



Expeditors International of Washington Inc. (EXPD)

Updated March 28th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$105	5 Year CAGR Estimate:	1.7%	Market Cap:	\$16.28 B
Fair Value Price:	\$96	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	5/31/23 ¹
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	6/15/23
Dividend Yield:	1.3%	5 Year Price Target	\$107	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

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 2022, the company reported \$17.1 billion in revenue. The company has a market capitalization of \$16.28 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 has increased its dividends for 25 years or more.

On February 21, 2023, EXPD reported fourth-quarter and full year results for Fiscal Year (FY)2022. Revenues saw a significant decrease of (36)%, from \$5.4 billion in 4Q21 to \$3.4 billion for 4Q22. This is the first quarter over the last few years which saw a decrease year-over-year. This was due to because of the pandemic-related bottlenecks which was eased and air and ocean supply/demand imbalances began to dissipate in the first half of the year, average buy and sell rates progressively declined to varying degrees, as they typically do – until they suddenly began to plummet simultaneously and faster than the management team would have expected in the fourth quarter. Operating income decreased (47)% compared to the fourth quarter of 2021. Mostly due to the decrease in revenue has expenses saw a decrease of (40)%. Overall, earnings was down (48)% from \$2.69 per share to \$1.39 per share in 4Q2022. Over the full year, revenue increased 3% year-over-year. However, earnings fell \$0.01 from \$8.27 per share in 2021 to \$8.26 per share last year.

Consensus estimates that the company will earn \$5.36 per share for 2023, which is (35.1)% lower than what the company made in FY2022. Thus, we will use \$5.36 EPS as our valuation calculation.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.68	\$1.92	\$2.40	\$2.36	\$2.69	\$3.48	\$3.39	\$4.07	\$8.27	\$8.26	\$5.36	\$5.92
DPS	\$0.60	\$0.64	\$0.72	\$0.80	\$0.84	\$0.90	\$1.00	\$1.04	\$1.16	\$1.34	\$1.34	\$1.63
Shares²	207.0	197.0	190.0	182.0	182.0	178.0	174.0	171.0	169.0	163.0	163.0	163.0

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 19.4%. It has increased slightly more to 9% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down to about 2% for the foreseeable future. Net margin has expanded slightly from 8.6% in FY2021 to 7.9% in FY2022. This will help with to continue profit growth. EXPD has grown its dividend for 27 consecutive years, with a 10-year dividend growth rate of 9.3% and a five-year growth rate of 8.3%. EXPD increased its dividend by 15.5%, from \$0.58 per share to \$0.67 last year. We estimate future dividend growth to be 4% because of the earnings slow down. The company pays out dividends semi-annually.

¹ Ex-Dividend and Dividend Payment dates are estimates.

² 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.3	22.1	19.7	20.9	23	20	23	23.4	16.2	12.6	19.6	18.0
Avg. Yld.	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	0.9%	1.3%	1.3%	1.5%

EXPD shares have always demanded a high P/E multiple, averaging 20.5 for the past ten years. However, we will use a PE of 18.0 for our fair value estimate due to the slower growth expected. The company has a current PE of 19.6x, which is based on our FY 2023 EPS estimate of \$5.36. This is higher than its own 5-year average PE of 19.0x. Thus, EXPD looks to be overvalued at the current price. The current dividend yield of 1.3% is in line with its past 10-year dividend yield average of 1.3%. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35.7%	33.3%	30.0%	33.9%	31.2%	25.9%	29.5%	25.6%	14.0%	16.2%	25%	28%

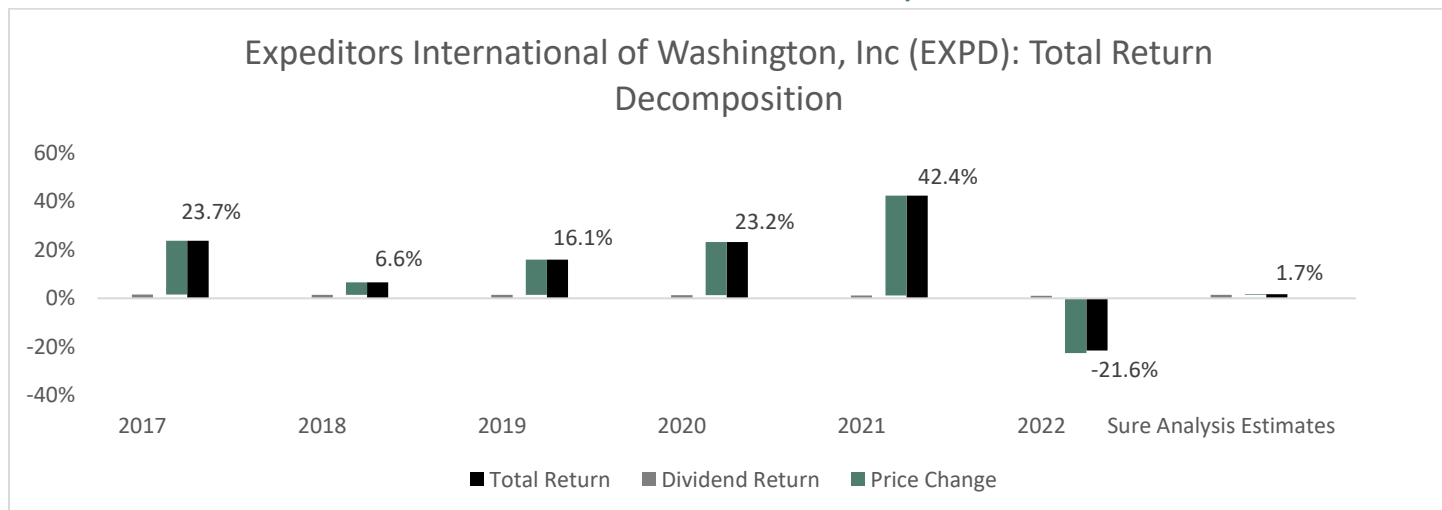
Expeditors' competitive advantage is the global footprint and an extensive network of shippers and carriers, which produce a substantial value that would be challenging to replicate for new entrants.

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 year. 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 23%, which means that the dividend is very well covered with Free Cash Flow.

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 and its dividend. We expect good total returns of 1.7% at the current valuation. However, since it is under our hold criteria of 3% or higher, we rate EXPD as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	\$6,080	\$6,565	\$6,617	\$6,098	\$6,921	\$8,138	\$8,175	\$10,116	\$16,524	17071
Gross Profit	\$704	\$764	\$896	\$851	\$883	\$1,020	\$997	\$1,163	\$2,165	2171
Gross Margin	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%	11.5%	13.1%	12.7%
SG&A Exp.	\$33	\$38	\$42	\$42	\$44	\$45	\$44	\$18	\$16	24
D&A Exp.	\$48	\$49	\$46	\$47	\$49	\$54	\$51	\$57	\$51	57
Operating Profit	\$552	\$595	\$721	\$670	\$700	\$797	\$767	\$940	\$1,909	1824
Operating Margin	9.1%	9.1%	10.9%	11.0%	10.1%	9.8%	9.4%	9.3%	11.6%	10.7%
Net Profit	\$349	\$377	\$457	\$431	\$489	\$618	\$590	\$696	\$1,415	1357
Net Margin	5.7%	5.7%	6.9%	7.1%	7.1%	7.6%	7.2%	6.9%	8.6%	8.0%
Free Cash Flow	\$354	\$330	\$522	\$470	\$394	\$525	\$725	\$607	\$832	2043
Income Tax	\$223	\$231	\$277	\$254	\$228	\$199	\$204	\$258	\$506	475

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	\$3,015	\$2,891	\$2,566	\$2,791	\$3,117	\$3,315	\$3,692	\$4,928	\$7,610	5590
Cash & Equivalents	\$1,248	\$927	\$808	\$974	\$1,051	\$924	\$1,230	\$1,528	\$1,729	2034
Accounts Receivable	\$1,074	\$1,236	\$1,112	\$1,190	\$1,415	\$1,582	\$1,315	\$1,998	\$3,810	2108
Goodwill & Int. Ass.	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8	8
Total Liabilities	\$928	\$1,019	\$871	\$944	\$1,123	\$1,327	\$1,495	\$2,264	\$4,112	2477
Accounts Payable	\$648	\$770	\$645	\$727	\$866	\$902	\$736	\$1,137	\$2,012	1109
Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0
Shareholder's Equity	\$2,085	\$1,868	\$1,692	\$1,845	\$1,992	\$1,987	\$2,195	\$26,60	\$3,494	3110

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.7%	12.8%	16.8%	16.1%	16.6%	19.2%	16.9%	16.2%	22.6%	20.6%
Return on Equity	16.9%	19.1%	25.7%	24.4%	25.5%	31.1%	28.2%	28.7%	46.0%	41.1%
ROIC	16.9%	19.0%	25.6%	24.3%	25.5%	31.0%	28.2%	28.6%	45.9%	41.1%
Shares Out.	206.9	196.8	190.2	182.7	181.7	177.8	174.0	171.0	169.0	164.4
Revenue/Share	\$29.39	\$33.36	\$34.78	\$33.38	\$38.10	\$45.76	\$46.93	\$59.20	96.49	103.8
FCF/Share	\$1.71	\$1.68	\$2.75	\$2.57	\$2.17	\$2.95	\$4.16	\$3.55	4.86	12.4

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

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