

UPS to Miss 2Q13 EPS Estimates; Maintain Hold Rating

UPS (Hold, \$91.45) pre-announced 2Q13 earnings per share this morning at \$1.13, 6% below our estimate and the Street consensus estimate of \$1.20. Furthermore, management lowered its 2013 EPS guidance range from \$4.80-\$5.06 to \$4.65-\$4.85. Overcapacity in global airfreight, trade-down of customer shipping preference and a lackluster U.S. industrial economy were cited as reasons for the underperformance. The Street is currently at \$4.98 and we are at \$4.93 with both estimates likely coming down later today. We maintain our Hold rating on the shares of UPS due to valuation, and will likely not be more constructive on the stock until it drops to \$80 or below.

- We believe the company's two biggest competitors, FDX (Buy, \$104.40) and DPW-XE (Buy, €20.09), should be negatively impacted in trading sentiment today as a result of the UPS "miss", but we prefer each of those stocks to UPS, as they have more margin expansion potential with some margin improvement expected from self-help initiatives that do not require a robust economy.
- Comments on excess capacity in airfreight, though, are more positive for the stocks of the freight forwarders, like EXPD, UTIW, PWTN-SIX, and KNIN-SIX, who could take advantage of the lower buy rates to improve gross profit margins.

David G. Ross, CFA
J. Bruce Chan
Stifel Equity Trading Desk

dross@stifel.com
chanb@stifel.com
US: (800) 424-8870

(443) 224-1316
(443) 224-1386
Canada: (866) 752-4446

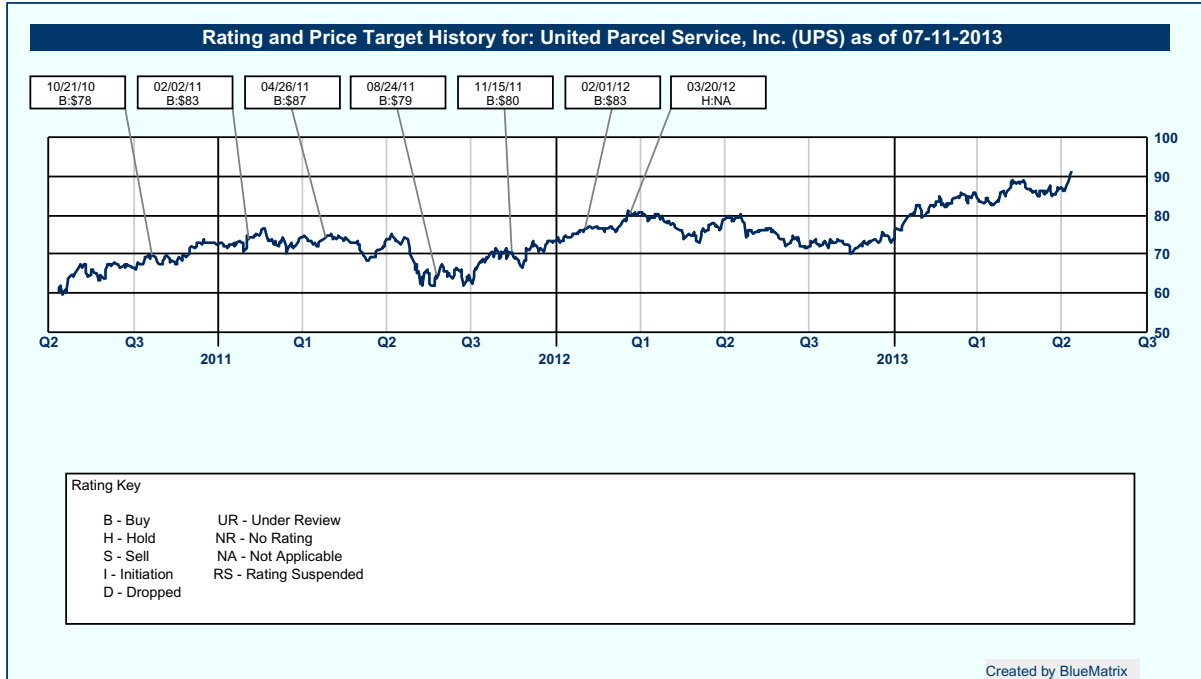


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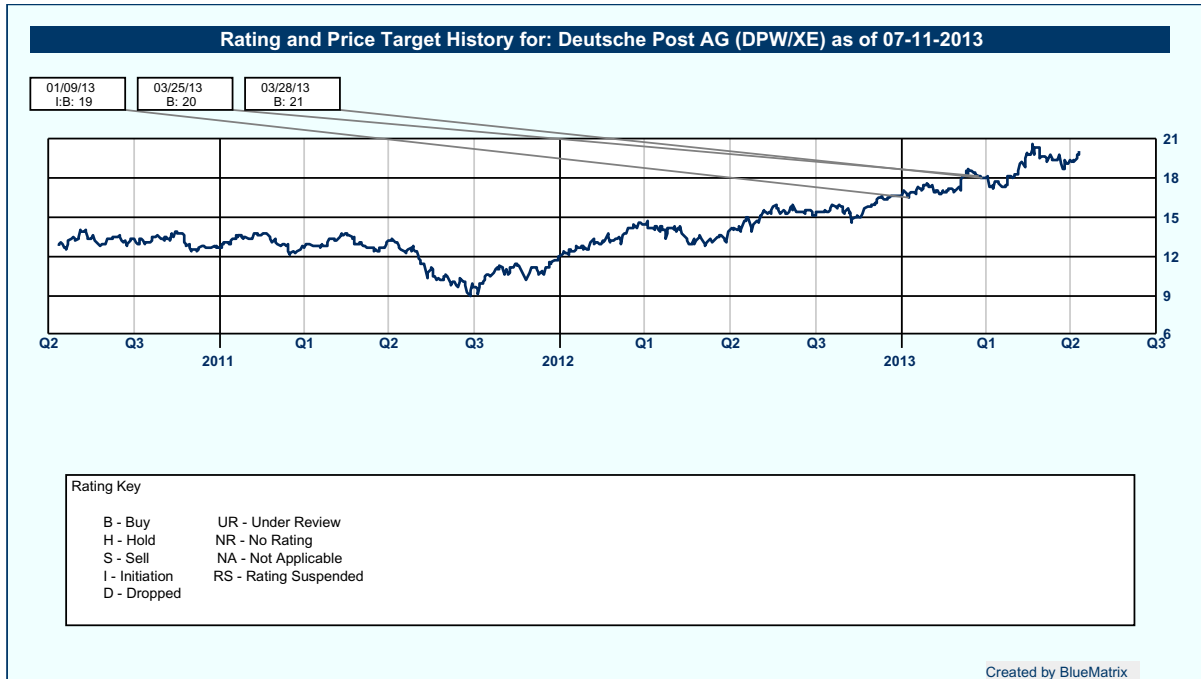
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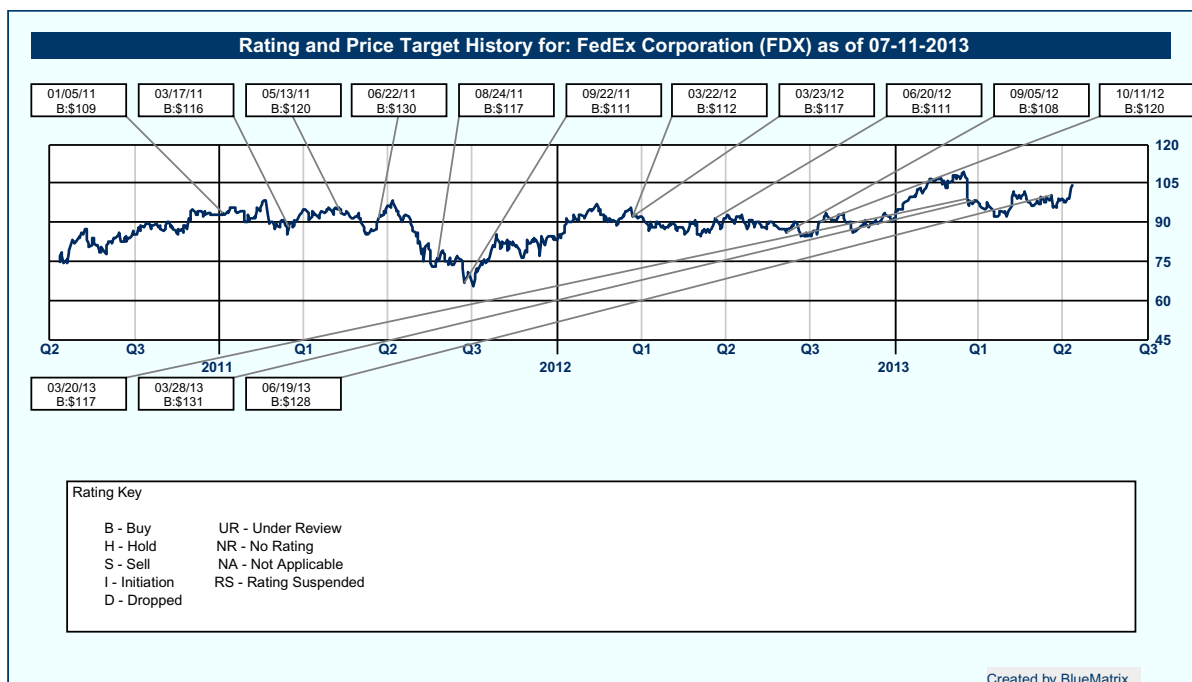
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