Expeditors International of Washingtion Inc. (EXPD)

Updated May 14th, 2023 by Felix Martinez

Key Metrics

Current Price:	$117	**5 Year CAGR Estimate:**	-0.5%	**Market Cap:**	$17.30 B
Fair Value Price:	$96	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/30/23
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	12/15/23
Dividend Yield:	1.2%	**5 Year Price Target**	$106	**Years Of Dividend Growth:**	28
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 $17.30 Billion, and the company has been growing its dividend for 28 consecutive years. The company is also part of the exclusive Dividend Aristocrats list, which has increased its dividends for 25 years or more.

On August 8th , 2023, EXPD reported second-quarter results for Fiscal Year (FY)2023. Notable declines were observed in key metrics, including a 43% drop in Diluted Net Earnings per share (EPS), resulting in $1.30, and a (48)% decrease in Net Earnings, amounting to $197 million. Operating Income also fell by (51)% to $248 million, and Revenues witnessed a significant (51)% downturn, totaling $2.2 billion. These results were influenced by shifts in the freight market, including lower air and ocean volumes, and decreased demand attributed to pandemic-related factors.

Jeffrey S. Musser, President and Chief Executive Officer, noted the ongoing recalibration of the freight market, emphasizing the decline in buy and sell rates and a consistent drop in volumes. The impact of the pandemic-induced supply chain disruptions has lessened, leading to increased capacity in air and ocean freight, albeit coupled with falling pricing due to evolving market conditions. Musser also highlighted the persistence of these trends, focusing on a cautious shipping landscape and economic uncertainties, projecting a continuation of these conditions through the year's end.

Bradley S. Powell, Senior Vice President and Chief Financial Officer, emphasized the company's financial strategy amidst challenging conditions. Despite the decrease in operational metrics, Powell stressed the importance of prudent cost management, preparation for future stability, and sustained capital return to investors. Expeditors' focus remains on controlling costs and enhancing operational efficiencies while continuing to provide tailored logistics solutions globally.

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	***$5.34***	***$5.90***
DPS	$0.60	$0.64	$0.72	$0.80	$0.84	$0.90	$1.00	$1.04	$1.16	$1.34	***$1.38***	***$1.68***
Shares[1]	207.0	197.0	190.0	182.0	182.0	178.0	174.0	171.0	169.0	169.0	***169.0***	***169.0***

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 19.4%. It has decreased to 8.9% 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 28 consecutive years, with a 10-year dividend growth rate of 9.3% and a five-year growth rate of 8.3%. We estimate future dividend growth to

[1] Shares count in millions.

be 4% because of the earnings slow down. The company pays out dividends semi-annually. Most recent dividend increase was announced on May 2nd, 2023, with a dividend increase of 3%.

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	16.2	***21.9***	***18.0***
Avg. Yld.	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	0.9%	0.9%	***1.2%***	***1.6%***

EPXD shares have always demanded a high P/E multiple, averaging 20.9x for the past ten years. However, we will use a PE of 18.0x for our fair value estimate due to the slower growth expected. The company has a current PE of 21.9x, which is based on our FY 2023 EPS estimate of $5.34. This is higher than its own 5-year average PE of 19.8x. Thus, EXPD looks to be overvalued at the current price. The current dividend yield of 1.2% 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 26% 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%	***26%***	***28%***

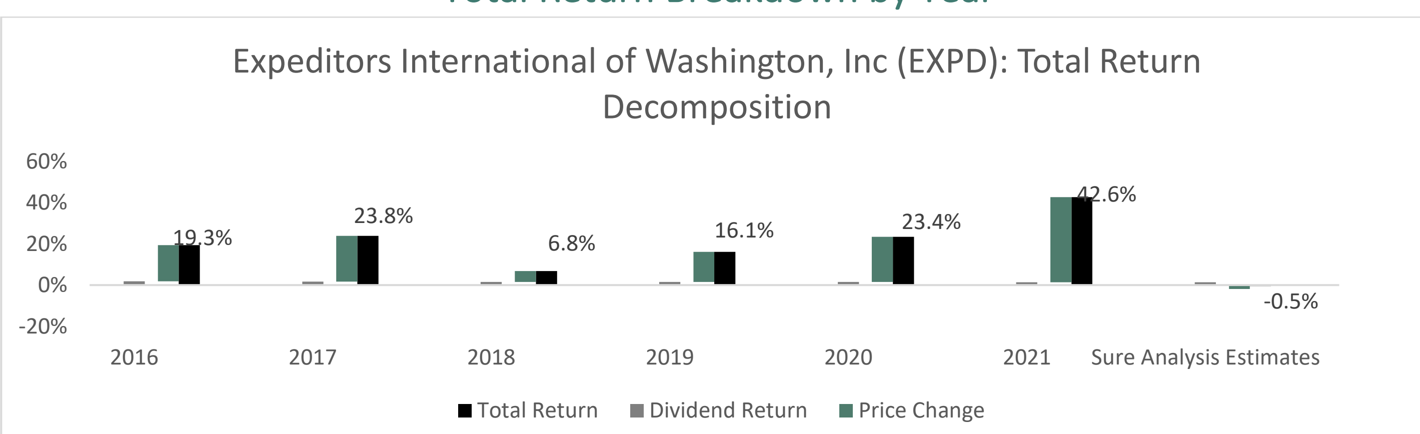
Expeditor's competitive advantage is the global footprint and an extensive network of shippers and carriers, which produce a substantial value that would be challenging to replicate for new entrants.

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 0.2. 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 25%, which means that the dividend is very well covered with Free Cash Flow.

Final Thoughts & Recommendation

Expeditor 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 total negative return of -0.5% 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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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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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.