UNITED PARCEL SERVICE

COMPANY REPORT

PACKAGE DELIVERY / COURIER

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The e-commerce boom brings new opportunities

…but also, some business risks

- **Holiday season.** The most important season for retailers represents the peak season for Delivery companies. The 2017 Holiday season reaches record number, and the expectation is to continue its growth on the future.

- **International expansion.** The company strategy goes along with a strong investment in infrastructures located outside the U.S. in order to expand its business internationally and to be able to offer more and efficient services worldwide. The future cash flows are highly dependent on the return on these international investments.

- **Amazon aspirations**. The retail top leader wants to dominate all the supply chain, the delivery process included. This risk cannot be materialized in the near future due to the scale of infrastructures needed, but Amazon can become a serious competitor in the long term.

- **Drone delivery.** **U**sing drones to deliver packages will inevitable be part of our future. UPS is already investing along with that possibility to keep the business competitive and profitable, as drones will lower substantially the delivery costs.

Company description

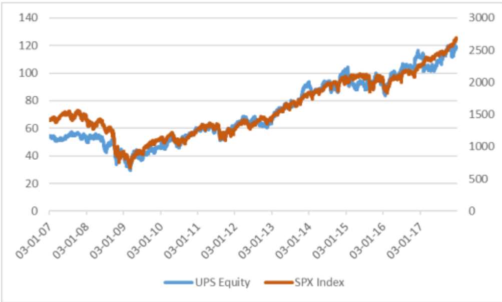
United Parcel Service, mostly known as UPS, is an American multinational package delivery company and provides supply chain management solutions.

Recommendation:	**BUY**
Price Target FY17:	**$134.61**
Expected return:	*+12.9%*
Price (as of 31/12/2017)	**$119.20**

Source: Bloomberg

52-week range (€)	$125.16-$102.12
Market Cap (€m)	$108.93 Billion
Outstanding Shares (m)	861 Million

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2016	2017F	2018F
Revenues	60,906	63,186	65,355
EBITDA	10,342	10,486	10,781
Net Income	5,104	5,021	5,120
EPS	5.93	5.83	5.95
P/E	20.1	23.1	22.6

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Executive summary

UPS delivers 19,1 million packages and documents per day

UPS provides package delivery services and supply chain solutions to its 10 million customers and, currently, the company delivers 19,1 Million packages and documents daily to more than 220 countries around the world.

UPS has a commitment of investing $2 Billion in Europe in order to expand its business within the region.

UPS has been growing at 13,3% CAGR over the last 5 years, above Dow Jones Transportations of 5,5% CAGR. The company is the leader within its business in both revenues and margins speaking and it's a UPS' plan to expand its business globally in order to offer more services and competitive prices to the maximum number of client possible. The UPS management announced recently a $2 Billion investment commitment in Europe over the next two years and it has also been investing strongly within other markets like its principal revenue driver, United States or regions like Asia/Pacific which comprises new growth opportunities for the company. The industry, UPS included, has been experiencing an exponential growth in volume mainly explained by the ecommerce expansion verified over the last years. UPS has been shifting its business plan accordingly to the new opportunities that arise in the industry, and, recently, it is trying to capitalize the ecommerce opportunity into UPS revenue. Nonetheless, the ecommerce boom can bring its own business risks. Big companies like Amazon are trying to increase its business aim and they intend to start offering their own delivery services. Other risks like fuel prices or the dollar strength movements must also be taken into consideration.

The final target price for UPS stock was calculated through a Discounted Flow Model using both perpetuity growth and EBITDA multiple approaches. To reflect the unpredictability and uncertainty of future cash flows, we performed more two scenarios, a bull case and a bear case. Our forecasts lead to a BUY recommendation, with a target price of $134.61, a potential upside of +12.9%

Company overview

A small history insight

James Casey founded, in August 1907, the American Messenger Company, a messenger company that made, at the time, all its deliveries by foot or by using bicycles when the trip was too long. In 1913 the company bought its first delivery vehicle, which allowed them to change the business focus to packages delivery instead of delivering very small items, like letters. In 1919, to mark the first delivery made outside its local region, Seattle, the company changed its name to the nowadays name, United Parcel Service. UPS expanded rapidly across the United States and became one of the firsts companies to offer common carrier services, allowing them to offer delivery services not only to a certain type of clients, but also for general public.

The air service in UPS started in 1929, turning the company the first package delivery firm to provide air service via privately operated airlines. However, due to a lack of volume, mainly caused by the Great Depression, the service was ended in the same year. In 1953, the service was reestablished, and UPS started offering two-day service to major cities on the East and West coasts. The air service grew and, by 1978, the company was operating it in every state of the United States.

In 1975, after long years disputing authorizations to operate in some states, UPS became the first courier company to serve all the states in US and named that historic event as the "Golden Link". The next step was an international expansion, which it was done a couple of years after through Canada and Germany.

UPS airlines represents today the 10th largest airlines in the US and it was founded in 1988, after a FAA approval.

In 1988, UPS received an approval from the Federal Aviation Administration (FAA) to operate the business with its own aircraft. On the same year, UPS airlines was launched, and it represents today the 10th largest airlines in the United States. Given its rapid expansion, UPS was delivering up to 11,5 million packages and documents per day, in 1993, for over one million customers.

The company, with such huge volume, started investing in new technologies in order to provide efficient and competitive prices. They invested a lot in technologies to monotonize all the data from its services, analyze it and turn it more efficient. By 1992, all the ground services were being tracked.

The next success step was creating a website, allowing clients to have full clarity on the services offered but also to allow them to track their packages in real time. Today, UPS website handles millions of online tracking requests per day.

During the 90s, the company focused its efforts to develop a new channel of services. Through some strategic acquisitions, UPS started offering unique supply-chain solutions to their customers. UPS Logistics Group was founded.

In 1995, through SonicAir takeover, UPS became the first company to offer same day, "next fight-out" service and guaranteed 8a.m. overnight delivery. In 1998, UPS diversified even more its business by founding UPS Capital, which provides financial products and services to other businesses.

The company acquired several companies since its foundation, in order to ensure the continuous growth.

In the 21st century, UPS management assured growth, expansion and sustainability through an acquisition strategy. In the new century, UPS acquired more than 40 companies around the world

Operations

Today, UPS is recognized not only as a global leader in domestic and international small shipments but also in third party logistics, customs brokerage and trucking. In 2016, the company had $61 Billion in revenues and handled more than 18 million packages and documents per day, on average.

Usually, on annual reports, the company divides its overall operations into three different segments – Domestic Parcel, International Parcel and Non parcel – which are:

U.S. Domestic Package Operations

This segment represents all the small package delivery services in the U.S., offering different types of delivery services for each customer needs:

Service:	**Time:**	**Service:**	**Time:**
UPS Express Critical	Same Day	UPS 3 Day Select	+3 Days
UPS Next Day Air	+1 Day	UPS Ground	1-5 Days
UPS 2nd Day Air	+2 Days	UPS Hundredweight Service	1-5 Days

US parcels services account for more than 63% of total revenue and reached more than $38 Billion in revenues in 2016. Its volume growth is being impacted positively by the continued growth in e-commerce and overall retail sales that we are experiencing nowadays. Due to this fact, Business-to-consumer volume has been increasing over the last years, representing in 2016 more than 48% of total US volume. However, Business-to-business volume growth has been slightly positive or even flat over the last years. These two different paths of B2B and B2C shows the imminent migration of traditional retail to online retail, which is become more and more fashionable nowadays.

Regarding to adjusted operating margins, the company, with its strong bet on investing in technology, was able to reach better margins, all thanks to the improvement in efficiency. The adjusted operating margin in 2016 was almost 13% in this operational segment.

International Package Operations

This segment comprises all the delivery services in Europe, Asia-Pacific, Canada and Latin America, the Indian sub-continent, the Middle East and Africa.

Service:	Time:	Service:	Time:
UPS Express Critical	Best Available Flight	UPS Worldwide Express NA1 (Import Only)	Next B.Days
UPS Worldwide (Express; Saver; Expedited)	1-3 B.Days	UPS 3 Day Select from Canada (Import Only)	3 B.Days
UPS Standard	Date Scheduled		

They offer an extensive selection of guaranteed day and time-definite international shipping services, more than any other courier company. UPS offers the following international services:

International Package Operations represents more than 20% of total revenue, accounting for more than $12 Billion in revenues.

Europe, apart from US, is the largest region in terms of revenue, representing half of the International revenue and it is one of the primary drivers of UPS growth. UPS management is looking to extract the most of its strong potential by investing in infrastructures and acquisitions in several countries around Europe. They have a commitment to invest nearly $2 Billion in their European infrastructures by 2019.

The growth rates in intra-Asia trade and the expanding Chinese economy, offers in Asia-Pacific a perfect opportunity for a delivery company. UPS is trying to capitalize all of this growth opportunities by offering faster delivery on intra-Asia trades and by reducing transit days from shipping from Asia to the U.S or Europe. Today, UPS serves more than 40 Asia-Pacific countries and more than 20 partnerships with local delivery companies.

Supply Chain & Freight Operations

Since the 80s, UPS is trying to grow its offer more supply chain services to its customers. This intent to diversify the business is being done through some important acquisitions like Marken and Coyote takeovers. UPS Capital and UPS Logistics This segment also includes the freight Operations, which are:

Service:	Time:	Service:	Time:
UPS Next Day Air Freight	Next B.Days	UPS Worldwide Express Freight	1-2 B.Days
UPS 2nd Day Air Freight	2 B.Days	UPS Worldwide Expedited	2-5 B.Days
UPS 3rd Day Air Freight	3-4 B.Days	UPS Standard LTL	
UPS Freight LTL	Based on destination	Truckload and Intermodal	

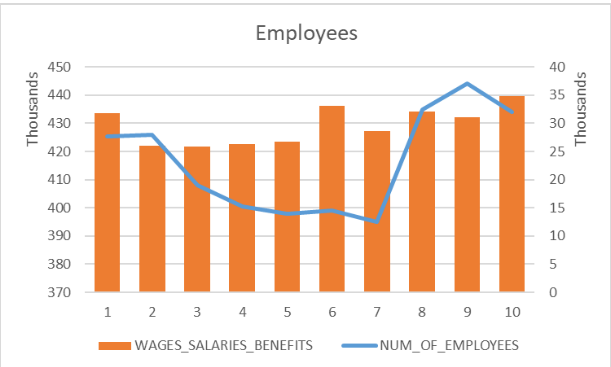
In 2015, UPS acquired Coyote Logistics Midco, Inc, a U.S. based truckload freight brokerage company. This acquisition already gave its fruits by boosting the growth of its operations, Supply Chain & Freight. In 2016 this segment showed positives signal by growing the revenues at a year-on-year rate of 8,3% vs 0.8% one year after. This improvement comes from the synergies from both companies and from the new vehicles and infrastructures that are now part of UPS.

Employees

"The strength of our company is our people, working together with a common purpose."

As of December 31, 2016, UPS had more than 434.000 employees, of which 355.000 are working in the U.S. and the remaining 79.000 are located internationally. Furthermore, the company employs approximately 2.600 pilots.

UPS, as a courier company, has a peak on demand during the holiday season, which begins on November 1 (including events Thanksgiving, Black Friday, Cyber Monday, Green Monday etc), and runs through early January when there is a large wave of returns. Since 2014 the number of seasonal workers has become constant in 95.000 new hired workers. Over the last three years, up to 35% of these seasonally hired employees were converted to full-time UPS employees.



Source: UPS annual report

Looking to the managers, we observe that almost 34% of full-time managers have more than 20 years of service with UPS, which shows that the company rewards its employees and gives them the confidence to follow a career inside UPS. Over the past years, the company was rewarded several times for their employees' satisfaction, which goes in line with the feedback observable in some employees' reviews websites.

Vehicles/Airplanes

The company has been adjusting the number vehicles and airplanes accordingly to its demand needs. In the past years, more precisely in 2013 and 2014, UPS was unable to fulfill every delivery service demanded during its peak season, the holiday season (November until January). In the 2016 holiday season, the company saw its average daily volume surpass 30 million packages, far exceeding its usual daily average of 19 million.

To serve all its package operations, UPS has over 108.000 package cars, vans, tractors, motorcycles, including more than 8.500 alternative fuel and advanced technology vehicles. In its Supply chain and Freight operations, UPS counts with more than 6.000 vehicles and over 21.000 trailers.

Regarding to its airplanes, UPS Aircraft owns 239 jet aircrafts and has more 297 aircrafts that were short-term leased or chartered. The company flies to more than 374 domestic airports through 1.077 daily flights, and to more than 310 international airports through 1.090 daily flights.

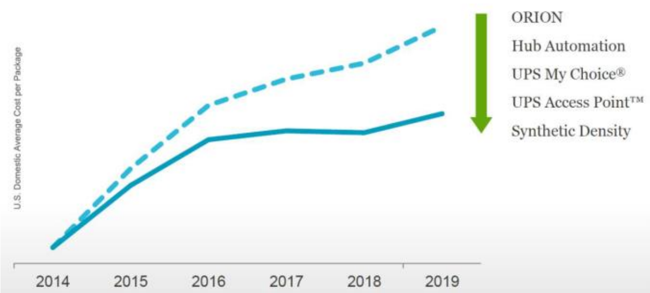
Operating Facilities

Increase its physical presence around the world is one of the main UPS management's objectives. The company, with several strategic acquisitions, grew its operating facilities exponentially over the last decade. Today it counts with more than 1.800 UPS stores for its package operations, more than 500 facilities for its supply chain services, and over 200 service centers to its Freight services. The company has 12 Air Hubs in different regions like the United States (6), Europe (1), Asia-Pacific (3), Latin America (1) and Canada (1), and flies to over 687 airports (374 - US; 313 - International).

Technology

One of the most important business strategies of the company is to keep a continuous investment in R&D to maintain the company as the top leader in Parcels delivery.

The backbone of a logistics company is its drivers, and they play an important role in the company's efficiency. A UPS driver makes an average of about 100 delivery stops every day, and to ensure that it uses the most optimized delivery routes in regard to distance, fuel and time, UPS developed On-Road Integrated Optimization and Navigation (ORION). This project is part of the company's commitment to invest $1



Source: UPS annual report

Billion per year in expanding its technology and it allowed already UPS to save about 100 million miles per year, which represents huge amounts of costs saved in fuel. It is estimated that ORION can save $150 to $200 Million per year in the future.

UPS is also investing in its facilities to turn them automated and more efficient in projects like Facility Automation and EDGE, two investment projects that will allow to save $500 to $700 Million per year when they reach their full potential.

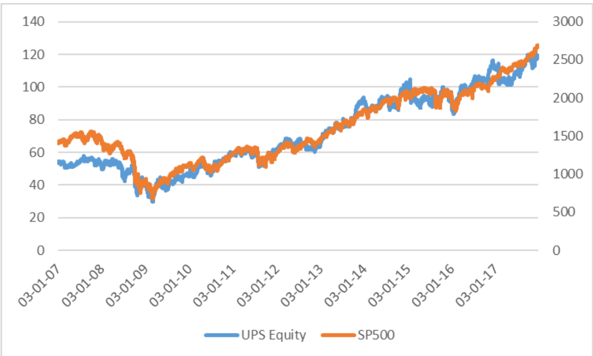
These are all projects that are not working on their full potential yet, but UPS estimates they will achieve it in the next 4 years. Furthermore, all projects together are expected to save $800 Million to $1 Billion per year in costs in the future.

The world's largest parcel company announced recently its intent to join the Blockchain in Transport Alliance (BiTA), a forum for development of blockchain technology standards and education for the freight industry. This bet on Blockchain, as a solution for the trucking industry to secure data transfers and speed up transactions, will allow the company to lower costs and increase its efficiency and security in the future. Furthermore, the Blockchain system will improve the customer's experience as it will increase transparency and offer more information about the process and location of their package.

Share price performance and shareholder structure

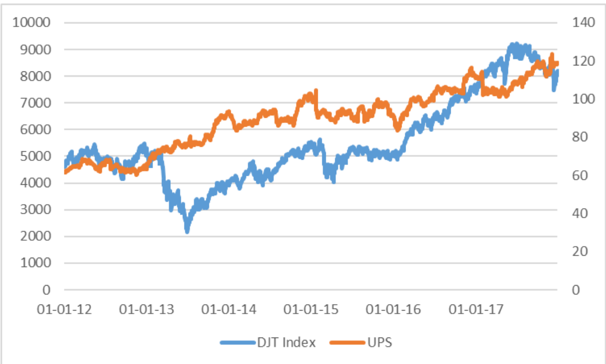
UPS had its Initial Public Offering in November 11, 1999 at $50 price per share and closed on the same day at $68,25, representing a return of +36,5% on a single day. In that day, it was issued a total of $109,4 million shares, valued at $5.47 billion.

UPS stock is included in the S&P500 index since July 22, 2002 and, since then, it generated a return of +93,36% versus 169,94% of the Index itself. Doing the analysis for the last 5 years, UPS stock show a growth of 13.3% CAGR vs 13.4% CAGR of S&P500. Regarding to the correlation between the index and UPS stock, it has been 0,94 for 5-year period and 0,98 for 10-year period, which shows that UPS stock behaves very closely to the S&P500 index.



Source: Bloomberg

When compared to the Dow Jones Transportation Index, we observe that UPS has overperformed the index by showing a 13,3% CARG vs 5,5% CARG in 5-year period and 8,5% CARG vs 7,7% CARG in 10-year period. On the graph on the left, we can observe the two indexes against UPS stock performance over time. Furthermore, by looking to the correlation between DJT



Source: Bloomberg

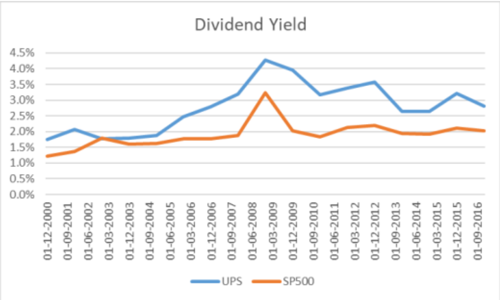
index and UPS stock, 0,5 on a 5-year period and 0,83 in 10 years, we conclude that UPS performance has had a biased behavior in relation to the industry itself.

As of December 2017, UPS had 861 million shares outstanding. Furthermore, the UPS common stock is divided into two types of shares, class A – the owner is entitled to ten voting rights – and class B – the owner is entitled to one voting right. Furthermore, the company has no preferred stock at the time.

Institution	% total shares
Vanguard Group, Inc. (The)	7.2%
Blackrock Inc.	6.4%
Wellington Management Company, LLP	4.3%
State Street Corporation	4.0%
Massachusetts Financial Services Co.	3.2%

Source: UPS annual report

By looking to the UPS shareholder structure, we observe that 69,4% of shares are held by institutional clients. On the table we can analyze the top shareholders of UPS stock that hold more than 3% of total shares outstanding. The total insider shares only account for 0% of total shares, which will reflect a floating number of shares equal to the number of shares outstanding.



Source: Bloomberg

Regarding to UPS dividend policy, the company has offered to its shareholders higher values of dividend yields. When we analyze it against the dividend yield verified in the S&P500, we observe that UPS management intent is to continue to offer higher yields of dividend as verified in the past. We can observe it in the graph on the left.

On 31 December 2017, UPS stock was trading at $119,2, a P/E TTM ratio of 30,3x which is higher than the industry average of 28,2x* (*Morningstar Data).

The Sector

Industry Outlook

The earliest known delivery company was Wells Fargo, which was founded in 1852 and it was doing all deliveries by foot from door to door. By the time, the industry was completely unregulated but with the passage of time, the industry suffered a complete reformulation. The changes observed in this industry over the last century were mainly explained by the evolution of technologies and new regulations coming into the market.

Today, Globalization aligned with the exponential growth in e-commerce are the two most important Industry growth drivers. The growth of e-commerce has altered traditional supply chains, pressuring retailers to provide fast and free shipping. Such needs require delivery companies to offer faster and cheaper delivery shipments, and, to do it, they are doing a strong investment in new technologies, which allow them to lower their costs and, consequently offer lower prices to their clients. They are also investing in infrastructures such as distribution centers closer to consumers.

The customer's preferences has been changing over time. They expect to receive the package around two days after buying.

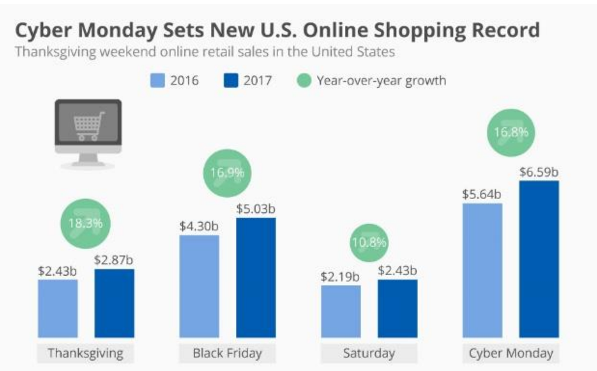
In 2014, the average acceptable waiting time for free delivery was around 5 days, today, that number is close to 2 days. This industry clients' development is changeling traditional logistics models and big brands like UPS or FedEx are doing business shifts in that direction.

This industry requires huge amounts of capital, not only to buy infrastructures and vehicles, but it also requires strong investments in labor as the company needs to pay salaries to their drivers, pilots, call centers' operators, administrative staff, etc. Courier companies benefit from its economies of scale, since it allows them to lower their unit costs and offer more competitive prices to their customers. Therefore, entering into this industry is not so easy since it is both capital and labor extensive.

The industry is highly dependent on density. Online purchases are growing exponentially its weight in overall purchases and, so, for delivery companies, more density per region equals lower cost of reaching the consumer. When they have more stops deliveries within a certain zone they can lower costs per each delivery and, therefore, have better margins on their business. Therefore, it is very important to keep a continuous investment in technologies to look for efficiency improvements, which will very important in the final revenue calculations.

Holiday Season

The holiday season reflects the peak season for retailers and can make the whole year a success, or not, for a retail company. The holiday season starts as soon as November begins, and, in the first weeks, we have special events like Thanksgiving or, on the day after, the Black Friday, which is beating every year's new highs in terms of volume but also in terms of total revenues for a BF day. Only three days after, we have the Cyber Monday. This day might not be so good as BF in terms of promotions and deals themselves, but it is for sure one loved day for online shoppers. In November 23, the 2017 online Black Friday racked up a new record of $5.03 billion in sales vs $4.30 Billion in 2016, a 16,9% growth rate. Regarding to CM sales, this year, 2017, this day became the largest event on retail calendar on US by achieving a new record in sales of $6.59 Billion vs $5,64 Billion in 2016, representing an 16,8% increase Y/Y.

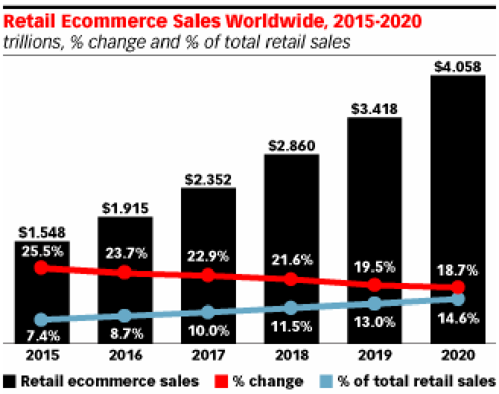


Source: Adobe Digital Insights

Source: Comscore, Statista

Furthermore, earlier in November 11th, it happens the largest shopping day in Asia, the Singles' Day. In 2017, the total revenues for this day reached $38 Billion, with $25.3 Billion from Chinese e-commerce giant Alibaba alone. The company saw a boost of 42% from last year's total of $17.8 Billion. These values prove that Singles' Day is the largest retail event in the world and, as all other online events, it's only getting bigger.

Nonetheless, in December we have also some important retailing events like Green Monday, Free Shipping Day or Christmas. In Green Monday, every second Monday of December, retailers have another opportunity to give a boost to their orders volume by offering more deals like on Cyber Monday. Back to its origins, the day "started" when eBay announced in 2007 that its busiest day was the second Monday in December, which, represented at that time, the last day shoppers could place an order to receive it before Christmas. This day received more and more importance as retailers wanted to continue the boost in sales received during the Cyber week. In 2016, Green Monday online retail sales were $1,621 billion, which represents an 15,1% increase from last year's values. The Free Shipping Day represents, as the name says, a day where customers can do their shopping without paying anything to receive it at home. This event happens annually in mid-December and customers are using more this type of deals as they can save money in shipping their orders. Finally, we have Christmas, which represents that time in the year when everyone is looking for gifts to offer to their families. It is not easy to analyze the Christmas total sales as people are shifting their shopping earlier in the year as they can benefit from deals from BF, CM or GM.



Source: eMarketer

Accordingly to Adobe Analytics, 2017 online holiday season will achieve $107,4 Billion in total sales, representing an increase of 13,8% from last year. As well as the holiday season represents a great opportunity to retailers, it also means that logistics and transportation companies can benefit from it. The Retail ecommerce sales are expected to almost double by 2020 and its proportion of total retail sales is also expected to increase over time as we can observe in the graph.

After all these retail events and opportunities, we have a season that benefits only the Logistics and Transportation companies, the returns season. Returns are absolutely a critical component of the supply chain and, thus, needs to be well handled by retailers and by Delivery companies.

These opportunities, from a Delivery company perspective, should be well analyzed since it requires a strong business plan in order to fulfill every demanded service. In the past we had several delays examples in delivery services given the unprepared infrastructures for such a boost in services. One approach that many companies are doing, UPS included, is to charge a surcharge on package delivery during the holiday season. In this way, they can increase its infrastructures and logistics momently to fulfill all the demand.

Drone Delivery

The drone delivery possibility can increase the companies' efficiency by lower the overall costs

Flying robots can be used for leisure purposes but it can also be a strong powerful tool to companies, especially to all the companies playing a role in the supply chain. Amazon, UPS and FedEx are just three examples of companies that are already using drones in its operations. These companies are testing drones to analysis the possibility of using them to further and more complex tasks. A few months ago, to perform drone tests, companies had to go to other countries to test their drone-delivery systems, which slowed down the development process. Recently, on November 25th, 2017, the Trump administration announced a program that allows companies to conduct drone test in the United States, which benefits the US drone industry to move forward. However, the drone progress has its concerns, usually associated with safety and security. The recent reports of near collisions with aircrafts, the potential usage of drones to criminal purposes and the privacy lost when we have a drone flying over our homes are valid arguments to peoples' perplexability.

The company that has its drone process more advanced and intent to use it in a short period of time is Amazon. Two years ago, Amazon created a delivery system, Prime Air, which was designed to safely get packages to customers in 30 minutes or less using drones. It is not certain when the company could make this new way of delivery possible but it all comes to regulation and, besides the actual government support, it's a FAA decision.

MACRO ANALYSIS

United States

Macroeconomic Scenario

It is expected an economic expansion over the next couple of years, mainly stimulated by the consumption and investment growth, which reflects strong business and consumer confidence and increases in asset prices. Recently, the Trump administration passed a tax reform that will decrease the tax rate for business from 35% to 20% in 2019 and afterwards, which will stimulate the investment and consumption. Since the 2008 crisis, the financial stability has ruled in the economy. However, during the extended period of exceptional monetary easing, some vulnerabilities have emerged. The economy presents high levels of leverage, which can exposure the economy to some significant shocks. For the next years we expect the US economy to continue its growth and to increase its rate mainly due to the increasing interest rates environment that we will face in the future.

Source: Bloomberg

Europe

Over the last decade, Europe faced two recession periods. In 2008/2009, with the 2008 financial crisis, Europe suffered severe economic consequences from it, reflected in a negative Europe GDP growth of -4,3%. The second recession occurred during 2012/2013, when Europe faced financial pressures from bankrupted banks and from a political instability environment lived during that period. Over the last years, we could observe a financial recovery for Europe, which will reflect a positive outlook for the economy. However, looking to the political component, we face a political unstable environment that could offset the economic forecasts. The Europe economy is expected to continue to show GDP growth values around the 2% for the near future, mainly supported by the ECB's intent to increase interest rates and increase investments into the Europe economy.

Competitors

UPS

As it was said above, entering this market can be very expensive, so it does not favor new entries in the industry. We are now do an analysis of the main UPS' competitors:

FedEx

FedEx, founded in 1973, is the major UPS competitor. Its market cap of almost $ 65 Billion and its 2016 revenues value of $ 50,4 Billion requires a special attention. FedEx offers almost the same as UPS in term of services offered but focus its core business in offering efficiently time-definite services. As today, FedEx covers more than 220 countries and delivers, on average, more than 5,5 Million packages per day. It accounts with more than 90 thousand motorized vehicles plus 659 aircrafts and employs more than 220 thousand people.

The company is expanding its business through some recently important acquisitions. In 2016, FedEx acquired TNT for a $4,4 Billion price. This strategic acquisition allowed them to boost their presence in Europe, Middle East and Africa. They also increased their daily packages delivery by 10% and their vehicles by more than 30%.

Regarding to FedEx stock performance (NYSE: FDX), it has delivered a return of more than 160% over the last 5 years. As of December 31, 2017, the stock was trading at $250,09, representing a Market Cap of $66,95 Billion, a P/E of 18,4x and an EV/EBITDA of 10,3x.

Deutsche Post AG

Deutsche Post AG is a company that operates mainly in Europe and offers different types of services but strongly similar to the ones UPS offers. The company operates with DHL brand name in the market. They offer parcel, express and freight delivery and supply chain services. When compared to the US companies like UPS or FedEx, Deutsche Post AG has substantially stronger exposure to the Asia market, which is the one that is expected to grow at an higher rate.

It employs approximately 510.000 people in over 220 countries and territories worldwide. Regarding to it revenues, the group generated revenues of more than 57 Billion Euros (~67 Billion Dollars)

Furthermore, the company has a very responsible and environmental behavior and aims to achieve zero emissions logistics by the end of 2050.

Over the last 5 years the Deutsche Post AG stock (ETR: DPW) returned +141%, which represents +19% annually. As of December 31, 2017, DPW was trading at 39,75 and a market cap of $58,72 Billion. The stock traded on the same day at an P/E of 16,2x and an EV/EBITDA of 9,4x.

Kuehne + Nagel International AG

Kuehne + Nagel International AG, a global transport and logistics company based in Switzerland, provides sea freight and airfreight forwarding, contract logistics and overland business with a focus on providing IT-based logistics solutions. The company has more than 70,000 employees in 108 countries around the world. In 2016, Kuehne + Nagel had CHF 19,985 Billion ($20,566 Billions) in revenues and CHF 729 Million ($750 Millions) of net income.

The Kuehne + Nagel International AG stock (VTX: KNIN) offered a return of more than +56% over the last 5 years. As of December 31, 2017, KNIN traded at CHF 172,50, representing a market cap of CHF 20,7 Billion, a P/E of 28,51x and an EV/EBITDA of 18,22x.

United States Postal Service

The company provides mail processing and delivery services to individuals and business in the U.S. It accounts with more than 785 000 employees and over 260 000 vehicles, making US Postal Service the company with the largest vehicle fleet in the world. The company made over $71,5 Billion in revenues in 2016. However, US Postal Service has struggled to turn its net income positive. Since 2006, the company finished the year with negative net income, which reflects the competition experienced in the industry by big players like UPS and FedEx.

United States Postal Service is an independent agency of the United States federal government and it is not listed in any stock exchange.

Amazon

Amazon is not a UPS competitor, yet!

Amazon represents one of the UPS business risks. The e-commerce dealer company aims to handle all segments of the supply chain, delivery services included. Amazon already began using its own delivery services in India two years ago. It is not known when they will start implementing it in the U.S. or in other countries. All of this is possible due to Amazon's investments in dozens of distributions center, hundreds of brick-and-mortar stores and in creating its own air fleet. The company named this service "Seller Flex" and its main objective, for now, is to increase the number of goods eligible for its Prime free two-day delivery and free up warehouse space.

The amazon possible threat can take long years to materialize, however, UPS does not depend from any of its big clients as they don't represent more than 10% of their business. Yet, it's a risk to be taken into consideration.

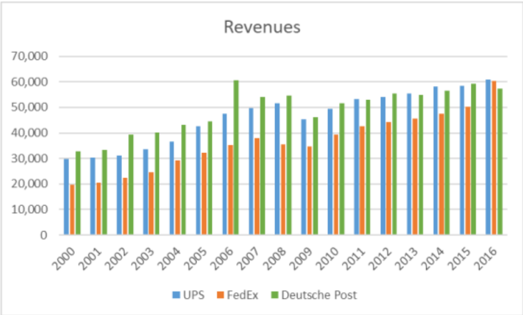
On 31 December, Amazon stock (NASDAQ: AMZN) was traded at 1169,47 with a P/E of 295,5 and a EV/EBITDA of 40,5 Its Market capitalization is more than $570 Billion, and over the last 5 years, Amazon stock had a return of more than +358% (+36% CAGR).

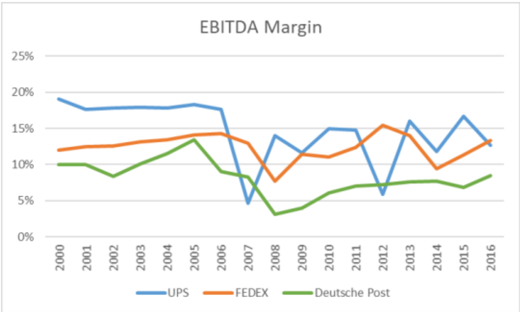
Other Competition

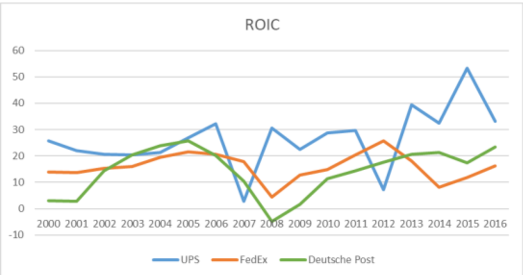
There are other companies that compete with UPS, but most of them focus on different markets such as restaurant delivery or rush services. This type of services requires specialized handling and they are usually app-based companies. Examples: UberRUSH, Roadie, Postmates, among others. These companies do not compete directly with UPS, but they can be seen as UPS competitors.

Regional or local carriers also compete with UPS, but they have different business objectives. Local companies have some competitive advantages against major parcel carriers. They are most effective in their specific geographies where they can deliver packages on a fastest and cheaper way. They can also be more flexible on delivering time.

When the delivery service is longer than their region specialization, these small companies cannot compete with big brands like UPS or FedEx, given their infrastructures, technologies and automated processes.







Source: Bloomberg

UPS VS FEDEX VS DEUTSCH

The industry experienced, over the last decade, an increase in demand driven by the increase in retail sales and, more recently, by the ecommerce boom. This growth happened especially in the three main leaders of the industry, UPS, FedEx and DHL. As it can be seen on the left, UPS had in 2016 the highest revenue value when compared to its two main competitors. Over time UPS had higher revenues than its main US peer, FedEx, but, recently, with TNT acquisition, the difference between the two shrank.

EBITDA margin speaking, until 2006, UPS had the highest EBITDA margin against its peers, but that year, the company struggle to keep its past track and showed some volatility. This can be mainly explained by mark to market charges that the company started to incur and including it in the Income Statement after 2006.

The Return on Invested Capital shows the company's ability to turn its investment into positive cash flows. UPS has beat its two main competitors over the years since it can benefit from its economies of scale and from its smart investments in new technology and infrastructures in the past. In 2016 the company had a ROIC of more than 30%, when FedEx and DHL had 16% and 23% respectively.

Valuation

Revenues

To compute our forecasts, we diversified the total UPS' revenue into three different segments as it is stated above. Inside each division, we perform a deeper analysis into each main driver and performed their forecasts.

U.S. Package Operations

In the largest UPS' segment, revenues speaking, given the information available, we were able to divide it into the three different types of services offered by UPS in Next Day Air, Deferred Air and Ground. Next Day Air comprises all the services offered via air that guarantees the delivery on the next business day, in the United States. Deferred Air division accounts for all delivery services offered via air that exceed the delivery in one business day. Finally, the Ground services includes all services via ground offered by UPS, including both next day and deferred services.

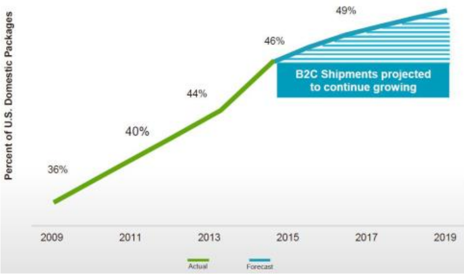
We conducted an analysis by the following drivers for each type of services offered in the United States:

- Average Daily Packages
- Average Price per Package
- Total of Days

The Average Daily Packages represents the number of packages that UPS delivered, on average, per day. This driver represents the demand and over the last years Next Day Air and Deferred Air volume has increased over the last years due to the strong growth felt in e-commerce. Business-to-consumer was the main reason for such boost since people nowadays are doing their shopping online instead of using the traditional channels. In Ground services, UPS is experiencing an higher demand, driven by growth in residential ground and SurePost, which is the low-cost delivery service offered by the company. This effect reflects the change in preferences in retail customers, which preferred to wait a few more day to get their shipment if they can save in overall order cost by doing it.

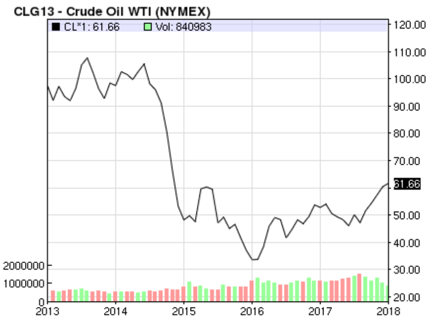
As of 31 Dec 2016, the Ground services represented the largest number in volume terms and accounted for 83,2% of total volume in the U.S. operations division. The US air services, Next day Air and Deferred Air, represented 8,5% and 8,3%, respectively. Due to changes in customers preferences, the shift to low-cost services, we expect deferred percentage to increase slightly, Ground to decrease and Next Day to maintain.

By looking to the overall U.S. Package Operations revenue, we observe an increase in volume over the last years, mainly due to the increase in Business-to-customer shipments, which represented more than 48% of total U.S. volume in 2016 and they are expected to increase in the following years as the e-commerce opportunities arise. Moreover, Business-to-Business volumes has showed a slight increase or even flattened over the past years. This event can be explained by the overall slowing of the industrial manufacturing sector, which was partly offset by the increase in volume felt from the retail industry. In terms of growth, we expect the company to be able to follow the path performed over the last years. The continuous growth verified in retail sales will reflect a volume increase in UPS operations, especially in the US.



Source: UPS Annual Report

The average price per package represents the average price applied by UPS to deliver every package. The price is highly dependent on four different inputs, which are Fuel Surcharge, Product Mix, Consumer Mix and the Base Rate. The fuel surcharge is the extra fee paid by customers to cover the fluctuating cost of fuel. There is no uniform way of computing the fuel surcharges, so every delivery company has its own formula. To determine its value, UPS uses an index-based surcharge that is adjusted monthly. The fuel surcharge used in air services is based on the U.S. Department of Energy's ("DOE") Gulf Coast spot price, while the ground fuel surcharge is based on the DOE's On-Highway Diesel Fuel Price. Over the last years we verified a decrease in the fuel surcharge in both Next Day/Deferred Air and Ground services. This decrease is due to the low oil prices that we have been facing over the last years. In 2014 the WTI crude oil was priced at $106 and today is priced at around $57, which will, consequently, reflect a lower fuel price. The full information about their surcharges can be found on UPS website. Moreover, due to the decline in jet and diesel fuel prices, the company has decreased its revenues coming from the fuel surcharge. Lower fuel prices - lower fuel surcharge - lower price - lower revenue. To forecast the possible impact and path of the fuel surcharge revenues, we need to analyze the oil prices in the future. Given the last moves by OPEC and other oil producers, we predict that prices will maintain a constant recovery growth during the following decade, consequently, pushing fuel prices and fuel surcharges up.



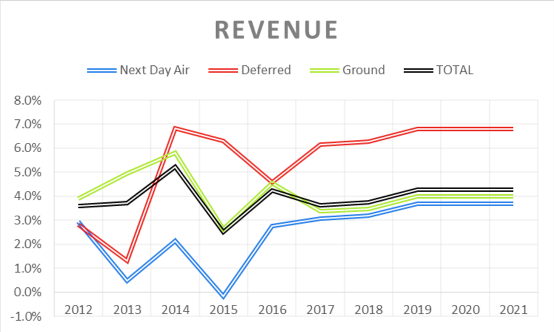
Source: Morningstar

UPS is trying to offer more services to its clients and Consumer and Product Mix can suffer a slight change and affect the UPS revenues. Regarding to Consumer Mix, UPS has reported a faster volume growth among its larger customers, which have a lower average yield when compared to its small and middle-market customers. The company is also experiencing relatively stronger growth in its lighter-weight business-to-consumer shipments, which have lower average yields than heavier-weight commercial shipments. Given these, we expect consumer and product mix to impact negatively the revenues over the next couple of years and afterwards stabilize and stop influencing the overall price demanded by UPS.

The base rate is a UPS management decision and its behavior, over the last years, shows that UPS are charging slightly more every year. We expect this path to continue over the next years until it reaches a steady state and growth equals to zero.

Summing up, over the next couple of years, we expect average price per package to slightly decrease due to some uncertainty about fuel prices and to changes in customer and product mix. The recent e-commerce boom is also affecting the UPS margins, reducing them given the high competition. Afterwards, we believe it will remain constant and achieve its steady state.

The total of days that UPS perform in U.S. is been increasing especially due to changes in holidays. The impact of changes in this driver are not very significant if the increase is small, thus we expect this value to be constant over time.



Source: Excel model

Finally, we can perform the total revenue coming from US packages Operations. As it can be seen on graph, all the subsegments are expected to continue its growth over the next years. The Deferred Air service is the one that will perform better over the following years due to the e-commerce boom and to shifts in customers preferences, which prefer to pay lower shipping rates and wait more time for their orders.

International Package Operations

The international UPS division represented 20% of total revenues in 2016. Over the last years, this value has slightly decrease mainly due to an increase in the domestic dominance over international revenues and not by a decrease in its revenues, as it will be explained in a further analysis.

In this segment, we were able to divide it into Domestic, Export and Cargo & Other. Domestic operations are internationally services provided within the same country, while Export operations represents the services from one country to other different country. Cargo & other subsegments accounts for all the Cargo and other ways of delivering services provided by UPS.

On the first two, given the information available, we computed a further analysis by looking to the following drivers:

- <u>Average Daily Package Volume</u>
- <u>Average Price per Package</u>
- <u>Total of Days</u>

The growth in business-to-consumer volume is affecting the overall international volume, as well as the strong demand coming from sectors like retail, industrial, high-tech or healthcare. Considering the Export subsegment, UPS is experiencing increases in volume from all regions in the world, especially by its European and Asian operations. The business inside Europe is the largest one, accounting for more than 50% of total volume, however, Asian-Pacific has been growing its importance, a market where there are huge opportunities for delivery companies. The company has an investment commitment of $2Billion in Europe and it is being investing around the globe, especially Asian-Pacific and Africa. Furthermore, U.S. exports are highly dependent of US dollar behavior, and, over in 2015 and 2016, we experienced a dollar appreciation which led to lower US export volume to UPS. We expect this behavior to be inverted in 2017 and on the following years, as we predict the dollar to continue to depreciate against the major currencies, which will boost US exports.

The international investments that has been made by UPS adding to the prediction of dollar depreciation, we expect that international volume to increase over the next years.

As well as it happens with US operations, the price charged by UPS internationally is affected by the fuel surcharge, Consumer and product Mix, base rate and, as we are dealing with different currencies, Currency movements. The Fuel Surcharge is being pushed down by the low oil prices that we are facing nowadays and, thus, UPS is experiencing lower revenues coming from this driver. The international revenues are subject to variations in the currencies behavior, and, in 2015 and 2016, with the US dollar increasing its strength, UPS, when converted its international revenue to dollar, ended up with less dollar revenues. However, these two negative impacts are being offset by the increase in base rates as well as a shift in Product mix, since premium products, the ones with higher margins, are experiencing an higher growth when compared to UPS standard products.

As our forecasts suggest, for the following years, the continuous dollar depreciation against other currencies, as it was observable in 2017, together with the increase in base rates, will reflect a slightly overall price charged by UPS in this division.

Supply Chain & Freight Operations

In this division, which represented in 2016 17% of total revenues, we performed a deeper analysis by separating it into Freight LTL, Other Freight, Forwarding & Logistics and Others. The Freight LTL division we divide it into:

- Revenue per Hundredweight
- Shipments (in thousands)
- Weight Per Shipment

Over the last years, UPS Freight revenue has been decreasing mainly due to a decline in the number of shipments and the weight per shipment operated. The lower fuel prices also impacted negatively the revenue through lower fuel surcharge charges. However, due to an increase in base rates, UPS has been increasing its revenue per hundredweight, in order to offset the loss verified in the other two drivers.

The increase verified in the Forwarding and Logistics revenue over the last two years can be mainly explained by the two important acquisitions made by UPS, Marken in 2016 and Coyote in 2015. The company expanded exponentially its infrastructures, which reflected more revenue to UPS. Other positive impacts are coming from the growth in mail services and retail, aerospace, healthcare and automotive solutions. However, this division has also experienced some negative impacts over the last years, especially from currency exchange rate movements and lower fuel surcharge rates, due to dollar appreciation and low fuel prices. We expect the revenues in F&L to keep the same path as the previous years, due to the impact of the Marken Acquisition, which was only materialized in December 2016, and due to the dollar appreciation and higher fuel prices expectations.

Summing up, we forecast the following revenues values for UPS:

Revenues	2016A	2017F	2018F	2019F	2020F	2021F	CARG
US Package Oper.	4.2%	3.6%	3.7%	4.2%	4.2%	4.2%	
International Package Oper.	1.7%	3.1%	3.3%	3.8%	3.8%	3.8%	
Supply Chain & Freight	8.3%	5.1%	2.6%	2.6%	2.9%	3.2%	
Total Revenue	$ 60,906	$ 63,186	$ 65,355	$ 67,889	$ 70,563	$ 73,380	3.8%

Costs/Margins

When adjusting the operating expenses by extracting the negative impact of mark to market charges that were included in the company's calculations, we were able to perform a deeper margin profit analysis across all UPS divisions.

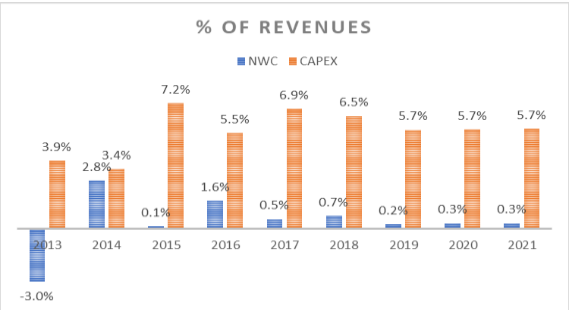
The ecommerce dominance within the industry brings new challenges to the companies, in the future, since retailers and its customers demand lower delivery prices with the same quality of service offered. This shift can affect the UPS margins in order to offer competitive prices to its customers for the future. Although UPS has been investing a lot in improving its service efficiency, we expect the company to be forced to slightly lower their margins in both Domestic and International parcel division. In both segments, we also expect the shift verified in the product mix in the last years, choosing services where UPS has lower profit margins like low cost services (SurePost), to continue which will also impact negatively the UPS margins.

Regarding to the Supply chain solutions and Freight services, we expect the company to be able to perform better margins in the future. This forecast can be explained by the benefits coming from the new recent acquisitions inside this division (Coyote and Marken takeovers) which will lead to higher efficient services provided and, consequently, lower costs to perform them.

NWC/CAPEX

The current assets minus the current liabilities gives us the Net Working Capital amount. As part of the current assets we have two important accounts Inventories and Accounts Receivables. The UPS' inventories are comprised by fuel and other materials to their airplanes/vehicles and by supplies inventories. In the past, this rubric as maintain constant holding period days, as such, we calculated in the same way, keeping the same number of holding period days. Regarding to UPS' accounts receivables, the company has experienced a constant collection period over the last years, and so, we will expect this account to behave in the same way for the future. Moreover, the accounts payables are very important when looking to the current liabilities, and thus, we tried to forecast it using the payable period, which was constant over the last years. Summing up, all these forecasts will conduct to a stable investment in working capital when we analyze it as a portion of total revenues.

The PP&E accounts for all the vehicles, Aircrafts, Buildings, Leasehold Improvements, Plant equipment and Technology equipment. UPS, in order to continue to offer the best services to its clients, has maintained its investments in PP&E constant as a proportion of the total revenues and, thus, we predict the same investment strategy for our forecasts. As the revenues increase, it is expectable a stronger investment in PP&E, in order to be able to meet with all of its demand.



Source: Excel model

The costs of purchased businesses in excess of net identifiable assets acquired represents the Goodwill account. As it is known, UPS over the last decade followed a growth strategy of new acquisitions within the Logistics & Transportation industry, which will be reflected on an increase of Goodwill. The company's ambition of expanding its operations all over the world will require higher investments and so, we expect Goodwill to continue to maintain its proportion of Revenues equal to the one presented on the last two years. In these years the company operated two huge and important acquisitions (Coyote and Marken) and thus, we predict the same type of acquisition strategy to continue in the future.

In summary, we expect the company to follow an investment strategy as the one shown on the graph on the left.

DCF

To perform the discounted cash flow, we used to different approaches. The first one was by using the Core FCF, which contains the operating cash flows minus the investing cash flows, and by using a perpetuity growth rate to calculate the company terminal value. On the second one we used EBITDA values as an input to discount and, to compute the terminal value, we used a multiple EV/EBITDA. On the perpetuity method, we assumed a constant growth rate of 2.2% to perform our terminal value calculations as it seems to be in line with the macroeconomic scenario for the future and for the business forecasts that we used. Regarding to the EBITDA method, on the EV/EBITDA multiple we used the median of the selection of peers used in the Multiple valuation. In both approaches, we used the WACC as our cost of capital, or in other words, as our discount rate.

All calculations performed, we achieved a target price of $134,61 with the perpetuity method, and $149,51 with the EBITDA method.

Valuation	DCF		Multiples			
	Perpetuity	EBITDA	P/E	EV/Sales	EV/EBIT	EV/EBITDA
Enterprise Value	131,457	144,640	105,610	72,497	89,770	102,963
Net Debt	12,599	12,599	12,599	12,599	12,599	12,599
Equity Value	118,858	132,017	93,011	59,898	77,171	90,364
No. of Shares	883	883	883	883	883	883
Value per share	**$ 134.61**	**$ 149.51**	**$ 105.34**	**$ 67.83**	**$ 87.40**	**$ 102.34**
% Upside/Downside	12.9%	25.4%	-11.6%	-43.1%	-26.7%	-14.1%
Average	$ 142.06		$ 90.73			
% Upside/Downside	19.2%		-23.9%			

WACC assumptions

To perform the UPS valuation, we used the Weighted Average Cost of Capital as it seems to be the right cost of capital approach.

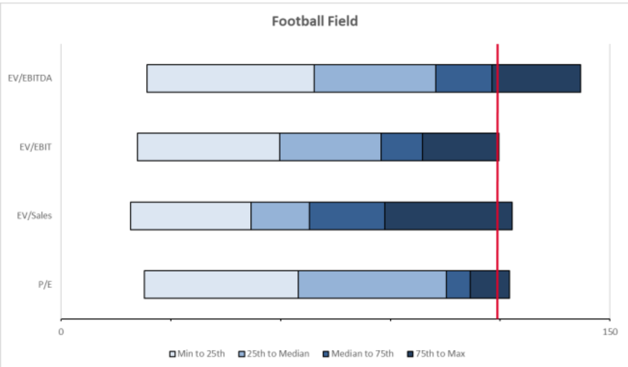
The cost of capital was calculated through the Capital Asset Pricing Model. To compute it, we used three inputs: risk-free rate, levered beta and market risk premium. As Risk-Free Rate, we used the US 10-year Treasury-Bond yield, which seemed to be the best approximation as the company has 85% of its business in the United States. The Levered Beta used was computed by levering the unlevered beta together with debt beta and debt to equity ratio.

The cost of debt was calculated by using the current US 10 year- Treasury-Bond yield added to a default spread. The last one was performed by analyzing the company default risk, through Moddy's and S&P ratings (A+ and AAA, respectively), and extracting, from the interest coverage ratio table, the matching default spread (1.00%).

Finally, the Weighted Average Cost of Capital was performed by multiplying the cost of debt by the debt percentage of total capital and by 1- tax rate, and summing to this the cost of equity times the equity percentage of total capital. As a result, we computed a cost of capital equal to 5.8%

Multiple Valuation

It was performed a multiple valuation to analyze how UPS is valued amongst its peers. Initially, we selected a certain number of UPS' competitors but, after a careful analysis, we decided to exclude some outlier from the sample, given to its low market capitalization or due to very high or low multiples values.



Source: Excel model

The multiples selected to perform this analysis were: Price to Earnings, Enterprise Value to Sales, Enterprise Value to EBIT and Enterprise Value to EBITDA. Even though we performed a multiple valuation analysis, we are aware this method ignores some important business aspects like risk, growth of cash flow potential. It is also static as it only accounts to the present data, forgetting the past as well as the future data.

Furthermore, this analysis enabled us to perform a Football Field, where we can compare the current valuation (red line) to peers' behavior in each different multiple.

Sensitivity Analysis

To assess how a different discount or growth could impact our DCF perpetuity valuation, it was performed a sensitivity analysis. The WACC, our discount rate, can be affected by the risk-free rate, equity risk premium, levered beta and by the cost of debt. We don't expect extremely movements neither in the equity risk premium nor risk free rate during the following years. The possible risk comes from the Levered Beta and the cost of debt, and, to take them into account, we performed a WACC analysis by increasing it by 1% and by decreasing it in the same amount.

Regarding the growth rate, due to its unpredictable movements over time, we also changed it by increasing and decreasing the rate 1%. To do a more complete analysis we performed the sensitivity analysis to the Enterprise Value, Market Value and Share price value.

We repeated the same process to our DCF EBITDA valuation but instead of doing a sensitivity analysis on the growth rate, we performed it on the EBITDA multiple used.

Furthermore, we also performed a sensitivity analysis for our WACC calculations. The final results can be seen in the following tables:

Perpetuity

EV	Growth				
131,457	**1.2%**	**1.7%**	**2.2%**	**2.7%**	**3.2%**
4.8%	136,363	155,940	183,012	222,900	287,529
5.3%	119,344	133,881	153,089	179,651	218,787
5.8%	106,022	117,193	131,457	150,305	176,368
6.3%	95,310	104,129	115,092	129,089	147,585
6.8%	86,512	93,625	102,279	113,038	126,776

Value per Share	Growth				
135	**1.2%**	**1.7%**	**2.2%**	**2.7%**	**3.2%**
4.8%	140	162	193	238	311
5.3%	121	137	159	189	233
5.8%	106	118	135	156	185
6.3%	94	104	116	132	153
6.8%	84	92	102	114	129

Estimated Upside	Growth				
12.90%	**1.2%**	**1.7%**	**2.2%**	**2.7%**	**3.2%**
4.8%	17.56%	36.16%	61.88%	99.78%	161.18%
5.3%	1.39%	15.21%	33.46%	58.69%	95.87%
5.8%	-11.26%	-0.65%	12.90%	30.81%	55.57%
6.3%	-21.44%	-13.06%	-2.65%	10.65%	28.23%
6.8%	-29.80%	-23.04%	-14.82%	-4.60%	8.45%

EBITDA

EV	EV / EBITDA				
144,640	**10.63**	**12.13**	**13.63**	**15.13**	**16.63**
4.8%	122,225	136,829	151,433	166,038	180,642
5.3%	119,508	133,769	148,030	162,290	176,551
5.8%	116,866	130,793	144,720	158,647	172,574
6.3%	114,296	127,899	141,501	155,103	168,706
6.8%	111,796	125,083	138,370	151,657	164,944

Value per Share	EV / EBITDA				
149.51	**10.63**	**12.13**	**13.63**	**15.13**	**16.63**
4.8%	124	141	157	174	190
5.3%	121	137	153	169	186
5.8%	118	134	150	165	181
6.3%	115	131	146	161	177
6.8%	112	127	142	157	173

Estimated Upside	EV / EBITDA				
25.43%	**10.63**	**12.13**	**13.63**	**15.13**	**16.63**
4.8%	4.13%	18.01%	31.88%	45.76%	59.63%
5.3%	1.55%	15.10%	28.65%	42.20%	55.75%
5.8%	-0.96%	12.27%	25.50%	38.74%	51.97%
6.3%	-3.40%	9.52%	22.45%	35.37%	48.29%
6.8%	-5.78%	6.85%	19.47%	32.09%	44.72%

(Row labels in the tables above: WACC)

WACC

WACC		Beta Unl				
MKT Risk Premium	5.8%	**0.30**	**0.45**	**0.60**	**0.75**	**0.90**
	5.0%	3.7%	4.4%	5.2%	5.9%	6.7%
	5.5%	3.8%	4.7%	5.5%	6.3%	7.1%
	6.0%	4.0%	4.9%	5.8%	6.7%	7.6%
	6.5%	4.1%	5.1%	6.1%	7.1%	8.0%
	7.0%	4.3%	5.3%	6.4%	7.4%	8.5%

Scenario Analysis

To assess how a different forecast analysis could impact the target price, we performed a scenario analysis. We calculated two more different scenarios, a bull case and a bear case. In the bull case we assumed a stronger demand in the UPS services, expecting a higher growth rate and popularity of ecommerce demand. We also increased the UPS margins across all division, replicating the ability to perform better margins in the future.

In the Bear case, we assumed a lower ecommerce demand and a stronger customer preference shift to products that have lower average yields to UPS. It was analyzed the impact if the UPS international expansion does not bring the expected demand. Furthermore, we also reduced margins to see the case where UPS was not able to charge higher prices given the industry competitiveness. We can analyze the final results below.

Scenario Analysis		2017	2018	2019	2020	2021	Target price: Perpetuity	Target price: EBITDA
BULL	Revenues Growth	4.2%	3.9%	4.4%	4.4%	4.5%	$ 142.58	$ 160.04
	EBIT Margin	13.4%	12.9%	12.8%	12.8%	12.8%	19.6%	34.3%
Base	Revenues Growth	3.7%	3.4%	3.9%	3.9%	4.0%	$ 134.61	$ 149.51
	EBIT Margin	12.8%	12.5%	12.3%	12.2%	12.2%	12.9%	25.4%
Bear	Revenues Growth	2.5%	2.2%	2.7%	2.7%	2.8%	$ 116.92	$ 126.16
	EBIT Margin	11.4%	11.0%	10.9%	10.8%	10.8%	-1.9%	5.8%

Appendix

Financial Statements

Income Statement	A 2016	F 2017	F 2018	F 2019	F 2020	F 2021
Revenues	60,906	63,186	65,355	67,889	70,563	73,380
Costs	50,564	52,700	54,575	56,881	59,188	61,548
EBITDA	10,342	10,486	10,781	11,008	11,375	11,832
Depreciation	2,224	2,426	2,588	2,688	2,794	2,906
EBIT	8,118	8,060	8,192	8,320	8,581	8,927
Investment Income	50	40	41	42	43	44
Interest Expenses	(381)	(483)	(467)	(517)	(538)	(561)
EBT	7,787	7,617	7,767	7,845	8,085	8,410
Taxes	2,683	2,596	2,647	1,978	2,039	2,121
Net Income	5,104	5,021	5,120	5,867	6,046	6,289

Balance Sheet	A 2016	F 2017	F 2018	F 2019	F 2020	F 2021
ASSETS						
Current						
Cash & Cash Equiv.	3,476	632	654	679	706	734
Marketable Securities	1,567	1,601	1,635	1,671	1,707	1,744
Accounts Receivables	7,695	7,369	7,622	7,918	8,230	8,558
Inventories	342	361	374	390	405	422
Net* Other Current Assets	232	316	654	679	706	734
Total Current assets	13,312	10,279	10,939	11,336	11,753	12,191
Non-Current						
PP&E	18,800	20,219	21,567	22,403	23,286	24,215
Goodwill	3,757	4,423	4,575	4,752	4,939	5,137
Intangibles	1,758	1,896	1,961	2,037	2,117	2,201
Net* Derivatives & Hedging Assets	448	452	456	459	463	467
Net* Deffered Tax Assets	479	632	654	679	706	734
Total Non-Current assets	25,242	27,622	29,212	30,331	31,511	32,755
Total Assets	**38,554**	**37,901**	**40,151**	**41,667**	**43,264**	**44,946**
LIABILITIES						
Current						
Accounts Payable	3,042	2,916	2,888	2,990	3,117	3,243
Hedge margin liabilities	575	575	575	575	575	575
Accrued group welfare and retirement plan contributio	598	-	-	-	-	-
Accrued Wages and Withholdings	2,317	2,463	2,548	2,647	2,751	2,861
Total Current Liab.	6,532	5,954	6,011	6,212	6,443	6,679
Non-Current						
Self-Insurance Reserves	2,464	2,464	2,464	2,464	2,464	2,464
Pension and Postretirement Benefit Obligations	12,694	12,694	12,694	12,694	12,694	12,694
ST+LT Debt	16,099	15,565	17,236	17,951	18,700	19,502
Net* Other Long Term Assets	360	316	327	339	353	367
Total Non-Current Liab.	31,617	31,039	32,721	33,449	34,211	35,027
Total Liabilities	**38,149**	**36,993**	**38,732**	**39,661**	**40,654**	**41,706**
EQUITY	**405**	**907**	**1,419**	**2,006**	**2,610**	**3,239**

Net*: Assets - Liabilities

Cash Flow Map	A 2016	F 2017	F 2018	F 2019	F 2020	F 2021
Net Income	3,646	5,309	5,396	6,247	6,443	6,702
Depreciation	2,224	2,426	2,588	2,688	2,794	2,906
Operating Cash Flow	5,870	7,735	7,984	8,935	9,237	9,608
Investment in Working Capital	965	(67)	591	186	177	193
Capital Expenditures	3,349	4,693	4,142	3,765	3,931	4,103
Other Investing activities	(3,046)	610	12	6	6	6
Invested Capital	1,269	5,236	4,744	3,957	4,114	4,302
Operating FCF	**4,601**	**2,500**	**3,240**	**4,978**	**5,123**	**5,306**
Net Cash Transactions with Shareholders	(4,553)	(4,519)	(4,608)	(5,280)	(5,442)	(5,660)
Net Financial Income	(1,072)	(314)	(303)	(413)	(430)	(448)
Investments in Financial Assets	1,023	2,333	1,671	715	749	802
Financing CF	**(4,601)**	**(2,500)**	**(3,240)**	**(4,978)**	**(5,123)**	**(5,306)**

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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