Industry: Air Freight & Logistics

ASSET MANAGEMENT

GRADUATE SMIF – SPRING' 08

FedEx Corporation

Ticker: ● FDX ***(NYSE)***
Price: ● 95.72 *(as of May 07 , 08)*

Recommendation: ●BUY
Price Target: $● 110.00

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May 7, 2008

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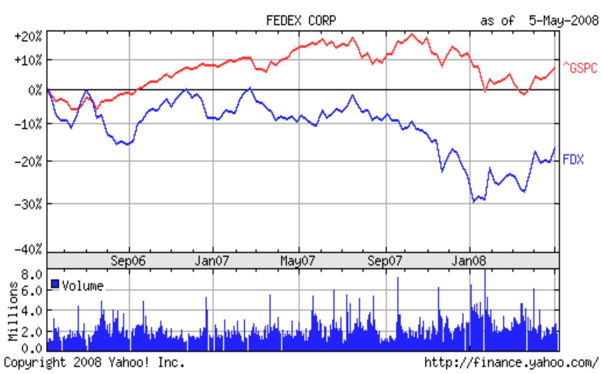
www.fedex.com/us

Highlights

- **Buy Recommendation:** We believe that FedEx (FDX) will outperform the average market performance over the next year. Our Free Cash Flow to Firm (FCFF) using a weighted average cost of capital of 9.03% and a terminal growth rate of 5.0% yields a target price of $101.46. This represents the stock being undervalued in the market by approximately 6.0%
- **Strong Financials:** FedEx has substantial off-balance-sheet debt in the form of operating leases for facilities and aircraft. These concerns are somewhat allayed, however, by free cash flows averaging 3.6% of revenue during the last five years.
- **Investment Strategy:** FedEx is growing via price and volume increases, as well as through acquisitions. Each shipping segment increases prices regularly and most recover fuel price increases via surcharges. By buying international and LTL firms, the company is spreading its geographic network and offering more of the shipping products customers need. Kinko's adds 200 stores per year and has modified its model to use smaller stores.
- **Growth**: FedEx increased revenue at a compound annual rate of 10.5% during the last five years. All segments have increased revenue growth every year for the last 10 years, except for express in 2002. A portion of this growth was derived via acquisitions.
- **Profitability**: Returns on invested capital averaged 12% during the last 10 years and increased in the last three years. Price increases and fuel surcharges are critical to profitability. Express will focus on increasing higher-yield international priority volume.

Figure 10: FDX performance against S&P500 (2-year)



Market Profile

52 Week Price Range	80.00-119.10
Average Daily Volume	2,550,520.00
Beta	0.712
Dividend Yield	0.40%
Shares Outstanding (2/22/08)	310.06 Mn
Market Capitalization (3/05/08)	$29.94 Bn
Institutional Holdings & Multual Fu	75.0%
Insider Holdings	7.0%
Book Value per Share (12/31/06)	$45.78
Debt to Total Capital	45.00%
Return on Equity	14.53%

VALUATION

We have used 4 stock valuation models for figuring out the approximate value of the stock of the company: Dividend Discount Model (DDM), Free Cash Flow Valuation Model (FCFF), P/E Relative Valuation and Enterprise Value/EBITDA Valuation Model (EV/EBITDA).

According to DDM, the current value of the stock is only $9.9 based on the numbers of FY2007. We used the two-step approach in computations. We assume that the company will grow 10% next three years and then the growth will fall to 5% annually. We believe that it is inappropriate to apply this model since the stock has extremely high price/dividend ratio. DDM fails to calculate the true value for such socks because dividends are too small to represent the profit investors normally expect to receive as a result of holding the stock. Detailed calculations are available in Appendix A

In FCFF model we used the Excel sheet constructed by Aswath Damodaran1. We had the same assumptions regarding the growth of the company in perspective. Based on FCFF model, the price of a stock is **$101.46**. Detailed calculations are available in Appendix B

According to P/E relative valuation, the stock of the company theoretically should cost **$90.4 in 2008**, **$96.9 in 2009 and $107.3 in 2010**. Detailed calculations are available in Appendix C

EV/EBITDA relative valuation indicates that the stock's value is approximately **$110** based on last twelve month data. Detailed calculations are available in Appendix D

It is necessary to note that we place more confidence in the last three models. First of all, figures used in those models have been taken from LTM period and, second, S&P Industry Analysis report suggests that namely these three models more precisely compute the theoretical value of the stock of a company in transportation industry.

[1] http://exinfmvs.securesites.net/free_spreadsheets.html

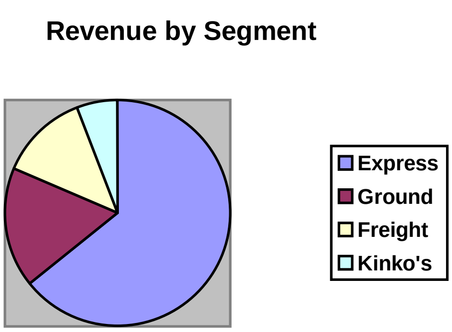
BUSINESS DESCRIPTION

FedEx, which pioneered overnight delivery in 1973 and remains the world's largest express delivery firm, derives two thirds of its revenue from its express division. The company's ground segment delivers small parcels at a lower cost than express to the entire United States, and the freight segment provides less-than-truckload freight services. FedEx Kinko's provides document production technology, Web-based printing, Internet access, and ground and express shipping services.

SEGMENT OVERVIEW

Overall results for 2007 were solid in spite of several challenges, as the company continued to execute their business strategy during a time of slower economic growth and expanded their service offerings through key acquisitions. Operating results moderated during 2007, reflecting the impact of weaker volumes in the second half of fiscal year in the FedEx Express and FedEx Freight segments due to the slowing economic environment.

Revenue growth in 2007 was due to strong FedEx Ground package volume growth and continued growth in FedEx Express International Priority ("IP") services, as the firm continued to focus on expanding these service offerings. The firm's 2007 revenues also reflected the acquisition of FedEx National LTL (formerly known as Watkins Motor Lines), which added approximately $760 million to 2007 revenue. Revenue growth in 2007 was slightly offset by declines in copy product revenues at FedEx Kinko's.



Operating income increased in 2007, as revenue growth at FedEx Express and FedEx Ground more than offset reduced profitability at the FedEx Freight segment and FedEx Kinko's. Operating margin was flat in 2007 due to slower economic growth, the negative impact of higher salaries and benefits primarily as a result of the new labor contract with our pilots and the timing of adjustments to our fuel surcharges at FedEx Express (described below), as well as operating losses at FedEx National LTL. Softening volumes in the LTL sector and ongoing expenses to integrate the FedEx National LTL network negatively impacted the performance of the FedEx Freight segment in 2007.

INDUSTRY ANALYSIS

The primary long-term trend in commercial transportation is the ongoing improvement of speed, service, flexibility, and area served, with costs declining as a proportion of the value of delivered goods. Shipments those a hundred years ago would have taken several months for delivery and cost a fortune can now be delivered overnight for a reasonable sum. Each segment of the transportation industry plays an important role in delivering these improvements.

In the overall transportation industry, we believe that long-term growth and market share will be determined primarily by a segment's exposure to lower-value bulk freight versus higher-value freight. We expect air freight, with its relatively high value and time-intensive freight profile, to gradually grow in market share; we expect trucking, with its blend of bulk and general freight, to see steady market share; and we expect railroads, with bulk freight representing the majority of business, to grow more slowly and thus gradually lose market share.

FEDEX CREATES NEW CHANNELS TO REACH CUSTOMERS

In July 2006, FedEx extended two agreements with the US Postal Service, each to remain in force for seven years. The first agreement concerned FedEx's provision of air transportation for certain postal services. The second agreement gave FedEx the option of putting a self-service drop box in every US Postal Service location. As of May 31, 2007, FedEx had drop boxes in about 5,000 post offices. In 2004, the US Postal Service began using FedEx Express to provide transportation and delivery for Global Express Guaranteed, a date-certain international delivery service to more than 190 countries.

Despite the new accords, FedEx and the US Postal Service will continue to operate competitively. The Postal Service will not pick up or deliver any FedEx packages, and FedEx employees will not accept or deliver US mail.

FedEx continues to seek other channels for reaching customers. In 2004, FedEx purchased Kinko's — with stores now rebranded as FedEx Kinko's Office and Print Center — for $2.4 billion. (UPS acquired the 4,300-store Mail Boxes Etc. chain in 2001, rebranding them The UPS Store in 2003.) FedEx also acquired Parcel Direct, a leading parcel consolidator, for $120 million, allowing FedEx to offer a cost-effective option for delivering low-weight, less time-sensitive packages to US residences through the US Postal Service.

INTERNATIONAL MARKETS GROWING FASTER

For eleven of the years between 1993 and 2006, growth in international freight and express ton-miles outpaced domestic growth. The importance of the international market for the air freight industry's growth prospects was confirmed in 2004: international air freight ton-miles exceeded 50% of total ton-miles that year, according to the Air Transport Association.

Domestic volumes have been growing no more than 4% to 5% per year, while international shipments, particularly in Asia, have recently been climbing at annual rates near 20%. We believe that this segment will be the main source of the air freight industry's growth for the next several years. International shipments are also more profitable than the domestic business, because they include a larger proportion of express deliveries, which command higher rates.

Financial Analysis - Building Blocks

Short-Term Liquidity Analysis

	Building Block #1- ST liquidity analysis	FEDEX				UPS	ABX
Units	**Measure**	**2007**	**2006**	**2005**	**2004**	**2007**	**2007**
1.Ratio	Current Ratio	1.22	1.18	1.11	1.03	1.20	1.12
2.Ratio	Quick(Acid-test) Ratio	1.02	1.00	0.92	0.85	1.20	0.84
3.Times	Accounts receivable turnover	9.44	9.48	9.29	8.74	7.08	35.75
4.Times	Inventory turnover	84.16	88.87	90.87	81.69		2.99
5.Days	Days sales in receivables	40.30	39.19	40.42	44.10	56.57	16.96
6.Days	Days sales in inventory	4.48	4.47	3.97	4.60	0.00	123.66
7.$	Working capital	1,201	991	535	163	1,920	24
8.Days	Days' purchases in accounts payable	25.98	26.48	26.63	25.71	106.79	596.12
9.Days	Average net trade cycle	18.79	17.19	17.76	22.99	-50.23	-455.50
10.Percent	Cash provided by Operation To Current. Lia.	65.37%	72.03%	65.34%	74.18%	13.56%	56.12%

The current ratio is an indication of accompanies ability to meet the current obligations. If the company's current ratio is below 1.00 levels, it may have problems to meet the current obligations. FedEx's current ratios were above 1.00 levels in recent years, and it is increasing trendily. In 2007, the current ratio is higher than the competitors.

The quick ratio is similar to current ratio, but it does not contain inventories which are the least liquid assets. Moreover, these ratios have increased since 2004. FedEx's current and quick ratios are over 1.00 levels, so it may not have liquidity problem. When we compare FedEx's liquidity ratios with competitor's liquidity ratios, FedEx's liquidity ratios are above both competitors' liquidity ratios.

FedEx's cash inflows and outflows seem to be weaker than the competitors. It takes 5 days to sell the inventories and another 84 days to collect cash from customers, but supplies are paid 26 days after the inventories are purchased by FedEx.

FedEx's net trade cycle is 18.79 days, so it efficiently utilizes working capital and needs less working capital. Inventory turnover ratio shows how efficiently inventories are managed. FedEx's inventory turnover ratio is higher than ABX's inventory turnover ratio. This shows that FedEx is holding less excess stock in its inventory than ABX. However, FedEx's inventory turnover ratio in 2007 is the lower than 2006. It must concern about this.

FedEx's account receivable turnover ratio is also higher than UPS's but lower than ABX. That shows FedEx is more efficient in utilizing its assets, extending its credit and also collecting its debt as compared to UPS.

Ratio of Cash flows from operations divided by current liabilities is 65.37%. That is more than 40%, so it is considered good.

Capital Structure and Long-Term Solvency Analysis

	Building Block #2- Capital Structure and Long-Term Analysis						
		FEDEX				**UPS**	**ABX**
Units	**Measure**	**2007**	**2006**	**2005**	**2004**	**2007**	**2007**
1.Ratio	Total debt to to equity	0.90	0.97	1.13	1.38	2.20	3.98
2.Ratio	Total debt ratio	0.47	0.49	0.53	0.58	0.69	0.68
3.Ratio	Total debt to asset	0.47	0.49	0.53	0.58	0.69	0.68
4.Ratio	Long-term debt to equity	0.47	0.14	0.25	0.35	0.62	3.00
5.Ratio	Long-term debt to asset	0.25	0.25	0.30	0.33	0.44	0.52
6.Ratio	Earnings to fixed charges	23.98	21.42	15.46	10.70	2.75	(1.37)
7.Ratio	Cash flow coverage ratio	38.47	40.31	28.06	33.03	11.80	(5.90)
8.Ratio	Financial leverage ratio	1.93	2.04	2.24	2.25	2.61	5.75
9.Ratio	Financial leverage index	1.93	1.95	2.10	2.04	2.61	5.75
10.Ratio	Altman Z-score	2.67	2.54	2.44	2.06	1.90	1.09

As the debt to asset ratio increase, the company becomes more risky and the probability of bankruptcy increases. Total liabilities make up 47% of total assets. FedEx's long-term debt to equity and total long-term debt to asset ratio are lower than competitor's ratios. This means that FedEx is more stable than competitors and can more easily borrow debt in future.

The financial leverage ratio indicates the extent to which the business relies on debt financing. A high financial leverage ratio indicates possible difficulty in paying interest and principal while obtaining more funding. Upper acceptable limit of the financial leverage ratio is 2.00. FedEx's financial leverage ratio is 1.93, which is less than 2.00. It is strong and decreasing in the last four years. FedEx can increase a little its financial leverage ratio and can use more long-term debt.

Altman Z-score is 2.67, which is lower than 2.99. This indicates that FedEx has a probability of bankruptcy but its score is still higher than the competitors. **Strong degree of financial leverage ratio and lower debt ratios compared to main competitor indicates that FedEx is not risky and has a strong D/A ratio. However, it can use more debt because it has low risk, high flexibility and high quality assets.**

Financial leverage index of FedEx is above 1.00 levels. It is making higher ROA than cost of debts used. This indicates that **it uses its debt efficiently.** Earnings to fixed charges of FedEx are 23.98, which is much higher than 1.00 and UPS and ABX fix charges is lower than FedEx. Cash flow coverage ratio is 38.47, which is also much higher than 1.00. These ratios indicate that **FedEx can pay its fixed charges.**

Asset Utilization Ratios

	Building Block #3- Asset Utilization Analysis	FEDEX				UPS	ABX
Units	**Measure**	**2007**	**2006**	**2005**	**2004**	**2007**	**2007**
1.Ratio	Sales to receivables	8.93	9.18	8.91	8.16	6.36	21.22
2.Ratio	Sales to inventories	104.18	104.85	117.45	99.24		79.89
3.Ratio	Sales to WC	29.32	32.59	54.88	151.60	25.88	49.74
4.Ratio	Sales to fixed assets	2.79	3.00	3.05	2.73	2.81	1.70
5.Ratio	Sales to other assets	7.44	5.92	5.35	4.82	5.41	4.65
6.Ratio	Sales to total assets (asset turnover)	1.47	1.42	1.44	1.29	1.27	1.01

Asset utilization ratios tell us how well the companies utilize its assets. Sale to receivable ratio is 8.93%, which indicates that accounts receivable is 8.93% of total sales. This ratio is higher than UPS but lower than ABX, so FedEx is more liquid than UPS but less liquid than ABX.

Sales to inventories ratio is 104.18. Inventories, which are 104.18% of net sales, are FedEx's inventory in stock. Asset turnover ratio is useful to determine the amount of sales that are generated from each dollar of assets. FedEx's asset turnover ratio is higher than the competitors.

Profit Margin Ratios

	Building Block #4- Profit Margin Ratios Analysis	FEDEX				UPS	ABX
Units	**Measure**	**2007**	**2006**	**2005**	**2004**	**2007**	**2007**
1.Percent	Gross profit margin	22.81%	23.22%	22.79%	21.16%	87.59%	96.36%
2.Percent	Operating profit margin	9.26%	9.42%	8.42%	5.89%	1.36%	1.64%
3.Percent	Net profit margin	5.72%	5.59%	4.93%	3.39%	0.75%	1.67%

FedEx's gross profit margin is steady but lower than the competitor's gross profit margin. FedEx's sales are lower than UPS's sales, but FedEx's cost of sales, selling, general and administrative expenses are also lower than UPS's cost of sales, selling, general and administrative expenses.

These low expenses cause a high gross profit margin and high operating profit margin. These low expenses also supply advantage to FedEx at net profit margin. Competitors should decrease its selling, general, administrative expenses and cost of goods sold. FedEx's strategy is successful, so FedEx should continue to its strategy.

Return on Invested Capital Ratios

	Building Block #5- Return on Invested Capital Ratios	**FEDEX**				**UPS**	**ABX**
Units	**Measure**	**2007**	**2006**	**2005**	**2004**	**2007**	**2007**
1.Percent	ROA	**8.64%**	**8.80%**	**7.84%**	**5.35%**	**1.06%**	**2.13%**
	Disaggregation of ROA						
	Profit margin	5.72%	5.87%	5.28%	3.74%	0.77%	1.67%
		X	X	X	X	X	X
	Assets turnover	1.51	1.50	1.49	1.43	1.38	1.27
	ROA	8.64%	8.80%	7.84%	5.35%	1.06%	2.12%
2.Percent	ROCE	**16.68%**	**17.12%**	**16.44%**	**10.94%**	**2.76%**	**12.23%**
3.Percent	Equity growth rate	17.59%	18.04%	17.40%	11.80%	15.07%	18.08%
4.Percent	Disaggregation of ROCE						
	Adjusted net profit margin	5.72%	5.59%	4.93%	3.39%	0.77%	1.67%
		X	X	X	X	X	X
	Asset turnover	1.51	1.50	1.49	1.43	1.38	1.27
		X	X	X	X	X	X
	Financial Leverage ratio	1.93	2.04	2.24	2.25	2.61	5.75
	ROCE	16.68%	17.12%	16.44%	10.94%	2.76%	12.23%

ROA is an indicator of how profitable a company is relative to its total assets. It gives an idea about how efficiently the management uses its assets to generate earnings and how effectively the company converts the money to invest into net income.

High ROA number is better because it indicates that the company is earning more money on less investment. FedEx's ROA is 8.64% with a NOPAT margin of 5.72% and an asset turnover of 1.51. FedEx's ROA is higher than the competitors' ROA.

Order	Appendix Title
Appendix A	Income Statement
Appendix B	Balance Sheet
Appendix C	Statement of Cash Flows
Appendix D	DDM
Appendix E	FCFF
Appendix F	P/E relative valuation
Appendix G	EV/EBITDA relative valuation

Appendix A

Consolidated Statements of Income

(In millions, except per share amounts)	Years ended May 31, 2007	2006	2005
REVENUES	$35,214	$32,294	$29,363
Operating Expenses:			
Salaries and employee benefits	13,740	12,571	11,963
Purchased transportation	3,873	3,251	2,935
Rentals and landing fees	2,343	2,390	2,299
Depreciation and amortization	1,742	1,550	1,462
Fuel	3,533	3,256	2,317
Maintenance and repairs	1,952	1,777	1,695
Other	4,755	4,485	4,221
	31,938	29,280	26,892
OPERATING INCOME	3,276	3,014	2,471
Other Income (Expense):			
Interest expense	(136)	(142)	(160)
Interest income	83	38	21
Other, net	(8)	(11)	(19)
	(61)	(115)	(158)
Income Before Income Taxes	3,215	2,899	2,313
Provision for Income Taxes	1,199	1,093	864
NET INCOME	$ 2,016	$ 1,806	$ 1,449
BASIC EARNINGS PER COMMON SHARE	$ 6.57	$ 5.94	$ 4.81
DILUTED EARNINGS PER COMMON SHARE	$ 6.48	$ 5.83	$ 4.72

Appendix B

Consolidated Balance Sheets

(In millions, except per share data)	May 31, 2007	May 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,569	$ 1,937
Receivables, less allowances of $136 and $144	3,942	3,516
Spare parts, supplies and fuel, less allowances of $156 and $150	338	308
Deferred income taxes	536	539
Prepaid expenses and other	244	164
Total current assets	6,629	6,464
Property and Equipment, at Cost		
Aircraft and related equipment	9,593	8,611
Package handling and ground support equipment	3,889	3,558
Computer and electronic equipment	4,685	4,331
Vehicles	2,561	2,203
Facilities and other	6,362	5,371
	27,090	24,074
Less accumulated depreciation and amortization	14,454	13,304
Net property and equipment	12,636	10,770
Other Long-Term Assets		
Goodwill	3,497	2,825
Prepaid pension cost	–	1,349
Intangible and other assets	1,238	1,282
Total other long-term assets	4,735	5,456
	$24,000	$22,690
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities		
Current portion of long-term debt	$ 639	$ 850
Accrued salaries and employee benefits	1,354	1,325
Accounts payable	2,016	1,908
Accrued expenses	1,419	1,390
Total current liabilities	5,428	5,473
Long-Term Debt, Less Current Portion	2,007	1,592
Other Long-Term Liabilities		
Deferred income taxes	897	1,367
Pension, postretirement healthcare and other benefit obligations	1,164	944
Self-insurance accruals	759	692
Deferred lease obligations	655	658
Deferred gains, principally related to aircraft transactions	343	373
Other liabilities	91	80
Total other long-term liabilities	3,909	4,114
Commitments and Contingencies		
Common Stockholders' Investment		
Common stock, $0.10 par value; 800 million shares authorized; 308 million shares issued for 2007 and 306 million shares issued for 2006	31	31
Additional paid-in capital	1,689	1,438
Retained earnings	11,970	10,068
Accumulated other comprehensive loss	(1,030)	(24)
Treasury stock	(4)	(2)
Total common stockholders' investment	12,656	11,511
	$24,000	$22,690

Appendix C

Consolidated Statements of Cash Flows

(In millions)	Years ended May 31, 2007	2006	2005
OPERATING ACTIVITIES			
Net income	$ 2,016	$1,806	$1,449
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	1,742	1,548	1,462
Provision for uncollectible accounts	106	121	101
Deferred income taxes and other noncash items	37	159	40
Lease accounting charge	–	79	–
Excess tax benefits on the exercise of stock options	–	62	36
Stock-based compensation	103	37	32
Changes in operating assets and liabilities, net of the effects of businesses acquired:			
Receivables	(323)	(319)	(235)
Other current assets	(85)	(38)	(26)
Pension assets and liabilities, net	(69)	(71)	(118)
Accounts payable and other operating liabilities	66	346	365
Other, net	(30)	(54)	11
Cash provided by operating activities	3,563	3,676	3,117
INVESTING ACTIVITIES			
Capital expenditures	(2,882)	(2,518)	(2,236)
Business acquisitions, net of cash acquired	(1,310)	–	(122)
Proceeds from asset dispositions	68	64	12
Other, net	–	–	(2)
Cash used in investing activities	(4,124)	(2,454)	(2,348)
FINANCING ACTIVITIES			
Principal payments on debt	(906)	(369)	(791)
Proceeds from debt issuances	1,054	–	–
Proceeds from stock issuances	115	144	99
Excess tax benefits on the exercise of stock options	45	–	–
Dividends paid	(110)	(97)	(84)
Other, net	(5)	(2)	–
Cash provided by (used in) financing activities	193	(324)	(776)
CASH AND CASH EQUIVALENTS			
Net (decrease) increase in cash and cash equivalents	(368)	898	(7)
Cash and cash equivalents at beginning of period	1,937	1,039	1,046
Cash and cash equivalents at end of period	$1,569	$1,937	$1,039

Appendix D

PV=D1/(1+k)+D2/(1+k)2+D3(1+k)3+D4/(k-g)/(1+k)3

k=9.49% --- k=Rf+B*(Rm-Rf); Rf = 10 year T-bond ytm = 3.54%; Rm = S&P 5 year return = 9.305%; B = 3 year beta = 1.032.

g=10% --- g=ROE*(1-payout ratio); ROE (FY07) = 16.68; payout ratio (FY07) = 5.6%. g=15.75%, but we expect the growth to be lower than the theoretical number.

D0= $0.37
D1= $0.41
D2= $0.45
D3= $0.49
D4= $0.52 (assuming that growth will fall to 5%)

PV on year 3 = $11.52

PV as of today = $9.9

Appendix E

Output from the program

Cost of Equity =	9.49%
Equity/(Debt+Equity) =	93.58%
After-tax Cost of debt =	2.28%
Debt/(Debt +Equity) =	6.42%
Cost of Capital =	9.03%

Current EBIT * (1 - tax rate) =	$2,026.25
- (Capital Spending - Depreciation)	$1,015.00
- Change in Working Capital	$198.00
Current FCFF	$813.25

Growth Rate in Earnings per share

	Growth Rate	Weight
Historical Growth =	32.30%	0.00%
Outside Estimates =	10.00%	100.00%
Fundamental Growth =	9.00%	0.00%
Weighted Average	10.00%	

Growth Rate in capital spending, depreciation and working capital

	High Growth	Stable Growth
Growth rate in capital spending =	6.00%	Do not enter
Growth rate in depreciation =	6.00%	Do not enter
Growth rate in revenues =	10.00%	5.00%

Working Capital as percent of revenues = 6.61% (in percent)

The FCFE for the high growth phase are shown below (upto 10 years)

	1	2	3
EBIT * (1 - tax rate)	$2,228.88	$2,451.76	$2,696.94

- (CapEx-Depreciation)	$1,075.90	$1,140.45	$1,208.88
-Chg. Working Capital	$246.20	$270.82	$297.90
Free Cashflow to Firm	$906.78	$1,040.49	$1,190.16
Present Value	$831.70	$875.32	$918.33

Growth Rate in Stable Phase =	5.00%
FCFF in Stable Phase =	$1,651.87
Cost of Equity in Stable Phase =	9.75%
Equity/ (Equity + Debt) =	93.58%
AT Cost of Debt in Stable Phase =	2.28%
Debt/ (Equity + Debt) =	6.42%
Cost of Capital in Stable Phase =	9.27%
Value at the end of growth phase =	$38,672.07

Present Value of FCFF in high growth phase =	$2,625.34
Present Value of Terminal Value of Firm =	$29,839.48
Value of the firm =	$32,464.82
Cash and Marketable Securities =	$1,011.00
Market Value of outstanding debt =	$2,024.00
Market Value of Equity =	$31,451.82
Value of Equity options issued by the company =	$0.00
Market Value of Equity/share =	**$101.46**

P/E relative valuation					
	Common Size Income Statement				
	May '07	May '08	Values for FY08	Values for FY09	Values for FY10
Net sales	100	100	38735.4	42608.9	46869.8
COGS	77.19	78	30213.6	33235.0	36558.5
S&A	13.5	13.5	5229.3	5752.2	6327.4
Interest Exp	0.39	0.39[1]	151.1	166.2	182.8
Income tax	3.4	3.5[2]	1355.7	1491.3	1640.4
Income before XO			1785.7	1964.3	2160.7
EPS			5.8	6.4	7.0
Industry P/E (Dow Jones Transportation, Ticker: IYT)			15.6	15.2	15.3
Stock value			90.4	96.9	107.3

[1]Interest expenses have been falling as a percentage of Net sales for the last 3 years, but we assume that it stays stable despite growth of Net sales.
[2]Just as interest expenses, Income tax expenses have been falling but we assume it remains at 3.5% of Net sales

Appendix G

Enterprise Value/EBITDA

EBITDA	5161.0
Multiple of DJ Transportation, UPS, DHL, TNT	7.0
EV of FedEx	36127.0
Less ST&LT debt	2024.0
	34103.0
Shares outstanding	310
Current Value of stock	$110