**NEW RISK ALERT: (FDX)**

# FedEx to Pay Interest on Money It Does Not Borrow

Latest 10-Q reveals terms of new credit agreements that force logistics company to pay on undrawn revolvers, but greenlights share buybacks and dividend hikes.

*By Nick Winkler*
March 19, 2021

*This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.*

## FedEx to Pay Interest on Undrawn Credit Facilities

Two days prior to reporting Q3 FY21 earnings, FedEx, a package delivery firm, entered into two new or amended credit agreements with a syndicate of banks and other financial institutions. The agreements— a $2 billion 5 year deal and a 364 day $1.5 billion deal— include unsecured multi-currency revolvers and letters of credit.

In its latest 10-Q, FedEx disclosed it will pay interest on on money it doesn't borrow— the undrawn portion of both revolvers:

> *"FedEx will also pay commitment fees on the average daily undrawn amount of the facilities."*

The margin on the commitment fees will vary depending on FedEx's senior unsecured non-credit-enhanced long-term debt ratings:

> *"For example, based upon FedEx's current ratings of BBB (Standard & Poor's) and Baa2 (Moody's Investors Service), the applicable margin for ABR Loans would be 0.25%, the applicable margin for Eurodollar Loans would be 1.25%, and **the applicable commitment fee rate would be 0.125% per year on undrawn commitments under the Five-Year Credit Agreement and 0.10% under the 364-Day Credit Agreement.**"*

FedEx will also pay interest on the letters of credit regardless of whether they are used:

> *"In addition, FedEx will pay the issuing banks a fronting fee of 0.125% per year on the undrawn and unexpired amount of each issued Letter of Credit."*

The agreements require FedEx to maintain a total debt/EBITDA ratio (not counting retirement plan, penson, or impairment charges of course) of no more than 3.5 to 1. Despite having to pay interest on money it doesn't borrow, FDX shareholders will likely cheer the deal. The new credit agreements no longer prevent the company from repurchasing its own shares or raising the quarterly dividend above $0.65 as the old agreements— made during pandemic lockdowns and travel restrictions— did.