

FedEx Freight Q4 Fiscal Year 2026 Earnings Call Transcript

June 25, 2026

Marianna Rose

Head of Investor Relations, FedEx Freight

Good afternoon, and welcome to FedEx Freight's fourth quarter earnings conference call.

The fourth quarter earnings release and investor presentation are on our website at ir.fedexfreight.com. And this call is also being streamed from our website.

Joining us today are John Smith, President and Chief Executive Officer of FedEx Freight, and Marshall Witt, our Executive Vice President and Chief Financial Officer.

Following prepared remarks, John and Marshall will both be available to answer questions.

To allow time for as many participants as possible, we ask that you limit yourself to one question. Afterward you are welcome to re-enter the queue if you have additional questions.

During the call, certain statements may be considered forward-looking, as defined in the Private Securities Litigation Reform Act of 1995 and are subject to factors that could cause actual results to differ materially from those expressed or implied.

For additional information, as well as reconciliations of the non-GAAP measures discussed today to the most directly comparable GAAP measures, please visit our website and refer to our press releases and SEC filings.

With that, I'd like to turn the call over to John for opening remarks.

John Smith

President and CEO, FedEx Freight

Well thanks, Mari.

Good afternoon everyone, and welcome to FedEx Freight's first-ever earnings conference call as a stand-alone company.

This is an important and highly anticipated milestone for our entire organization.

In April, we introduced the new FedEx Freight, and on June first, we proudly rang the opening bell at the New York Stock Exchange, officially marking our debut as a stand-alone publicly traded company under the ticker FDXF.

I want to share my sincerest appreciation to our incredible team members who have worked so hard to bring us to this moment. It's their steadfast dedication and commitment that make FedEx Freight the company it is today.

I also want to thank the broader FedEx team who supported us throughout our journey to become independent.

Our FedEx roots created a firm foundation, one built on operational excellence, a customer-focused mindset, and an unwavering focus on reliability, quality, and efficiency.

As I look ahead, I have great confidence in our ability to build on this strong foundation through our go-forward strategy and a team with a proven track record of execution.

Our future success is anchored in a clear, disciplined approach centered on key stakeholders: our people, our customers, and our shareholders.

As we enter this next chapter, we are shaping a new legacy, sharpening our focus on LTL and positioning FedEx Freight for a more agile, resilient, and profitable future.

And as you've heard me say before, we are just getting started.

Let's begin with a few highlights from the quarter.

As I mentioned, we successfully launched as a stand-alone LTL carrier, marking a defining moment for FedEx Freight, and positioning us to set a new standard in the LTL industry.

And let me be clear- the successful launch did not happen by chance.

It was the direct result of months of rigorous planning, deep collaboration, and detailed coordination across our organization.

Our team's discipline and unwavering focus enabled a seamless transition and ensured we were ready to continue to deliver for our customers from day one.

As we completed this successful launch, I am proud that safety remained our top priority without any type of compromise.

Our employees continue to live our *Safety Above All* culture, delivering record-low DOT preventable accident performance in fiscal year 2026.

This result is a direct reflection of the collective responsibility, professionalism, and dedication of our team across North America.

Now from a financial standpoint, we delivered a strong finish to the year, generating \$2.4 billion in revenue, \$363 million in adjusted operating income, and a 15% adjusted operating margin in the fourth quarter.

Now diving further into our operational performance.

As expected, volume was softer year over year, however, trends have improved sequentially.

We're encouraged by these early signs that demand may be stabilizing for our services, supported by improving manufacturing indicators, truckload trends, and higher year-over-year contractual increases.

At FedEx Freight, revenue per shipment increased 11.5% year-over-year in the fourth quarter, driven primarily by higher fuel prices and increased weight per shipment; this reflects improved backhaul efficiency enabled by tighter truckload capacity.

Importantly, we are encouraged by the strong execution of our world-class team, operating with a renewed focus on high-quality, efficient, and profitable service.

Without incremental costs, our team delivered meaningful improvements in pickup reliability, on-time delivery performance, as well as trailer utilization.

We also achieved a record claims ratio for the quarter and remain on track to deliver our best-ever claims ratio for calendar year 2026.

We look forward to sharing more details about our key operating metrics in October, when we report our first full quarter of stand-alone operating and financial results.

Alongside our operations team, our dedicated sales force is ramping quickly and integrating seamlessly across the organization.

Our sales force is now fully staffed, and the team is already making a meaningful and positive impact – working closely with both new and existing customers, as well as our frontline employees.

For the first time in years, our sales teams are back in our service centers, working side-by-side with operations to support customers where they are located.

This level of integration is driving more direct engagement in the field, with sales team members partnering closely with our drivers – even joining them on delivery routes – and meeting customers face-to-face.

The result is a stronger, more collaborative, customer-focused culture, where accountability and accessibility are shared across the organization.

Importantly, our separation has enabled us to build dedicated LTL expertise across our entire commercial organization.

We are already seeing that investment take hold as our sales teams deepen customer relationships, introduce fit-for-purpose LTL solutions, and accelerate adoption of our modernized, LTL-focused technology platforms.

Also during the fourth quarter, we successfully executed our technology separation plan, enabling a tax-free spin from FedEx Corp.

I am pleased to say that we have now transitioned to steady state operations with a more stable IT environment.

And as a critical part of this transition, we launched new, purpose-built capabilities designed specifically for the LTL market.

A key milestone was the launch of *FedExFreight.com* in May, establishing our stand-alone digital presence, and we're already seeing strong customer adoption.

Early engagement has exceeded expectations, with nearly half a million unique site visits and approximately 250,000 of online shipments already scheduled since launch.

Also in May, we launched our new Freight Pricing System, a purpose-built LTL platform on a more modern, flexible, and scalable technology stack.

This is an important step in addressing pricing complexity that previously required significant manual intervention and time, while improving efficiency and positioning us to evolve our pricing capabilities more effectively over time.

While still early, we are beginning to see tangible progress.

For example, we successfully onboarded one of our largest and most complex customer contracts – something our system did not support previously – which we view as a meaningful proof-point of this platform's capabilities.

We see this as a foundational investment, with additional enhancements and efficiency gains expected as we continue to build on the system in the upcoming months.

From an infrastructure standpoint, we also completed a large-scale, high-quality transition:

More than 1,000 applications were successfully separated, including the core systems required to run this business, with minimal disruption to customers, operations, and revenue;

Approximately 17,000 devices have been migrated into the Freight environments;

And we have achieved further stabilization of the end-user experience.

We have shifted our IT operations from a 'separation' phase to a 'transformation' phase with a strong focus on modernization, reliability, and continuous improvement.

Looking ahead, our priorities are clear:

First, we are working to exit Transition Service Agreements quickly to reduce cost and risk;

Second, we will leverage AI responsibly across the entire organization to drive efficiencies and enhance the customer experience;

And finally, we will continue to modernize legacy systems to simplify and streamline our technology stack.

As I reflect on the quarter, I am incredibly proud of the progress we've made, reinforcing our strong, scalable model that positions FedEx Freight for long-term growth as a stand-alone company.

Now at the core of this model is a single, integrated network powering our dual-service offering – an important differentiator and a key driver of both efficiency and profitability.

Nearly half of our customers use both Priority and Economy underscoring the value of the flexibility we provide, enabling them to choose how they manage speed and cost.

Our Priority service is approximately 40% faster than our nearest competitor based on published transit times.

Priority shipments currently have shorter lengths of haul and more time-sensitive characteristics, supporting stronger yield and premium pricing.

Complementing that, our Economy offering provides a structurally lower-cost solution utilizing longer average lengths of haul and low-cost rail to deliver attractive economics for more flexible shipments.

Importantly, both services move through the same network – using the same company assets – with separation only where it creates a clear economic or service advantage.

That flexibility allows us to optimize capacity, drive density, manage lane imbalances, and maintain service integrity.

And, in practice, we can extend operating windows and utilize off-peak capacity – avoiding the need for incremental infrastructure while improving asset utilization and capital efficiency.

At the same time, flexible Economy routing enhances network resiliency, particularly during weather disruptions.

From a commercial standpoint, our sales force sells both - delivering integrated solutions that are tailored to customer needs.

And financially, our dual-service model is compelling.

Today, both services generate healthy, comparable margins, driven by premium pricing in Priority and structurally lower costs in Economy.

Now as we continue to simplify the customer experience, speed and efficiency become clear differentiators, unlocking additional value in both our Priority and Economy offerings.

Bottom line – this is our advantage: one network, two services, and a structurally more efficient, resilient platform for growth and flexibility.

Now I'll turn it over to Marshall, who will outline how our operational strength is translating into solid financial performance. He will also provide additional detail on our outlook for the remainder of the year.

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Thank you, John, and good afternoon, everyone.

We are very pleased with our performance in the quarter, especially given the complexity of executing the spin and navigating a dynamic external environment.

Despite these moving parts, we enter this next phase from a position of strength, with a durable financial profile.

Turning to our fourth quarter results.

Revenue increased 5% year over year.

And as John covered, the increase was driven primarily by higher fuel surcharges and – to a lesser extent – increased weight per shipment, partially offset by lower shipment volumes.

Shifting to adjusted operating income. The benefit from higher revenue was partially offset by two key items:

First, as expected, we incurred approximately \$80 million of separation-related costs associated with the planned spin-off.

These costs were primarily tied to IT and systems support, as well as incremental headcount required to support stand-alone operations.

Second, we lapped a \$33 million gain recorded in fiscal 2025 related to the sale of a facility – which is in line with our ongoing focus on network optimization.

As a reminder, these results are presented on a segment basis, as this represents our final quarter as part of FedEx.

Looking ahead, by mid-August we expect to file our fiscal 2026 carve-out Form 10-K for the year ended May 31st, along with recast historical financial statements for calendar years 2024 and 2025.

Now looking ahead to the remainder of the calendar year.

We expect continued strong financial results through the transition period, which we define as June 1st through December 31st, 2026, on a stand-alone basis.

And to ensure we are comparing apples to apples, prior-year figures reflect carve-out results, with costs previously allocated from FedEx Corporation reclassified into their respective expense line items.

Relative to the comparable seven-month period in 2025, on a stand-alone basis, we expect revenue growth in the range of 4-6%, modestly above the expectations we provided at Investor Day due in part to the dynamic fuel environment.

Approximately 60% of that growth is expected to be weighted towards the four months ending September 30th.

While volumes are expected to remain slightly below prior-year levels, we are seeing sequential improvement month to month.

The majority of anticipated revenue growth is expected to come from yield... supported by sustained higher fuel prices relative to results from earlier in the year, stronger pricing execution, and more focused sales efforts as a stand-alone company.

Taking this revenue outlook into account, we expect to generate between \$605 million to \$645 million of adjusted operating income during the transition period, implying an adjusted operating margin of approximately 11.8% at the midpoint.

Higher yield is expected to contribute approximately 200 basis points, driven largely by fuel and – to a lesser extent – early benefits from pricing improvements.

In addition, we expect a modest tailwind of roughly 80 basis points as we continue to capture efficiencies and cost benefits across the network.

These gains are expected to be partially offset by several factors.

First, we expect an additional approximate 130 basis point headwind related to performance-based compensation for our people.

Second, we anticipate an approximately 120 basis point headwind from ongoing Transition Services Agreements, which translates to approximately \$65 million.

These costs are consistent with the expectations we outlined at Investor Day, and we expect these agreements to remain in place through the remainder of the calendar year end and into 2027 as we continue to invest in our “Fit-for-LTL” technology platform and team.

And finally, we anticipate a modest volume-related headwind of approximately 30 basis points relative to prior year.

We expect approximately 75% of adjusted operating income during the transition period to be weighted towards the four months ending September 30th.

This reflects typical seasonality, the number of business days and holidays in the back half of the year, and the timing of merit increases.

With our current momentum and clear vision for the transition period, we remain confident in our path towards achieving the medium-term targets outlined at Investor Day.

We look forward to providing further detail on our execution against these objectives, as well as our capital allocation framework and shareholder returns, during our first stand-alone earnings call in October.

With that, I'll now turn it back to the operator to open the line for questions.

Operator

The first question will come from Stephanie Moore with Jefferies.

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Stephanie Moore

Jefferies LLC, Research Division

So congrats on your first quarter as a stand-alone company. So first question, I appreciate all the insight on the stub period and the guidance for the next 6 -- I'm sorry, 7 months. I hear that the original outlook is maybe slightly a little bit better because of fuel. But could you maybe talk a little bit about what you're assuming from an underlying demand standpoint in that guidance?

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Good afternoon, Stephanie, this is Marshall. In the bridge, we called out a slight headwind in regards to volume. So from a demand perspective, it's a little bit softer than we initially anticipated. But with that said, we also spoke to the sequential improvement we expect to see. If you think back to fiscal '26 and quarters 2, 3 and 4, we were running about 4% to 6% decline in ADV. And as we're thinking and looking at the guidance from today forward, June is pretty much in line with where we expected it to be.

And then we expect to close that gap in terms of that margin or that volume decline year-over-year and then to find ourselves at a breakeven with momentum heading into 2027. But with that said, as John said in his prepared remarks, we do expect that the stand-alone sales organization and their momentum that they're gaining not only in the SMB play, but in the sectors that they support, should also be a driving force of momentum to help us close that gap.

Operator

The next question will come from Brian Ossenbeck with JPMorgan.

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Brian Ossenbeck

JPMorgan Chase & Co, Research Division

Hey, good afternoon. Thanks for taking the question. Maybe just another one on the current environment. It sounds like volume is improving. What about capacity? And what about competition? We're starting to hear a little bit more about some service challenges, driver issues from an availability perspective might be hurting some of your peers. So I guess how do you feel about driver availability, meeting service levels, and is the industry starting to run into some capacity challenges from your perspective?

John Smith

President and CEO, FedEx Freight

Well, thanks for the question, Brian. I'll start it off. We are seeing some pretty good, encouraging signs that demand conditions are beginning to stabilize and even increase across the industry. So the leading indicators, as you well know that we watch are the ISM manufacturing activity trends, and the truckload spot rates and capacity, and the early signals - the demand - is showing positive signs across the industry.

So we have really watched that. And from a driver perspective, we feel really good about where we stand. We have an internal training program where we take dock workers and part-time dock workers and put them in through the driving training program to produce those CDL folks so that when we work them on the dock, we already have them trained for CDLs. And then as the business picks up, we're able to transfer those into the trucks and really keep up with a growth spurt.

So we're ready both from a driver perspective as well as equipment. Right now, we could add another 10,000 shipments and not have to buy a piece of new equipment. And you've heard us say before that we're sitting on about 30% from a facility capacity. So we feel really prepared - hoping that this thing will come around and when the market changes, we're going to be ready.

Operator

The next question will come from Richa Harnain with Deutsche Bank.

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Richa Harnain

Deutsche Bank

Congrats on your first quarter stand-alone. Just your plans to maybe keep margins steady at the same time you're growing revenues 4% to 6% during this transition period. Of course, variable comp and TSA expenses are eating into the operating leverage and are likely baked at this point. But can you discuss opportunities to flex beyond that framework you laid out? Does it really depend on -- John, you talked about the markets finally giving you something, maybe you need more of that, help from

market? Or is there more in the efficiency and other drivers front that could help?

And then as we think through the opportunity next year, would it be fair to contemplate similar drivers in broad strokes just with maybe lower variable comp and TSA costs. I believe FedEx yesterday indicated that they'll be carrying about \$250 million of stranded costs in calendar 2027, so maybe we need to work that into your cost structure. Sorry, long question. But generally, just thinking through revenues growing in the 5% range, does your model basically support 200 to 300 basis points of margin expansion? Or should we be thinking through other puts and takes?

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Hi Richa, this is Marshall. I'll start and then John will clean me up.

In regards to the last couple of questions, I'll start with the stranded costs. And you're right, FEC referenced that. And if we think about what that margin on that bridge looks like, we think when you look at the allocation of costs that were apportioned or conveyed over to us -- and that was a 2025 bridge or calendar -- we'll start with that, and then there are some separation costs that build onto that from January through May, that is another \$150 million. So we're up to about \$400 million. Then we have the TSAs cost on an annualized basis of about \$100 million.

So a long way of saying that we're probably a little bit north of that \$600 million run rate. If you think about an annualized transition cost that we are picking up from a stand-alone basis. And we knew that was going to be the case and that there would be some duplication of costs in regards to TSAs and also the transformation costs from standing up the organization.

In regards to the question on next year and are there other operational productivities to be had. I'm glad you asked that question because for the most part, the transition period here, we feel really good about just in terms of the outcomes and the ranges and feel like the ranges provided are probably representing our low and high side.

But if you remember at Investor Day, we provided a bridge that showed three basic elements of assumptions for growth. One was the volume, which to date, we now think that's going to be a 2027 and beyond, so we think there's good momentum there to be had and of course, scale and fall through. The second is the yield play, which we think will play out. And the third piece was operational productivities primarily around significant upside that we see we're going to have on the operational side, the transformation investments that we think our customer journey and customer experience and digital solutions are giving them will start to play forward. And then finally, that cost to serve where we're looking at support functions to ensure that as we're thinking about scaling operation, we want to be very mindful of keeping the back office well controlled and in scale.

And John, anything you wanted to say?

John Smith

President and CEO, FedEx Freight

No, I believe you covered it well.

Operator

The next question will come from Scott Group with Wolfe Research.

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Scott Group

Wolfe Research, LLC

Thanks. Good afternoon. Just a follow-up to that last question, that \$600 million of total TSA start-up costs, whatever you want to call it, does that number go any higher next year? Does that start coming down next year? Just any color there? And then just in terms of the actual business trends, I don't know if you're going to start giving this or not, but maybe John, can you talk about like yield trends ex-fuel? And then I don't know if you're going to give monthly tonnage updates going forward, but just the cadence of tonnage and trends and what you're seeing would be helpful.

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Scott, this is Marshall. Good afternoon. So in regards to the \$600 million cost, we do think that we will be a little bit north of that for the next 12 months. And then we would expect to start to see the productivities kick in, the duplication costs begin to tail out. In my prepared remarks, I spoke at the TSA cost playing into calendar year 2027. We've got a fairly aggressive plan that is, of course, going to be very mindful of any risks to the organization to accelerate getting off TSAs, but we think it will play into calendar year 2027, but that will start to abate and that will be a benefit.

Also those productivities that I spoke to previously, we should start to see those kick in, in the second half of 2027. With all that said, I do expect that as we talk again in October after the 4 months ended, we'll have a lot more insight into our journey on the TSAs and what's left there and then the transformation costs in terms of what's left to build out our platforms.

To the other question you had just on other metrics that we find that will be valuable not only to running our business, but that will be valuable to analysts and shareholders. We certainly are committed to regular and active disclosures with our investors and our analysts and that we certainly want to provide accurate, consistent disclosures on a quarterly basis.

But for now, we'll continue to use quarterly updates to the Street and shareholders in regards to our results and expectations.

But we're going to continue to evaluate the role of mid-quarter updates with the potential to introduce them after we get through this transition period and we settle into a more stand-alone rhythm.

John Smith

President and CEO, FedEx Freight

And Scott, just to add to that, I want to go back to the yield piece. We view yield and volume growth as complementary, and it's not a trade-off. When you think about how we attack that, we look at disciplined decision-making on mix as well as customer selection. So, our focus is on driving profitable growth by being highly intentional with each opportunity we pursue. So, when we see a clear runway to growth, the high-quality segment is where we have historically underpenetrated. And this includes the small- and medium-sized customers, which we feel is our biggest opportunity from a vertical perspective.

But we're also going to go after the retail, data centers, healthcare, and grocery. And those are attractive areas with attractive margins, and they offer that stronger yield.

So we're going to continue to improve our mix over time, which is a key driver of both yield performance and margin expansion. So again, our strategy is centered on sustainable, high-quality growth that strengthens both our top line momentum as well as our long-term profitability.

Operator

The next question will come from Jonathan Chappell with Evercore ISI.

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Jonathan Chappell

Evercore ISI Institutional Equities, Research Division

Thank you, good afternoon. Marshall, I recognize we're still waiting on some historical data and as it relates to comps, et cetera. As part of this 4-month period, I'm just trying to understand as we think about calendarizing the model, also as that relates to kind of relative comparisons. Is there any way to parse out what June means to that? And even if it's as simple as saying what June meant to the 4-month stub or the 7-month stub, that you provided for 2025. Just trying to figure out that bridge, number one; but number two, how to think about a calendar third quarter.

Marshall Witt

Sure. Thank you, Jonathan. And we too thought it was difficult to speak to seasonality for four months. Obviously, it's a 1 plus 3. And you're right, in August, we'll give you those re-casted and calendarized 2024 and 2025 by quarter. But let me try my best to give you a sense of what those four quarters on a calendar basis look like.

And I'll start with quarter four, and as you can see, is evident in how we've shifted and weighted the balance of the seasonality in our guide. Quarter four is our softest quarter. It has the fewest business days. It has lighter volume per day. It has holidays. It's got a significant amount of fixed cost to the network that has to be absorbed. So we suffer on that scale. And it's also the quarter where we give our annual merit. So it tends to have about a 5% to 7% revenue decline and about a ~600 basis point margin decline, again, Q3 to Q4.

If we move forward to Q1, there's a little bit of an uplift, maybe 1% to 3% revenue -- it has a larger margin uplift because typically in Q1 is when we give our GRI, so it has a good margin kicker to the quarter.

Q2, which includes June, is our biggest quarter. All three months are good quarters, but June is certainly one of the best. And we benefit probably 5% to 6% on revenue growth, and we see good margin expansion in that period, just given the growth and the scale.

And then Q3, the last one, a little bit softer than Q2, and margins being a little bit softer.

So sorry for the wordy description. Hopefully that helps kind of think about how you want to model things. And then in a little more than a month, you'll be able to see the actual seasonality for 2024 and 2025.

Operator

Next question will come from Bruce Chan with Stifel.

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Bruce Chan

Stifel Financial Corp.

John, Marshall, team, congrats on the milestone here. This is Matt Milask on for Bruce. Just a quick question from us. As a stand-alone company now, clearly, with your current balance sheet, how are you thinking about capital allocation priorities over the next several years, views on buybacks, dividends, leverage or M&A? Has that changed now that you're no longer competing for capital, so to

Speak, and leave it at that. Thanks.

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Yes. Happy to respond to that, Matt. So, if we think about our capital allocation framework, we're certainly focused, number one, on generating substantial free cash flow. And then to really allocate that based on the best areas that have the highest returns from an ROIC perspective or the right strategic fit.

So first and foremost, we want to invest in high-return organic growth opportunities. Second, we have debt that we inherited from the spin, so we want to reduce our outstanding debt and maintain our investment-grade rating. Third, we want to maximize our return of capital to shareholders through dividends and share repurchases, with share repurchases being more of a focus on minimizing for future dilution. And then finally, we'll evaluate as appropriate, accretive and strategic M&A on a selected basis and only subsequent after addressing these first three priorities.

Specific to the dividend, as we think about where we're at today our expectation is, again, subject to board approval, is that we'll institute or implement a dividend either later in 2026 or in early 2027.

And then the thoughts are for the share repurchases, and we'll probably, again, subject to board approval, implement a share repurchase program somewhere in 2027.

Operator

The next question will come from Eric Morgan with Barclays.

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Eric Morgan

Barclays Bank PLC, Research Division

Good afternoon, thanks for taking the question. I wanted to, I guess, follow up on the yield discussion. In the release, I think you mentioned base yields were down a bit when you're backing out the impact of fuel and weight per shipment. But I know you also mentioned favorable renewals on contracts, and then you have the 200 basis points in the bridge. So, can you just help us understand what the impact of mix was in the quarter, where you're seeing that? And if that's something you've been managing or something that you're seeing kind of more broadly in the market?

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Sure. Yes, Eric, let me first just speak briefly to Q4, and then I'll talk about the assumptions that are baked into our yield growth that is in the bridge for the stub period.

So, in quarter four, the substantial improvement, or beat of expectation, was fuel-driven, as overall yields were substantially flat and weight per shipment was slightly up. ADV, of course, was an offset or headwind.

Now pivoting to the stub period and in the investor deck on page 8, we have a slide that shows the various elements of the margin bridge. And we call that 200 basis points related to yield, and there's really four elements there that I think are important to understand. We do believe and expect that there will be a continued improvement in weight per shipment, which will benefit revenues and yield. We do expect there to be a positive growth in our revenue per hundredweight.

If you think about where we've come as an organization, two to three years ago, there was a focus and a strategy to maintain volume at all costs, and we saw pricing start to decline. And not until quarter four of [fiscal year] 2025, did we start to get that back into a we need to be disciplined in our pricing, and we started to see it stabilize. But as you may know, Eric, it does take a while for that yield to bend and to come back.

Our Mastio scores are an area that we're focused on to improve customer experience. And with that, we think we'll be able to deserve a higher yield and price with our customers. So, there is an assumption of yield growth on a revenue per shipment basis. Fuel prices, as you know, have come down, but they are still above prior year. So, there is an assumed benefit to fuel surcharge or fuel as well as in terms of net fall through. Offsetting that are some inflationary merit costs that will serve as a headwind. So, I just wanted to keep that in mind that is offsetting and is baked in that 200 basis points.

Operator

The next question will come from Chris Wetherbee with Wells Fargo.

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Christian Wetherbee

Wells Fargo Securities, LLC, Research Division

I was wondering if you could help us sort of bridge the full 12 months of calendar 2026 just from either an EBIT perspective or a revenue perspective so we can have an idea of maybe how the fiscal third quarter gets allocated between the various months, sort of help us get that full year baseline framework?

And then I guess maybe just a follow-up question on weight per shipment. I think we saw a nice step-up in the economy side, a particularly decent step-up sequentially, so want to get a sense of what you guys are seeing from a weight per shipment trend, and it sounds like you think that will continue, but any color on that would be great.

Marshall Witt

Executive Vice President and CFO, FedEx Freight

Sure. Chris, for now, we haven't bridged or provided that five months of calendar 2026 and the seven months of stub period. As we move forward and issue our re-casted financials and come back in October, we can speak to that.

From a weight per shipment perspective, again, we are seeing, and John had this in his prepared remarks, the pricing that we have in our volume services offering, across our network, is starting to gain traction.

We are seeing some of the truckload pricing reach levels that now we are a very good option for that. Those tend to be focused on backhaul lanes that have heavier shipments associated with them. And so, it is benefiting not only our balance, but it is also benefiting our revenue.

Operator

The next question will come from Ravi Shanker with Morgan Stanley.

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Ravi Shanker

Morgan Stanley, Research Division

Thanks, good afternoon. Just on the point of yields, can you give us a sense of when you start to renegotiate the one-year extensions on the unbundled contract, and if that's already happened, what kind of renewals and retentions you're seeing on those? And also, when you give us yield numbers going forward, are you planning to give us maybe a same-store number as well as a separate unbundled numbers that we can kind of know what an apples to apples might be.

John Smith

President and CEO, FedEx Freight

Ravi, thanks for the question. As contracts have come up for renewal, we haven't seen any significant breakage or negative customer reactions. And the unbundling is fully complete from an operational perspective. And as these accounts come up, we usually, from a [FedEx] Freight perspective, have

one-year contracts with the majority of our customers, so we're already in that process of that unbundling. So, by the time we get to the middle part of calendar year 2027, we should be completed with the pricing unbundling piece for our customers.

Marshall Witt

Executive Vice President and CFO, FedEx Freight

And then, Ravi, just to follow on your second question on what we will disclose going forward in regards to yield numbers, same-store, et cetera.

As I said earlier, we certainly will be mindful of the metrics that matter to us, revenue per hundredweight, revenue per shipment with and without fuel, key metrics around our operational performance, also key metrics around contractual renewals, we'll call it retention of yields related to GRI -- those are all going to be important metrics for us to look at and want those to be valuable to us internally, and we want them obviously to mean something to the street.

Operator

The next question will come from Tom Wadewitz with UBS.

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Thomas Wadewitz

UBS Investment Bank, Research Division

Good afternoon. I wanted to ask a bit about, John, I think where do you think the service is at, and I guess, the approach in general on volume versus price? I know you're looking to get some price, but is that something that you think you can ramp up fairly quickly? It sounds like you're expecting to get some ex-fuel price in second half. Or is that something where you say, hey, we've invested a lot to improve service with the new IT system and with the sales force investment, you're pretty optimistic on the cargo claims ratio, which I'm curious if that's below one, below half, where is it?

But kind of overall, how do you think about that focus on price? Is that a lever you push pretty quickly? Or do you say, hey, we want to give it some time to really execute well, improve service, take advantage of some of the investments before we go a bit harder on price?

John Smith

President and CEO, FedEx Freight

Tom, thanks for the question. I'll start out from a customer experience perspective.

As you well know, all the new technology that we've built from the time we decided we were going to spin basically has all been customer-facing. And we're already seeing some early proof points of improvements across key customer experience metrics, including quarterly Mastio results.

On a quarter-over-quarter basis, we have seen an 8% improvement in overall customer experience ratings already. So, these gains are being driven by both structural changes as well as adding LTL specific expertise with our sales team and operations, and refining the customer experience framework.

We've also initiated foundational cleanup on our data which will improve billing accuracy and reduce the friction in that area, which we have not scored well on as well. As we said, our new pricing system is live. We also now have dedicated customer support teams focused solely on LTL, and we have a clear, concise road map to modernize our back-office systems. All this improvement is underway today, and we expect that pace to accelerate with meaningful, measurable gains in service metrics.

The question on claims, we're going to look at that in October. And I'll just tell you that we finished the fourth quarter, as I said earlier, with a record quarter on claims ratio, and we have the opportunity to set our all-time record for a calendar year as we finish out 2026. The things that we knew and have learned that we needed to attack on the Mastio score, we are all over all those components.

So looking forward to some more results as we work our way through this transition year.

Operator

The next question will come from Jordan Alliger with Goldman Sachs.

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Jordan Alliger

Goldman Sachs

Good afternoon. Just sort of curious, you touched a little bit on the technology. I'm just curious because I remember at some of your earlier presentations, it's a lot to do to sort of cut over your own tech. It sounds like you're making progress. Can you maybe talk a little bit how the transition to your own systems is going and what's left to do, if anything?

John Smith

President and CEO, FedEx Freight

Yes. Well, I'll start off with some of the things that we've already improved, Jordan. And when you think

about the launch of our FedExFreight.com, that was a big deal to us. As you remember, we were buried pretty deeply into the FEC website.

We've also introduced, as I said earlier, the new FedEx Freight pricing systems. We've also reengineered the freight account hierarchy, which is a big deal for us. We were going through seven different iterations and we have got that down to three, which has really streamlined and made it absolutely more accurate.

The deployment of our new Salesforce platform, we're taking advantage of that. The sales team is really excited about that.

As we look ahead, there's three really clear areas of focus.

Number one, of course, is exiting our TSAs, our transition service agreements, expeditiously. But while we do that, we're going to be modernizing our systems and platforms. Secondly, we're going to utilize AI tools to increase revenue quality, enhance our operational efficiencies, and improve customer experiences. So, when you think about that, along with the back-office efficiencies, we're going to modernize all our legacy systems.

So, as we talk about this, we really are excited about the progress that we've made up to spin, but now we're going away from spin to transformation focus. And you'll see a lot more progress over the next 12 to 18 months as we move forward.

Operator

The next question will come from Harrison Bauer with Susquehanna.

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Harrison Bauer

Susquehanna Financial Group, LLLP, Research Division

Thanks for taking my question. You already touched a little bit on some of the weight per shipment outperformance in Economy. But I was curious if you could offer your sense of how the two offerings, Priority versus Economy, are going to perform in your transition period? And is there a level of growth or outperformance in one of those offerings that might disrupt your network or put it out of balance?

John Smith

President and CEO, FedEx Freight

Well, I'll take that one. We've already talked a little bit, Harrison, about why we think that's a distinct

advantage for us from a network perspective. But we have been running these Priority and Economy networks for a long time. Our customers are real familiar with that. However, one of the things that we have an opportunity with is that we haven't truly sold it, in my opinion, over the past few years on the advantages.

So, we're excited about that sales force, which is specifically an LTL sales force, that is going to go out there and truly show the differentiation that we have in those two products. And giving that customer that choice is really sticky from our perspective, and that's the reason that we feel good about the customers that we've had for a long time understanding that.

Now what we've got to do is go out and sell that in these new verticals that we discussed earlier, where we can go in and take advantage of that and make sure that the customers understand what that opportunity is both from a Priority and Economy perspective. So going forward, we feel like we know what to do with this. We've been doing this a long time. We've just got to get out there and make sure everybody understands that this is a distinct advantage for us. And then we're really excited about being able to introduce that in these new verticals we're going to sell.

Operator

The next question will come from Ken Hoexter with Bank of America.

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Kenneth Hoexter

BofA Securities, Research Division

John, Marshall, Mari and team, congrats on the spin. You noted the improving economy and weight per shipment is climbing. Can you talk to if that spillover from truckload -- is this a shift in the business as you're adding new services, the data center, small- and medium-sized businesses you highlighted? And then given those costs, maybe your thoughts on PT costs in the near term?

John Smith

President and CEO, FedEx Freight

Yes. Thanks for that question, Ken. I think that it's mostly from the truckload capacity tightening up because we've seen that really over the last three months with all the things going on with the CDLs and the schools being closed down and illegal, and all that stuff that's going on in the market right now.

We have seen some of those volumes transition over back to us. And the thing about it is it's really helping us not only in backhaul, but some of those larger shipments that would normally run its milk

runs from a truckload perspective, they're going back to a full truckload, which are pushing those bigger shipments back into the LTL market.

So we feel like that's the majority of it. We're just getting our feet wet in some of these newer verticals, and we feel like that we've got an opportunity, especially in the data centers and electrical piece, but also in the food and beverage to increase our weight per shipment.

From a PT perspective, it's really ramped up from a cost per mile when we're going after the one-way PT that we use besides the rail. We watch that really close and what we do, we look at a round-trip cost from a company perspective, and once that one-way PT gets above that cost, and we will transition that back to a company round-trip and run that empty back and then try to fill that empty with a backhaul. So, we're watching it really close, but the purchase transportation costs have really increased over the last three months.

Operator

The final question will come from Ariel Rosa with Citigroup.

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Ariel Rosa

Citigroup Inc., Research Division

Let me echo others on congratulating you on the spin. So, John, you spoke a lot about the dual service offering. I wanted to get your opinion on why do you think competitors have not tried to replicate that? And just give us a little more color on how that represents kind of a point of differentiation or a competitive advantage for your business?

And then I also wanted to ask a point of clarification, if I could. When you say duplicative costs running a little north of \$600 million for the next 12 months. I just wanted to see if you could give some kind of clarity on how far north that looks like? And kind of what is the process for bringing that down? Should we expect that most of that \$600 million comes down? Where does that stabilize as we think about what the efficiency opportunity or the cost savings opportunity looks like over the next kind of 12 months or into calendar 2027?

John Smith

President and CEO, FedEx Freight

I'll start off with the dual service offering, and then I'll kick the rest of it over to Marshall. One of the

things why I believe that a lot of people, or a lot of companies, don't do the dual offering is because it is complicated, and it's very hard to get set up.

But what I will tell you, going back to the history of how FedEx Freight was built, we basically bought two regional carriers and pushed them together. Then we bought a long-haul carrier, which was running coast-to-coast. And when we merged those together, it made sense to us to have the ability to run two products within one network. And so that's where that idea was born.

When you think about how successful we've been being able to keep customers when they want and need that fastest service in the market, but also sometimes needing that cost-effective Economy, that kept the customers from switching back and forth between competitors, in our opinion. So it's not an easy thing to do. It's hard to engineer. But over the years, we've refined it, and we feel really good about going forward with this dual product.

The other piece that sometimes is tough to manage is also the rail. But we have over the years spent a lot of time with our rail partners and have negotiated the rates that are good for the Economy product as well as the speed that we also need from the train in order to hit those Economy service standards. So we feel really good about how we've evolved over the years to be able to run these two products within one network.

Marshall?

Marshall Witt

Executive Vice President and CFO, FedEx Freight

In regards to the \$600 million, I just want to be clear, the \$600 million is not duplicate costs. The expectation is that we'll run heavier than \$600 million for the next year, year and a half, it might get up to \$700 million, \$750 million, primarily due to TSAs and the transformation costs. And then we should start to see that begin to decline, improve, decrease as we exit the second half of 2027.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to John Smith for any closing remarks.

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John Smith

President and CEO, FedEx Freight

So thanks, operator. Before we end today's call, I'd like to reiterate some of our big achievements that we've hit over the last few months.

First, we've successfully launched FedEx Freight as a stand-alone company backed by a clear strategy, strong execution and a highly engaged team. Second, during the fourth quarter, we made meaningful progress across the business operationally, commercially and through technology. And we've advanced service, simplified the customer experience and strengthened our relationships all while maintaining our deep commitment to safety above all. Next, we demonstrated how our single integrated network and dual service model represent a true point of differentiation in creating a structurally advantaged platform in the LTL industry.

We established clear expectations for the path forward, demonstrating our commitment to transparency, consistency, and accountability with our new shareholder base. Finally, I want to thank all my FedEx Freight teammates that have helped drive us to get us to this point. So looking ahead, we are confident in our ability to deliver long-term value to very straightforward and clear strategy. We are creating a more efficient, resilient and customer-focused company. purpose built for the LTL market and the great customers we have the privilege to serve.

So with that, thank you for your time and continued interest in FedEx Freight. So please have a safe and a great rest of your day. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.