

FedEx Cuts Profit Forecast on \$300 Million Hit From Cyberattack

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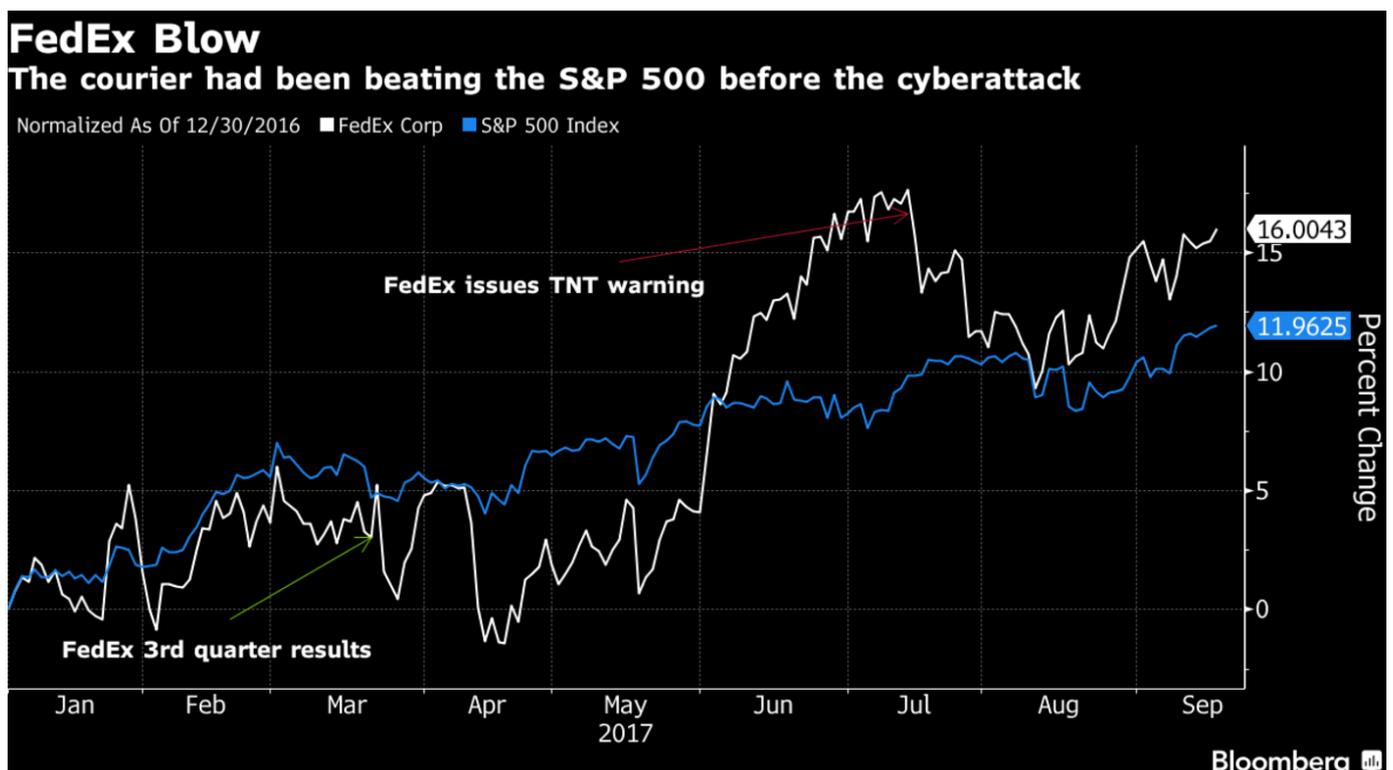
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- Courier reveals financial impact of worldwide computer virus
- Hurricane Harvey, ground unit also weigh on quarterly earnings

FedEx Corp. put a price tag on the initial impact of a worldwide [cyberattack](https://www.bloomberg.com/news/articles/2017-06-28/cyberattack-starts-causing-real-consequences-with-fedex-ports) <<https://www.bloomberg.com/news/articles/2017-06-28/cyberattack-starts-causing-real-consequences-with-fedex-ports>> that engulfed the company's TNT Express unit in Europe: \$300 million.

The blow last quarter from lost sales, stepped-up technology investments and recovery costs forced the U.S. courier to cut its annual earnings forecast. While "substantially all" of TNT's critical operating systems are working again, its package volume, revenue and profit trailed their levels before the intrusion, FedEx said.

The report provided the first revelation of the financial damage from a computer virus that slowed shipments and forced TNT to process some transactions by hand. FedEx said the performance of its ground-shipment unit in the U.S. also weighed on results in the three-month period ending Aug. 31, as did Hurricane Harvey, which caused flooding along the Gulf Coast.



“It was worse than people expected,” Logan Purk, an analyst at Edward Jones, said in an interview about the financial damage from the cyberattack. “That’s a pretty big headline number they disclosed. But at the end of the day, that’s driving essentially the earnings miss and the guidance cut. You strip that event away and I still think there’s a well-oiled machine here that still has a lot of long-term value.”

FedEx fell 1.5 percent to \$212.75 after the close of regular trading in New York.

Forecast Cut

Earnings will be a maximum of \$12.80 a share for the fiscal year ending in May, excluding certain items, FedEx said in a [statement](#) Tuesday. That was down from an original projection of as much as \$14 a share and less than the \$13.10 average of analysts’ estimates compiled by Bloomberg.

The cyberattack prompted FedEx to accelerate the process of combining TNT with its Express air-shipping unit, in an effort to reduce exposure to the Dutch business’s legacy technology systems. That means the expected \$800 million integration cost, and the process’s planned completion by the end of fiscal 2020, are subject to change.

Most TNT services were restored during the quarter that ended last month, FedEx said. The company expects “ongoing but diminishing” financial effects from reduced revenue and stepped-up investments in remedies. It is also examining insurance coverage to protect against similar assaults in the future.

FedEx acquired TNT for \$4.8 billion last year, gaining an extensive parcel-delivery system in Europe to compete with [United Parcel Service Inc.](#) and Deutsche Post AG’s DHL. The just-completed quarter was the first in which FedEx reported TNT results as part of its Express division. TNT primarily serves industrial, automotive, high-tech and health-care industries.

FedEx reaffirmed its commitment to boost operating income at the Express division, its largest business, by \$1.2 billion to \$1.5 billion by 2020 compared with the 2017 level. The Memphis, Tennessee-based company also reiterated plans for \$5.9 billion in capital spending in fiscal 2018.

E-Commerce Surge

The courier will hire more than 50,000 workers for the peak holiday shipping season, and expects deliveries to rise to another record.

At the ground division, operating margin slipped to 13.5 percent from 14.2 percent a year earlier, as the company contends with a surge in residential deliveries driven by the rise of online shopping. Shipments to homes are generally less profitable than those to businesses because fewer items are delivered at each stop.

“We are currently executing plans to mitigate the full-year impact of these issues,” FedEx Chief Financial Officer Alan Graf said in the statement.

Fiscal first-quarter profit fell to \$2.51 a share, compared with analysts’ average expectation of \$3. Sales in the period rose 4 percent to \$15.3 billion, compared with the average estimate of \$15.35 billion.

Global operations outside TNT weren’t affected by the virus, which entered the unit’s systems through tax software used in the Ukraine. FedEx said it found no evidence of a data breach or information lost to third

parties.

FedEx also was among companies hit by the WannaCry ransomware in May, although it said that attack didn't cause a material disruption to its systems or raise operating costs. Companies around the world struggled to retake control <https://www.bloomberg.com/news/articles/2017-06-28/cyberattack-reaches-asia-as-new-targets-hit-by-ransomware-demand> of their networks after the intrusions, which [cost them https://www.bloomberg.com/news/articles/2017-08-03/europe-s-cyber-victims-racking-up-hundreds-of-millions-in-costs](https://www.bloomberg.com/news/articles/2017-08-03/europe-s-cyber-victims-racking-up-hundreds-of-millions-in-costs) hundreds of millions in potential revenue.