**MEDIA: Television**

**STATION: CNBC World**

**MARKET: International**

**DATE: 2024-01-30**

**TIME: 05:14 AM ET**

**PROGRAM: Worldwide Exchange**

**SUBJECT: Amit Mehrotra - UPS**

**PAGE COUNT: 3**

**FRANK HOLLAND, CNBC:**

For much more on what to expect, let's bring in Amit Mehrotra, Managing Director of Transports and Shipping at Deutsche Bank. Good morning, it's great to have you here. Thanks for joining us.

**AMIT MEHROTRA, DEUTSCHE BANK:**

Morning Frank, great to see you.

**HOLLAND:**

All right, let's start off with this, the stock. What's your price target? What's your rating? What's the number one thing you're watching for in this report?

**MEHROTRA:**

We have a price target of $190 on UPS, which is quite a bit higher than where the stock's trading at today. We've been consistently bullish about what Carol Toomey, Brian Newman, the senior management team is doing at the business to drive long term value creation. Last year was obviously a blip that reflected exactly what you said, Frank, in terms of the front-end loaded nature of the labor deal and the exacerbation of this price risk and the volume impact. Make no mistake, both the labor deal is very, very shareholder-friendly. If you have a four to five year view, and we think that will be very clear to the market starting in the second half of this year with respect to what they're going to report in under an hour from now. We think profits will more than double that bar chart and show on margins of the third quarter, we think it will be a blip. We think margins lead back to very high single digits for the company.

**HOLLAND:**

Yeah, margins are very important for a company like UPS and also with its rival FedEx. So you mentioned, you have a lot of confidence in Carol Toomey. You also mentioned the CFO, Brian Newman. I've talked to Carol Topmey several times this year and she said the company has a big push when it comes to AI and automation. How do you see AI and automation impact in this company going forward? What are you expecting when it comes to only the results possibly being impacted by AI and automation but also the commentary for forward guidance?

**MEHROTRA:**

Well, this is a company that does just in the US, five billion packages per year. It's really hard to kind of even think about the scale of that business and that context. So little changes in process automation and little changes in efficiency can be multiplied by five billion to give you the cumulative effect it has on the company's return profile. The key thing here is that this new labor deal, while it does give the union a lot higher wages which they highly deserve and is a great thing. I think we all know our UPS driver and value them significantly. The key thing is that does not stop this company from automating its sort of centers or anything that goes on within the four walls of its many, many thousand buildings in the United States. So again, this is a key thing as part of the labor deal where they can get more efficient. This is a hundred- over 115 year old company. Many people don't realize. And so automation and modernization are key factors in what's going to propel the earnings power forward.

**HOLLAND:**

Yeah, I've talked to them from investors and also analysts. A lot of people are very excited about what she might say about AI and automation as part of this better and bolder strategy. Another thing I know you're looking at is the general rate increase by UPS this year. It's almost 6%. But I do have a question for you. Is that going to be a test for UPS? They lost about a million packages a day during the labor negotiations. Most of that to FedEx. This increase in pricing, will this be a test of not only their pricing power but just how much customer stickiness they really have?

**MEHROTRA:**

Yeah, that's a great point. I mean, I think the biggest thing that Carol Toomey; the philosophy change that she's brought to this company is really about not giving up price for more volume. The general rate increase is a headline grabber, but it's rather than the rule as opposed to the exception, the question is the company's fidelity to that general rate increase. And we just recently saw what they did with their fuel surcharge mechanism. Generally, we think price discipline is extremely strong in UPS and FedEx, and that is a huge 180 degree change in terms of willingness to give up volume for price discipline. The last thing I'll say on this Frank: we are forecasting a 30% increase sequentially in UPS's volumes from 3Q to 4Q. So while we talk about the million packages being lost, we talk about all that difficulty during the strike risk phase of the company. That is fully in the rear view mirror and we think that volume growth will be better as we move forward.

**HOLLAND:**

All right, UPS reports in just about 40 minutes. Amit Mehrotra from Deutsche Bank, your price target for UPS 190. Thank you for being here. Great to see you.

**MEHROTRA:**

Thanks, Frank.