Expeditors International of Washingtion Inc. (EXPD)

Updated January 26th, 2020 by Felix Martinez

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	1.9%	**Market Cap:**	$13.0B
Fair Value Price:	$62	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/29/20[1]
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	6/15/20
Dividend Yield:	1.4%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	25
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	11.1%

Overview & Current Events

Expeditors is a global logistics company headquartered in Seattle, Washington. The company was founded in 1979 as a single office ocean forwarder in Seattle. The company was publicly traded by 1984. Expeditors' services include the consolidation or forwarding of air and ocean freight, customs brokerage, vendor consolidation, cargo insurance, time-definite transportation services, order management, warehousing and distribution, and customized logistics solutions. Currently, the company has over 250 locations and a ~18,000 employees worldwide. In 2018, the company reported $8,138 million in revenue. Expeditors has a market capitalization of $13.0 Billion, and the company has been growing its dividend for 25 consecutive years. The company is now part of the exclusive Dividend Aristocrats.

On November 5, 2019, the company reported third-quarter earnings. Reported revenues for 3Q19 were $2.07 billion, which was a 1% decline vs. 3Q18. Revenue is up 4% for the first nine months of fiscal 2019 versus 2018. Net earnings saw similar results. For the quarter, net earnings were -5% lower than 3Q18, $160.6 million vs $163.1 million. But earnings did grow by 3.2% over the first nine months FY19 versus the same period a year ago. Management explained that the decrease in both revenue and net earnings were the result of lower volumes in both air and ocean products. Expeditors saw challenges in *"terms of growth in the global economy and ongoing trade disputes that extend well beyond just the United States and China"* said CEO Jeffrey S. Musser.

Earnings-per-share (EPS) were $0.94 for the quarter, which is flat year-over-year, but EPS did grow 5.6% for the first nine-month of FY19 from $2.51 in 9M18 to $2.65 in 9M19. The company recently release Q4 earnings guidance for EPS to be in the range between $0.78 and $0.81. We will use the midpoint of that estimate for our calculations. This gives us expected EPS of $3.45 for the full fiscal year 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.11	$1.59	$1.79	$1.57	$1.68	$1.92	$2.40	$2.36	$2.69	$3.48	***$3.45***	***$4.20***
DPS	$0.38	$0.40	$0.50	$0.56	$0.60	$0.64	$0.72	$0.80	$0.84	$0.90	***$1.00***	***$1.40***
Shares[2]	217.0	216.0	215.0	212.0	207.0	197.0	190.0	182.0	182.0	178.0	***175.0***	***165.0***

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 13.5%. It has slowed down to a 12.4% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down as well to about 4% for the foreseeable future.

Net margin has been expending, from 7.07% in FY 2017 to 7.60% in FY 2018. However, trailing twelve months (TTM) profit margin is 7.56%. Expeditors has slowed down on its share buybacks from 7.8 million shares brought in 9M18 to 4.1 million shares brought in 9M19.

Expeditors has grown its dividend for 25 consecutive years with a 10-year dividend growth rate of 10.2% and a five-year growth rate of 9.3%. We estimate future dividend growth of 7% because of the earnings slow down. The company pays out dividend semi-annually.

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[1] Ex-dividend date and dividend payment date are estimates.

[2] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	28.7	26.3	26.6	25.2	24.3	22.1	19.7	20.9	23	20	***21.5***	***18.0***
Avg. Yld.	1.2%	1.0%	1.0%	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	***1.4%***	***1.6%***

Shares of the company have always demanded a high P/E multiple, averaging 23.7 for the past ten years. However, we will be using a PE of 18.0 for our fair value estimate due to slower growth expected moving forward. With that said, the company has a current PE if 21.5 based on our FY 2019 EPS estimate of $3.45. This is slightly above the EXPD 5-year average PE of 21.1. The dividend yield is right on with the past 10-year dividend yield average of 1.4%. While the dividend yield is not spectacular, it is very well covered with the tendency to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
Payout	34.2%	25.2%	27.9%	35.7%	35.7%	33.3%	30.0%	33.9%	31.2%	25.9%	***29%***	***33%***

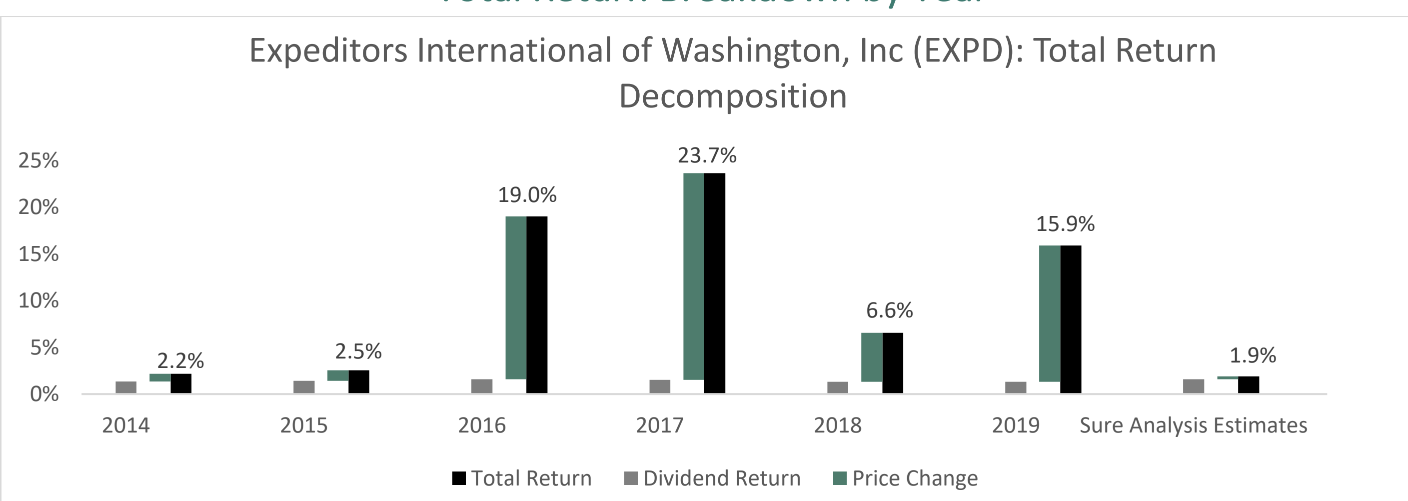
During the Great Recession, the company saw a decrease in earnings of 19% from $1.37 in 2008 to $1.11 in 2009. However, EPS bounced right back up to $1.59 in 2010. The company also grew its dividend during that period. There have been times when EPS came in lower than the previous year, like in 2012, 2016, and expected EPS for 2019, but Expeditors made adjustments and continued to grow. EXPD has a strong balance sheet with a debt to equity ratio of only 0.53, which is lower than the 0.66 debt to equity ratio that the company reported for the third quarter report of FY 2018. The dividend is very safe; the dividend payout ratio has not passed 36% for the past ten years.

Expeditor's competitive advantage is the global footprint, and an extensive network of shippers and carriers which produce a robust value that would be challenging to replicate for new entrants.

Final Thoughts & Recommendation

Expeditors has a long history of growing earnings and dividends. The company is expected to continue to grow its earnings for the foreseeable future as well as its dividend, but the high valuation means we expect anemic total returns of 1.9% ahead. Thus, we rate EXPD as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	$4,092	$5,968	$6,162	$5,992	$6,080	$6,565	$6,617	$6,098	$6,921	$8,138
Gross Profit	$1,383	$685	$783	$702	$704	$764	$896	$851	$883	$1,020
Gross Margin	33.8%	11.5%	12.7%	11.7%	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%
SG&A Exp.	$875	$32	$39	$34	$33	$38	$42	$42	$44	$45
D&A Exp.	$42	$37	$37	$40	$48	$49	$46	$47	$49	$54
Operating Profit	$468	$547	$618	$531	$552	$595	$721	$670	$700	$797
Operating Margin	11.4%	9.2%	10.0%	8.9%	9.1%	9.1%	10.9%	11.0%	10.1%	9.8%
Net Profit	$240	$344	$386	$333	$349	$377	$457	$431	$489	$618
Net Margin	5.9%	5.8%	6.3%	5.6%	5.7%	5.7%	6.9%	7.1%	7.1%	7.6%
Free Cash Flow	$296	$353	$379	$323	$354	$330	$522	$470	$394	$525
Income Tax	$162	$220	$252	$217	$223	$231	$277	$254	$228	$199

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	$2,324	$2,679	$2,867	$2,954	$3,015	$2,891	$2,566	$2,791	$3,117	$3,315
Cash & Equivalents	$926	$1,084	$1,294	$1,261	$1,248	$927	$808	$974	$1,051	$924
Accounts Receivable	$810	$1,004	$935	$1,031	$1,074	$1,236	$1,112	$1,190	$1,415	$1,582
Goodwill & Int. Ass.	$13	$12	$8	$8	$8	$8	$8	$8	$8	$8
Total Liabilities	$762	$931	$857	$922	$928	$1,019	$871	$944	$1,123	$1,327
Accounts Payable	$547	$652	$607	$642	$648	$770	$645	$727	$866	$902
Long-Term Debt	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Shareholder's Equity	$1,553	$1,741	$2,004	$2,028	$2,085	$1,868	$1,692	$1,845	$1,992	$1,987

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	10.9%	13.8%	13.9%	11.5%	11.7%	12.8%	16.8%	16.1%	16.6%	19.2%
Return on Equity	16.5%	20.9%	20.6%	16.5%	16.9%	19.1%	25.7%	24.4%	25.5%	31.1%
ROIC	16.3%	20.8%	20.5%	16.5%	16.9%	19.0%	25.6%	24.3%	25.5%	31.0%
Shares Out.	216.5	216.4	215.0	211.9	206.9	196.8	190.2	182.7	181.7	177.8
Revenue/Share	$18.90	$27.57	$28.65	$28.27	$29.39	$33.36	$34.78	$33.38	$38.10	$45.76
FCF/Share	$1.37	$1.63	$1.76	$1.52	$1.71	$1.68	$2.75	$2.57	$2.17	$2.95

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Shares outstanding is in millions.