



Expeditors International of Washington Inc. (EXPD)

Updated August 11th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$119	5 Year CAGR Estimate:	-2.0%	Market Cap:	\$16.8 B
Fair Value Price:	\$90	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/30/24
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	12/15/24
Dividend Yield:	1.2%	5 Year Price Target	\$100	Years Of Dividend Growth:	29
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 2023, the company reported \$17.1 billion in revenue. The company has a market capitalization of \$16.8 Billion, and the company has been growing its dividend for 29 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 6th, 2024, EXPD reported second-quarter results for Fiscal Year (FY)2024. The company reported Diluted earnings per share decreased by 5% to \$1.24, and net earnings attributable to shareholders fell by 11% to \$175 million. Operating income declined by 10% to \$224 million, despite a 9% increase in revenues to \$2.4 billion. The company also observed a 15% rise in airfreight tonnage volume, although ocean container volume dropped by 3%.

CEO Jeffrey S. Musser highlighted the challenges faced by the company during this quarter, citing imbalances in buy versus sell rates, particularly affecting exports from Asia. The airfreight market has been constrained by strong e-commerce demand, leading to limited capacity, while the ocean freight sector has been disrupted by geopolitical events in the Red Sea, causing increased transit times and port congestion. Despite these disruptions, the company has managed to keep costs under control and remains focused on restoring efficiency to meet historical standards.

Senior Vice President and CFO Bradley S. Powell added that the company's expenses remain high, particularly in compensation, which is the largest variable cost. Expeditors continues to align shipment activity with headcount and is investing in technology enhancements to bolster its network and security. During the second quarter of 2024, the company returned \$205 million to shareholders through stock repurchases and dividends. Expeditors remains committed to maintaining cost efficiency while pursuing strategic growth opportunities.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.92	\$2.40	\$2.36	\$2.69	\$3.48	\$3.39	\$4.07	\$8.27	\$8.26	\$5.01	\$5.01	\$5.53
DPS	\$0.64	\$0.72	\$0.80	\$0.84	\$0.90	\$1.00	\$1.04	\$1.16	\$1.34	\$1.38	\$1.42	\$1.73
Shares¹	197.0	190.0	182.0	182.0	178.0	174.0	171.0	169.0	169.0	150.0	150.0	150.0

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 11.2%. It has grown to 8.1% 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 7.9% in FY2022 to 8.1% in FY2023. This will help with to continue profit growth. EXPD has grown its dividend for 29 consecutive years, with a 10-year dividend growth rate of 8.9% and a five-year growth rate of 7.3%. We estimate future dividend growth to

¹ Shares count in millions.

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be 4% because of the earnings slow down. The company pays out dividends semi-annually. Most recent dividend increase was announced on May 7th, 2024, with a dividend increase of 5.8%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.1	19.7	20.9	23	20	23	23.4	16.2	16.2	25.3	23.8	18.0
Avg. Yld.	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	0.9%	0.9%	1.1%	1.2%	1.7%

EXPD shares have always demanded a high P/E multiple, averaging 21.0x 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 23.8x, which is based on our FY 2024 EPS estimate of \$5.01. This is above its 5-year average PE of 20.8x. Thus, EXPD looks to be overvalued at the current price. The current dividend yield of 1.2% is roughly 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 28% and the tendency to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33.3%	30.0%	33.9%	31.2%	25.9%	29.5%	25.6%	14.0%	16.2%	27.5%	28%	31%

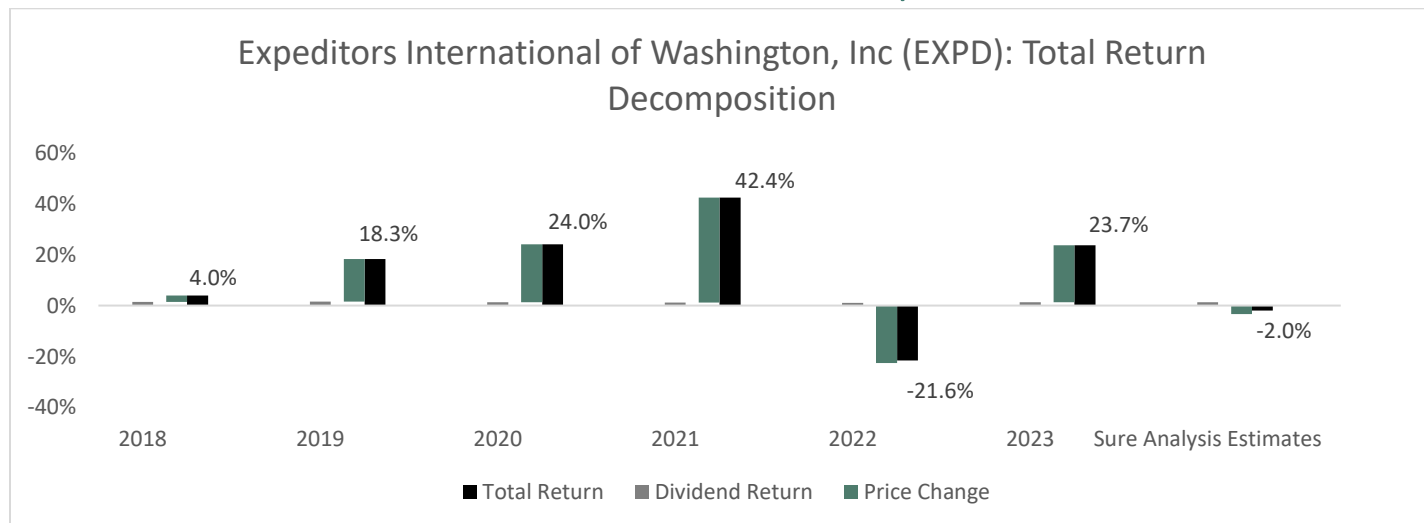
Expeditor's competitive advantage is the global footprint and an extensive network of shippers and carriers, which produce a substantial value that would be challenging to replicate for new entrants.

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 0.3. 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 27%, 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 $-(2.0)\%$ at the current valuation. As a result, we rate EXPD as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	\$6,565	\$6,617	\$6,098	\$6,921	\$8,138	\$8,175	\$10,116	\$16,524	17071	9300
Gross Profit	\$764	\$896	\$851	\$883	\$1,020	\$997	\$1,163	\$2,165	2171	1245
Gross Margin	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%	11.5%	13.1%	12.7%	13.4%
SG&A Exp.	\$38	\$42	\$42	\$44	\$45	\$44	\$18	\$16	24	28
D&A Exp.	\$49	\$46	\$47	\$49	\$54	\$51	\$57	\$51	57	68
Operating Profit	\$595	\$721	\$670	\$700	\$797	\$767	\$940	\$1,909	1824	940
Operating Margin	9.1%	10.9%	11.0%	10.1%	9.8%	9.4%	9.3%	11.6%	10.7%	10.1%
Net Profit	\$377	\$457	\$431	\$489	\$618	\$590	\$696	\$1,415	1357	753
Net Margin	5.7%	6.9%	7.1%	7.1%	7.6%	7.2%	6.9%	8.6%	8.0%	8.1%
Free Cash Flow	\$330	\$522	\$470	\$394	\$525	\$725	\$607	\$832	2043	1014
Income Tax	\$231	\$277	\$254	\$228	\$199	\$204	\$258	\$506	475	263

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	\$2,891	\$2,566	\$2,791	\$3,117	\$3,315	\$3,692	\$4,928	\$7,610	5590	4524
Cash & Equivalents	\$927	\$808	\$974	\$1,051	\$924	\$1,230	\$1,528	\$1,729	2034	1513
Accounts Receivable	\$1,236	\$1,112	\$1,190	\$1,415	\$1,582	\$1,315	\$1,998	\$3,810	2108	1533
Goodwill & Int. Ass.	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8	8	8
Total Liabilities	\$1,019	\$871	\$944	\$1,123	\$1,327	\$1,495	\$2,264	\$4,112	2477	2132
Accounts Payable	\$770	\$645	\$727	\$866	\$902	\$736	\$1,137	\$2,012	1109	861
Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0	0
Shareholder's Equity	\$1,868	\$1,692	\$1,845	\$1,992	\$1,987	\$2,195	\$26,60	\$3,494	3110	2390

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.8%	16.8%	16.1%	16.6%	19.2%	16.9%	16.2%	22.6%	20.6%	14.9%
Return on Equity	19.1%	25.7%	24.4%	25.5%	31.1%	28.2%	28.7%	46.0%	41.1%	27.4%
ROIC	19.0%	25.6%	24.3%	25.5%	31.0%	28.2%	28.6%	45.9%	41.1%	27.4%
Shares Out.	196.8	190.2	182.7	181.7	177.8	174.0	171.0	169.0	164.4	150.2
Revenue/Share	\$33.36	\$34.78	\$33.38	\$38.10	\$45.76	\$46.93	\$59.20	96.49	103.8	61.9
FCF/Share	\$1.68	\$2.75	\$2.57	\$2.17	\$2.95	\$4.16	\$3.55	4.86	12.4	6.8

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

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