



United Parcel Service, Inc.

A Rising Tide Lifts All Boats

UPS is undergoing a strategic reset, prioritizing profitability and operational efficiency over volume growth in a challenging macro backdrop. Following weaker post-pandemic demand, margin pressure from rising labor costs, and recent facility closures, the company is changing its focus toward high-value segments like healthcare logistics. With a leaner cost structure and improving mix, UPS is positioned for margin recovery and sustainable earnings growth. **We assign a BUY rating with a price target of \$110.**

Profit Over Packages

UPS's decision to scale back low-margin, high volume e-commerce shipments, especially those from Amazon represents a major strategic shift toward profitability and operational efficiency. As a unionized carrier with higher labor costs, UPS faces margin pressure in lower-value segments. In response, UPS is closing 73 leased or operated facilities and eliminating around 20,000 operational positions, largely tied to small-scale Amazon deliveries, which accounted for approximately 12% of total revenue. Although this move reduces volume, it positions UPS for stronger long-term margins by focusing on higher-value segments. The company's growing emphasis on healthcare logistics further supports this strategy, as the sector offers higher profits.

Logistics Growth Rebalances After Pandemic Surge

The logistics industry has faced a notable slowdown since 2022. For instance, UPS's revenue declined from \$100.34 billion in 2022 to \$90.96 billion in 2023, a 9.3% year-over-year decrease. This downturn reflects broader macroeconomic pressures, shifting consumer behavior, and a normalization of demand following the pandemic-era surge in shipping volumes. At the same time, certain segments of the industry are showing strong growth. E-commerce retail sales have risen by 46% over the past five years, and healthcare logistics has expanded rapidly since the COVID-19 pandemic, driven by increased demand for medical supplies, pharmaceuticals, and temperature-controlled transportation. The rising tide will lift all boats in the logistics industry.

Company Overview

United Parcel Service, Inc. ("UPS"), founded in 1907 and headquartered in Atlanta, Georgia, is a global leader in package delivery and logistics solutions. The company operates an extensive, integrated air and ground network serving customers in more than 200 countries and territories, offering services that include small package delivery, distribution, contract logistics, airfreight, ocean freight, customs brokerage, and insurance. UPS's strategy focuses on expanding in higher-value market segments that leverage its end-to-end logistics network, specifically healthcare, business-to-business (B2B), small and mid-sized businesses (SMBs), and international markets. In early 2025, UPS reached an agreement in principle with its largest customer to significantly reduce delivery volumes, marking a strategic shift toward higher-yielding segments and underscoring management's focus on sustainable margin expansion and long-term value creation.

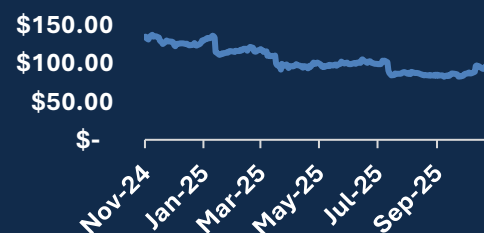
Risk 1: Specialization Gap Threatens Healthcare Growth Ambitions

While UPS's strategic pivot toward healthcare logistics aligns with higher-margin opportunities, the medical logistics sector is intensely competitive and requires deep specialization. Transporting pharmaceuticals, vaccines, and other temperature-sensitive products demands advanced cold-chain infrastructure, regulatory compliance, and precise handling standards. If UPS fails to fit into these specialized

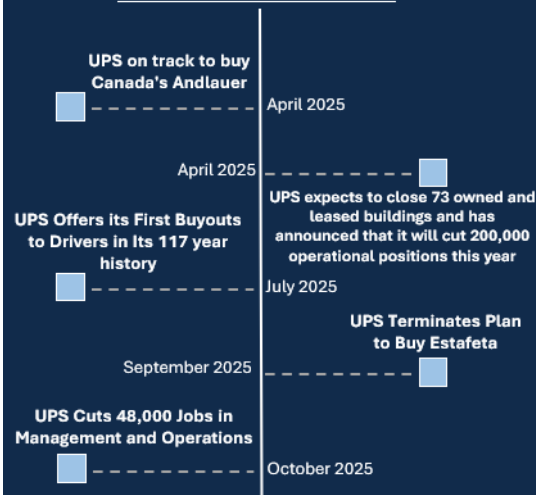


TICKER:	\$UPS
RATING:	BUY
PRICE:	\$96.00
PRICE TARGET:	\$110.00
MARKET CAP:	\$81428bn/m
52-W RANGE:	\$82.00 - \$138.67
P/E:	14.84x
IMPLIED UPSIDE:	14.88%

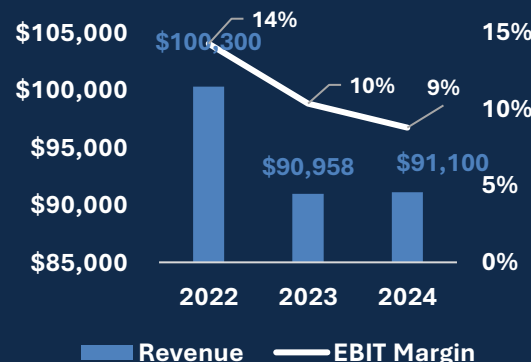
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



capabilities quickly or match the expertise of established healthcare logistics leaders, it risks losing both shipment volume and profitability. In a market where reliability and precision define customer loyalty, insufficient adaptation could ruin UPS’s broader strategy to offset declining small-package volumes and sustain long-term margin growth.

Risk 2: Geopolitical and Competitive Headwinds Could Slow Long-Term Growth

Geopolitical instability and rising trade tariffs present a significant risk to UPS’s revenue growth, as they can weaken consumer confidence and lower global shipping demand. Additionally, increased insourcing by e-commerce giants such as Amazon could wear away UPS’s market share and pricing power. These pressures are further compounded by the company’s high dividend commitment, paying a 7.6% yield in Q3 2025 on a \$73 billion market cap representing a substantial cash outflow at a time when operating expenses remain high. If these factors intersect, UPS could face tighter margins, reduced financial flexibility, and slower progress toward its long-term profitability goals.

Catalysts

The expiration of the Teamsters union contract in 2028 can serve as a pivotal opportunity for UPS to strengthen its cost structure and enhance long-term profitability. Labor expenses are among the company’s largest cost drivers, averaging nearly \$10 per small parcel, and have a direct impact on operating margins, particularly in lower-value segments. A strategically negotiated contract could enable UPS to stabilize or even reduce labor costs through productivity initiatives, flexible work arrangements, and performance-based incentives. Maintaining cost discipline in labor-intensive operations is essential as the company reallocates resources toward higher-margin segments such as healthcare logistics and international freight. If managed effectively, the 2028 labor negotiations could serve as a key inflection point, improving UPS’s competitive positioning and operational efficiency in an industry where cost control is critical.

Valuation

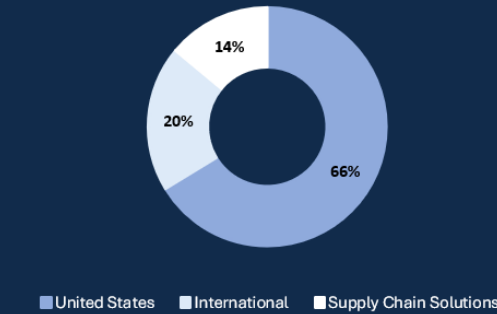
DCF Analysis (\$mm)											
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Revenue	87,952	85,953	84,500	83,551	83,077	83,056	83,477	84,337	85,639	87,396	89,628
Revenue Growth	-3%	-2%	-2%	-1%	-1%	0%	1%	1%	2%	2%	3%
United States	58,822	56,469	54,587	53,131	52,069	51,374	51,032	51,032	51,372	52,057	53,098
International	18,459	18,717	19,012	19,346	19,720	20,136	20,597	21,105	21,664	22,275	22,943
Supply Chain Solutions	10,671	10,767	10,901	11,074	11,288	11,545	11,848	12,200	12,604	13,064	13,587
EBIT	11,884	7,736	7,887	8,077	8,308	8,582	8,904	9,277	9,706	10,196	10,755
EBIT Margin	14%	9%	9%	10%	10%	10%	11%	11%	11%	12%	12%
Tax Expense	1,753	1,702	1,735	1,777	1,828	1,888	1,959	2,041	2,135	2,243	2,366
Effective Tax Rate	15%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
NOPAT	10,130.73	6,033.91	6,151.61	6,299.78	6,480.00	6,694.33	6,945.31	7,236.10	7,570.30	7,953.06	8,389.20
D&A	3,700	3,868	3,662	3,481	3,323	3,184	3,061	2,952	2,855	2,768	2,689
Capex	(3,541)	(3,438)	(2,629)	(1,857)	(1,108)	(369)	371	1,124	1,903	2,719	3,585
Changes in NWC	(1,116)	1,375	1,352	1,337	1,329	1,329	1,336	1,349	1,370	1,398	1,434
UPFCF	18,487	11,965	11,090	10,301	9,582	8,918	8,299	7,714	7,152	6,603	6,059
PV of FCF	18,408	11,446	9,879	8,543	7,399	6,413	5,557	4,809	4,151	3,569	3,049

Based on a DCF analysis using a 7.40% WACC and an 8.0x EV/EBITDA exit multiple, UPS’s intrinsic value is estimated at \$110.31 per share, implying 16.3% upside from the current price of \$96.00. The valuation reflects moderate long-term revenue growth led by Supply Chain Solutions and margin expansion to 12% by 2035, supported by their shift away from lower margin shipments and focus on higher-value segments such as medical logistics.

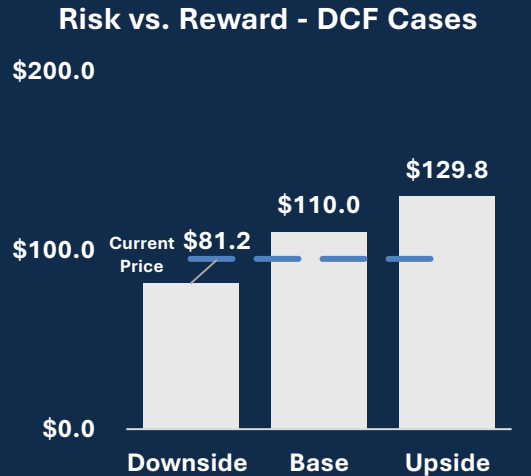
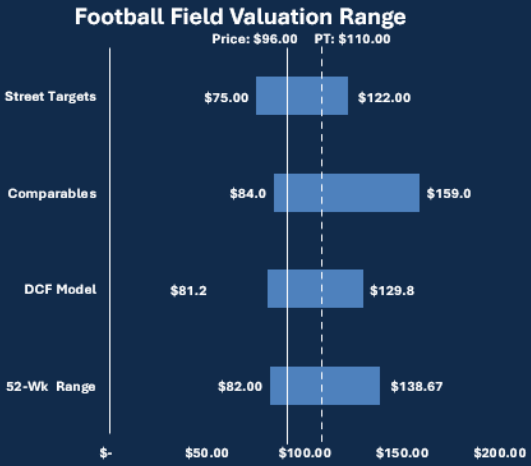
Conclusion

UPS appears undervalued at current levels, with the DCF indicating meaningful upside potential driven by gradual margin recovery and growth in higher-value logistics segments. Continued execution in Supply Chain Solutions and cost discipline should enhance cash flow durability, positioning UPS for sustained shareholder value creation over the long term.

Revenue Segments



Terminal Value	
EV/EBITDA Exit Multiple	8.0x
Terminal Value	\$107,554
PV of Terminal Value	\$54,121
PV of Projection Period	\$62,088
PV of Terminal Value	\$54,121
Implied TEV	\$116,209
(-) Debt	\$28,909
(+) Cash	\$6,286
Implied Equity Value	\$93,586
Diluted Shares Outstanding	848
Implied Share Price	\$110.31
Upside/Downside	16.3%



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	91,100	87,952	87,294	87,086	87,319	-1.4%
EBITDA	11,620	15,583	11,785	11,902	12,079	1.3%
EBIT	8,011	11,884	7,856	8,128	8,441	1.8%
NOPAT	6,087	10,131	6,128	6,340	6,584	2.6%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	12.8%	17.7%	13.5%	13.7%	13.8%	14.3%
EBIT Margin	8.8%	13.5%	9.0%	9.3%	9.7%	10.1%
Revenue Growth	0.2%	-3.5%	-0.7%	-0.2%	0.3%	-0.8%
EBIT Growth	-15.0%	48.3%	-33.9%	3.5%	3.8%	1.4%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	5.8x	4.4x	6.7x	7.2x	7.6x	6.3x
EV/Sales	1.1x	1.2x	1.2x	1.2x	1.2x	1.2x
EV/EBITDA	9.0x	6.7x	8.9x	8.8x	8.7x	8.4x
FCF Yield	17.3%	22.5%	14.8%	13.9%	13.1%	16.4%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
FedEx Corporation (NYSE:FDX)	55,638.3	87,307.3	13.8x	88,591.0	11,120.0
C.H. Robinson Worldwide, Inc. (NasdaqGS:CHRW)	15,116.8	16,652.6	29.1x	17,012.6	825.9
Deutsche Post AG (XTRA:DHL)	50,500.9	76,737.5	13.0x	98,327.1	8,965.8
GXO Logistics, Inc. (NYSE:GXO)	6,169.0	11,620.0	101.7x	12,683.0	848.0
UNITED PARCEL SERVICE, INC. (XNY:)	\$71.272	\$93,922	12.5x	\$90.313	\$11,497

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth	Rate LI
FedEx Corporation (NYSE:FDX)	7.9x	27.4%	12.6%	7.7%		1.14%
C.H. Robinson Worldwide, Inc. (NasdaqGS:CHRW)	20.2x	8.2%	4.9%	4.6%		(2.55%)
Deutsche Post AG (XTRA:DHL)	8.6x	16.7%	9.1%	6.4%		2.52%
GXO Logistics, Inc. (NYSE:GXO)	13.7x	15.5%	6.7%	3.2%		22.39%
UNITED PARCEL SERVICE, INC. (XNY:)	8.2x	21.5%	12.7%	8.7%		0.9%

High	20.16x	27.4%	12.7%	8.7%	22.4%
75th Percentile	13.70x	21.5%	12.6%	7.7%	2.5%
Average	11.69x	17.9%	9.2%	6.1%	4.9%
Median	8.56x	16.7%	9.1%	6.4%	1.1%
25th Percentile	8.17x	15.5%	6.7%	4.6%	0.9%
Low	7.85x	8.2%	4.9%	3.2%	-2.6%

General Dynamics Valuation

Implied Enterprise Value (25th Percentile)	\$	93,922
Implied Enterprise Value (Median)	\$	98,402
Implied Enterprise Value (75th Percentile)	\$	157,541

Implied Share Price (25th Percentile)	\$	84.12
Implied Share Price (Median)	\$	89.41
Implied Share Price (75th Percentile)	\$	159.18

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.09
Risk Free Rate	4.39%
Cost of Equity	6.71%
Weighted Average Cost of Debt	3.35%
Tax Rate	22.00%
Cost of Debt	0.68%
Total Equity	\$81,428
Total Debt	\$22,623
Equity/Total Capitalization	73.80%
Debt/Total Capitalization	26.20%
WACC	7.40%

Downside Case: In the downside scenario, softer U.S. parcel demand and limited international growth constrain revenue recovery through 2035. Volume pressure and slower adoption of efficiency initiatives cap EBIT margins at 11% by 2034, while slow global trade weighs on Supply Chain Solutions. Applying a conservative 6.0x exit multiple results in a \$81.16 target price, implying a – 16.0% downside from current levels as extended macro headwinds and competitive pricing limit earnings momentum

Upside Case: In the upside scenario, international and supply chain growth outperform expectations, with EBIT margins expanding to 12% by 2034. Strong cross-border demand, healthcare logistics momentum, and operational efficiency drive sustained earnings growth. Applying a 9.0x exit multiple supports a \$129.83 target price, reflecting great upside if global trade and cost initiatives exceed expectations.

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