

Insider Sentiment Mixed at FedEx

By CATHERINE SHU

ONE OF FEDEX'S TOP EXECUTIVES sold \$3 million worth of the company's shares last week, but other insiders have been acquiring shares of the overnight parcel and mail delivery service in recent months.

David J. Bronczek, the chief executive officer and president of FedEx Express, one of the Memphis, Tenn.-based FedEx's four divisions, sold 27,280 shares for a total of \$3 million, or about \$110 each a share, on Sept. 27.

Bronczek now holds 83,609 shares or less than 1% of FedEx's 306.5 million outstanding shares. He also holds 415,856 options.

But Jonathan Moreland, director of research at InsiderInsights.com, says that he finds the exercising and holding of options by five other FedEx insiders in the past two months "more intriguing" than Bronczek's open-market selling.

From Aug. 2 to Sept. 29, the five insiders exercised and held onto a total of 14,788 shares with a total market value of \$492,359. FedEx directors Judith Estrin, Joseph R. Hyde and Philip Greer each exercised 4,000 shares for strike prices of \$20.03.

Executive vice president Robert B. Carter exercised 929 shares for \$53.77 each, while Daniel J. Sullivan, chief executive officer of FedEx Ground, exercised 1,859 shares, also for \$53.77 each.

"They are not just taking risk-free profits [from their options] and going home with it, which is the normal activity that you see," says Moreland, "They are letting those shares vacillate with the vagaries of the market."

Moreland also notes that Bronczek was a consistent seller of FedEx shares even as the stock price was steadily climbing to an all-time intraday high of \$120.01 on May 5.

On Dec. 22, 2005, Bronczek sold 123,820 shares, when the stock was trading at about \$104. Earlier that year, he had sold 40,000 shares on July 25 when the stock was trading at about \$84.

"[Bronczek] has been a seller all the way up for the past few years," says Moreland, "There's no reason why I would suddenly look at this trade and see it as a sign of the top" for the stock price.

A spokesman for FedEx said that the company does not comment on executives' purchases and sales of shares and options.

On Sept. 21, AG Edwards analyst Donald Broughton maintained a Buy rating and \$129 price objective on FedEx shares after the company raised its 2007 guidance and reported first-quarter earnings that beat the consensus estimate by one cent.

In his research note, Broughton highlighted continued market share gains in FedEx's Ground and Freight divisions.

"Continued gains in market share in Ground is driving not only outsized gains for that division, but also improving yields for domestic express as the mixture of customers includes more small shippers," he wrote.

BB&T Capital Markets analyst John L. Barnes also sounded upbeat notes about the company's prospects on Sept. 22.

"Declining fuel prices, a projected decline in legal expenses at Ground and steady economic growth should allow FedEx to continue to drive strong top-line growth and margin improvement over the next two-to-three quarters and longer-term," wrote Barnes, who reiterated a Buy rating and \$130 price target on the shares.

Deutsche Bank analyst Jordan Alliger, however, maintained a Hold rating and \$117 price target on Sept. 21, noting that FedEx Ground's operating margin was weaker-than-expected due to legal expenses stemming from litigation over the independent contractor status of the company's drivers.

The legal costs "have the potential to be a drag on near-term margin expansion (albeit at a diminishing rate), as the litigation has not likely full played itself out," Alliger wrote.

While Michael Painchaud, director of research at Market Profile Theorems, says that the negative impact of Bronczek's sell is mitigated by the exercising of options by other insiders, his firm's rating on FedEx shares has nonetheless dropped to a Neutral from a Buy based on insider sentiment alone.

"If a portfolio manager has [a holding of FedEx stock] in their portfolio, we would not recommend adding to it this month," says Painchaud.