



Expeditors International of Washington Inc. (EXPD)

Updated March 28th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$108	5 Year CAGR Estimate:	-1.7%	Market Cap:	\$18.2 B
Fair Value Price:	\$76	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/29/21 ¹
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.7%	Dividend Payment Date:	06/15/21 ²
Dividend Yield:	1.0%	5 Year Price Target	\$93	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 ~17,500 employees worldwide. In 2020, the Company reported \$10.1 billion in revenue. The Company has a market capitalization of \$18.2 Billion, and the Company has been growing its dividend for 26 consecutive years. The Company is also part of the exclusive Dividend Aristocrats list, which are companies that have increased their dividends for 25 years or more.

On February 16, 2021, EXPD reported fourth-quarter and full Fiscal Year (FY)2020 earnings. Revenues saw a significant increase of 55%, from \$2.04 billion in 4Q19 to \$3.2 billion last quarter. Revenue is also up 24% for the entire year of 2020. The Company moved more freight in the fourth quarter than in any other quarter in its history. Net income was up as well. EXPD reported a \$198 million net income for the quarter, up 45% compared to 4Q19. For the full year, net income is up 18%. 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 \$180 million to \$282 million for the quarter or an increase of 56%.

It is also up 23% for the year compared to 2019. Diluted Net Earnings per share (EPS) increased by 47% to \$1.16 from \$0.79 last year's fourth quarter. Also, earnings are up 20% for the entire year from \$3.39 per share in 2019 to now \$4.07 per share.

Consensus estimates that the Company will earn \$4.24 per share for the full year 2021, which is an increase of 4.2%. Thus, we will use \$4.24 EPS as our valuation calculation.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.79	\$1.57	\$1.68	\$1.92	\$2.40	\$2.36	\$2.69	\$3.48	\$3.39	\$4.07	\$4.24	\$5.16
DPS	\$0.50	\$0.56	\$0.60	\$0.64	\$0.72	\$0.80	\$0.84	\$0.90	\$1.00	\$1.04	\$1.07	\$1.30
Shares³	215.0	212.0	207.0	197.0	190.0	182.0	182.0	178.0	174.0	171.0	171.0	171.0

Over the past ten years, the Company has seen earnings grow at a compound annual growth rate (CAGR) of 9.6%. It has increased slightly to 12.4% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down to about 4% for the foreseeable future.

Net margin has compressed slightly from 7.2% in FY2019 to 6.9% in FY2020. The Company's cash and cash equivalents increased from \$1.23 billion in 2019 to now \$1.5 billion, or a 24% increase. EXPD has grown its dividend for 26 consecutive years, with a 10-year dividend growth rate of 8.5% and a five-year growth rate of 6%. EXPD increased its

¹ Estimate Date

² Estimate Date

³ Shares count in millions.

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dividend by 4% from \$0.50 per share to now \$0.52 per share. This was announced on May 6, 2020. We estimate future dividend growth to be 4% because of the earnings slow down. The Company pays out dividends semi-annually.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	26.6	25.2	24.3	22.1	19.7	20.9	23	20	23	23.4	25.4	18.0
Avg. Yld.	1.0%	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	1.0%	1.4%

EXPD shares have always demanded a high P/E multiple, averaging 22.8 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 25.4, which is based on our FY 2021 EPS estimate of \$4.24. This is higher than its own 5-year average PE of 22.1. Thus, EXPD looks overvalued at the current price. The current dividend yield of 1.0% 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 25% and the tendency to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	27.9%	35.7%	35.7%	33.3%	30.0%	33.9%	31.2%	25.9%	29.5%	25.6%	25%	25%

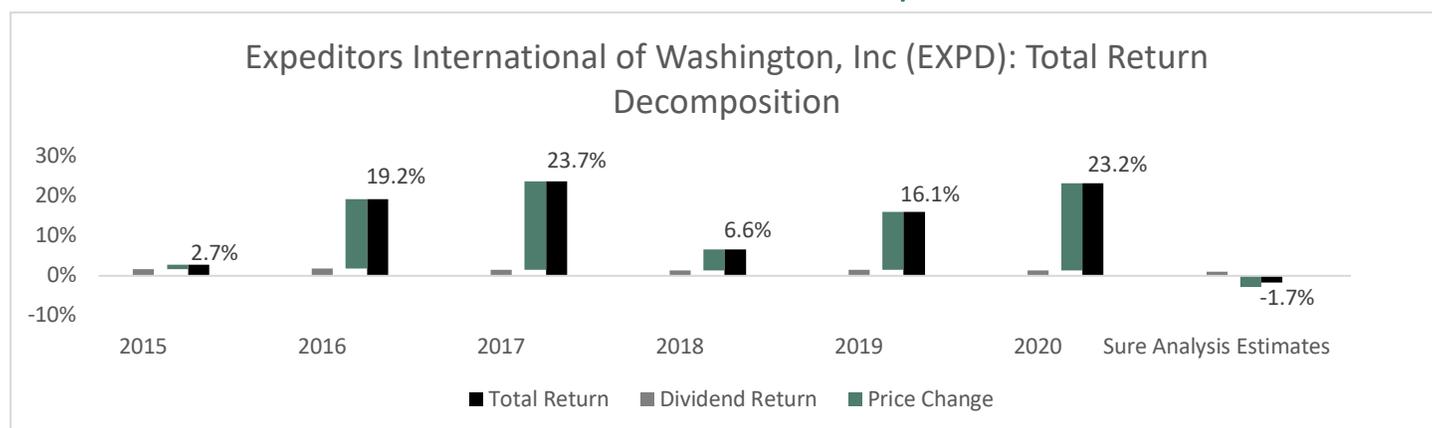
During the Great Recession, EXPD saw a decrease of 19% in earnings from \$1.37 in 2008 to \$1.11 in 2009. However, EPS bounced right back up to \$1.59 in 2010. The company also grew its dividend during that period. There have been times when EPS came in lower than the previous year, like in 2012, 2016, and 2019. However, Expeditors adjusted and continued to grow earnings. EXPD has a strong balance sheet with a debt to equity ratio of only 0.2, which is 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 (1.7)% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	\$6,162	\$5,992	\$6,080	\$6,565	\$6,617	\$6,098	\$6,921	\$8,138	\$8,175	\$10,116
Gross Profit	\$783	\$702	\$704	\$764	\$896	\$851	\$883	\$1,020	\$997	\$1,163
Gross Margin	12.7%	11.7%	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%	11.5%
SG&A Exp.	\$39	\$34	\$33	\$38	\$42	\$42	\$44	\$45	\$44	\$18
D&A Exp.	\$37	\$40	\$48	\$49	\$46	\$47	\$49	\$54	\$51	\$57
Operating Profit	\$618	\$531	\$552	\$595	\$721	\$670	\$700	\$797	\$767	\$940
Operating Margin	10.0%	8.9%	9.1%	9.1%	10.9%	11.0%	10.1%	9.8%	9.4%	9.3%
Net Profit	\$386	\$333	\$349	\$377	\$457	\$431	\$489	\$618	\$590	\$696
Net Margin	6.3%	5.6%	5.7%	5.7%	6.9%	7.1%	7.1%	7.6%	7.2%	6.9%
Free Cash Flow	\$379	\$323	\$354	\$330	\$522	\$470	\$394	\$525	\$725	\$607
Income Tax	\$252	\$217	\$223	\$231	\$277	\$254	\$228	\$199	\$204	\$258

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	\$2,867	\$2,954	\$3,015	\$2,891	\$2,566	\$2,791	\$3,117	\$3,315	\$3,692	\$4,928
Cash & Equivalents	\$1,294	\$1,261	\$1,248	\$927	\$808	\$974	\$1,051	\$924	\$1,230	\$1,528
Accounts Receivable	\$935	\$1,031	\$1,074	\$1,236	\$1,112	\$1,190	\$1,415	\$1,582	\$1,315	\$1,998
Goodwill & Int. Ass.	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8
Total Liabilities	\$857	\$922	\$928	\$1,019	\$871	\$944	\$1,123	\$1,327	\$1,495	\$2,264
Accounts Payable	\$607	\$642	\$648	\$770	\$645	\$727	\$866	\$902	\$736	\$1,137
Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Shareholder's Equity	\$2,004	\$2,028	\$2,085	\$1,868	\$1,692	\$1,845	\$1,992	\$1,987	\$2,195	\$26,60

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.9%	11.5%	11.7%	12.8%	16.8%	16.1%	16.6%	19.2%	16.9%	16.2%
Return on Equity	20.6%	16.5%	16.9%	19.1%	25.7%	24.4%	25.5%	31.1%	28.2%	28.7%
ROIC	20.5%	16.5%	16.9%	19.0%	25.6%	24.3%	25.5%	31.0%	28.2%	28.6%
Shares Out.	215.0	211.9	206.9	196.8	190.2	182.7	181.7	177.8	174.0	171.0
Revenue/Share	\$28.65	\$28.27	\$29.39	\$33.36	\$34.78	\$33.38	\$38.10	\$45.76	\$46.93	\$59.20
FCF/Share	\$1.76	\$1.52	\$1.71	\$1.68	\$2.75	\$2.57	\$2.17	\$2.95	\$4.16	\$3.55

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

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