3Q18 Earnings Announcement

October 24, 2018
Scott Childress
Investor Relations Officer
UPS Speakers

**David Abney**
Chairman and CEO

**Richard Peretz**
CFO, SVP and Treasurer

**Jim Barber**
Chief Operating Officer

Additional Q&A Participants:

**Kate Gutmann**
Chief Sales and Solutions Officer

**Juan Perez**
Chief Information and Engineering Officer

**Scott Price**
Chief Strategy and Transformation Officer
This presentation includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof and similar terms are intended to be forward-looking statements. We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Our disclosure and analysis in this presentation, in our Annual Report on Form 10-K for the year ended December 31, 2017 and in our other filings with the Securities and Exchange Commission contain forward-looking statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. From time to time, we also provide forward-looking statements in other materials we release as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties include, but are not limited to: general economic conditions, both in the U.S. and internationally; significant competition on a local, regional, national, and international basis; changes in our relationships with our significant customers; the existing complex and stringent regulation in the U.S. and internationally (including tax laws and regulations), changes to which can impact our business; increased physical or data security requirements that may increase our costs of operations and reduce operating efficiencies; legal, regulatory or market responses to global climate change; strikes, work stoppages and slowdowns by our employees; the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities; changes in exchange rates or interest rates; our ability to maintain the image of our brand; breaches in data security; disruptions to the Internet or our technology infrastructure; interruption of our business from severe weather or other natural or man-made disasters including terrorism; our ability to accurately forecast our future capital investment needs; exposure to changing economic, political and social developments in international and emerging markets; changes in business strategy, government regulations, or economic or market conditions that may result in substantial impairment of our assets; increases in our expenses or funding obligations relating to employee health, retiree health and/or pension benefits; potential additional tax liabilities both in the U.S. and internationally; the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; our ability to realize the anticipated benefits from acquisitions, joint ventures or strategic alliances; our ability to manage insurance and claims expenses; and other risks discussed in our filings with the Securities and Exchange Commission from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2017 or described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements.

Information included in all presentations, including comparisons to prior periods, may reflect adjusted results. See appendix for reconciliations of adjusted results and other non-GAAP financial measures.
David Abney
Chairman and CEO
Transformation Enables the “The UPS Strategy”

1. Generating higher-quality growth

2. Increasing efficiency across the enterprise

3. Instilling a culture of continuous transformation
Enhancing Value and Creating Innovative Solutions

• Launched Ware2Go to enhance Small to Medium Business growth.

• UPS My Choice will serve 112 countries.
  • New member every 4 seconds... 52M to date.

• Increasing capacity by 100K pieces per hour.
Customers Around the World Rely on UPS

• U.S. economy leading the way – improving GDP forecast.

• U.S. – Mexico – Canada levels the playing field... expanding cross-border growth.

• Passage of STOP Act.
Jim Barber
COO
Comprehensive Plan for Peak for Service and Reliability

• Coordinated efforts between operations and other UPS groups.
• National Retail Federation expects 4.3% to 4.8% growth in sales.
• Expecting to deliver about 800M packages.
• Delivering over 37M packages on peak day.
• Hiring 100K seasonal employees.
Comprehensive Plan to Execute Peak

Collaborate Capacity
Coordinate Control
Committed to integrity of the network...service performance... at expected level of financial returns.
Richard Peretz  
CFO, SVP and Treasurer
Transformation Moving Forward Fast in 3Q

- Strong free cash flow conversion more than 100%.
- Revenue growth across all three businesses.
- Total revenue per piece up 4.0%.
U.S. Domestic Produces Great Yield Expansion in 3Q

- Robust top-line growth of **8.1%**.
- Solid volume growth across all products.
- Base rates increase nearly **4%**.
- Sequential improvement in Y/Y operating leverage.
International Momentum Continues Despite Headwinds

• Favorable product mix and strong yield gains.

• Headwinds from currency and net fuel.

• 2-year export volume up over 21%.

• Second-highest third quarter adjusted operating profit* ever.

* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.
Supply Chain & Freight Delivers Outstanding Results

- Revenue growth up **12.2%**.

- Forwarding growth driven by pricing improvements and tonnage gains.

- UPS Freight revenue up **11.4%** on strong pricing and tonnage growth.

- Adjusted operating profit of **$260M***, **33.3%** above last year.

- Creating great value for customers...translating into strong results.

* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.
Generating Superb Cash Flow During Investment Cycle

Through September 30, 2018:

• Free cash flow of $4.9B*, cash flow conversion exceeds 100%.

• $2.4B in dividends, up 10% per share.

• Company repurchased 6.6M shares for about $750M.

• Invested $4.5B to support Smart Global Logistics Network.

* Non-GAAP financial measure. See Appendix for reconciliation to GAAP financial measure.
Positive Momentum

• Raise Free Cash Flow* target to more than $5B in 2018.

• Reaffirming 2018 adjusted EPS*.

• Positioned to deliver a good peak season for our customers and our investors.

* Non-GAAP financial measure.
We supplement the reporting of our financial information determined under generally accepted accounting principles ("GAAP") with certain non-GAAP financial measures, including, as applicable, "as adjusted" operating profit, operating margin, other income (expense), pre-tax income, net income and earnings per share. The equivalent measures determined in accordance with GAAP are also referred to as "reported" or "unadjusted." Additionally, we periodically disclose free cash flow, free cash flow excluding discretionary pension contributions, as well as currency-neutral revenue, revenue per piece and operating profit.

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include but are not limited to: amounts related to mark-to-market gains or losses (non-cash); settlement of contingencies; gains or losses associated with mergers, acquisitions, divestitures and other structural changes; charges related to restructuring programs; asset impairments (non-cash); amounts related to changes in tax regulations or positions; pension and postretirement related items; and debt modifications.

We believe that these non-GAAP measures provide additional meaningful information to assist users of our financial statements in understanding our financial results, cash flows and assessing our ongoing performance because they exclude items that may not be indicative of, or are unrelated to, our underlying operations and may provide a useful baseline for analyzing trends in our underlying businesses. Management uses these non-GAAP financial measures in making financial, operating and planning decisions. We also use certain of these measures for the determination of incentive compensation award results.

Non-GAAP financial measures should be considered in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. Our non-GAAP financial information does not represent a comprehensive basis of accounting. Therefore, our non-GAAP financial information may not be comparable to similarly titled measures reported by other companies.

**Currency-Neutral Revenue, Revenue per Piece and Operating Profit**

We supplement the reporting of our revenue, revenue per piece and operating profit with similar non-GAAP measures that exclude the period-over-period impact of foreign currency exchange rate changes and hedging activities. We believe currency-neutral revenue, revenue per piece and operating profit information allows users of our financial statements to understand growth trends in our products and results. We evaluate the performance of our International Package and Supply Chain and Freight businesses on a currency-neutral basis.

Currency-neutral revenue, revenue per piece and operating profit are calculated by dividing current period reported U.S. dollar revenue, revenue per piece and operating profit by the current period average exchange rates to derive current period local currency revenue, revenue per piece and operating profit. The derived current period local currency revenue, revenue per piece and operating profit are then multiplied by the average foreign exchange rates used to translate the comparable results for each month in the prior year period (including the period over period impact of foreign currency revenue hedging activities). The difference between the current period reported U.S. dollar revenue, revenue per piece and operating profit and the derived current period U.S. dollar revenue, revenue per piece and operating profit is the period over period impact of currency fluctuations.

**Transformation & Other**

We supplement the presentation of our operating profit, operating margin, pre-tax income, net income and earnings per share with similar non-GAAP measures that exclude the impact of transformation program costs. We believe this adjusted information provides important supplemental information that provides useful comparison of year-to-year financial performance without considering the short-term impact of transformation impacts. We evaluate the performance of our businesses on an adjusted basis.

**Free Cash Flow**

We supplement the reporting of cash flows from operating activities with free cash flow, a non-GAAP liquidity measure. We believe free cash flow is an important indicator of how much cash is generated by regular business operations and we use it as a measure of incremental cash available to invest in our business, meet our debt obligations and return cash to shareowners. We calculate free cash flow as cash flows from operating activities less capital expenditures, proceeds from disposals of property, plant and equipment, and plus or minus the net changes in finance receivables and other investing activities.
Considerations for Forward Outlook

• Transformation to have minimal impact in 2019

• Lower interest rates will provide pension discount rate benefits, but fixed income investments have been negatively impacted

• Share repurchases to remain at current levels

• Trade disputes could be longer term
### Reconciliations

#### Net Increase, in Cash, Cash Equivalents and Restricted Cash

<table>
<thead>
<tr>
<th>Description</th>
<th>Preliminary Year-to-Date</th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>$</td>
<td>9,422</td>
</tr>
<tr>
<td>Cash flows used in investing activities</td>
<td></td>
<td>(4,499)</td>
</tr>
<tr>
<td>Cash flows used in financing activities</td>
<td></td>
<td>(4,260)</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash, cash equivalents and restricted cash</td>
<td></td>
<td>(57)</td>
</tr>
<tr>
<td>Net increase in cash, cash equivalents and restricted cash</td>
<td></td>
<td>$ 606</td>
</tr>
</tbody>
</table>

#### Reconciliation of Free Cash Flow (Non-GAAP measure)

<table>
<thead>
<tr>
<th>Description</th>
<th>Preliminary Year-to-Date</th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>$</td>
<td>9,422</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td></td>
<td>(4,490)</td>
</tr>
<tr>
<td>Proceeds from disposals of PP&amp;E</td>
<td></td>
<td>45</td>
</tr>
<tr>
<td>Net change in finance receivables</td>
<td></td>
<td>(7)</td>
</tr>
<tr>
<td>Other investing activities</td>
<td></td>
<td>(23)</td>
</tr>
<tr>
<td>Free cash flow (non-GAAP measure)</td>
<td></td>
<td>$ 4,947</td>
</tr>
</tbody>
</table>
Reconciliation of Segment Operating Profit

<table>
<thead>
<tr>
<th></th>
<th>As-Reported (GAAP)</th>
<th>Transformation Strategy Costs</th>
<th>As-Adjusted (non-GAAP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Domestic Package</td>
<td>$949</td>
<td>$39</td>
<td>$988</td>
</tr>
<tr>
<td>International Package</td>
<td>536</td>
<td>40</td>
<td>576</td>
</tr>
<tr>
<td>Supply Chain &amp; Freight</td>
<td>242</td>
<td>18</td>
<td>260</td>
</tr>
<tr>
<td>Total operating profit</td>
<td>$1,727</td>
<td>$97</td>
<td>$1,824</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>$1,889</td>
<td>$97</td>
<td>$1,986</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>$381</td>
<td>24</td>
<td>$405</td>
</tr>
<tr>
<td>Net income</td>
<td>$1,508</td>
<td>$73</td>
<td>$1,581</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$1.73</td>
<td>$0.09</td>
<td>$1.82</td>
</tr>
</tbody>
</table>

Three Months Ended September 30, 2018