

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol.

United Parcel Service, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Gary Chase - Barclays Capital.

Gary Chase – Barclays Capital

Just a couple on the progression from the first quarter into the second, how would you define what the biggest challenge was? Has it been the weight erosion to the quarter, because it looks like volumes came about in line with where you thought towards the bottom end of the range? At one point you thought this second quarter would look up relative to the first. So it feels like something sequentially changed as you moved through the quarter. Was that just the weight issue or was there more to it?

Kurt Kuehn

Really, Gary, the trends across the first quarter were fairly stable. January there was some challenges with weather. It's a little noisy because the Easter holiday had a much bigger impact in the first quarter last year whereas it'll hit the second quarter this year. So all in all, domestic trends I would characterize as very low but fairly stable.

We do think the economic statistics will show a slight decline from Q1 to Q2, although the rate of rapid decline clearly seems to be stabilizing. So the Easter impact puts a little bit of a headwind into Q2 versus Q1 and that's really the major difference and why we think Q2 will be modestly more challenging than Q1.

Scott Davis

Now the industrial production numbers, Gary, were obviously horrible in the first quarter and while clearly the declines won't be nearly as bad in the second quarter, we still expect them to decrease. Whenever industrial production decreases, it will continue to challenge the weight of our packages which does put pressure on us.

Kurt Kuehn

Gary, one other comment I guess is, as I mentioned in my prepared remarks, we did complete a \$2 billion bond issuance late in March and we're very pleased with the coupon rates we got, but we are going to see going from 30 or 40 basis points with the very attractive commercial paper rates a 400 plus basis point increase and interest expense on that. So that alone adds another \$25 million or so expense on the P&L side, although, clearly it locks in some great rates for a long time.

Gary Chase – Barclays Capital

Okay, then if you just look at the line items that, the cost line items that weren't effected by fuel, so you take out purchase transportation and obviously fuel expense, looks like those were down somewhere in the 5% to 7% range on a revenue decline of 13%, 14%, how far through the cost reduction process are you and what might that look like as you have more time to address this?

Copyright © 2009 CBS Interactive, Inc. All Rights Reserved.