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**TYLER MATHISEN, CNBC:**

Next up on the earnings rundown, UPS, the delivery company, lowered its guidance, missing on revenue, due largely to the impact of labor negotiations. Our next guest maintains his buy rating on UPS with a $212 price target. Let’s bring in Amit Mehrotra; he's a Transports Analyst with Deutsche Bank. Amit, welcome. Good to have you with us

**AMIT MEHROTRA, DEUTSCHE BANK:**

Thanks for having me.

**MATHISEN:**

The revenue miss — I guess I’m perplexed that it would have something to do with the labor negotiations because that contract really hasn’t even gone into effect yet, but explain why the labor negotiations affected the numbers today.

**MEHROTRA:**

Well, there are two real differences here. One is with respect to the second quarter. You’re absolutely right. The number of packages per day that UPS handled were down about 2 million per day. About half of that related to diversions that the customers implemented as a result of the risk of a strike in early July.

**MATHISEN:**

Ah, got it. Interesting. That’s why you do what you do and why I do what I do. So that gets that out of the way. Then let’s look deeper down the field here at what the labor agreement, which is going to raise wages rather significantly, particularly in year one and also I think in year five, what is that going to do to the company’s profitability? How can they blunt the impact of that? Do they have the pricing power? That whole cluster of questions.

**MEHROTRA:**

Well, absolutely, we at Deutsche Bank could not be more bullish about UPS’s ability to grow profitability. We predict over the next several years this company will report margins that are higher than they ever have, and higher profits than they ever have. This is truly a win-win-win deal. Just to give you a sense, we can focus on year one or focus on year five, but if you look at the cumulative five-year effect of this deal, the average labor deal is 3.3 percent a year. Let’s be clear. UPS Teamsters employees are the highest paid in the industry, and they deserve that, and they are getting corresponding increases. But this labor deal and our analysis — I would say we have done more work on this than I think anybody here at Deutsche, and we believe this is a company that’s going to be on a path for profitable growth for many years to come

**KELLY EVANS, CNBC:**:

Then what does that look like for the share price at 180 right now, Amit?

**MEHROTRA:**

It’s going to go higher. We have a $212 price target, but let’s just break it down. Today the company trades at about 18-19 times four earnings. That means this year’s earnings. That’s a discount of where the S&P is trading at today. They generate over 30 percent returns on invested capital. They generate oodles and noodles of free cash flow. This is a company whose multiples should expand, and when you translate that to the stock price, Kelly, to your question, we’re talking about 19-20 times earnings expectations, maybe 13-15 dollars over the next three years. We think this company can trade well into the 200s. We have a price target of 212, but obviously that’s a 12-month price target. But we don’t really see any roadblocks, especially as we enter the second half of ‘24. We really think the curve of the cost inflation moderates in the second half of ‘24. And that’s why the last thing I’ll say is earnings expectations are coming down ten percent this year for this company, and the stock is basically flat. And I think the market is telling you that this company is primed for a lot of upside once that curve on that inflation moderates.

**MATHISEN:**

Alright, Amit, thank you very much. We appreciate your time today, Amit Mehrotra.