FedEx to ‘reassess’ LTL division’s future in bid to leverage recent success

FedEx Freight increased its daily shipment volume slightly from a year ago in the most recent quarter and expects gradual year-over-year improvements in volume going forward. Photo credit: Feng Cheng / Shutterstock.com.

William B. Cassidy, Senior Editor | Jun 26, 2024, 11:10 AM EDT

FedEx is reassessing the role of US less-than-truckload carrier FedEx Freight within its global transportation and logistics network.

FedEx said it will examine ways to leverage FedEx Freight to create more value for its shareholders, reassessing its role within the global logistics and transportation provider’s portfolio and “potential steps to further unlock sustainable shareholder value,” it said in a statement Tuesday.

That doesn’t mean the LTL provider, which had $9.1 billion in revenue in the fiscal year ending May 31, is doing poorly. Instead, the reassessment recognizes the strength of the LTL division in comparison with its air and ground package operations.

FedEx did not provide details on its reassessment plan, but analysts participating in the company’s earnings conference call Tuesday questioned whether it might result in a spin-off. FedEx Freight has already been separated from FedEx Express and FedEx Ground, which are now part of Federal Express Corp. as of June 1 following a corporate reorganization.

As that reorganization was completed, FedEx Freight saw improvements in all LTL metrics.

The LTL provider increased revenue 2% from a year ago to $2.3 billion in the quarter that ended May 31, as the company’s daily shipment count rose 0.1% year over year and 4.3% from the previous quarter, to 93,080.

Revenue per shipment, priority and economy combined, rose 1.1% year over year to $377.63 per shipment. That translates to $35.1 million in shipment revenue per day.

Freight’s quarterly operating profit rose 3.7% from a year ago to $506 million, despite “significant demand weakness,” FedEx said. The company’s operating ratio, a measure of profitability, dropped from 80.3% a year ago and 84% in the previous quarter to 78.1% in the quarter that ended in May.

“This shows if you control and manage your capacity, you can improve margin,” said Satish Jindel, president of SJ Consulting Group. FedEx did confirm it will close seven of its approximately 400 LTL terminals, after shutting down 29 in 2023.

The LTL division wasn't the only unit to see cuts in capacity in the last quarter. FedEx Express permanently retired 22 Boeing 757-200 aircraft to modernize its fleet, improve global network efficiency and better align capacity with demand.

"Companies that are considering adding significant terminal capacity should be very careful," Jindel said at the 2024 SMC3 Connections conference in Colorado Springs Tuesday. "They could wind up losing the pricing power they've built up over the last year."

Estes Express Lines, XPO, Saia LTL Freight and Knight-Swift are all preparing to reopen terminals they acquired from Yellow late last year and early this year. However, as many as half of Yellow's former terminals, including some large facilities, have yet to be sold.

Improving LTL demand

US LTL trucking companies overall have been able to raise their rates even as overall demand remains static, following the loss of 10% of LTL market capacity last year after the collapse of Yellow. Freight once hauled by Yellow is still shifting among carriers.

The number of LTL shipments moved per day fell about 6% in 2023, according to SJ Consulting Group. However, long-haul, all-inclusive LTL rates were up 5.7% year over year in May, according to the LTL PPI from the US Bureau of Labor Statistics.

But FedEx does see gradual improvement coming in LTL demand.

"FedEx Freight shipments inflected positive [year over year] as the quarter progressed as we lapped last year's demand softness," Brie Carere, executive vice president and chief customer officer of FedEx, told analysts

"Currently, we expect US domestic parcel and LTL volumes to continue to improve, with the year-over-year increase growing as the year progresses," Carere said.

FedEx Freight's annual results reflected more of the market weakness that Carere and other FedEx executives mentioned. Annual revenue in its last June-to-May fiscal year dropped 5.7% from its 2023 peak of $9.6 billion, according to the company's earnings report.

But a 24% reduction in fuel costs helped drive overall operating costs down 5.7% in fiscal 2024, FedEx said. And while freight shipments fell 5.8% year over year to 93,988, FedEx executives said the company has been more selective about the freight it hauls.

"Our surface network continued to maximize the use of rail," Carere said.

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