Reader's Note: *It is important that you review the accompanying video message prior to reading the letter. Please take a moment to watch the video first.*

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July 20, 2022

Raj Subramaniam
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Raj Subramaniam, John Smith, & FedEx Ground Leadership Team,

At the core of the relationship between FedEx Ground and its Contracted Service Providers (CSPs), there must be a win/win dynamic. For significant stretches of FedEx Ground's CSP-based model, that win/win dynamic has not only existed, but thrived. CSPs understand that FedEx Ground's first and highest obligation is to its shareholders: maximize profits, return capital.

Additionally, FedEx Ground has worked hard to construct a balance sheet that withstands substantial economic headwinds and rapid price changes. CSPs, by contrast, do not have the $60 billion balance sheet that FedEx Ground boasts. As a result, when economic conditions change in 12 months faster than they have in 30 years, CSP's balance sheets simply cannot weather that storm.

CSPs take substantial capital risk when they purchase their delivery territories: working capital to operate the business, the debt and capital requirements for growth, and the leverage on their vehicle assets—all attached to a personal guarantee. CSPs are small business owners (usually with

10-25 employees) that simply do not have the financial resources to withstand historic price increases in three critical categories: fuel, wages, and trucks.

The purpose of this letter and statement is three-fold:

1. Establish a strong business case to FedEx Ground for an increase in compensation for CSPs via thoroughly documented analysis. This letter and appendix will prove that contractor costs have changed materially as a result of well-publicized global price increases, and those cost changes are worthy of immediate adjustments from FedEx Ground.
2. Establish a clear timeline for network-wide renegotiation. Prior letters of concern have called for open-ended discussions that ultimately made no progress towards a financial resolution.
3. Encourage FedEx Ground to make a courageous re-assessment of the viability of Sunday delivery. Sunday delivery has been both an incredible struggle and a financial disaster for all parties involved.

FedEx Ground, knowingly or unknowingly, has placed the financial viability of CSPs in their Ground network at enormous risk. Written from the desk of one of the largest contractors in the United States, believe me when I write that the situation is far more dire than the general public currently understands. Not a single day passes without my phone ringing with the story of yet another contractor who is financially collapsing under the weight of these dramatic cost changes that have gone unaddressed by FedEx Ground in 2022.

FedEx Ground has a precedent for addressing extraordinary circumstances. As recently as 2020, during the COVID-19 pandemic, FedEx Ground offered a flat, across-the-board 6-month compensation increase for its contractors in order to overcome the extraordinary conditions of that year. The changes experienced over the past 12 months, though, are magnitudes greater than what CSPs experienced in 2020. Yet, there has been no financial adjustment in any capacity.

An anonymous group of FedEx Ground contractors wrote two letters of concern in 2022. More than 1,000 contractors, representing more than 25,000 drivers, collectively signed those letters of concern. However, thousands of other contractors privately expressed unease in adding their signatures to the list, due to fear of retaliation against their contracts. Both of those letters of concern were met with little more than corporate speak: “FedEx is listening, FedEx invites conversation." In reality, those conversations did not result in financial adjustments for the CSPs who desperately needed it.

The previous letters of concern lacked specific financial asks. The letters also lacked clear deadlines for financial adjustments. This letter strives to provide clarity and specificity.

There are two specific requests contained in this letter:

1. For the pickup and delivery network, a $0.50 per stop pay increase on all Ground and e-commerce stops. This increase will apply on a go-forward basis to all current operating agreements. The rate increase will last for 12 months and will be re-evaluated in 2023 based on market conditions. As a highlight of how desperate the situation has become in the pickup and delivery space, FedEx Ground is issuing record amounts of contingency pay to stabilize the network's service levels. These contingency resources often make 2-5x the pay of the original CSP.
2. For the linehaul network, a $0.20 per mile pay increase on all solo and team runs. Spot runs will receive a 10% increase in compensation. As a highlight of how desperate the situation has become in the linehaul space, FedEx Ground is now outsourcing upwards of 30% of their linehaul network to external purchased power rather than utilizing its CSP network. This external (non-CSP) purchased power receives substantial premiums over the rates paid to existing CSPs.

It is understood that these requests will take time to implement. Unfortunately, CSPs simply do not have the balance sheets to weather further delays. CSPs have absorbed immense pressure from the magnitude of these price shocks and do not have much financial runway left. The timeline for these negotiations will remain open until November 25, 2022.

This letter is also written to encourage FedEx Ground to make a bold reassessment of the viability of Sunday deliveries. FedEx Ground historically observed Sundays, as well as major holidays, such as Easter, the Fourth of July, and Thanksgiving, as times of rest for both their staff and CSPs. Now, CSPs are contractually required to deliver each Sunday and on each of those holidays.

The rapid introduction of Sunday deliveries on a nationwide scale created significant operational, technological, and financial strains for both FedEx Ground and its CSPs. By our estimates, Sunday deliveries are costing FedEx Ground upwards of $500 million in earnings drag. That $500 million figure is getting worse, not better. Likewise, Sunday deliveries erased more than one-third of CSP's profit margins in less than one year's time. In parallel fashion, that margin erosion is worsening, not improving.

Sundays wreak havoc on FedEx Ground's ability to accurately forecast the next day's volume: the technological infrastructure and package volume projection algorithms are woefully inept. FedEx Ground has been unable to solve these forecast errors for two years now. Without accurate forecasts, CSPs struggle to align their costs to match the actual packages that are made available for delivery each day.

The attached Appendix strives to thoroughly document the business case for why FedEx Ground must provide the outlined pay increases. The FedEx Ground network is in a significant state of unreported distress. For those seeking to verify the level of distress in the network, allow this letter to point out some places to start investigating.

The key metrics that reveal the trouble that exists directly below the surface are:

1. Declining service levels across the entire FedEx Ground network due to CSPs walking out on their delivery territories.
2. A close examination into the number of CSPs whose contracts are terminated and/or they walk out on their territories in comparison to historical trends. CSP default rates are soaring.
3. A close examination of the quantity of open, under-, or entirely unserved territories being posted daily on BuildAGroundBiz.com. This website reveals the true level of distress that exists in the network.

To all non-FedEx Ground readers of this letter: do your research and ask the hard questions that reveal the extent of this crisis.

In FedEx's most recent earnings report on June 23, 2022, their numbers showed a stunning 30% expansion of profit margins in the very same quarter that saw CSP profit margins drop to new lows. In fact, FedEx disclosed that it had expanded its profit margins through successful arbitrage of its fuel surcharges, pushed through to customers, versus what was paid to its CSPs. This is one example that demonstrates the dislocation of the win/win dynamic, originally intended for the CSP model.

As of October 1, 2022, FedEx Ground will begin fining a substantial percentage of its CSPs between 1-3% of their annual revenues as a required contribution towards FedEx Ground's insurance policies. This will be another burden upon contractors in a season where CSPs simply cannot handle any added pressure.

On August 20 and 21 more than half of all CSPs in the United States will gather at the Paris Hotel in Las Vegas for the annual Route Consultant Contractor Expo + Party. At that event, the Route Consultant Purchasing Alliance will be announced, allowing CSPs an avenue for expense savings. CSPs fully understand that they must also participate in this season of belt-tightening. We are diligently working to lower costs, improve efficiency, and put in sweat assets. The financial changes that we need, though, must also include an addition to topline revenue from FedEx Ground.

Additionally at Contractor Expo, the Route Consultant Purchasing Alliance will announce the formation of a 10-person CSP Committee. This committee will be a unified voice to FedEx Ground, empowered with the collective authority to speak on behalf of thousands of CSPs across the United States. The committee's initial focus will be the ongoing negotiations with FedEx Ground for the changes that CSPs urgently need, within the timeframe of November 25, 2022.

In conclusion, both FedEx Corporate and FedEx Ground have new CEOs that are inheriting a tough situation: activist investors joining the board, analysts' frustration with a stagnant stock price, challenges with Capex, and CSPs that desperately need financial help.

As a message directly to John Smith and Raj Subramaniam, please accept my encouragement to use this opportunity to dramatically win over the hearts and minds of your CSPs. We have struggled mightily through this pandemic—working to deliver the Purple Promise as essential workers in spite of incredible challenges. If you will take a bold step to honor our requests for a recovery in compensation, you will cement a loyalty within your service-minded CSP base that will propel FedEx Ground's growth for many years to come. If, instead, you decide to make our burden heavier via not only a rejection of our revenue requests, but with the addition of a brand new 1-3% revenue penalty on your struggling CSPs, you will bring this entirely CSP-led network to its very knees.

Please review the attached Appendix in support of the price adjustments.

Respectfully submitted,

Spencer Patton, Contracted Service Provider Since 2013

FedEx Ground: Letter of Assurance | Appendix

CSP Challenges in the Current Economic Environment

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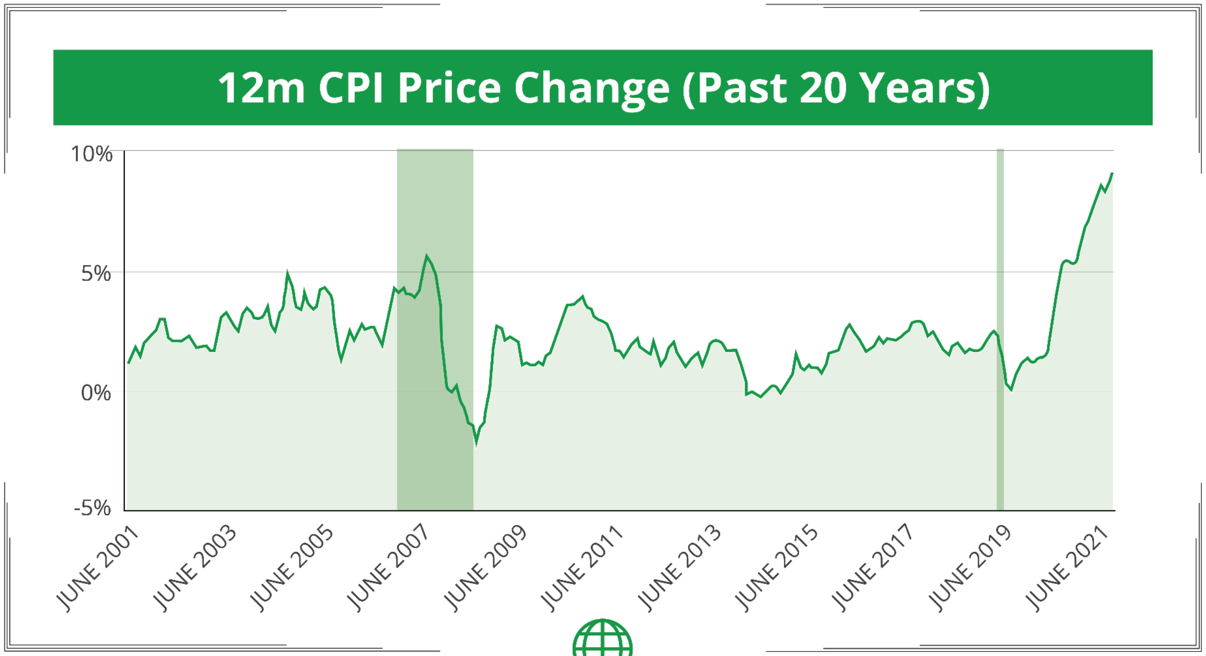
A Perfect Storm for FedEx Contracted Service Providers (CSPs)

The global economy is experiencing its biggest macroeconomic shift in the last 40 years. The latest year-over-year inflation numbers came in at 9.1%, the highest since 1981. While wages, fuel, and generally higher costs impact all businesses, this is a perfect storm for FedEx Contracted Service Providers (CSPs).



Source: US Bureau of Labor Statistics

CSPs Have Three Main Cost Buckets:

1. Wages
2. Fuel
3. Vehicles (equipment/repair & maintenance)

Each of these expenses increased significantly over the last few years due to inflation. The table below shows the average costs for CSPs as percentages of Total Revenue in 2019 and 2022, comparatively.

Cost Type	2019 (% of Total Rev)	2022 (% of Total Rev)
Wages	55%	63%
Fuel	8-12%	16-22%
Equipment/Repair & Maintenance	8-12%	12-16%

Source: Internal Data Sets

CSPs Cannot Influence Topline Revenue

Many businesses adjust to inflationary pressure by passing increased costs on to consumers—this maintains profit margins and a healthy, viable business. However, as wages, fuel, and vehicle costs rapidly increase, CSPs have no ability to directly impact their revenue, severely impacting profit margins.

The increasing costs are in no way related to inefficiencies in CSPs' operations: these are higher costs for the exact same product, which directly and negatively impact the bottom line.

- ➔ Our goal in the below analysis is to highlight each of these three main cost areas for CSPs, illustrate how much these costs have risen since pre-pandemic years, and demonstrate the direct impact to margins via these increased costs.

Wages, fuel, and vehicle-related cost increases are not an exhaustive list of price increases absorbed by CSPs. It is important to note additional material items also increased in cost, including insurance and technology.

Labor + Recruiting Costs

The national unemployment rate is hovering near an all-time low of 3.6%. Low unemployment rates create a candidate-controlled labor market. Potential employees have many options on where to work. However, they are demanding higher wages for the same service.

Employee Type	2019 (Avg. Hourly)	2022 (Avg. Hourly)
All US Private Employees	$27.60	$32.08 (16% increase)
Transportation + Warehousing Employees	$24.77	$27.86 (14% increase)

In 2022, the average hourly earnings of all US private employees is $32.08, compared to $27.60 in 2019, a 16% increase. Average hourly earnings for employees in the transportation and warehousing industries is currently $27.86, compared to $24.77 in 2019, a 14% increase.

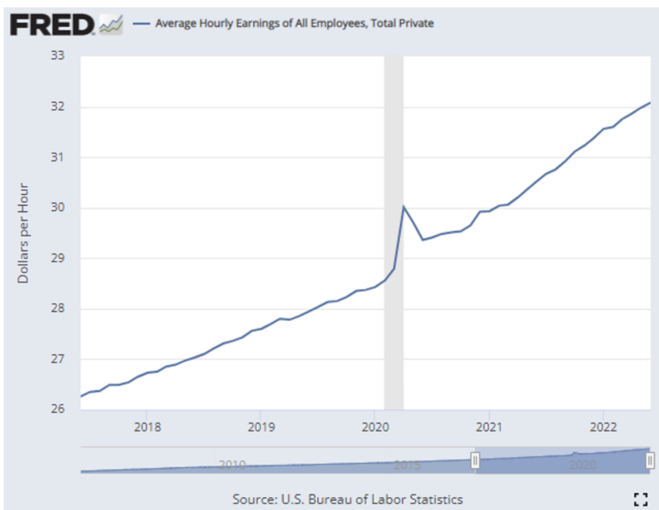
Paying drivers more does not increase efficiency. Higher wages directly impact the bottom line; additionally, there are more employee-related costs in a tight labor market, such as benefits and bonuses needed to help retain talent.

CSPs Compete with FedEx Ground for Employees

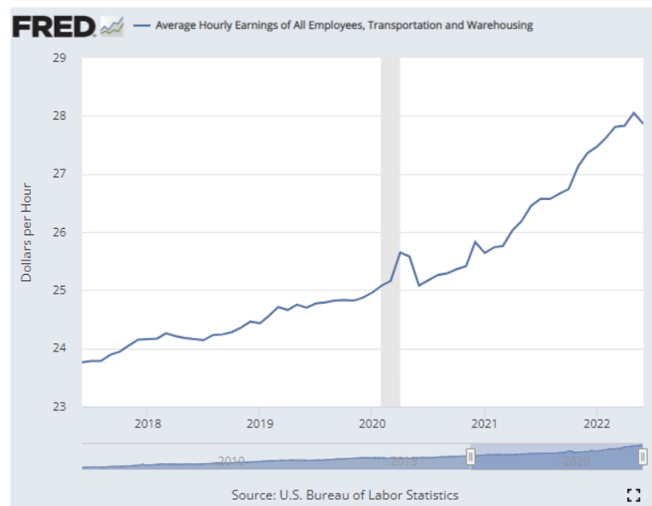
In 2021 FedEx Ground announced a plan to increase pay, award retention bonuses, present clear pathways for promotion, and offer full benefits to both part-time and full-time package handlers upon start date. While CSPs can benefit operationally from skilled package handlers, the announcement had a direct, negative impact on CSPs and their ability to recruit/retain drivers. CSPs cannot afford to compete with the robust benefits that FedEx Ground offers package handlers.

Since drivers and package handlers typically stem from the same demographic and applicant pool, CSPs lost current and potential drivers who opted to take a better paying package handler position.

Average Hourly Earnings: Private Employees



Average Hourly Earnings: Transportation



Source: US Bureau of Labor Statistics

Added Cost: Full-time Recruiters

Given the increased turnover and difficulty of staffing, CSP recruitment costs increased as CSPs need to attract, retain, and replace employees consistently. Prior to 2022, businesses were able to fulfill staffing needs through Indeed or Craigslist advertisements, largely for free. However, as competition over employer visibility on Indeed and other lead generation platforms increased amidst labor shortages, so did the cost and effectiveness of advertising.

- CSPs' Cost Per Click (CPC) and Cost Per Apply (CPA) have increased by 2,000% (some contractors report 3,000% increases).
- Conversion rates are down 60-70%.

This means that pre-pandemic CSPs had a higher success rate converting leads to compliant drivers at an exponentially lower cost than in today's competitive market. Recruiting drivers in the current market is a full-time job. Many CSPs have added a full-time recruiter or a staffing service to their expenses; on average, a full-time staffing solution costs $60,000 per year.

Other employers in the logistics space, including Amazon DSPs, can convert applicants to new hires in 2-3 days. Due to the FedEx-required FADV approval processing time, it takes 7-21 days for FedEx Ground driving candidates to be approved to drive for a CSP. Successful staffing requires constant FADV management and communication with candidates to keep them interested throughout an elongated approval process.

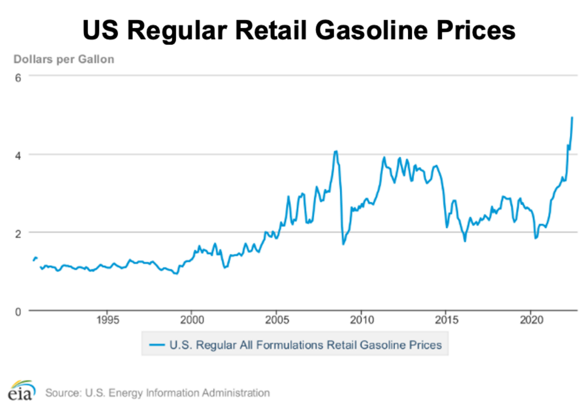
➔ With labor costs at approximately 55% of Total Revenue, a 15% increase in wage costs decreases CSPs' profit margins by about 8.25%.

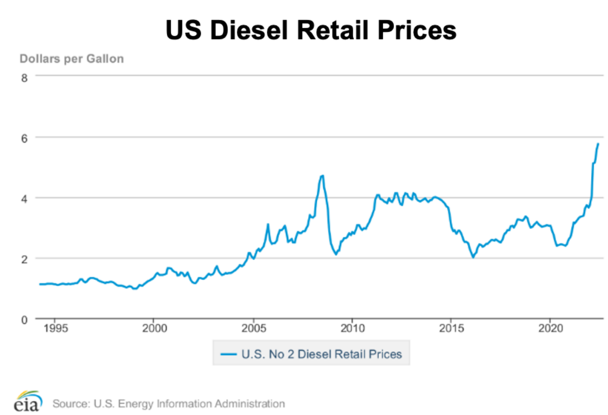
Fuel Costs

The average national fuel price for both gas and diesel has hit all-time highs since tracking began in 1990.

Fuel Type	Year 2019 (Avg.)	June 2022 (Avg.)
Retail Gas	$2.25	$4.92 (a 119% increase)
Diesel	$2.98	$5.75 (a 93% increase)

In June 2022, the average retail gas price was $4.92, compared to $2.25 in 2019, a 119% increase. In June 2022, the average retail diesel price was $5.75, compared to $2.98 in 2019, a 93% increase.





Source: US Energy Information Administration

While CSPs recognize that FedEx Ground intends to mitigate the volatility of fuel prices with a variable fuel subsidy, this hedge only minimally shields CSPs from extreme rises in fuel costs.

With geopolitical tensions in Russia and Saudi Arabia, plus a persistent inflationary environment, we think higher oil prices may be the new normal for the years to come (and be a permanent drag on profit margins).

➔ With fuel costs at approximately 12% of Total Revenue, a 100% increase in fuel costs decreases CSPs' profit margins by about 6%.

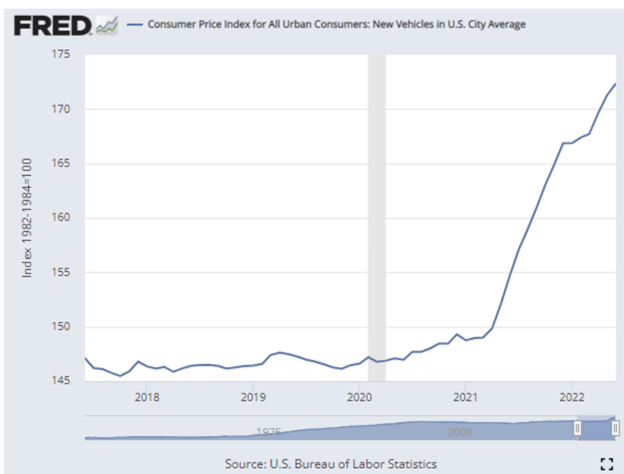
Note: given the fuel subsidy provided by FedEx Ground, our analysis cuts the profit margin impact by 50%

Equipment and Repair & Maintenance Costs

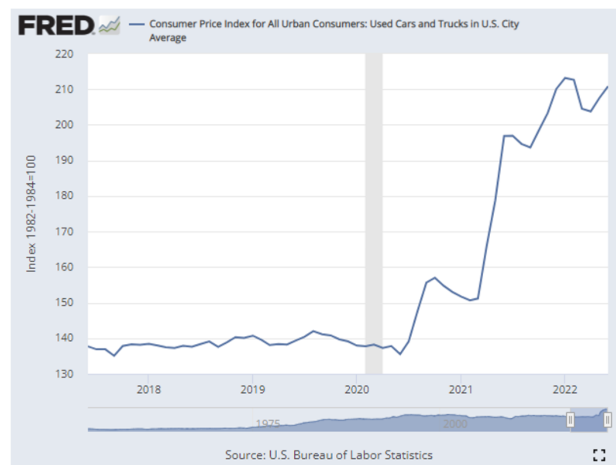
Truck shortages across the US have increased prices for purchasing new trucks, purchasing used trucks, and renting trucks. A dramatic increase in pandemic-related delivery volume required CSPs to add additional trucks to their fleet; even when volume is steady, CSPs must regularly refresh their fleet with new units.

New and used vehicle costs are heavily, negatively impacted by higher inflation. Nationally, prices for new vehicles increased 18%, and prices for used vehicles increased 50%.

CPI: New Vehicles in US City Average



CPI: Used Vehicles in US City Average



Source: US Bureau of Labor Statistics

Please see below for a comparison of truck prices from 2019 to 2022 for typical vehicles in a CSP fleet:

COSTS INCREASE - 2019 to 2022

TRUCK TYPE	2019 COST	2022 COST	INCREASE
Ford Transit Dually Rear Wheel (gas)	$38,720.00	$63,145.00	63%
Ford Utilimaster P700 (gas)	$47,300.00	$67,900.00	44%
Ford Morgan Olson P1000 (gas)	$53,620.00	$76,500.00	43%
Ford Morgan Olson P1200 (gas)	$55,120.00	$78,000.00	42%
Average	**$48,690.00**	**$71,386.25**	**48%**

The average CSP runs a 10-truck fleet, and they typically need to replace two trucks per year (or 20% of the fleet). As the average truck price increased from $48,690 to $71,386, CSPs saw a marked impact on their cash flow.

➔ Cash flow impact: two fleet vehicles per year at an increase of $22,696 per vehicle is $45,392 additional costs per year.

Maintenance Costs

In addition to the replacement costs, there are costs associated with maintaining an existing fleet.

- Tire costs alone have increased 16-24% for 19.5-inch and 16-inch tires.
- Based on our extensive access to CSP data, we observe a 9% increase in the average cost of repair & maintenance since pre-pandemic years.

➔ With repair & maintenance costs at approximately 10% of Total Revenue, a 9% increase in repair & maintenance costs decreases CSPs' profit margins by about 1%.

Conclusion + Summary

The average FedEx Ground business run by a CSP earns a 10% operating margin.

Comparing costs from pre-pandemic data sets, we see:

- ➔ Wage pressures reduced profit by -8.25%
- ➔ Fuel increases reduced profit by -6%
- ➔ Repair & maintenance reduced profit by -1%

As a result, the average FedEx Ground business run by a CSP currently operates on profit margins below 0%.

Furthermore, this margin degradation does not include the impacts to cash flow, such as the increased costs of purchasing new trucks. With revenues relatively flat year-over-year, we hope this analysis provides a more accurate picture of the true increases in operational costs CSPs are facing this year.

For many CSPs, an enhanced FedEx Ground contract is the difference between profitable operations and financial ruin. A devastatingly cost-prohibitive structure for CSPs will ultimately lead to network-wide CSP default.