

Expeditors(EXPD)

\$78.02 (As of 01/01/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Expeditors has an impressive earnings surprise history, having outpaced the Zacks Consensus Estimate in three of the trailing four reported quarters. Initiatives to reward shareholders through dividend payouts and buybacks are also encouraging. Last May, Expeditors announced an 11.1% hike in semi-annual cash dividend. The company's sound balance sheet is an added positive. However, shares of Expeditors have underperformed its industry in the last six months, mainly due to declining revenues in the Airfreight Services segment. The dismal performance of this key unit was caused by the Sino-U.S. trade tensions as the company has significant exposure in China. Rising operating expenses have also put pressure on the price performance. Notably, operating costs rose 4.2% year over year in the first nine months of 2019 in spite of low fuel prices.

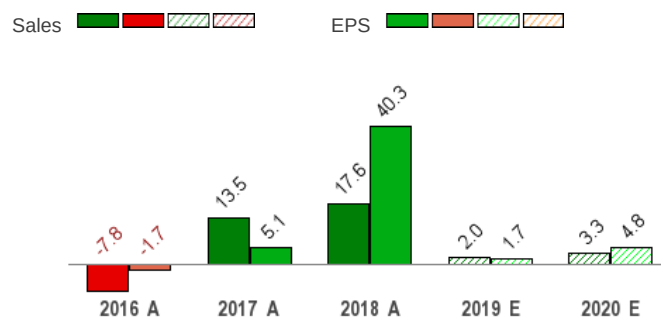
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.15 - \$64.56
20 Day Average Volume (sh)	962,482
Market Cap	\$13.3 B
YTD Price Change	14.6%
Beta	0.92
Dividend / Div Yld	\$1.00 / 1.3%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 21% (200 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	-3.6%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	02/18/2020
Earnings ESP	0.2%
P/E TTM	21.6
P/E F1	22.0
PEG F1	NA
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,012 E	2,093 E	2,180 E	2,259 E	8,569 E
2019	2,020 A	2,036 A	2,075 A	2,177 E	8,297 E
2018	1,854 A	1,958 A	2,091 A	2,236 A	8,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.83 E	\$0.87 E	\$0.96 E	\$1.00 E	\$3.71 E
2019	\$0.80 A	\$0.88 A	\$0.92 A	\$0.94 E	\$3.54 E
2018	\$0.76 A	\$0.79 A	\$0.92 A	\$1.02 A	\$3.48 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/01/2020. The reports text is as of 01/02/2020.

Overview

Expeditors International of Washington Inc. is a leading third-party logistics (3PL) provider. The company, based in Seattle, WA, is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight.

As of Sep 30, 2019, Expeditors operated 176 district offices across the globe. Out of them, 70 were in Americas, 21 in North Asia, 16 in South Asia, 45 in Europe and 24 in areas covering Middle East, Africa and India.

The company also has branch offices, aligned with and dependent on a district office. Furthermore, the company has contracts with independent agents for providing services.

Expeditors, whose fiscal year coincides with the calendar year, has the following three reporting segments:

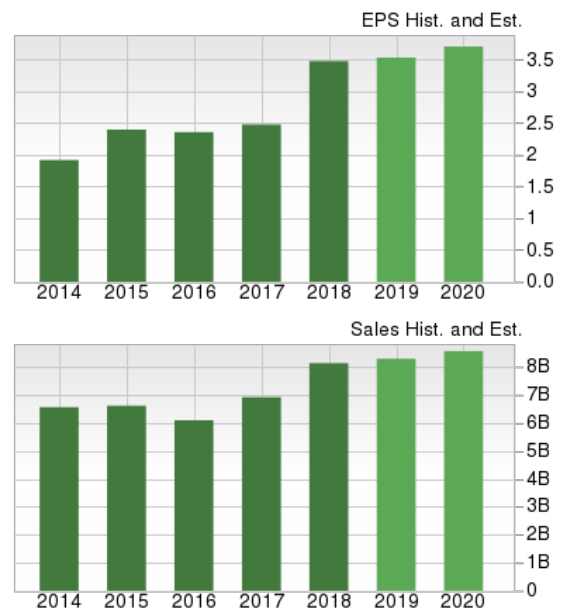
Airfreight Services (accounted for approximately 40.3% of 2018 revenues) – Expeditors typically acts either as a freight consolidator, or as an agent for the airline carrying the shipment. The company procures shipments from its customers, determines the routing, consolidates shipments bound for a particular airport distribution point, and selects the airline for transportation to the distribution point.

Expeditors also acts as a freight forwarder, whereby it receives and forwards individual, unconsolidated shipments and arranges the transportation with the concerned airline.

Ocean Freight and Ocean Services (27.6%) – Expeditors operates Expeditors International Ocean (EIO), an Ocean Transportation Intermediary, sometimes referred to as a Non-Vessel Operating Common Carrier specializing in ocean freight consolidation from Asia to the United States.

The company's revenues as an ocean freight forwarder are also derived from commissions paid by the carrier and revenues from fees charged to customers for ancillary services, which the company may provide. The company does not own vessels, nor does it physically handle the cargo.

Customs Brokerage and Other Services (32.1%) – As a customs broker, the company assists importers to clear shipments through customs by preparing the necessary documents, calculating and providing for payment of duties and other taxes on behalf of the importer.



Reasons To Buy:

- ▲ We are impressed by Expeditors' efforts to reward shareholders through dividend payments and buybacks. In the first nine months of 2019, the company repurchased 4.1 million shares on average price of \$72.6 per share. Moreover, in May 2019, the company announced an 11.1% hike in semi-annual cash dividend to 50 cents per share (annualized \$1 per share). Low tax rates are also supporting bottom-line growth at Expeditors.
- ▲ Expeditors' trailing 12-month return on equity (ROE) supports its growth potential. The company's ROE of 30.2% compares favorably with its industry's ROE of 15.6% and the S&P 500 index's 18.6%. The favorable readings support the company's efficiency in utilizing its shareholders' funds.
- ▲ We are also encouraged by Expeditors' sound balance sheet. As of Sep 30, 2019, the company had no long-term debt, mainly due to its asset-light business model. Additionally, despite the weakness in the company's airfreight division during the first nine months of 2019, the global airfreight forwarding market offers significant commercial potential in the long term. The market is expected to witness a CAGR of approximately 4% during the 2018-2022 time frame. Rapid e-commerce growth is the primary driver behind the lucrativeness of the space. This bodes well for Expeditors' growth.

We are impressed by Expeditors' efforts to reward shareholders through dividend payments and buybacks. In the first half of 2019, the company repurchased 3.2 million shares.

Reasons To Sell:

- ▼ Expeditors' rising operating expenses are a concern. Operating expenses escalated 18% year over year in 2018 due to higher fuel costs and labor expenses among other items. Despite the moderation in fuel prices, operating expenses increased 4.2% in the first nine months of 2019. Operating expenses are expected to have been high in the December quarter as well mainly due to higher labor costs.
- ▼ The ongoing trade war-related tensions between the United States and China are a major headwind for Expeditors. Given the company's exposure in China, it is suffering because of low volume of shipments. Notably, air freight revenues from North Asia declined 13% in the first nine months of 2019. In fact, revenues from Expeditors' primary unit, Airfreight Services, revenues declined 8.2% in the first nine months of 2019. Volumes with respect to airfreight tonnage also declined in the period. Although the situation might improve slightly post signing of the phase one trade deal later this month, volumes are likely to remain weak unless the trade war is fully resolved. The stock might be hurt significantly in the event of the Airfreight Services segment continuing to perform poorly.
- ▼ As Expeditors operates globally, it is exposed to foreign currency risks. Notably, foreign currency losses increased more than 100% in the first nine months of 2019 on a year-over-year basis. Moreover, shares of Expeditors have underperformed the S&P 500 Index (of which the company is a key member) in a year's time due to the above headwinds.

Expeditors' rising operating expenses are concerning. Moreover, slowdown in global trade due to Sino-U.S. trade tensions is concerning as the company has significant exposure to China.

Last Earnings Report

Earnings Beat at Expeditors in Q3

Expeditors' earnings of 92 cents per share surpassed the Zacks Consensus Estimate of 90 cents. Meanwhile, the bottom line was flat on a year-over-year basis. However, total revenues of \$2.07 billion missed the Zacks Consensus Estimate of \$2.15 billion and also dipped 1% year over year. Volumes with respect to airfreight tonnage and ocean container contracted 7% and 2%, respectively, year over year.

Gross profit (net revenues) inched up nearly 2% year over year to \$674.36 million. Gross margin (yield) came in at 32.5% compared with 31.6% in the year-ago quarter.

As of Sep 30, 2019, the company repurchased 4.1 million shares at an average price of \$72.6 per share. The company exited the quarter with cash and cash equivalents of \$1.22 billion compared with \$923.74 million at the end of 2018.

Segmental Revenues

Airfreight Services revenues declined 14.1% year over year to \$715.45 million in the third quarter. Ocean Freight and Ocean Services revenues also decreased slightly to \$585.37 million. However, Customs Brokerage and Other Services revenues rose 15.2% year over year to approximately \$774.03 million.

Quarter Ending 09/2019

Report Date	Nov 05, 2019
Sales Surprise	-3.58%
EPS Surprise	2.22%
Quarterly EPS	0.92
Annual EPS (TTM)	3.62

Recent News

Dividend Update — Nov 5, 2019

The company's board approved its semi-annual cash dividend to 50 cents per share (annualized \$1). The amount will be paid on Dec 16 to the shareholders of record as of Dec 2.

Valuation

Expeditors shares are up 20.1% over the trailing 12-month period respectively. Over the past year, Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 19.8% and 21.3%, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 22.07X forward 12-month price-to-earnings, which compares to 23.64X for the Zacks sub-industry, 14.76X for the Zacks sector and 20.29X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.02X and as low as 16.9X, with a 5-year median of 20.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$82 price target reflects 23.16X forward 12-month earnings.

The table below shows summary valuation data for EXPD

Valuation Multiples - EXPD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.07	23.64	14.76	20.29
	5-Year High	27.02	25.39	17	20.29
	5-Year Low	16.9	9.18	10.46	15.17
	5-Year Median	20.9	20.23	13.14	17.44
EV/EBITDA TTM	Current	14.52	13.35	7.97	12.01
	5-Year High	16.27	21.45	11.13	12.86
	5-Year Low	9.23	9.69	6.06	8.49
	5-Year Median	12.91	12.76	7.44	10.65
P/S F 12M	Current	1.6	1.69	1.18	3.51
	5-Year High	1.7	2.26	1.44	3.51
	5-Year Low	1.13	0.6	1.02	2.54
	5-Year Median	1.46	1.37	1.24	3

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 253)



Top Peers

Hertz Global Holdings, Inc. (HTZ)	Neutral
Hub Group, Inc. (HUBG)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Landstar System, Inc. (LSTR)	Neutral
United Parcel Service, Inc. (UPS)	Neutral
C.H. Robinson Worldwide, Inc. (CHRW)	Underperform
FedEx Corporation (FDX)	Underperform
Ryder System, Inc. (R)	Underperform

Industry Comparison Industry: Transportation - Services				Industry Peers		
	EXPD Neutral	X Industry	S&P 500	CHRW Underperform	JBHT Neutral	R Underperform
VGM Score	B	-	-	B	A	A
Market Cap	13.29 B	1.75 B	23.93 B	10.58 B	12.45 B	2.90 B
# of Analysts	6	2	13	10	7	7
Dividend Yield	1.28%	0.00%	1.78%	2.61%	0.89%	4.12%
Value Score	C	-	-	B	B	A
Cash/Price	0.09	0.07	0.04	0.04	0.01	0.03
EV/EBITDA	14.20	8.42	13.95	11.71	12.23	4.83
PEG Ratio	NA	2.05	2.12	1.95	1.44	NA
Price/Book (P/B)	6.03	2.66	3.33	6.33	5.67	1.17
Price/Cash Flow (P/CF)	20.03	8.57	13.67	14.13	11.95	1.65
P/E (F1)	22.08	18.81	19.66	17.57	21.59	51.44
Price/Sales (P/S)	1.59	0.79	2.69	0.68	1.38	0.33
Earnings Yield	4.54%	4.75%	5.08%	5.69%	4.63%	1.95%
Debt/Equity	0.14	0.34	0.72	0.75	0.59	2.75
Cash Flow (\$/share)	3.89	2.25	6.94	5.54	9.77	32.92
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	12.96%	12.57%	10.56%	9.22%	12.15%	-1.97%
Proj. EPS Growth (F1/F0)	7.22%	0.00%	0.00%	-2.88%	0.24%	-81.77%
Curr. Cash Flow Growth	34.54%	11.78%	14.83%	29.95%	33.00%	16.19%
Hist. Cash Flow Growth (3-5 yrs)	11.13%	10.51%	9.00%	9.99%	12.27%	6.16%
Current Ratio	2.34	1.45	1.23	1.87	1.29	0.62
Debt/Capital	12.43%	26.54%	42.92%	42.82%	37.09%	73.32%
Net Margin	7.56%	1.22%	11.08%	4.25%	5.46%	1.55%
Return on Equity	30.20%	11.12%	17.10%	40.43%	28.45%	11.65%
Sales/Assets	2.34	1.28	0.55	3.39	1.70	0.64
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	0.04%	0.02%	0.33%	0.85%	0.17%	0.97%
1 Week Price Chg	1.40%	0.36%	0.13%	1.47%	-0.03%	0.24%
4 Week Price Chg	7.61%	3.31%	3.67%	2.87%	4.63%	6.76%
12 Week Price Chg	13.10%	14.22%	10.64%	-4.81%	10.19%	14.92%
52 Week Price Chg	14.58%	15.92%	27.46%	-7.00%	25.52%	12.79%
20 Day Average Volume	962,482	93,233	1,693,267	1,000,551	859,459	797,201
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.67%	0.00%	0.00%	-0.13%	-0.26%	0.00%
(F1) EPS Est 12 week change	0.18%	-4.07%	0.14%	-6.44%	-1.89%	-11.25%
(Q1) EPS Est Mthly Chg	1.04%	0.00%	0.00%	-0.60%	-0.48%	0.07%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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