



The economics behind the margin.

An executive analysis of FedEx

Demand. Service mix. Capacity. Cash.

FY2025 diagnosis | FY2026 update

Independent research from Cass, ATRI and BTS

Independent executive commentary | Research checked October 11, 2026

Public evidence, decision questions and limits of inference

Diagnose the driver. Then allocate resources.

Cost savings are one lever. The economics of the network determine how far that lever goes.

FedEx's FY2025 results reveal a demand and service-mix problem alongside cost pressures. The decline in consolidated operating income was concentrated in the historical Freight segment; Federal Express operating income increased slightly. A company-wide narrative of operational deterioration would therefore miss an important distinction. [1]

FY2026 changes the picture: consolidated operating income recovered, although reported margin remained below FY2025. The comparison also changes after the June 2026 Freight spin-off and the fiscal-calendar reset. An executive assessment needs a consistent reporting perimeter before assigning credit or blame. [2, 3]

Signal	FY2024	FY2025	Interpretation
Revenue, \$B	87.693	87.926	Nearly flat
Operating income, \$B	5.559	5.217	Down 6.2%
Federal Express operating income, \$B	4.819	4.885	Up 1.4%
Freight operating income, \$B	1.821	1.489	Down 18.2%

Executive implication

Examine customer and service contribution, network fit, and transformation returns separately. Aggregate margins help identify a problem; operating detail is needed to choose the intervention.

Scope: historical consolidated results include Freight. Fiscal years shown ended May 31. Dollar figures are USD. Percentage changes are calculated from reported amounts. [1]

The segment changes the diagnosis.

Consolidated operating income fell by \$342M in FY2025. The segment movements were +\$66M in Federal Express, -\$332M in Freight, and -\$76M in corporate, other and eliminations. Freight's decline was approximately 97% of the net consolidated decline. This is an accounting decomposition, with offsetting movements elsewhere, rather than a causal attribution to a management initiative. [1]

Freight operating indicator	FY2024	FY2025
Average daily shipments, thousands	94.0	90.1
Weight per shipment, pounds	946	920
Revenue per shipment, \$	376.81	373.52
Revenue per hundredweight, \$	39.82	40.61
Operating expenses, \$M	7,608	7,403
Operating margin	19.3%	16.7%

Demand, yield and absorption

Freight shipments declined 4.1%, and expenses declined 2.7%. The company attributed the revenue decline to lower shipments and yields, with two fewer operating days. Salaries and benefits decreased approximately 1%; higher wage rates partly offset staffing and incentive reductions. [1]

Revenue per shipment fell while revenue per hundredweight increased. Lower weight and fuel surcharges can affect these measures differently. Treating either metric as a pure price measure would obscure the commercial diagnosis. [1]

Decision question

Which terminals and lanes have a sustainable density problem, and which are experiencing a temporary volume shortfall? Route economics, labor hours, service reliability and recovery scenarios are needed to answer that question.

Demand shifted. Capacity takes time.

Federal Express package volume	FY2024 ADV	FY2025 ADV	Change
U.S. priority	1,649	1,609	-2.4%
U.S. deferred	1,015	1,052	+3.6%
U.S. ground home delivery / economy	6,678	7,041	+5.4%

ADV: average daily volume, in thousands of packages. Categories are selected examples, not the full package-volume portfolio. [1]

The 10-K links deferred growth to changing service preferences and home-delivery growth to e-commerce. It also notes that the air network's relatively high fixed costs make rapid adjustments difficult when volumes shift. [1]

The USPS contract expired in September 2024 and contributed to the decline in U.S. freight pounds within Federal Express. That statistic describes a different operation from the LTL shipments in the historical Freight segment. [1]

The commercial and operating decisions are linked

A larger deferred business is not automatically less profitable: profitability depends on price, handling, density and the network used. The public figures do not disclose contribution margin for every service. The relevant executive question is whether the product portfolio fits the cost and capacity architecture.

What an operating review should request

Contribution after pickup, sorting, linehaul, delivery and exceptions; utilization by facility and service window; cost per stop; labor hours; and delivery reliability. Pair capacity changes with a demand-recovery scenario and explicit service thresholds.

Trade-off

Removing capacity can improve utilization today while reducing flexibility tomorrow. The decision should distinguish sustained structural excess from temporary cycle weakness.

Cash adds a different signal.

Consolidated cash measure, \$M	FY2024	FY2025	Change
Operating cash flow	8,312	7,036	-15.4%
Capital expenditures	5,176	4,055	-21.7%
Operating cash flow less capex	3,136	2,981	-4.9%

Operating cash flow less capex is an arithmetic proxy. It excludes other investing cash flows and is not presented here as a company-defined adjusted cash metric. [1]

Why lower spending was insufficient

Operating cash flow declined by more than capital spending. The 10-K primarily attributes the cash-flow decline to working-capital movements: receivables, accrued incentive compensation and payables. A cash decline therefore cannot be attributed automatically to lower operating productivity. [1]

Transformation has both savings and costs

Business-optimization expenses increased from \$582M to \$756M in FY2025. Structural savings are not a complete bridge to reported operating income: demand, mix, wage rates, implementation expenses and other effects can offset gains. [1]

Capital allocation lens

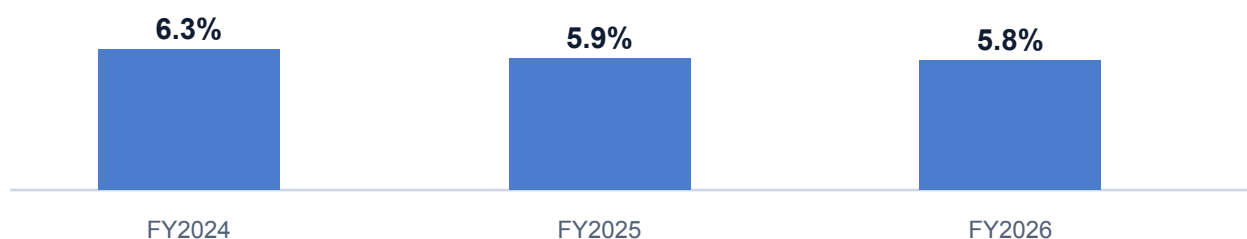
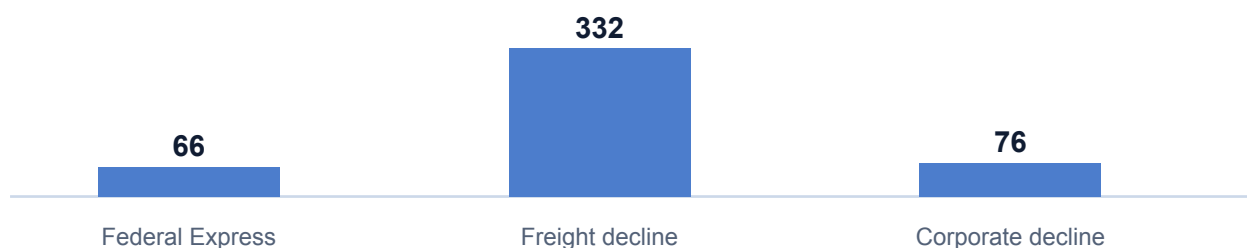
Assess savings net of implementation cash, recurring costs and maintenance needs. Evaluate investment timing alongside return on incremental capital, reliability and the ability to serve future demand. A smaller capex budget is not, by itself, proof of better allocation.

Management dashboard

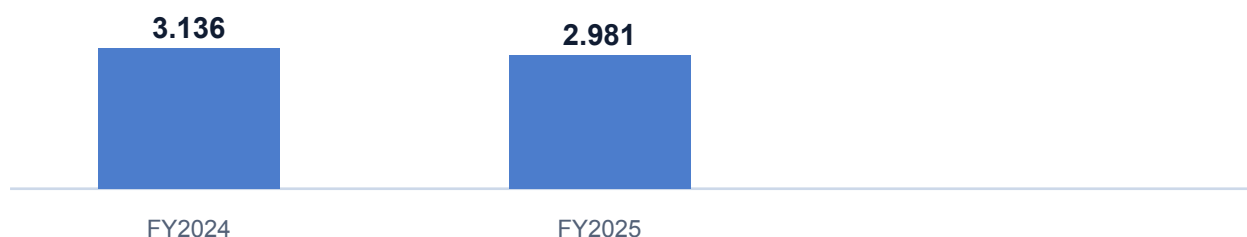
Track receivable aging and collection, working-capital conversion, maintenance versus expansion capex, realized savings, implementation costs, and service-quality outcomes. Favor consistent definitions over a single attractive headline.

EXHIBIT / THREE SIGNALS

Read the economics from several angles.

GAAP operating margin | Historical consolidated scope**Operating income | FY2025 vs. FY2024 | USD millions**

The income chart shows the magnitudes of +66, -332 and -76; the latter two are declines. Net consolidated movement: -342. [1]

Operating cash flow less capex | USD billions

All bars begin at zero. Margin figures are published rounded values; cash figures are calculated from reported amounts. The cash measure excludes other investing flows. [1, 2]

FY2026 updates the conclusion.

Consolidated measure	FY2025	FY2026
Revenue, \$B	87.9	94.7
Operating income: GAAP, \$B	5.22	5.46
Operating income: adjusted, \$B	6.12	6.61
Operating margin: GAAP	5.9%	5.8%
Operating margin: adjusted	7.0%	7.0%

Values are rounded as presented in the June 23, 2026 release. These historical full-year results include Freight and are separate from the new continuing-operations calendar-year framework. [2, 3]

Profit recovered; reported margin did not expand

Adjusted operating income supplements GAAP and excludes specified spin-off, optimization, fiscal-calendar and other items. The difference between reported and adjusted performance matters economically: transformation costs still require resources. [2]

In Q4 FY2026, FedEx attributed improved Federal Express results to higher yields, transformation savings and package volume. Transportation and wage rates, incentive compensation and trade-policy impacts partly offset these gains. These quarterly explanations should not be treated as a complete causal bridge for the full year. [2]

Reset the comparison perimeter

Freight became a separate public company on June 1, 2026. FedEx also moved its fiscal year-end to December 31, with a seven-month transition from June through December 2026. Recast financial history supports comparisons under the new continuing-operations and segment structure. [3]

Future evaluations should align duration, scope, segments and accounting definitions. Comparing a transition period directly with a twelve-month consolidated fiscal year would mix growth with a change in the denominator.

Independent research adds context.

External indicator	Observation	Period
Cass shipments	+2.1% year over year	August 2026
Cass freight expenditures	+18.7% year over year	August 2026
Cass truckload linehaul index	+11.3% year over year	August 2026
ATRI truck cost per mile	\$2.336; +3.4%	2025 observations
ATRI cost excluding fuel	\$1.854; +4.2%	2025 observations
BTS freight TSI	-2.0% year over year	July 2026

Cass: volumes and spending can diverge

Cass's freight-bill sample provides a market signal: spending grew much faster than shipments in August 2026. Its truckload linehaul measure has a different coverage from total expenditures, so the three figures are not a clean price-volume decomposition. Invoice-processing timing and client mix also affect interpretation. [4]

ATRI: operating-cost pressure persists

The July 2026 study reports average road-carrier costs for 2025. It helps contextualize wage and operating-cost pressure. The benchmark does not measure FedEx's aircraft, cost per package or exact network costs. [5]

BTS: triangulate the cycle

The July multimodal freight index and the August Cass sample differ in month, coverage and methodology. Their different readings support a cautious assessment of the recovery, rather than a claim that every freight market is improving. [6]

Executive implication

Use external series to stress-test demand and cost scenarios. Validate those scenarios against company-level volume, yields and service economics before making capacity or pricing decisions.

Decisions, trade-offs and evidence gaps.

Decision to evaluate	Evidence required	Trade-off
Selective customer / service growth	Contribution by lane and customer; retention; exception costs	Losing volume may reduce density for remaining customers.
Reshape routes and capacity	Utilization by window; incremental costs; recovery scenarios; reliability	Excessive cuts may constrain demand recovery.
Improve productivity	Packages per hour; labor hours; stop density; re-deliveries	Average gains can mask local bottlenecks or workload pressure.
Prioritize automation and capex	Incremental returns; rollout costs; maintenance; cash and reliability	Delaying investment can lift near-term cash and raise future costs.
Revisit prices and terms	Elasticity; dimensions; weight; service exceptions; cost to serve	Higher prices may weaken retention or network density.

What public evidence can establish

The filings establish segment differences, changing service demand, cost pressures and cash movements. They support a structured operating review and specific requests for information.

What remains unknown

Public data do not provide complete customer- or lane-level profitability, terminal utilization, comparable service reliability, or every product's contribution margin. Capacity cuts, pricing changes and headcount reductions remain hypotheses to test against that detail.

The leadership standard

Choose an intervention only after identifying the economic driver, the operating constraint and the customer consequence.

Sources and methodology.

[1] [FedEx FY2025 Form 10-K](#)

[2] [FedEx FY2026 results - June 23, 2026](#)

[3] [FedEx supplemental recast financial history](#)

[4] [Cass Transportation Index Report - August 2026](#)

[5] [ATRI Operational Costs of Trucking - 2026 update](#)

[6] [BTS Freight Transportation Services Index / FRED](#)

Calculation and scope

Year-over-year change = $(\text{current} / \text{prior} - 1) \times 100$. Growth rates in the diagnostic tables use underlying reported amounts. Published rounded margins are retained where stated. FY2024, FY2025 and FY2026 end May 31; the consolidated historical scope includes Freight. External observations have their own periods and populations.

Interpretation

Company explanations are attributed to FedEx. Executive questions and decision implications are independent interpretation. The sector studies provide context rather than company-specific causal evidence. This report does not imply access to internal FedEx operating data or a relationship with the company.

Companion charts

The LinkedIn carousel visualizes service mix, Freight operating changes, cash and capex, three-year GAAP margin, and Cass market indicators. This report supplies the detail needed to interpret those charts, including the limits of comparison.