



Expeditors International of Washington Inc. (EXPD)

Updated November 13th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	6.4%	Market Cap:	\$21.4 B
Fair Value Price:	\$138	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/30/21
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date:	12/15/21
Dividend Yield:	0.9%	5 Year Price Target	\$168	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	11.5%

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 \$21.4 Billion, and the Company has been growing its dividend for 27 consecutive years. The Company is also part of the exclusive Dividend Aristocrats list, which have increased their dividends for 25 years or more.

On November 2, 2021, EXPD reported third-quarter for Fiscal Year (FY)2021 earnings. The Company had another outstanding quarter. All products performed well for the quarter and set all-time highs in revenues, operating income, and net earnings. Revenues saw a significant increase of 84%, from \$2.348 million in 3Q20 to \$4.319 million for 3Q21. For the nine months, revenues are up 69% compared to the first nine months of FY2020. The Company moved more freight in the third quarter than in any other quarter in its history, including last quarter which was also an all-time high. Airfreight tonnage volume and ocean container volume increased 28% and 15%, respectively. Net income was up as well. EXPD reported a \$359 million net income for the quarter, up 88% compared to 3Q20. For the nine months, net income is up 93% compared to the nine months of FY2020. 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 \$191 million to \$359 million for the quarter or up 88%. Diluted Net Earnings per share (EPS) increased by 87% to \$2.09 per share from \$1.12 per share in last year's third quarter. For the first nine months of the year, earnings are up 92%, from \$2.92 per share to \$5.61 per share compared to the nine months of 2020.

Consensus estimates that the Company will earn \$7.67 per share for the entire year of 2021, which is 88.5% higher than what the Company made in FY2020. Thus, we will use \$7.67 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	\$7.67	\$9.33
DPS	\$0.50	\$0.56	\$0.60	\$0.64	\$0.72	\$0.80	\$0.84	\$0.90	\$1.00	\$1.04	\$1.16	\$1.41
Shares¹	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 26.6% 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 \$1.52 billion in 2020 to \$1.82 billion, or a 19.7% increase. EXPD has grown its dividend for 27 consecutive

¹ 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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years, with a 10-year dividend growth rate of 8.5% and a five-year growth rate of 6%. EXPD increased its dividend by 11.5% from \$0.52 per share to now \$0.58 per share. The dividend increase was announced on May 4, 2021. 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	16.7	18.0
Avg. Yld.	1.0%	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	0.9%	0.8%

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 16.7, which is based on our FY 2021 EPS estimate of \$7.67. This is lower than its own 5-year average PE of 22.1. Thus, EXPD looks to be slightly undervalued at the current price. The current dividend yield of 0.9% 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 15% 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%	15%	15%

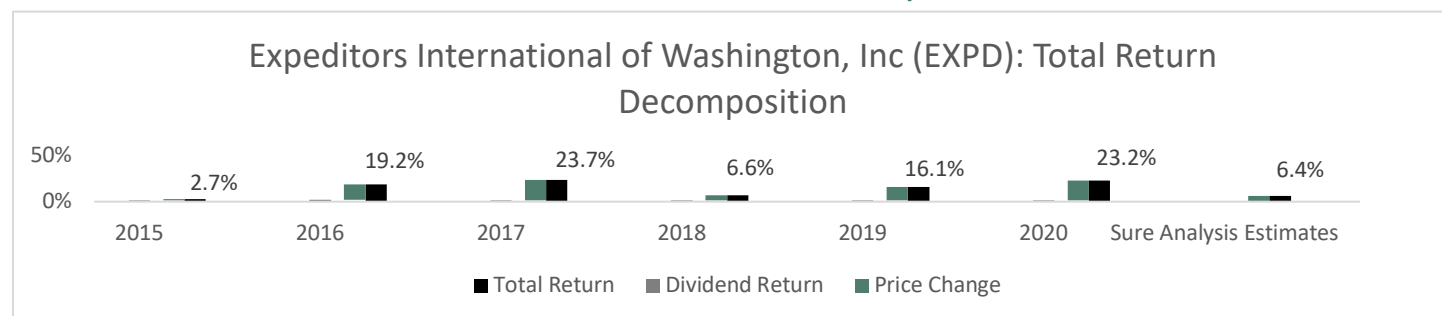
Expeditor's competitive advantage is the global footprint and an extensive network of shippers and carriers, which produce a substantial value that would be challenging to replicate for new entrants.

During the Great Recession, EXPD decreased by 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 0.1, lower than the 0.2 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 19%, which means that the dividend is very well covered with Free Cash Flow.

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 fair valuation means we expect weak total returns of 6.4% at the current valuation. Thus, we rate EXPD as a Hold 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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