



Expeditors International of Washington Inc. (EXPD)

Updated December 22nd, 2020 by Felix Martinez

Key Metrics

Current Price:	\$95	5 Year CAGR Estimate:	1.5%	Market Cap:	\$15.9B
Fair Value Price:	\$72	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/29/21 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	06/15/21 ²
Dividend Yield:	1.1%	5 Year Price Target	\$96	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	4%

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 ~18,000 employees worldwide. In 2019, the company reported \$8,175 million in revenue. The company has a market capitalization of \$15.9 Billion, and the company has been growing its dividend for 26 consecutive years. The company is also part of the exclusive Dividend Aristocrats, which are companies that have increased their dividends for 25 years or more.

On November 03, 2020, the company reported third-quarter earnings and the nine-month of Fiscal Year FY(2020). Revenues saw a significant increase of 19%, from \$2.07 billion in 3Q19 to \$2.5 billion this quarter. Revenue is up 13% for the nine months of FY2020. Net income was up as well. The company reported a \$191 million net income for the quarter, which is up 19% compared to 3Q19. For the nine months, net income is up 10%. The Airfreight services segment did all the heavy lifting has the other two segments lag behind YoY. The air market has seen a considerable increase in air capacity because the demand for shipping technology-related equipment, medical equipment, supplies, and other priority goods has increased substantially. Operating income also increased from \$207 million to \$252 million for the quarter, or an increase of 22%. It is also up 12% for the nine months compared to the nine months of 2019. Diluted Net Earnings per share (EPS) increased by 22% to \$1.12 from \$0.92 last year's third quarter and up 12% for the nine months from \$2.60 to now \$2.92.

The COVID-19 pandemic affected the company as Airfreight tonnage volume decreased 5%, and ocean container volume decreased 5% Year over Year (YoY). The company saw a significant decline in shipments from customers in retail, aerospace, automotive, and oil and energy sectors.

Consensus estimates that the company will earn \$3.99 for the full year 2020, increasing from \$3.69 since the last report, which increased by 8%. Thus, we will use \$3.99 EPS as our valuation calculation.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.59	\$1.79	\$1.57	\$1.68	\$1.92	\$2.40	\$2.36	\$2.69	\$3.48	\$3.39	\$3.99	\$5.34
DPS	\$0.40	\$0.50	\$0.56	\$0.60	\$0.64	\$0.72	\$0.80	\$0.84	\$0.90	\$1.00	\$1.04	\$1.33
Shares³	216.0	215.0	212.0	207.0	197.0	190.0	182.0	182.0	178.0	174.0	167.0	167.0

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 8.8%. It has increased slightly to 10.7% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down to about 6% for the foreseeable future.

¹ Estimate Date

² Estimate Date

³ Shares count 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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Net margin has compressed slightly from 7.6% in FY2018 to 7.3% in FY2019. The company cash and cash equivalents increased from \$1.23 billion to now \$1.47 billion, or 19% increase. EXPD has grown its dividend for 26 consecutive years, with a 10-year dividend growth rate of 10.7% and a five-year growth rate of 7.6%. The company increased its dividend by 4% from \$0.50 to now \$0.52. This was announced on May 6. We estimate future dividend growth of 5% because of the earnings slow down. The company pays out dividends semi-annually.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	26.3	26.6	25.2	24.3	22.1	19.7	20.9	23	20	23	23.7	18.0
Avg. Yld.	1.0%	1.0%	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	1.4%

The company's shares have always demanded a high P/E multiple, averaging 23.1 for the past ten years. However, we will be using a PE of 18.0 for our fair value estimate due to the slower growth expected moving forward. With that said, the company has a current PE of 23.7, which is based on our FY 2020 EPS estimate of \$3.99. This is higher than EXPD 5-year average PE of 21.3. The current dividend yield of 1.1% is lower than the past 10-year dividend yield average of 1.4%. While the dividend yield is not spectacular, it is very well covered with a payout ratio of 26% and 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	25.2%	27.9%	35.7%	35.7%	33.3%	30.0%	33.9%	31.2%	25.9%	29.5%	26%	25%

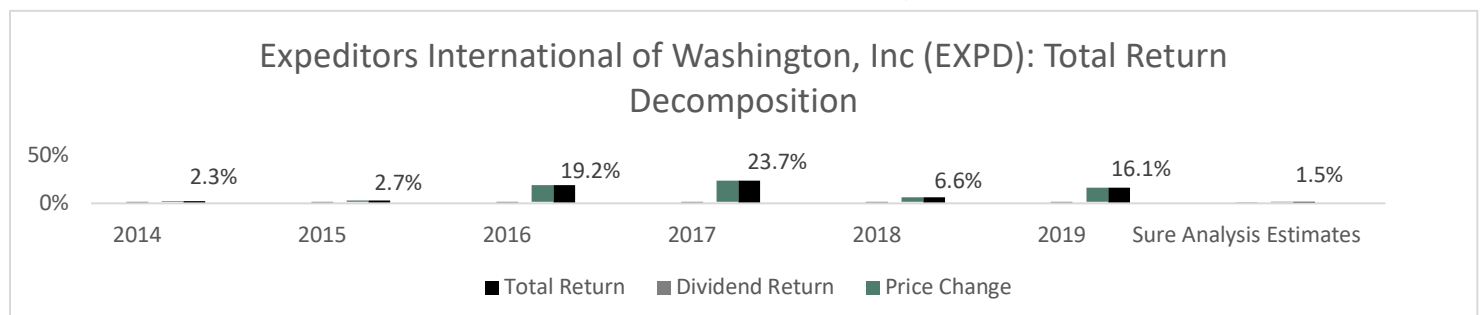
During the Great Recession, the company saw a decrease of 19% in earnings from \$1.37 in 2008 to \$1.11 in 2009. However, EPS bounced right back up to \$1.59 in 2010. The company also grew its dividend during that period. There have been times when EPS came in lower than the previous year, like in 2012, 2016, and 2019. However, Expeditors made adjustments and continued to grow earnings. EXPD has a strong balance sheet with a debt to equity ratio of only 0.2, which is a lot lower than the 0.57 debt to equity ratio that the company reported for the last quarter. The dividend is very safe; the dividend payout ratio has not passed 36% for the past ten years. Using Free Cash Flow, the company has a dividend payout of only 26%, which means that the dividend is very well covered with Free Cash Flow.

Expeditors' 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 have a long history of growing earnings and dividends. The company is expected to continue to grow its earnings for the foreseeable future and its dividend. However, the high valuation means we expect weak total returns of 1.5% at the current valuation. Thus, we rate EXPD as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	\$5,968	\$6,162	\$5,992	\$6,080	\$6,565	\$6,617	\$6,098	\$6,921	\$8,138	\$8,175
Gross Profit	\$685	\$783	\$702	\$704	\$764	\$896	\$851	\$883	\$1,020	\$997
Gross Margin	11.5%	12.7%	11.7%	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%
SG&A Exp.	\$32	\$39	\$34	\$33	\$38	\$42	\$42	\$44	\$45	\$44
D&A Exp.	\$37	\$37	\$40	\$48	\$49	\$46	\$47	\$49	\$54	\$51
Operating Profit	\$547	\$618	\$531	\$552	\$595	\$721	\$670	\$700	\$797	\$767
Operating Margin	9.2%	10.0%	8.9%	9.1%	9.1%	10.9%	11.0%	10.1%	9.8%	9.4%
Net Profit	\$344	\$386	\$333	\$349	\$377	\$457	\$431	\$489	\$618	\$590
Net Margin	5.8%	6.3%	5.6%	5.7%	5.7%	6.9%	7.1%	7.1%	7.6%	7.2%
Free Cash Flow	\$353	\$379	\$323	\$354	\$330	\$522	\$470	\$394	\$525	\$725
Income Tax	\$220	\$252	\$217	\$223	\$231	\$277	\$254	\$228	\$199	\$204

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	\$2,679	\$2,867	\$2,954	\$3,015	\$2,891	\$2,566	\$2,791	\$3,117	\$3,315	\$3,692
Cash & Equivalents	\$1,084	\$1,294	\$1,261	\$1,248	\$927	\$808	\$974	\$1,051	\$924	\$1,230
Accounts Receivable	\$1,004	\$935	\$1,031	\$1,074	\$1,236	\$1,112	\$1,190	\$1,415	\$1,582	\$1,315
Goodwill & Int. Ass.	\$12	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8
Total Liabilities	\$931	\$857	\$922	\$928	\$1,019	\$871	\$944	\$1,123	\$1,327	\$1,495
Accounts Payable	\$652	\$607	\$642	\$648	\$770	\$645	\$727	\$866	\$902	\$736
Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Shareholder's Equity	\$1,741	\$2,004	\$2,028	\$2,085	\$1,868	\$1,692	\$1,845	\$1,992	\$1,987	\$2,195

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.8%	13.9%	11.5%	11.7%	12.8%	16.8%	16.1%	16.6%	19.2%	16.9%
Return on Equity	20.9%	20.6%	16.5%	16.9%	19.1%	25.7%	24.4%	25.5%	31.1%	28.2%
ROIC	20.8%	20.5%	16.5%	16.9%	19.0%	25.6%	24.3%	25.5%	31.0%	28.2%
Shares Out.	216.4	215.0	211.9	206.9	196.8	190.2	182.7	181.7	177.8	174.0
Revenue/Share	\$27.57	\$28.65	\$28.27	\$29.39	\$33.36	\$34.78	\$33.38	\$38.10	\$45.76	\$46.93
FCF/Share	\$1.63	\$1.76	\$1.52	\$1.71	\$1.68	\$2.75	\$2.57	\$2.17	\$2.95	\$4.16

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

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