United Parcel Service

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St. John's University Undergraduate Student Managed Investment Fund

United Parcel Service, Inc. (UPS) $58.40 Date: April 14, 2003

Type of Report: Recommendation & Analysis

Recommendation: Limit order to buy 175 shares at $55.00
Market order to buy 175 shares

Industry: Transportation - Air Delivery, Freight & Parcel Services

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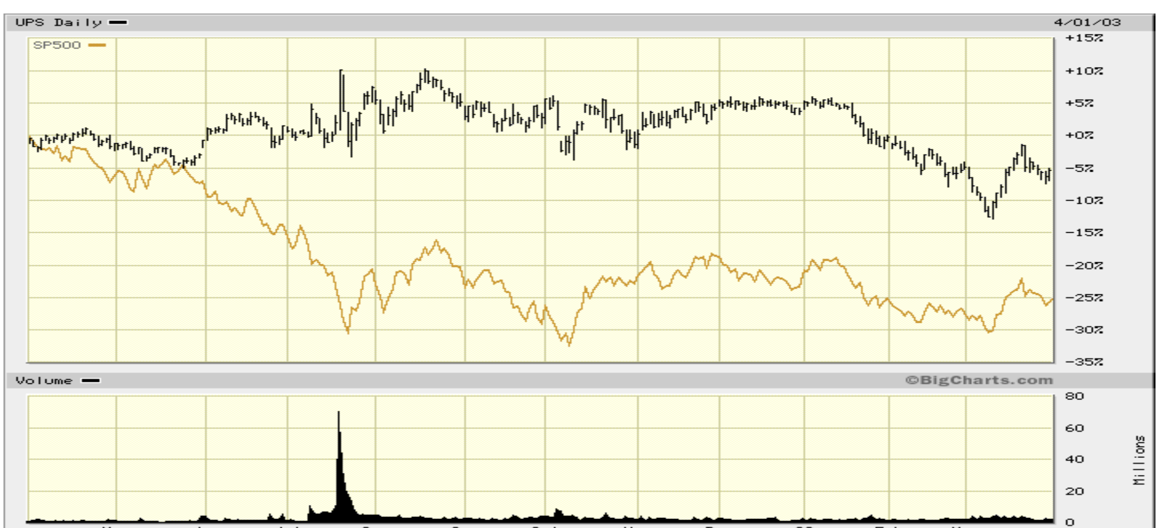
Share Data
Price - $58.40
Date – April 14, 2003
Target Price - $60.35
52 Week Price Range - $53.00 - $67.10
Market Capitalization - $ 64.644 Billion
Shares Outstanding – 1.12 Billion
Revenue - $31.272 Billion
Proj. LT EPS Growth Rate: 14%
ROE 2002: 26.10%

Fundamentals
P/E (12/02): 20.2
P/E (12/03E): 26.46
Book Value/Share: $11.09
Price/Book Value: 5.167
Dividend Yield: 1.46%

Earnings Per Share and Projections

FY Ending	Full Year	Consensus Est.
12/01A	2.13	
12/02A	2.84	
12/03E	2.29	Avg=2.33 (yahoo)
12/04E	2.67	Avg=2.67 (yahoo)
12/05E	2.94	N/A



Executive Summary

We are recommending the purchase of 350 shares of UPS, currently trading on the NYSE at $57.30. United Parcel Services has one of the most extensive global ground and air networks for transportation. The largest transportation company, UPS, has been outperforming S&P by 30%. UPS is not solely a transportation company; they also act as consultants for the logistics of major companies in 130 countries. UPS has always been a leader in technology, for this reason, they have almost cornered that market in default shippers for e- commerce sites. UPS is poised to benefit from the continuing growth of the e-commerce business.

While UPS's revenue from domestic packages has seen a slight decrease over the past several years, both their international package revenue and non-package revenue has continued to increase at a steady pace. The company is continuing to expand into new international territories, for instance Asia where it is experiencing new growth. UPS' non-package revenue, comprised mostly of its new consulting business, is the company's fastest growing revenue, more then doubling in the last 3 years. The fundamental analysis of UPS, relative to the industry and their competitors, demonstrated strong competitive performance. Our Technical analysis also indicated positive results and our valuations show that UPS stock is undervalued. For these reasons, we are confident that UPS will serve as a strong asset in the Student Managed Fund Portfolio

Company Overview[1]

United Parcel Service was founded in 1907. It has locations in the United States as well as around the world. Its corporate headquarters is located in Atlanta, Georgia. UPS is the world's largest package distribution company delivering more than 13 million documents and parcels every day and generating revenues of more than $27 billion a year. UPS is also the world's largest express package and document delivery company, delivering more packages in two days or less that are tracked and guaranteed than any other company in the industry. It serves more than 200 countries and territories. The company operates in five international regions: Europe/Middle East & Africa; Asia Pacific; Latin America/Caribbean; Canada and the United States. The company is broken down into several divisions because of this. These divisions include UPS Air Cargo, UPS Aviation Technologies, UPS Capital Corporation, UPS

[1] Information obtained from www.UPS.com unless otherwise stated.

Consulting, UPS Mail Innovations, Mail Boxes Etc., Inc., UPS Professional Services, UPS Supply Chain Solutions, and UPS TeleServices.

UPS relies on its fleet of 88,000 motor vehicles and its 575 jet aircraft to serve the 1.8 million customers it deals with everyday.[2] UPS has spent over $12 billion to help improve the technology in its tracking system during the past decade. It currently spends about $1 billion a year more than it spends on vehicles and nearly as much as it does on jet aircraft to continue to update this technology. UPS is also leading the charge into cyberspace and the world of e-commerce, and no company is better position to serve the online community. One of these examples is UPS Document Exchange, an Internet-based, secure document delivery service that allows thousands of businesses to exchange critical business documents, images and software in the real time virtual marketplace. With this and other subsidiaries UPS is certainly prepared for the future in package distribution. Other alliances with the likes of IBM, Oracle, and other technological companies show that UPS is prepared for the future and is willing to take the steps necessary to continue its dominance and growth within the air freight industry.

Breakdown of Revenue[3]

UPS's revenue is broken down into several different sectors: U.S. domestic package, International package, and non-package. U.S. domestic package accounted for

	2000	2001	2002
Statement of Income Data:			
Revenue:			
U.S. domestic package	$24,002.00	$23,997.00	$23,924.00
International package	$4,078.00	$4,245.00	$4,680.00
Non-package	$1,418.00	$2,079.00	$2,668.00
Total revenue	$29,498.00	$30,321.00	$31,272.00

$23,924,000,000 in revenue for 2002; international package accounted for $4,680,000,000; non-package accounted for $2,668,000,000. This accounts for all the revenue in 2002. The amounts for 2000 and 2001 are similar but are still lower than 2002. In percentages U.S. domestic package makes up 76%,

[2] www.hoovers.com

[3] Information obtained from UPS 10K report.

Statement of Income Data:	Year Ended December 31,		
Revenue:(in percents)	2000	2001	2002
U.S. domestic package	81%	79%	76%
International package	14%	14%	15%
Non-package	5%	7%	9%
Total revenue	100%	100%	100%

down from the previous two years, international package makes up 15%, an increase from the two previous years and non-package went up to 9% an increase from the two previous years. These changes in revenue show that UPS is trying to become more of an international firm and get into the non-package businesses. With the increase in technology and leadership it has, there is no limit to how much revenue will grow.

Future Prospects for UPS[4]

The future prospects for UPS seem very good. It is already ahead in the technology of making shipping less hazardous and more precise. It continues to expand into other countries and increase its customer base.

- Continue to invest in infrastructure and technology in Asia. In April 2002, UPS opened a new intra-Asia hub at Clark Air Force Base in Pampanga, Philippines to enable future growth in the region.
- Anticipate capital expenditures of approximately $2.0 billion in 2003. These expenditures will provide for replacement of existing capacity, anticipated future growth, and include the projected cost of capitalized software.
- Continue to improve upon the US domestic packaging agenda since that is the main reason for growth within the company

By accomplishing these and other goals, UPS will maintain its position as the packaging and distribution industry continues to grow there is no reason why UPS will not continue to be the dominant leader with its variety of divisions and its shipping methods.

[4] Information from the company's 10-K report

Recent News[5]

Some recent news includes:

- **January 23, 2003**: United Parcel Service introduced UPS World Ease, an international shipping option to help businesses save time and money while accelerating service to their customers in other countries. UPS World Ease combines the speed and tracking of express delivery with the efficiency and cost savings of consolidated customs clearance, a service that allows customers to ship multiple packages to many destinations in the same country as one consolidated shipment. This allows goods to move directly through customs as a single unit, reducing the need for warehousing, inventory and shipping.

- **February 07, 2003:** The Wall Street Journal reported that United Parcel Service plans to furlough as many as 100 pilots in the latest sign that the Company still is struggling to overcome a stubborn slump in shipment volume. The coming furloughs, affecting up to 4% of its 2,515 pilots, are the first by the Company since it launched its own airline in 1988

- **February 20, 2003**: United Parcel Service announced the launch of direct air service between Hong Kong and its intra-Asia hub in the Philippines (Clark), providing another direct link for customers shipping within Asia and around the world.

- **March 13, 2003:** UPS Capital, the financial services arm of United Parcel Service, launched four products to help Canadian companies speed the movement of their C.O.D. (Collect On Delivery) payments from U.S. customers, as well as minimize the risks associated with extending credit and shipping cargo.

- **March 25, 2003:** United Parcel Service Inc. (UPS) is changing its familiar brown-and-gold logo and adding a catch phrase to its vast fleet of chocolate-colored planes and trucks as part of an effort to modernize its image. The world's No. 1 package deliverer said the changes are meant to reflect the company's move into new global markets as well as emerging businesses, such as the fast-growing area of supply chain services.

[5] Information from www.msn.com unless stated otherwise

Other than the news that UPS is planning to layoff 100 pilots, the current news seem encouraging and shows that UPS is committed to the future by introducing new products and continuing to be the driving force in getting packages around the world when people need them. Its expansion into other countries and its current business practices show why it is indeed a successful company at home and abroad.

Industry Analysis[6]

The industry that UPS is part of is considered the Transportation Air Freight and Trucking Industry. UPS has a firm footing in this industry. The domestic air freight market claimed some $26 billion (3.6%) of the U.S. commercial freight transportation market in 2001. Of this amount, $20 billion was derived from the movement of packages and documents and $6 billion from the movement of heavy cargo. The lines separating the air express, forwarding, international postal services, and global logistics markets are becoming increasingly blurred. The largest player in the domestic air express market is FedEx Express, a unit of FedEx Corp. FedEx generated about $8.3 billion from its overnight express service in fiscal 2002 (ended in May). United Parcel Service Inc. (UPS), the largest transportation company in the United States, primarily handles ground parcels. In 2001 it derived some $5.4 billion from domestic next-day air express services. Other important express carriers are DHL Worldwide Express Inc., Airborne Express (a unit of Airborne Freight Corp.), and the U.S. Postal Service, whose Express Mail business generated $996 million in revenue in 2001. The heavy side of the domestic air cargo industry is dominated by Emery Worldwide (a unit of CNF Inc.), with about $2.0 billion in total revenues in 2001. It is followed by BAX Global (a unit of the Pittston Co.), with $1.8 billion in total revenues.

Next, the life cycle of this industry seems to be in the early mature stage because the technology being used is at the peak and only is getting better. The industry is still considered to have tremendous growth over the next few years. Many of the companies within the industry continue to expand. The introduction of newer technology has helped many of these companies improve their services and even expand them into countries that were not up to date in current technology. The increased adoption of just-in-time inventory management by manufacturers during the 1990s spurred the growth of scheduled freight contracts in the US trucking industry.

[6]Charts and information got from www.cbsmarketwatch.com and www.hoovers.com unless otherwise noted.

The use of in-cab mobile computers and transponders, as well as satellites, to monitor goods and vehicles is also increasing shipping efficiency. Other high-tech applications are on the horizon. One is an IT tool that allows shippers and intermodal operators to simulate flows of cargo, detect inefficiencies in combined transport operations, and search for alternative transportation scenarios. Another improvement is an intermodal freight planner, which allows transport users to select optimal freight routes and intermodal transport services via the Internet.

All of these advancements will only help in the further expansion of the industries shows that the industries are in the mode where it continues to want to grow.

Trends in the Industry [7]

The air freight industry will experience modest growth for the next five years according to the Journal of Commerce online and this is a healthy sign that the industry in this area is stabilizing. However, in the ground segment or the trucking segment the growth in the industry is thought to be higher compared to the air freight when it came to certain companies such as Fed Ex. Historically, air freight carriers have transported documents, small packages, and cargo that require overnight delivery. As air transport costs have fallen, increasing amounts of lower-value and heavier manufactured goods are being shipped as air freight. Heavy air cargo shipments tend to weigh 200 to 300 pounds, or less than a typical LTL motor carriage shipment. Air express package shipments tend to weigh three to five pounds The total expedited market, including ground parcels and LTL shipments, will generate $81.4 billion in revenue this year, up from $78.9 billion in 2002, the report predicts. Domestic air, ground parcel and LTL will report year-over-year revenue increases, while air export revenues are projected to decline. During the 1990s, there was a huge boom because of happenings such as Y2K the dot.com boom and the development of the telecommunications infrastructure. All of these happenings lead to an increased demand to improve technology and cause the various structures within the industry to continue the expansion into other segments of the market.

In 2001, given the economic downturn and the effects of September 11 on cargo and passenger airlines, domestic air cargo carriers experienced a 10.8% decline in revenue ton-miles, to 22.05 billion ton-miles. In the first nine months of 2002, domestic air cargo traffic was up

[7] Information obtained from Lexis-Nexis: Journal of Business Online: No Boom for US Air Freight: by William Armbruster: January 23, 2003 unless otherwise noted

0.3%. This reflected a 20% increase in September (due to easy comparisons with the previous September, when the 9/11 attacks occurred), which offset large declines in the first three months of the year and moderate growth thereafter. The growth potential is still there because of the way the S&P 500 has been outperformed by these industries (shown below). As e-commerce develops, the industry will become more enveloped in this and will allow for further growth.

Forecast

According to a Standard & Poor's industrial survey the forecasted outlook for the air freight industry looks very good. Here are some of these forecasts:

- Total volumes expected to increase to 6% in 2003, to 24 billion ton-miles. Domestic volumes rising by about 5%, to some 12.0 billion revenue ton-miles. International revenue ton-miles rising about 6% to 12.0 billion, accounting for about 50% of total projected industry revenue ton-miles.
- Forecast a strong rebound in 2003, reflecting growth in China and improving economies in other Asian markets. FedEx has the strongest presence in Asian markets, but it now has to share more of this business with United Parcel Service Inc. (UPS) and Emery Worldwide (a unit of CNF Inc.), both of which have increased their presence in the region.
- Expect 2003 to be better for air shippers, as increased demand and an improved mix accompany stronger economies globally, particularly in the United States. However, freight forwarders face a less certain future, since security restrictions put in place after September 11th limit the amount of cargo that passenger airlines can carry.

These are just some of the forecast predicted for the industry in 2003. The outlook seems very optimistic being that there are uncertainties such as war and terrorism.

Industry Growth vs. S&P 500[8]

The growth over the last few years has been remarkable versus the S&P 500(Violet). This is shown in the chart below. The chart below states that over the two year period from late 2001- early 2003 that these industries were at or above 15%. The growth seemed to stabilize

[8] Chart obtained through www.bigcharts.com

but at this point, the growth is beginning to recover and is continuing to edge itself up. It has ranged from 15-20%.

The industry seems to be in relatively good shape based on this chart and the outlook for next year seems to mean success.

Transportation: Air and Freight Industry

Analysis of Competitive Forces – Michael Porter Method

Rivalry

The Transportation Air freight and Trucking Industry is a highly competitive environment. The companies involved specialize in the time definite delivery of packages and documents throughout the world. [9] UPS is able to compete by differentiating its product while maintaining cost effectiveness. UPS strength is in its ability to "integrate its distribution and information systems to provide unique transportation solutions at competitive prices".[10] UPS has established itself as a leader in this field, which has allowed the company to expand its expertise into the

[9] www.UPS.com

[10] UPS Annual 10k Pg 16

supply chain area, offering consulting, freight forward and logistics to major companies in over 120 countries.

Below are various statistics comparing UPS and its four major competitors in the industry.

Key Numbers	Top Four Competitors					
	UPS	Deutsche Post[1]	FedEx	U.S. Postal Service[1]	Industry	Market
Annual Sales ($mil.)	31,272.0	30,963.1	20,607.0	**66,463.0**		
Employees	360,000	321,369	184,953	**854,376**		
Market Value ($mil.)	**64,936.2**	--	16,545.9	--		
Gross Profit Margin	**87.00%**	-	69.05%	--	63.79%	47.37%
Return on Equity	**26.1%**	--	11.2%	--	19.6%	4.5%
Return on Assets	**12.3%**	-	5.3%	--	8.7%	0.8%
Return on Invested Capital	**20.4%**	--	9.2%	--	15.4%	
Revenue Per Share	27.83		--	**73.99**	33.16	19.31

http://www.hoovers.com/enterprise/landscape/3/0,3091,40483,00.html

United Parcel Service competes primarily with three companies, FedEx, Deutsche Post and the U.S. Postal Service. As noted in the chart above, UPS ranks second, next to the U.S Postal Service, with 31.272 billion in annual sales in 2002. When it comes to Gross Profit Margin (87%), ROE (26.1%) and ROA (12.3%), UPS far exceeds its competitors, the industry and the market overall. United Parcel Service is able to outperform the majority of all its competitors by concentrating on its competitive strengths and core capabilities.

UPS has one of the most extensive integrated global ground and air networks that allow them to have an effective global reach and scale. Operating a ground fleet of more then 88,000 vehicles and close to 600 airplanes, placing UPS as the eleventh largest airline in the world. As

UPS notes in its annual 10-k for 2002, it is estimated that the goods they deliver have a value in excess of 6% of the U.S GDP. One of UPS' major strengths is the company's technological capability, allowing the company to be a leader in the facilitation of e-commerce goods. Forrester Research projects that online retail sales will grow to $217.8 billion by 2007[11]. UPS, being one of the primary transports of all e-commerce packages is poised to reap the benefits of the ever-increasing growth in the area.

A threat to UPS international delivery market should also be noted; Deutsche Post recently bought 100% control of DHL Worldwide. That has created a $21 billion behemoth with a combined road and air network similar to what UPS offers. Now Deutsche Post can offer the same one-stop shopping for transportation services as its U.S. rival. "This is a serious new competitor that will make UPS' overseas environment more challenging," says Satish Jindel, principal of SJ Consulting, a transportation consultant in Pittsburgh.[12] Currently, both UPS and FedEx are contesting the acquisition of Airborne Inc by DHL Worldwide, citing that Deutsche Post, which now owns DHL, has a monopoly on the letter deliveries in Germany and it is owned mostly by the German Government. UPS notes that DOT officials should determine by scrutinizing the Airborne-DHL deal whether "government sanctioned monopoly revenues are financing the transaction."[13] According to Federal law, foreign control or ownership of more than 25% of a U.S. carrier is forbidden. If the acquisition goes ahead as planned, UPS will be faced with another domestic competitor.

Threat of new Entrants/ Substitute Products

Due to the increasing high entry barriers that exist in the Transportation, Air and Trucking Industry, the threat of new entrants and substitute products is extremely unlikely. The industry is in the beginning of a mature stage, companies are, for the most, competing to take rivals market share. In order to enter the market and compete on the global scale of a company, such as UPS, one would need extensive starting capital to finance the cost of transportation

[11] UPS annual 10k for 2002 pg. 7
[12] Haddad, Charles. " UPS: Can It Keep Delivering? " Business Week online. March 24, 2003.
[13] Brooks, Rick "UPS Seeks Federal Probe of Proposed DHL/Airborne Deal. " Dow Jones Business News. March 26, 2003.

vehicles. In addition, established companies in the industry have a loyal customer base with extensive brand recognition and established distribution channels.

Bargaining Power of Suppliers and Buyers

The bargaining power of suppliers is limited in the case of the major players in the Air and truck transportation industry. All of the top companies in the field rely on their own transportation vehicles and information systems. On the other hand, the cost of fuel is a major expense to these companies.

The bargaining power of buyers is increased due to the amount of competitors within the industry. Customers are able to choose to ship their goods with a number of different carriers. A major part of companies, such as UPS, consumer base is derived from businesses, with an increasing focus on e-commerce. Companies within this industry have to compete extensively on time delivery guarantee, as well as, cost effectiveness in order to gain market share.

Analysis of Strategies[14]

a. Competitive Strategies:

Overall Cost Leadership: UPS has its automated Worldport facility in Louisville, Kentucky where more than 6,000 UPS employees pull containers off of hundreds of aircraft arriving from all over the world. This facility is the size of the Pentagon, and can sort more than 304,000 packages an hour, or 84 packages a second. Over $1 billion has been invested in the facility, and it has produced a productivity increase of over 40%, critical to the busy holiday season. This facility enables UPS to be more efficient in routing packages around the world, which in turn lowers costs.

The package operation is the foundation of UPS' business, and is their engine for future growth. UPS plans on expanding its customer base by cross selling to customers from other business segments, while holding costs down and employing growth and technology efficiencies to increase operating profit.

Differentiation: In order to serve more large business customers, UPS has successfully diversified its business into many supply-chain logistics areas. UPS has completed the

[14] Information taken from the 2002 10K

integration of its non-package business divisions into one division, UPS Supply Chain Solutions. This organization makes it easier for customers to access UPS' expanding range of logistics, freight, financial and consulting services in order to improve the performance of their global supply chains. By offering a wide range of solutions to their customers, UPS is able to create more value for their products, which results in greater customer satisfaction. This differentiation is producing results, as non-package revenue has increased by an average of 37% per year for the past two years.

The Mail Boxes Etc. chain of stores, which is a UPS subsidiary, delivers convenient, personalized business solutions through a worldwide network of independently owned and operated business, communication, and shipping centers. Mail Boxes Etc. has over 4,500 retail locations, of which 3,300 are in the USA. In 2003 UPS announced that the Mail Boxes Etc. retail outlets would offer lower prices on UPS shipping; while still offering shipping services by other companies. Additionally, UPS announced the roll-out of the name "The UPS Store" for all 3,300 franchises in the USA during 2003. This strategy will continue to expand the recognition of the UPS brand name to both business customers and consumers.

Focus: UPS continues to focus its performance on customer relationships. Significant value is placed on the quality of customer relationships, and UPS conducts comprehensive research to monitor customer perceptions. Since 1993, they have conducted telephone interviews with shipping decision-makers virtually every business day to determine their satisfaction with delivery providers and perception of performance on 17 key categories of service factors. Results from this survey for the second half of 2002 were the highest ever have achieved for UPS.

b. Additional Management Strategies:

UPS names five principal components of their current growth strategy:

Build on the Leadership Position in the U.S. Business. UPS believes that their reliable package delivery service, experienced and dedicated employees and unmatched integrated air and ground network provides them with the advantages of reputation, service quality and economies of scale that sets them apart from their competitors.

Continue International Expansion. UPS has built a strong international presence through significant investments over a number of years. The international package delivery market has grown, and continues to grow, at a faster rate than the U.S. market. Utilizing the worldwide infrastructure and broad product portfolio, UPS can continue to grow high-margin premium services and implement cost, process and technology improvements in their international operations.

Europe is UPS' largest market outside the United States, followed by Asia. Both of these regions offer significant opportunities for growth as the European Union expands into the Eastern Bloc countries and creates even greater economic cohesion. Growth in Asia will be driven by improving demographic and economic trends in China, South Korea and India.

Provide Comprehensive Supply Chain Solutions. Many businesses outsource the management of all or part of their supply chains to streamline and gain efficiencies, to strengthen their balance sheets and to improve service. UPS forecasts that there will be an increased demand for a global service offering that incorporates transportation, distribution and international trade services with financial and information services. UPS is well positioned to capitalize on this growth with its diversified business solutions offerings.

Leading-Edge Technology and E-Commerce Advantage. UPS believes that e-commerce will drive smaller and more frequent shipments and provide a strong complement to core delivery service offerings. UPS provides customers with easy-to-use, flexible technology offerings that streamline their shipment processing and integrate critical transportation information into their business processes, helping them create supply chain efficiencies, improve their cash flows and serve their customers. UPS' leading-edge technology has enabled their e-commerce partners to integrate the UPS shipping functionality into their e-commerce product suites.

c. Skill and Competence of Management

UPS has a long-standing policy of "promotion from within" which complements their tradition of employee ownership, and this policy makes it generally unnecessary for UPS to hire managers and executive officers from outside the company. The vast majority of the management team began their careers as full-time or part-time hourly UPS employees, and have since spent their entire careers at UPS. Mike Eskew, the CEO, and most of the UPS executive officers have more than 30 years of service and have accumulated a large ownership stake in the company. Therefore, executive officers have a strong incentive to effectively manage UPS, which benefits all shareowners.

Senior Management Bios[15]

Chairman & CEO: Eskew, Michael L., (53)

Mike Eskew joined UPS in 1972, after he received a bachelor of science degree in industrial engineering from Purdue University. He also completed the Advanced Management Program at the Wharton School of Business. In 1994, Mike was named UPS's Corporate Vice President for Industrial Engineering. Two years later he became Group Vice President for Engineering. He was appointed Executive Vice President in 1999 and Vice Chairman in 2000. In January 2002, he succeeded Jim Kelly as Chairman and Chief Executive Officer. Mike serves on the President's Export Council and the Business Roundtable.

SVP & CFO and Treasurer: Davis, D. Scott, (51)

Mr. Davis has been Senior Vice President, Chief Financial Officer and Treasurer (2001 to present), Vice President - Finance (2000 to 2001), Chief Executive Officer of Overseas Partners Ltd. (1998 to 2000), Accounting Manager (1996 to 1998).

SVP & COO; President of UPS Airlines: Weidemeyer, Thomas H., (55)

Tom Weidemeyer joined UPS in 1972 in National Personnel after receiving his law degree from the University of North Carolina School of Law and his bachelor's degree from Colgate University. Tom became Manager of the Americas International Operation in 1989, and in that capacity directed the development of the UPS delivery network throughout Central and South America. In 1990, Tom became Vice President and Airline Manager of UPS Airlines and in 1994 was elected its President and Chief Operating Officer. Tom became Manager of the Air Group and a member of the Management Committee that same year, and he became Chief Operating Officer of UPS in 2001. He serves on the Board of Directors of the Air Transport Association of America and is a member of the Military Airlift Committee. He also serves on the board of the National Center for Family Literacy and the General Aviation Manufacturers Association.

SVP & CIO: Lacy, Kenneth W., (53)

Kenneth W. Lacy has been Senior Vice President and Chief Information Officer since 1996. He has also been Vice President of Information Services (1994 to 1996), Corporate Controller (1992 to 1994), and Financial Manager (1989 to 1992).

SVP & General Counsel and Corporate Secretary: Moderow, Joseph R., (54)

[15] Information taken from http://yahoo.multexinvestor.com/OfficersBio.aspx?target=executiveofficers/biographies&ticker=UPS

Joe Moderow began his UPS career in 1968 as a sorter and unloader in the South California District while an undergraduate student. He earned a bachelor's degree in economics from California State University and a law degree from Western State University. He is a member of the State Bar of California. Joe was promoted into supervision in 1973 and later served as the Arizona District Industrial Engineering Manager. In 1977, he was assigned to the National Legal & Regulatory Group. In 1982, Joe became the West Virginia District Manager. He then was assigned to the National Labor Relations Group and later headed the operations team during the start-up of international air service. In 1986, Joe was named Legal & Regulatory Group Manager and elected Senior Vice President and Secretary. He assumed additional responsibility for Public Affairs in 1989.

<u>SVP, US Operations: Darden, Calvin, (53)</u>

Cal Darden joined UPS in 1971 as a part-time package handler. He received a bachelor of science degree in business management from Canisius College in 1972. Cal has served as District Manager in the North Jersey, Metro Jersey and Metro D.C. Districts. He later was promoted to Pacific Region Manager in 1993. He was named UPS's first Corporate Strategic Quality Coordinator in 1995 and joined the Management Committee in 1997. He was appointed Senior Vice President and assumed responsibility for one-half of UPS's U.S. operations in 1998. He assumed responsibility for all of UPS's U.S. operations in January 2001. Cal serves on the Board of Directors of the National Urban League, is a member of the 100 Black Men of North Metro Atlanta and is involved with the United Way.

<u>SVP, Human Resources: Soupata, Lea N., (52)</u>

A native of New York City, Lea Soupata joined UPS in 1969 and now manages the human resources function for approximately 360,000 employees worldwide. Following several assignments with UPS in Human Resources, Sales and Operations, in 1990 Lea became the District Manager of the Central New York District. She was transferred in 1994 to our corporate office as Vice President of Human Resources prior to being named to her current position. Lea serves as chair of The UPS Foundation, our charitable arm, and has been active in a number of community services programs including the United Way. She is a trustee of the Annie E. Casey Foundation, the world's largest philanthropic foundation dedicated to helping disadvantaged children. She also serves as a board member of Junior Achievement of Georgia, the Labor Policy Association and the Morehouse School of Medicine.

<u>SVP & President – UPS International: Abney, David P., (47)</u>

Mr. Abney has been Senior Vice President and President, UPS International (2003 to present), UPS/Fritz Companies Integration Manager (2001-2002), UPS SonicAir Manager (1995-2000), Utah District Manager (1992- 1994).

SVP of Worldwide Sales & Marketing: Beystehner, John J., (51)

John J. Beystehner has been Senior Vice President (1999 to present), Marketing Group Manager (2001 to present), Worldwide Sales Group Manager (1997 to present), Airline Operations Manager (1994 to 1997).

SVP – Global Transportation Services: Mahoney, Christopher D., (55)

Christopher D. Mahoney has served as Senior Vice President (1998 to present), Transportation Group Manager (2001 to present), Labor Relations Group Manager (2001 to present), U.S. Operations Manager (1998 to 2001), Region Manager (1990 to 1998).

SVP – Supply Chain Solutions: Pyne, Joseph M., (55)

Joseph M. Pyne has served as Senior Vice President (1996 to present), Supply Chain Solutions Group Manager (2002 to present), Corporate Development Group Manager (2000 to 2002), Marketing Group Manager (1996 to 2001).

Relative Industry Valuation[16,17]

The airfreight industry has seen two years of slowed growth. Standard and Poor's estimate that volume and revenues will increase in 2003, as the economy turns, and business increases. There will be increased growth in the domestic market, as the major players in the industry compete for greater market share, while each major player also strives to expand internationally, to be the first and leading player in each new market. Combining this with the increased efficiencies in their transportation logistic systems with the implementation of logistics technology, per-unit costs will decrease substantially. The transportation and air freight industries, as measured by the Dow Jones Air Freight Index and Dow Jones Transportation Index, respectively, have significantly outperformed the S&P 500 in 1, 2, 3, 4, and 5 year performance comparisons. To illustrate, below is the 4 year performance chart comparing the Dow Jones Air Freight Index, Dow Jones Transportation Index, and the S&P 500 Index, taken from bigcharts.com. The Dow Jones Air Freight Index is charted in green, the Dow Jones Transportation Index is in orange, and the S&P 500 Index is in purple. Note that the transportation and air freight industries have returned around 7% for the four-year period, while the S&P had a negative 32% return. This is a significant over performance, which signals a

[16] Adapted from: Standard and Poor's Industry Surveys: Transportation: Commercial.

[17] Charts taken from bigcharts.com. Industry information taken from hoovers.com.

strong industry which receives high valuations from the market. The following data compares the average price to earnings ratio from 1999 to 2002 for eleven air freight and logistics companies to the average price to earnings ratio for the S&P 500 for the same time period.

	2002	2001	2000	1999
Industry	28.56	13.56	24.22	27.33
S&P 500	30.00	30.00	25.00	30.40
Discount:	4.80%	54.78%	3.11%	10.11%

As evidenced by the above data, the industry has consistently traded at relative discount to the S&P 500 price to earnings ratio. Excluding 2001, which resulted in an abnormally low relative valuation for the industry, the industry has traded at small percentage discount in price to earnings ratio relative to the S&P 500. The extreme discount in 2001 is likely associated to the September 11 attacks, which resulted in an extreme over-reaction to all stocks, but in particular, airline and air freight stocks suffered brutal price declines. It is noteworthy that the industry's price to earnings ratio discount is on a declining trend, meaning that the discount declines over the four-year period.

	Industry	Market
Price/Sales Ratio	1.29	1.06
Price/Earnings Ratio	27.16	43.51
Price/Book Ratio	4.09	2.06
Price/Cash Flow Ratio	11.82	12.32
Revenue Per Share	33.19	19.32
Diluted Earnings Per Share	1.58	0.47
Dividends Per Share	0.46	0.41
Cash Flow Per Share	3.63	1.66
Working Capital Per Share	2.14	2.01
Long-Term Debt Per Share	2.85	11.18
Book Value Per Share	10.48	9.95
Total Assets Per Share	23.64	57.93

The data above, taken from www.hoovers.com, compares certain financial data from the air freight industry, to the market, which encompasses companies trading on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ National Market. The industry is undervalued in comparison to the market regarding both the price to earnings ratio and the price to cash flow ratio. However, the industry is relatively overvalued in comparison to the market with regards to the price to sales ratio and price to book ratio. The per-share data show the industry in a stronger position to the market in all except total assets per share. Note that the industry's long-term debt per share is lower than that of the market, which is a positive sign.

Overall, the air freight and transportation industries appear to have a strong relative value to the S&P 500 and the market, as measured by Hoover's. The indices have had a strong historical performance, and the industry's fundamentals are strong. These are very positive valuation signals.

Fundamental Analysis[18]

UPS	2000	2001	2002
Gross Profit Margin	85.00%	87.00%	87.00%
Net Profit Margin	8.00%	7.99%	10.41%
Return on Equity	30.13%	23.60%	26.10%
Return on Assets	0.135	0.098	0.123
Earnings Per Share	2.58	2.14	2.84
Price to Earnings Ratio	22.79	25.46	20.2
Total Asset Turnover	1.36	1.23	1.2
Current Ratio	1.582	1.59	1.57
Quick Ratio	1.44	1.34	1.37
Leverage Ratio	2.225	2.403	2.116
Total Debt to Equity Ratio	0.3702	0.504	0.369
Interest Coverage	24.58	22.396	29.953
Cash Flow to Long Term-Debt	-1.115	-0.0045	0.387
Cash Flow Debt to Ratio	-0.9225	-0.00407	0.294
Dupont Analysis	0.29824	0.23626	0.26435

UPS Versus Other Competitors Industry and Market	2002	Fed Ex	Industry	Market
Gross Profit Margin	87.00%	65.67%	63.79%	47.40%
Net Profit Margin	10.41%	3.56%	6.19%	2.32%
Return on Equity	26.10%	11.40%	19.60%	4.50%
Return on Assets	0.123	0.054	0.087	0.008
Earnings Per Share	2.84	2.6	1.55	0.45
Price to Earnings Ratio	20.76	22.02	28.57	46.91
Total Asset Turnover	1.2	1.6	1.4	0.3
Current Ratio	1.57	1.23	1.37	1.37
Quick Ratio	1.44	1.00	1.20	1.00
Leverage Ratio	2.12	2.1	2.26	5.81
Total Debt to Equity Ratio	0.369	0.26	0.34	1.49
Interest Coverage	29.953	9.34	--	--
Cash Flow to Long Term-Debt	0.387	0.116	--	--
Cash Flow Debt to Ratio	0.294	0.116	--	--

Ratio Analysis[19]

Operating Profitability Ratios

- **Gross Profit Margin**: Gross profit margin equals revenue minus cost of goods sold) divided by revenue, expressed as a percentage. The percentage represents the amount of

[18] Ratios for 2000, 2001, and 2002 numbers obtained through calculations. Other numbers vs. competitors obtained through www.hoovers.com except for Deutsche Post.

[19] Information on ratios obtained from www.hoovers.com unless otherwise noted.

each dollar of revenue that results in gross profit. According to this from the years between 2000 and 2002 UPS has made about the same amount of Gross Profit, which ranges from 85% to 87% of revenue. Against its main rival Fed Ex, it has outperformed by 15%. The industry is lower than it is as well and so is the market. This all means that UPS is able to keep its costs low and maintain high revenues.

- **Net Profit Margin -** Net Profit Margin equals total net income divided by revenue, expressed as a percentage. The percentage represents the amount of each dollar of revenue that results in total net income. Again, here UPS has made gains since 2000. It is now making 10.41% of its net income from revenue. It has been up from 2000, which is 8.0%. Against its rival Fed Ex, the rest of the industry and the market it has been up. It leads the industry by a healthy margin by at least 4%. UPS must continue this trend if it is to continue to be successful within this industry.

- **Return on Equity (ROE) -** Return on equity equals the net income from total operations divided by common stock equity from the most recent balance sheet. It measures the return on each dollar invested by the common shareholders in a company. The amount invested in the company has been declining but it is still almost 27%. As of 2002, it has declined from its previous high in 2000, which was 30%. As for it competitor Fed Ex, the industry and the market it still outpaces the industry by a healthy margin. The gap between it and Fed Ex is about 15% and as for the industry, it is 7%. The market is about 22% behind UPS. This number is very significant for UPS and as it continues its growth, it must maintain these high numbers and keep investors interested. UPS as a competitor from looking at this category shows it is very strong.

- **Return on Assets (ROA) -** Return on assets equals the net income from total operations divided by the total Assets from the most recent balance sheet. A measure of profitability, ROA measures the amount earned on each dollar invested in assets. In this category UPS has made a comeback since 2001 and now is earning approximately 13 cents on every asset it own. This is almost equal to the rate it was in 2000 which was 13.5 cents. It is still ahead of its competitor Fed Ex by almost 8 cents and against the industry, it is ahead by about 5 cents. It is outpacing the market by 13 cents. These numbers are good because of the industry it is in. If it can increase, these numbers significantly than it can become even more of a leader.

- **Dupont Analysis**: The DuPont model divides the relationship between return on investment and the return on equity into two factors: profit margin & asset turnover, illustrating both profitability of operations (profit margin) and efficient use of assets (turnover). For UPS, the 2000, 2001, and 2002 Dupont Identity is nearly equal to the return on equity as calculated. This signifies that changes return on equity are related to the net profit margin and not to changes in capital structure. This is very positive for UPS considering that ROE has increased 3% from 2001 to 2002. This is part of the recovery from the events of September 11.

Valuation Ratios

- **Earnings Per Share:** Net income divided by common shares outstanding. A company that earns $1 million for the year and has a million shares outstanding has an EPS of $1. This EPS figure, which represents how much of earnings each share is entitled to, is important as the basis for various calculations an investor might make in assessing a stock's priciness. UPS' EPS has fluctuated the past three years. In 2002, it has its highest EPS of 2.84. When it comes to its competitors such as Fed Ex, the industry and the market, it is earning more per share. It is almost a 1.00 or more ahead. This is good because investors can look forward to a healthy dividend that comes from these earnings.

- **Price/Earnings Ratio** - Price/Earnings Ratio equals the last closing stock price provided by the earnings per share based on the diluted earnings per share from total operations. A company's stock is traded at this multiple. For UPS is has fluctuated from 22 to 25 and now back down to about 21. However compared to the Fed Ex, the industry, and the market it is very low. This indicates that the stock is undervalued and should increase to trade at a higher price.

Liquidity Ratios

- **Asset Turnover** - Asset Turnover equals the Revenue divided by the average total assets from the most recent balance sheet and the corresponding balance sheet a year ago. The

Asset Turnover measures how efficiently a company uses its assets to generate sales. Again, here UPS has fluctuated with how much revenue it makes based on assets. Excluding 2001, 2000 and 2002 have been steady at 13 cents and this is good but UPS needs to aim for a higher gain. Compared to Fed EX, the industry and the market it remains a leader in this category. This is good because it is making money on its assets but it still must aim for higher results.

- **Current Ratio** - Current ratio equals the total current assets divided by total current liabilities from the most recent balance sheet. This gives an indication of the financial soundness of the company by showing the degree to which short-term obligations are covered by short-term assets. A figure greater than 1 indicates the company's total current assets are greater than its total current liabilities. Here UPS has also remained steady with amount of assets it has to pay off its current liabilities. The amount here has been maintained in $1.57-59 range. It has been declining. However, the number here is larger than the rest of the industry, the market, and Fed Ex. It shows that UPS has financial soundness when it comes to paying off long-term obligations.

- **Quick Ratio** - Quick ratio equals cash and equivalents plus receivables divided by total current liabilities from the most recent balance sheet. Quick ratio measures a company's short-term liquidity. This ratio for UPS has been higher in 2000 and 2001 than in 2002. However, it still outpaces Fed Ex, the industry, and the market when it comes to being able to be liquid in the short-term. This is a good sign but it must make gains on being liquid. If it gains more cash and liquid items it, will be able to maintain its market leadership and will be even more of a solid investment.

- **Leverage Ratio** - Leverage ratio equals the total assets divided by common stock equity from the most recent balance sheet. When it comes to this ratio UPS has gained in this number since 2000. It is at its lowest of 3 years. It must continue to lower this number if it wants to be perceived by its creditors as a good investment. When it comes to FedEx, the industry, and the market it is higher versus Fed Ex, but against the industry and the market, UPS is lower. UPS must improve against Fed Ex but only by a small bit.

- **Total Debt/Equity** - Total debt/Equity equals short-term and long-term debt divided by common stock equity from the most recent balance sheet. According to ratio UPS is financed mostly through equity and not debt. The ratio has fluctuated from 2000 to 2001 but it is back to the range of 2000 now. The percentage of debt is about 36% to equity. It is also higher than Fed Ex, the industry but not the market. The higher the number the more risky the firm becomes for investors so UPS and therefore a higher return is demanded. UPS can maintain the current amount of debt than it is good investment.
- **Interest Coverage:** Interest coverage tells how many times over company can service their debt. The formula is earnings before interest and taxes divided by the annual bond interest expense. UPS' interest coverage is almost 30, at 29.953, which is much stronger than its interest coverage in 2001, at 22.396 and in 2000, 24.580. UPS has approximately $30 in earnings for every dollar it pays in interest expenses. This is a very secure position. FedEx's 2002 interest coverage was 9.34 and Deutsche Post had interest coverage of 8.53. The industry average was 14.7, and the market average was 2.3. UPS' position is stronger than its leading competitor, the industry, and the overall market.

<u>**Cash Flow Ratios**</u>

- **Cash Flow to Long Term Debt:** This measures the ability of a firm to repay its long-term debt by way of cash flow. The higher the value is the better. It is calculated by dividing cash flow by the long-term debt carried. In 2002, UPS' ratio was 0.387, which is up from the -0.0045 in 2001, and -1.115 in 2000. This means that in 2002, UPS had $0.38 of cash flow for every $1 of long-term debt. In comparison to both FedEx and Deutsche Post, who had ratios of 0.116 and 0.176 respectively, UPS' ratio is more than double either of their competitors. Therefore, UPS is in a more stable financial position with regards to covering long-term debt with cash flow.
- **Cash Flow to Debt Ratio:** This measures the ability of a firm to repay all of its debt. It is calculated by dividing cash flows by debt. In 2002, UPS' cash flow to debt ratio was 0.294, which was significant improvement from -0.00407 in 2001, and -0.9225 in 2000. In 2002, UPS had $0.29 in cash flow for every $1 in debt. FedEx and Deutsche Post have ratios quite less than UPS, at 0.116 and 0.176 respectively. This further confirms UPS' financial stability.

Income Statement Forecast

	Year Ended December 31,													
	1999	% of Sales	2000	% of Sales	% Change from Prior Year	2001	% of Sales	% Change from Prior Year	2002	% of Sales	% Change from Prior Year	2003	% of Sales	% Change from Prior Year
Statement of Income Data:														
Revenue:														
U.S. domestic package	$ 22,313	83.03439%	$ 24,002	81.36823%	7.56958%	$ 23,997	79.14317%	-0.02083%	$ 23,924	76.50294%	-0.30420%	23852	73.56048%	-0.30000%
International package	3,718	13.83596%	4,078	13.82467%	9.68263%	4,245	14.00020%	4.09514%	4,680	14.96546%	10.24735%	5171	15.94864%	10.50000%
Non-package	841	3.12965%	1,418	4.80711%	68.60880%	2,079	6.85663%	46.61495%	2,668	8.53159%	28.33093%	3402	10.49087%	27.50000%
Total revenue	26,872		29,498		9.77225%	30,321		2.79002%	31,272		3.13644%	32425		3.68805%
Operating expenses:														
Compensation and benefits	15,285	56.88077%	16,546	56.09194%	8.24992%	17,397	57.37608%	5.14324%	17,944	57.38040%	3.14422%	18662	57.55303%	4.00000%
Other	7,682	28.58738%	8,440	28.61211%	9.86722%	8,962	29.55707%	6.18483%	9,232	29.52162%	3.01272%	9527	29.38266%	3.20000%
Total operating expenses	22,967		24,986	84.70405%	8.79087%	26,359	86.93315%	5.49508%	27,176	86.90202%	3.09951%	28189	86.93569%	3.72823%
Operating profit (loss):														
U.S. domestic package	3,506	15.71281%	3,929	16.36947%	12.06503%	3,620	15.08522%	-7.86460%	3,576	14.94733%	-1.21547%	3116	13.06431%	-12.85996%
International package	230	6.18612%	277	6.79255%	20.43478%	125	2.94464%	-54.87365%	322	6.88034%	157.60000%	676	13.06431%	109.81600%
Non-package	169	20.09512%	306	21.57969%	81.06509%	217	10.43771%	-29.08497%	198	7.42129%	-8.75576%	444	13.06431%	124.44873%
Total operating profit	3,905	14.53185%	4,512	15.29595%	15.54417%	3,962	13.06685%	-12.18972%	4,096	13.09798%	3.38213%	4236	13.06431%	3.42148%
Other income (expense):														
Investment income	197	0.73311%	527	1.78656%	167.51269%	159	0.52439%	-69.82922%	63	0.20146%	-60.37736%	64	0.19738%	1.58730%
Interest expense	(228)	0.84847%	(205)	0.69496%	-10.08772%	(184)	0.60684%	-10.24390%	(173)	0.55321%	-5.97826%	(170)	0.52428%	-1.73410%
Tax assessment reversal	(1,786)		-		-100.00000%	-			1,023			0		
Total other income (expense)	(1,817)		322		-117.72152%	(25)		-107.76398%	913		-3752.00000%	(106)		-111.61008%
Income before income taxes	2,088		4,834		131.51341%	3,937		-18.55606%	5,009		27.22885%	4130		-17.54554%
Income taxes	1,205	0.577107	1,900	39.30492%	57.67635%	1,512	0.3840	-20.42105%	1,755	0.350369335	16.07143%	1446	0.35	-17.63246%
FAS 133/FAS 142 cumulative adjustment	-		-			(26)			(72)			0		
Net income	$ 883		$ 2,934		232.27633%	$ 2,399		-18.23449%	$ 3,182		32.63860%	2685		-15.63188%
Per share amounts														
Basic earnings per share	$ 0.79		$ 2.54			$ 2.13			$ 2.84			$ 2.42		
Diluted earnings per share	$ 0.77		$ 2.50			$ 2.10			$ 2.81			$ 2.39		
Dividends declared per share	$ 0.58		$ 0.68			$ 0.76			$ 0.76			$ 0.84		
Payout Ratio	73.418%		26.772%		17.24138%	35.681%		11.76471%	26.761%		0.00000%	34.763%		10.52632%
Weighted Average Shares Outstanding														
Basic	1,121		1,153			1,126			1,120			1,111		
Diluted	1,141		1,175			1,144			1,134			1,123		
AVG P/E	33.8		23.8			25.6			21.4			24.0		

Stock Valuation

UPS

Beta	0.4	(finance.yahoo.com)
Risk Free Rate	2.80%	5 Year T-Bond
Market Return	10%	Historical Average
CAPM:	5.680%	=Rf + Beta * (Rm-Rf)
		=2.80%+(0.4*(10%-2.8%))

DDM Our estimated 2003 Dividend: 0.76

	1999	2000	2001	2002	2003	2004	2005
EPS	0.77	2.5	2.1	2.81	2.39	2.6768	2.9445
DPS	0.58	0.68	0.76	0.76	0.84	0.92	1.02
Payout Ratio	75.32%	27.20%	36.19%	27.05%	35.15%	34.37%	34.64%

Estimated 2005 P/E	**22**	**Assumes 7.6% annual P/E growth**
Target Price, Year End 2005	**64.7786**	**=22*2.9448**
DDM	**57.3677**	uses dividends up to 2005
Current Price:	**58.4**	

Relative Value:

Current Price	58.4	
EPS 2003	2.39	
Forward P/E on '03 EPS	24.4351	=Current Price / EPS2003
P/E on S&P 500	18	
UPS P/E 99	33.8	Avg P/E
UPS P/E 00	23.8	from cnbc.com
UPS P/E 01	25.6	
UPS P/E 02	21.4	
4 year average P/E on UPS	26.15	
4 year average P/E on S&P500	24.8	calculated
UPS trades at	1.05444	Times the S&P's P/E
Current S&P P/E	18	
What UPS P/E should be	18.9798	Estimated P/E
UPS current P/E	20.2	Current P/E (ttm)

Explanation:

Our valuation of UPS began with calculating the required return. This required the use of the Capital Asset Pricing Model (CAPM). Using a beta of 0.4, a risk free rate of 2.80%, which is the current yield on a 5-year T-bond, and the historical market return of 10%, we obtained a required return on UPS of 5.68%.

The **relative value** calculation on UPS required numerous steps. Using UPS' closing price of $58.4 on April 14, and dividing it by our estimated earnings per share for 2003, which is taken from our income statement forecast, we obtained the forward P/E on 2003 EPS of 24.4351. Therefore, based on our 2003 EPS forecast, UPS is currently trading at 24.43 times 2003 earnings. We then calculated UPS' four-year average P/E, 26.15, based on P/E data obtained from cnbc.com. Doing the same for the S&P 500, we obtained an average P/E of 24.8. Dividing 26.15 by 24.8 revealed that UPS' four-year average P/E is approximately 105% of the S&P 500 P/E. Using this value, 105%, and applying it to the current P/E of the S&P 500 of 18, we calculated that UPS should be trading at a P/E of 18.98, based on this historical 5% premium. However, UPS' current P/E is 20.2, meaning that our calculation reveals that UPS is relatively overvalued based upon its historical P/E premium. This is negative information, suggesting that UPS may sustain future stock price declines to bring its P/E down to historical levels.

The **dividend discount model** began with using the earnings forecasted from the 2003 income statement. Using the estimated P/E, obtained from our relative calculation above, 18.9798, and multiplying it by our forecasted earnings of 2.39, we found an end-of-year 2003 target price of $45.36. To make the DDM more valuable, we forecasted earnings per share for 2004 and 2005, estimating 12% and 11% EPS growth, respectively. We then calculated the dividend per share for 2004 and 2005 by estimating a payout ratio for each year of about 34%. We then used the dividend discount model to find the intrinsic value of UPS. We calculated this using our estimated 2003, 2004, and 2005 dividends; and the 2005 target price of $64.78. The dividend discount model gave us an intrinsic value of $57.3677 for UPS. Comparing this value to the UPS' stock price on April 14, 2003, $58.40, it appears that UPS is overvalued, which is a negative sign.

Overall, the use of both valuation models have revealed that UPS is slightly overvalued, which confirms our recommendation for a limit order on UPS.

Risk Factors[20]

Commodity Price Risk- UPS is subject to the increase in the prices of refined fuels, especially jet-A, diesel and unleaded gasoline, which are used in the transportation of packages. Additionally, the company is exposed to an increase in the prices of other energy products, such as natural gas and electricity. UPS utilizes a combination of options, swaps and futures contracts to provide protection from the rise in fuel and energy costs. These derivative instruments generally cover forecasted fuel and energy consumption periods up to one year.

Foreign Currency Exchange Risk- Since UPS operates on a global scale, it is subject to foreign currency risks related to their revenue, operating expenses and financing transactions. The company's most significant currency risk relates to the Euro and British Pound Sterling. UPS employs a combination of written options and forward contracts to hedge cash flow currency exposure.

Interest Rate Risk- the Company's various debt instruments, including debt associated with capital leases, are issued at fixed rates and are exposed to fluctuations in fair value resulting from changes in market interest rates. Derivate instruments such as interest rate swaps and cross-currency interest rate swaps are utilized to manage the fixed and floating rates of UPS's total debt portfolio and related overall cost of borrowing.

Equity Risks- UPS holds investments in various equity securities that are subject to a decrease in price. Certain securities have options as a method of hedging against price risk. At the end of December 2002, the fair value of equity investments was $322 million. According to UPS's 2002 annual report, a 10% decline in the equity prices, net of the offsetting impact of any hedges, would be approximately $10 million.

The above-mentioned risks can all have an impact on the cash flow of the company. If interest rates rise or the cost of refined fuel rise, the cost of doing business for UPS will also rise.

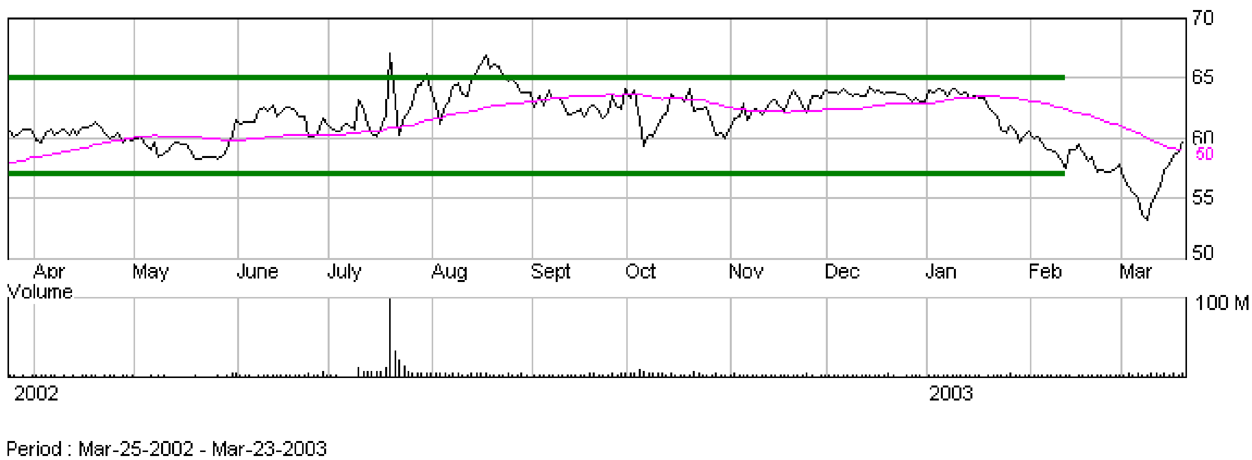
[20] Taken from the UPS 2002 10K

Investment Drivers[21]

UPS is a good investment for the future because it is a leader within its sector. It has positive numbers versus its competition. The environment for growth is very strong to. As technology advances UPS is at the top when it comes to these advancements. Companies always need things to be delivered and sent across the country as well as around the world. UPS is at the top when it comes to this. It is also in an industry with stable growth and has proven to be a steady stock the last few years since it became public. It is well known throughout the world, it has formed partnerships with likes of Dell, and other computer companies to not only provide delivery service but to upgrade its infrastructure. The explosion of e-commerce should also give UPS a boost, as shoppers buy on the Web and have the purchases shipped home or to the office. Not only is its size is a factor and the way it is expanding it could very well become the dominant player in the market. All of these positive drivers indicate that UPS has solid footing and therefore will be a solid growth stock for years to come.

[21] Information obtained from www.businessweek.com

Technical Analysis[22]

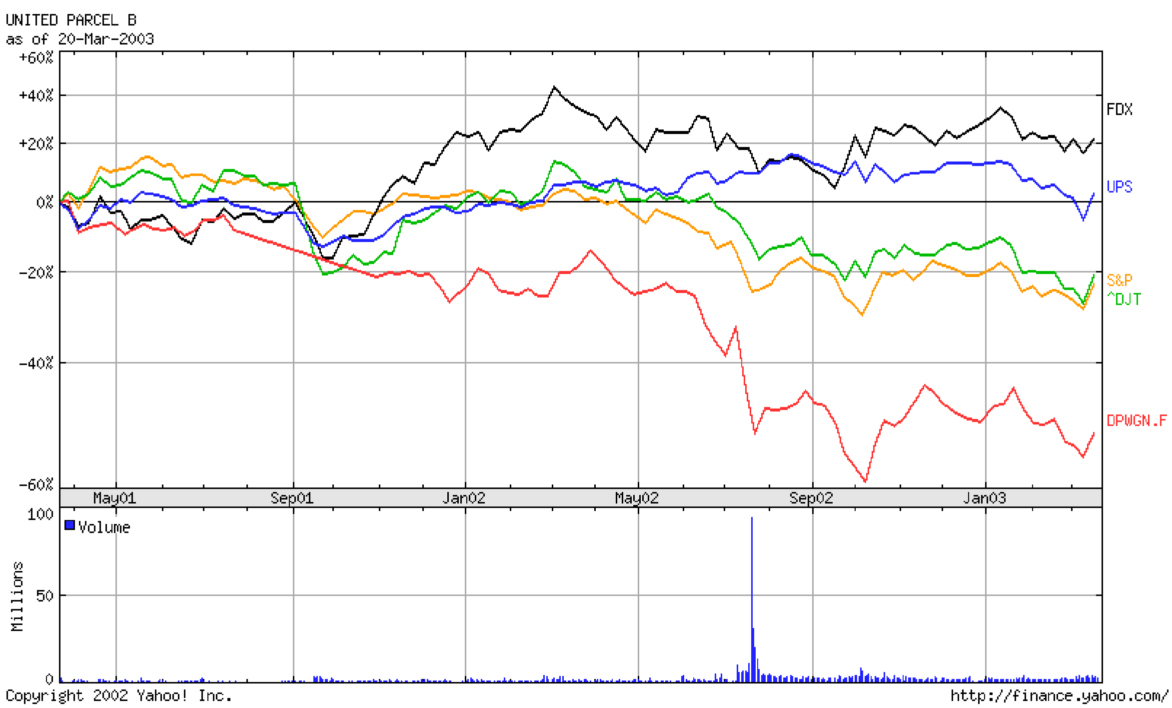


A technical analysis on UPS requires a thorough study of historical performance. The chart above is the one year performance of UPS graphed against its 50 day moving average. The one year return on the stock, measuring its performance from March 2002 to March 2003 appears to be slightly negative. In setting a resistance and support level for UPS, two options were available: set a support of $57 and resistance of $64, which would cover the performance from March 2002 to July 2003, then adjustments would be needed for the volatility thereafter, or set a support level of $57 and a resistance of $65, which would cover the entire year's performance with the exception of the two spikes in the summer of 2002 and the drop in March 2003. Beginning in March 2003, the support level dropped to $53 and the resistance to $58. However, these levels did not last long, because, recently, UPS has broken above that resistance level. The 3-year performance chart of UPS helps to clarify this situation. (chart below)

[22] Charts taken from finance.yahoo.com and bigcharts.com. Financial data taken from each company's 10K, and comparative data taken from www.hoovers.com, www.cnbc.com, and finance.yahoo.com

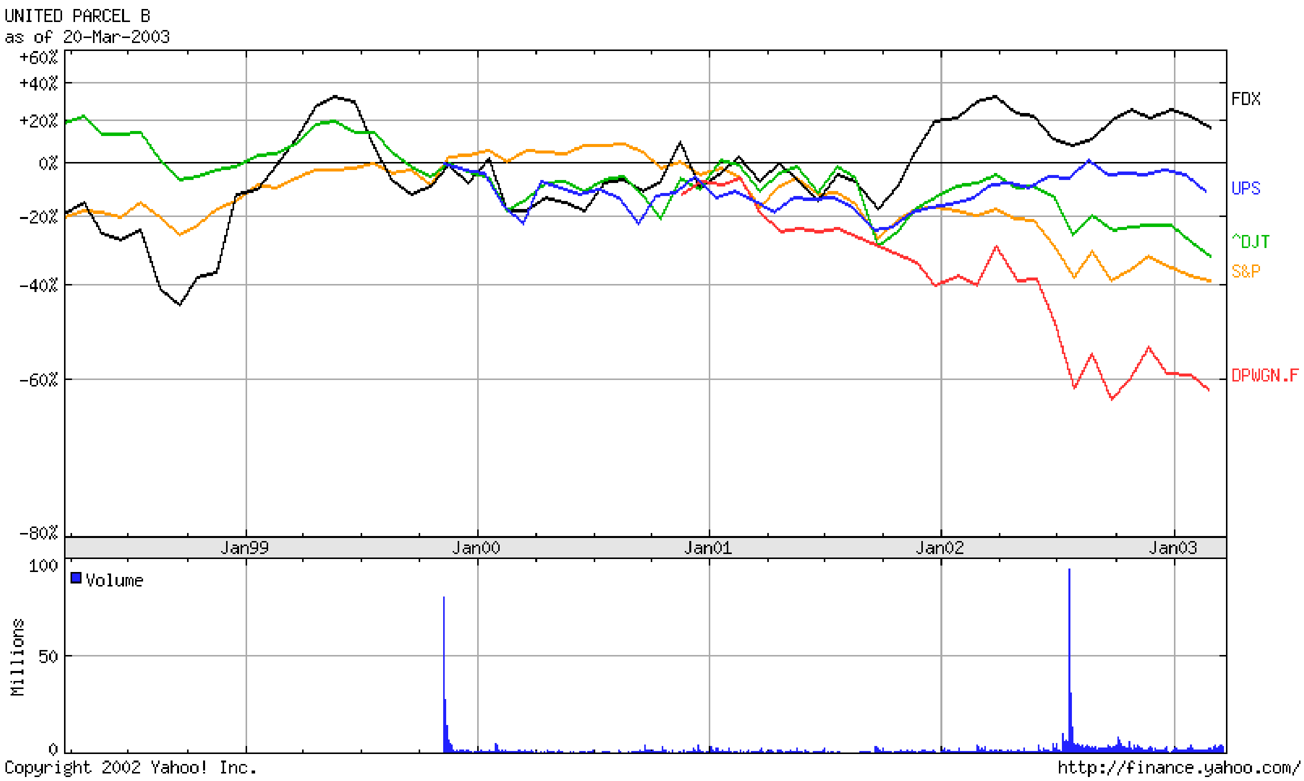
A resistance level of $65 and a support of $52 bound the stock's performance over the past three years fairly well. The only breaks of these levels have occurred in May 2000, September 2001, and August 2002. Setting numerous support and resistance levels to conform to UPS' historical volatility wouldn't aid the analysis. UPS, currently trading near 60 on an up surge, is slowly heading for the $65 resistance level. However, this is a relatively neutral signal.

Further analysis is required comparing UPS' performance with its moving averages. The 1 year chart shows that UPS began by outperforming its 50 day moving average until May 2002, where it underperformed it until June, outperformed it until September, underperformed it until November, then outperformed it until the middle of January 2002, and has since underperformed the 50 day moving average under the current week in March 2003, where the performance has just broken past. This is a positive technical signal, because the stock current price is greater than the average of the previous 50 days prices. The three year chart also tracks the 200 day moving average. For longer-term charts, this is more of an indicator. Therefore, comparing the recent performance, which broke above the 50 day moving average, to the 200 day moving average, gives us neutral indications. This is because the recent spike is still below the 200 day moving average.



The chart above compares the performance of UPS to the S&P 500 index, the Dow Jones Transportation index (both of which include UPS), Federal Express, and Deutsche Post.

Hoover's lists Deutsche Post, Federal Express, and the United States Postal Service as the three largest competitors of UPS. This 2 year chart clearly shows that UPS has outperformed both indexes and Deutsche Post, but as relatively underperformed compared to FedEx. This is quite positive. Considering the market performance for the past two years, evidenced by the -20% return on the S&P 500 index, UPS' return of 3% is very positive. Only FedEx fared better, returning 20%.



The 5 year chart above gives a similar picture. UPS has relatively performed more strongly than all but FedEx. However, over the past 5 years, UPS has sustained a negative return of approximately -10%. Compared to an 18% increase in the value of FedEx. However, UPS still outperformed the indexes and Deutsche Post, owner of DHL Worldwide Express. Deutsche Post has performed horribly over the past 5 years, with a return of -60%.

In conclusion, the technical analysis for UPS gives a positive outlook considering its relative strength. It has significantly outperformed the market, as measured by the S&P 500 index, and it has also outperformed the Dow Jones Transportation Index. Combining this with the turnaround being seen, as the stock price is finally breaking above the 50 day moving average, the technical outlook for UPS is positive.