensus), revenue \$21.4B (+2.7% vs estimates), adjusted operating margin 10.0% (+110bps y/y), and \$2.2B of YTD cost savings against the \$3.5B annual goal. The transformation is running ahead of plan: 93 facility closures (vs 74 disclosed), 48,000 job reductions (vs 20,000 planned), 85% of U.S. volume now automated, while the deliberate pivot to revenue quality shows in +9.8% U.S. revenue per piece despite a 12.3% volume decline. The sell-side "low bar" narrative concedes the beat but stays anchored to backward-looking concerns; with ~\$1.3B of savings still to flow through, I see further upside even after the ~5% post-Q3 move.

### 2) ANDLAUER AND THE COLD-CHAIN POTENTIAL TAM

The \$1.6B Andlauer Healthcare Group acquisition positions UPS in one of logistics' most attractive, undersupplied sectors: temperature-controlled pharma distribution. The North American healthcare-logistics market is growing 8-10% annually, from ~\$45B (2025) to \$60B+ (2030), with demographic tailwinds as the 65+ population rises from 61.2M to ~73M (~22% of the population). The sharpest driver is GLP-1: in a bull case the market scales from ~\$65B (2025) to \$268-324B by 2034-35 (~17.3-17.5% CAGR), with effectively 100% of these drugs requiring validated cold-chain. a \$1.95-3.25B logistics opportunity today, expanding to \$4.2-7.0B by 2030. Capacity is scarce (compliant facilities cost 3-5x standard warehouses) and few competitors hold Andlauer's FDA/Health Canada-validated infrastructure. Where Americold dominates cold warehousing and long-term inventory, UPS/Andlauer fills the short-term-inventory and last-mile-to-patient niche that integrated players uniquely serve at scale, reinforced by the structural shift toward home healthcare and direct-to-patient delivery. Sizing it: with GLP-1 at ~\$65B and logistics ~3-5% of specialty-pharma cost, the logistics TAM is ~\$1.95-3.25B today; at a conservative 25% share (Andlauer is #1 in Canada, ~\$750M revenue in a ~\$4B market) and 18-22% margins, that is ~\$87-178M of operating profit now, scaling to ~\$1.05-1.75B of revenue and ~\$189-385M of operating profit by 2030 as the market reaches ~\$140B. Combined with the earlier Frigo-Trans and BPL acquisitions, UPS is assembling a global healthcare-logistics franchise at margins its legacy parcel mix cannot match.

### 3) EFFICIENCY INSULATES Q4 FROM A SOFT CONSUMER

Holiday spending is largely priced in, but the market underestimates the magnitude of UPS's operational transformation heading into peak. Industry forecasts have holiday e-commerce decelerating to ~5.3% (-3.4pts y/y) and total retail up just ~2.5% amid tariff caution. UPS has deliberately insulated itself from that volume headwind by exiting low-margin B2C (Amazon volume -21.2% in Q3) and capturing share among more resilient SMB/B2B shippers who prioritize on-time delivery and are less price-elastic in a compressed 27-day Thanksgiving-to-Christmas window (historically B2B parcel volume rises 15-25% in Q4). SMB reach is now 28.9% of U.S. volume, targeting 30%+. CEO Carol Tomé framed Q4 as "operating the leanest we have ever been during a peak season", so each revenue dollar flows through at historic margins

even with dampened volumes; consistent with the ~\$24B / 11.0-11.5% op-margin Q4 guide. Tomé's credibility matters here: as Home Depot CFO she helped drive ~450% shareholder returns through the 2008-09 downturn via strict capital discipline, and her "Better and Bolder" strategy is delivering ahead of schedule. With most cash obligations now satisfied (~\$1.3B of \$1.4B pension paid, ~\$1B buybacks complete, ~\$4B of \$5.5B dividends paid), cash to equity holders should step up, and possible Fed cuts plus oversupplied/cheaper fuel are unmodeled tailwinds.

Part of the edge here is an expectations setup, not just operations. Coming into Q3, UPS had withdrawn guidance and carried a multi-quarter history of missing, sentiment was depressed and the bar was on the floor. That asymmetry is what made the October entry (ahead of Q3) attractive: a beat against a lack of expectations is a far higher-probability re-rating catalyst than a beat against a confident Street. Looking past Q3, the structural reason to expect the positive print to continue is seasonal-operational: Q4 is UPS's peak-volume quarter, and after a year of facility closures and automation (85% of U.S. volume now automated), it would be the first peak season run through a network operating at near-maximum efficiency. Peak volume meeting a leaner cost base is precisely where operating leverage shows up, so the probability of a strong Q4 print is structurally elevated, even though management has now reinstated a seasonally higher guide. One honest distinction: the Q3 setup was a low-bar beat (no guidance to clear), whereas the Q4 leg is the harder version, beating a stated 11.0-11.5% margin guide on operating leverage rather than clearing a vacuum. The thesis is that the same efficiency-at-peak dynamic clears even the reinstated bar, sustaining the sentiment shift from "structural decliner" toward "executing turnaround."

## VALUATION

Valuation applies UPS's FY2024 EV/EBITDA multiple of 7.91x (the average of closest peers DHL and FDX) to base-case 2030E EBITDA, discounted at an 8.58% WACC. I view 7.91x as conservative given UPS's superior margins, EBITDA, and improving capital efficiency relative to that peer set.

- **Bear (7.91x): \$98.15 (+4.8% from publication):** Poor execution and prolonged macro/political headwinds; U.S. Domestic margin stalls ~7.25%, Amazon exit not fully offset, volume declines through 2028E, international margin plateaus ~20%, Andlauer synergies slow (~18% margin). Even here upside is modestly positive, pessimism is already in the price.
- **Base (7.91x): \$119.16 (+27.2% from publication):** Domestic margin reaches 8% by 2030E, international 20.5%, SCS 19.5%; SMB/B2B replacement stabilizes volume, international trade recovers (+3%), healthcare SCS scales, CapEx normalizes, tax ~23.5%.
- **Bull (7.91x): \$140.60 (+50.3% from publication).** All initiatives execute; domestic mix shift fully offsets Amazon, international ~21%, SCS ~21.5% as Andlauer captures meaningful GLP-1 cold-chain share.

**12-month price target: \$119.16** (+27.2% from the \$93.66 publication price; ~+39% from the \$85.60 entry basis).

## CATALYSTS

- UPS Q4 2025 earnings (late Jan 2026): validation of the ~\$24B / 11.0–11.5% margin guide and full-year cost-savings delivery
- Dividend declaration cadence, the key tell on the cut-risk debate
- Andlauer integration milestones and healthcare-segment disclosure
- Amazon volume glide-path toward the -50% end-2026 target; SMB mix toward 30%+

## KEY RISKS

- **Dividend sustainability:** The ~\$5.5B 2025 payout consumes ~87% of trailing cash flow at a ~7% yield (third-highest in the S&P 500), and the market is pricing cut risk, the 2022 50% dividend hike looks aggressive in hindsight as volumes normalized into a CapEx-heavy transformation. A cut would trigger an immediate negative reaction from UPS's income-investor base and negative headlines. **Mitigant:** a cut would arguably be a long-term positive, moving to a ~50% payout would free ~\$2.0–2.5B annually to accelerate the transformation and fund higher-margin healthcare/international growth. The risk has been telegraphed for several quarters, so much of the sell-off is likely already priced in, and coverage should improve as cost savings fully land.
- **Amazon volume reduction:** UPS is cutting Amazon parcels ~50% by end-2026 (Amazon was ~12% of 2024 revenue, ~\$11B; already -21.2% y/y in Q3). This creates (1) top-line pressure during a soft-growth period, (2) execution risk if SMB/healthcare/B2B can't offset quickly enough, and (3) narrative risk if investors read declining volume as share loss, especially as FDX absorbs some diverted volume and frames it as momentum. **Mitigant:** Amazon ran at 5-6% operating margins, far below UPS's 14.1% EBITDA margin and the 18-22% healthcare/international margins replacing it. Q3 validates the trade: volume -12.3% yet revenue per piece -9.8% and op margin to 10.0%, with Q4 guided to 11.0-11.5%.