United States Postal Service
INDUSTRY ALERT

August 10, 2017

# U.S. Postal Service Reports Fiscal Year 2017 Third Quarter Results

- *Revenue of $16.7 billion, essentially flat compared to third quarter last year excluding prior year change in accounting estimate*
- *Urgent need remains for postal reform legislation and regulatory relief in addition to continuing management initiatives*

**WASHINGTON** — The U.S. Postal Service reported revenue of $16.7 billion for the third quarter of fiscal year 2017 (April 1, 2017 - June 30, 2017). Revenue for the quarter was essentially unchanged compared to the same quarter last year, excluding the effect of a $1.1 billion non-cash change in accounting estimate recognized during the third quarter of fiscal year 2016.

Revenue from First-Class Mail and Marketing Mail decreased $422 million and $150 million, respectively, over the prior year quarter, due largely to lower volumes. These declines in revenue for these products were nearly offset by continued growth in the lower-margin Shipping and Packages business, with third quarter revenue increasing $473 million, or 11.3 percent, in that part of the Postal Service's business.

Operating expenses for the quarter were $18.8 billion, a decrease of $461 million, or 2.4%, compared to the prior year quarter. Expenses for retiree health benefits and workers compensation declined by $869 million and $1.0 billion, respectively, but were partially offset by $1.2 billion in higher retirement expenses largely driven by changes in Office of Personnel Management actuarial assumptions and interest rates.

The Postal Service reported a net loss for the quarter of $2.1 billion, an increase in net loss of $573 million, compared to the same quarter last year. Controllable loss for the quarter was $587 million, an increase in controllable loss of $35 million, driven by higher transportation costs.

“The growth in our lower-margin package business is not sufficient to make up for the accelerating mail volume declines," said Postmaster General and CEO Megan J. Brennan. “Our financial situation is serious, but solvable. The continuation of aggressive management actions, and legislative and regulatory reform, will return us to financial stability and enable the Postal Service to maintain the long-term affordability of mail, invest in America’s mailing and shipping industry, and best serve the American public."

The Postal Service continues to engage with stakeholders to advance H.R. 756, the Postal Service Reform Act of 2017, through the legislative process in the 115th Congress. The Postal Service's long-term financial stability also depends on the Postal Regulatory Commission establishing a new pricing system that enables the organization to generate sufficient revenues to cover its costs.

In the third quarter, letter mail volumes declined by approximately 1.4 billion pieces, or approximately 4%, while package volumes grew by 133 million pieces, or approximately 11%, continuing a multi-year trend of declining letter mail volumes and increasing package volume. Year-to-date, despite growth in package volume, overall volume has declined by more than 3 billion pieces.

“The volume declines in mail are expected to continue due to the ongoing migration from mail toward electronic communication and transaction alternatives," said Chief Financial Officer and Executive Vice President, Joseph Corbett. "To address this trend, we have focused on innovations, including mobile and digital strategies, to improve the value of mail. We must also continue to focus on reducing expenses and improving efficiencies, including adjusting employee staffing and scheduling to match the changing workload."

**FY 2017 Third Quarter Operating Revenue and Volume by Service Category Compared to Last Year**

The following presents revenue and volume by service category for the three months ended June 30, 2017, and 2016:

| *(revenue in $ millions; volume in millions of pieces)* | Revenue | | Volume | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Service Category** | | | | |
| First-Class Mail | $ 6,057 | $ 6,479 | 13,904 | 14,606 |
| Marketing Mail | 3,919 | 4,069 | 18,447 | 19,115 |
| Shipping and Packages | 4,656 | 4,183 | 1,348 | 1,215 |
| International | 657 | 618 | 254 | 225 |
| Periodicals | 347 | 370 | 1,363 | 1,427 |
| Other | 1,029 | 918 | 109 | 116 |
| **Total before estimate** | **$ 16,665** | **$ 16,637** | **35,425** | **36,704** |
| Change in accounting estimate | $ — | $ 1,061 | — | — |
| **Total revenue and volume** | **$ 16,665** | **$ 17,698** | **35,425** | **36,704** |

**Third Quarter 2016 Change in Accounting Estimate**
During the third quarter of fiscal year 2016, the Postal Service revised the estimation technique utilized to determine its *Deferred revenue-prepaid postage* liability for a series of postage stamps. The change resulted from new information regarding customers’ retention and usage habits of *Forever Stamps*, and enabled the Postal Service to update its estimate of usage and “breakage” (representing stamps that will never be used for mailing due to loss, damage or stamp collection).

As a result of this change in estimate, the Postal Service recorded a decrease in its *Deferred revenue-prepaid postage* liability as of June 30, 2016, which caused an increase in revenue and decrease in net loss of $1.1 billion for the third quarter of fiscal year 2016. This change in accounting estimate resulted in a non-cash adjustment that does not impact the Postal Service's available cash or access to cash and does not affect its controllable loss.

**Selected FY 2017 Third Quarter Results of Operations**
This news release references *operating revenue before the change in accounting estimate*, which is not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP).

The following table reconciles these non-GAAP operating revenue calculations with GAAP net loss for the three months ended June 30, 2017, and 2016:

| *(results in $ millions)* | | 2017 | | 2016 |
|---|---|---|---|---|
| **Operating revenue before change in accounting estimate** | **$** | **16,665** | **$** | **16,637** |
| Change in accounting estimate* | | — | | 1,061 |
| **Total operating revenue** | **$** | **16,665** | **$** | **17,698** |
| Other revenue | | 10 | | 20 |
| **Total revenue** | **$** | **16,675** | **$** | **17,718** |
| **Total operating expenses** | **$** | **18,776** | **$** | **19,237** |
| Interest and investment income (expense), net | | (39) | | (48) |
| **Net loss** | **$** | **(2,140)** | **$** | **(1,567)** |

* The Postal Service recognizes revenue for postage when a piece of mail is processed and delivered, not at the time a stamp is sold and cash is received. To reflect the difference in revenue and cash received, management estimates the amount of postage stamps sold but not yet used and this amount is recorded as a *deferred revenue-prepaid postage* liability. This update relates solely to changes in estimates of consumer behavior and, in accordance with GAAP, the adjustment is considered a change in accounting estimate.

**Controllable Loss**

This news release references *controllable loss*, which is not calculated and presented in accordance with GAAP. Controllable income (loss) is a non-GAAP financial measure defined as net income (loss) adjusted for items outside of management's control and non-recurring items. These adjustments include workers' compensation expenses caused by actuarial revaluation and discount rate changes, PSRHBF prefunding expenses, the amortization of PSRHBF, CSRS and FERS unfunded liabilities, and the change in accounting estimate.

The following table reconciles the Postal Service's GAAP net loss of $2.1 billion for the quarter to controllable loss and illustrates the loss from ongoing business activities without the impact of non-controllable and non-recurring items for the three months ended June 30, 2017, and 2016:

| *(in $ millions)* | | 2017 | | 2016 |
|---|---|---|---|---|
| **Net loss** | **$** | **(2,140)** | **$** | **(1,567)** |
| PSRHBF supplemental unfunded liability expense[1] | | 332 | | — |
| PSRHBF prefunding fixed amount[2] | | — | | 1,450 |
| Change in workers' compensation liability resulting from fluctuations in discount rates | | 258 | | 668 |
| Other change in workers' compensation liability[3] | | (676) | | (102) |
| Change in accounting estimate[4] | | — | | (1,061) |
| CSRS supplemental unfunded liability expense[5] | | 691 | | — |
| FERS supplemental unfunded liability expense[6] | | 553 | | 60 |
| Change in normal cost of retiree health benefits due to revised actuarial assumptions[7] | | 395 | | — |
| **Controllable loss** | **$** | **(587)** | **$** | **(552)** |

[1] Expense for the accrual for the $955 million annual payment due by September 30, 2017, on the unfunded liability of $19.8 billion as provided by OPM. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate.

[2] Expense for the accrual for the $5.8 billion annual prefunding payment to the PSRHBF due on September 30, 2016, which the Postal Service defaulted on.
[3] Net amounts include changes in assumptions, as well as the valuation of new claims and revaluation of existing claims, less current year claim payments.
[4] This change in accounting estimate relates solely to changes in estimates of stamp usage and breakage for *Forever Stamps* sold from 2011 through June 30, 2016, reflected as a decrease in the *Deferred revenue-prepaid postage* liability as of June 30, 2016.
[5] Expense for the accrual for the $1.7 billion annual payment due by September 30, 2017, based on OPM's invoice, to amortize the $26.9 billion unfunded CSRS retirement obligation as of September 30, 2016, the date of the most recent available information. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate. Payments are to be made in equal installments beginning in 2017 through 2043.
[6] Expense for the accrual for the estimated 2017 payment amount of approximately $900 million due September 30, 2017, based on actuarial valuations and assumptions, to amortize the estimated unfunded FERS retirement obligation as of September 30, 2016. This estimate is based on the September 30, 2015, liability, the most recent available information. This amount includes an adjustment to reflect the increase in the Postal Service's estimate as compared to OPM's previous estimate. Payments are to be made in equal installments through 2046.
[7] Represents the accrual for the $527 million portion of the normal cost payment due September 30, 2017, attributable to revised actuarial assumptions and discount rate changes. The total normal cost payment amount is $3.3 billion, based on OPM's July 30, 2017, invoice.

Complete financial results are available in the Form 10-Q, available at http://about.usps.com/who-we-are/financials/welcome.htm.

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

# # #