

Expeditors(EXPD)

\$73.62 (As of 06/24/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Continued below-par performance of Expeditors' primary revenue-generating segment, Airfreight Services, is concerning. Global trade slowdown due to the U.S.-China trade tensions hurt the segment's performance in 2019. The coronavirus concerns have worsened the situation with supply chain disruptions further weakened volumes and hurt first-quarter results. The scenario is likely to be repeated in the second quarter too. Shares of the company have underperformed its industry in a year's time mainly due to the dismal performance of its primary segment. However, we are impressed by Expeditors' efforts to reward shareholders. We are also encouraged by the company's sound balance sheet. As of Mar 31, 2020, the company had no long-term debt obligations. Its current ratio also compares favorably with the industry's average.

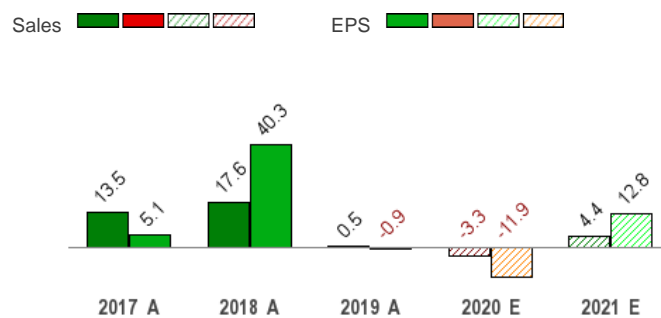
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$81.64 - \$52.85 |
| 20 Day Average Volume (sh) | 1,326,588 |
| Market Cap | \$12.3 B |
| YTD Price Change | -5.6% |
| Beta | 0.76 |
| Dividend / Div Yld | \$1.04 / 1.4% |
| Industry | Transportation - Services |
| Zacks Industry Rank | Bottom 23% (195 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 4.4% |
| Last Sales Surprise | -0.0% |
| EPS F1 Est- 4 week change | 1.3% |
| Expected Report Date | 08/04/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 22.2 |
| P/E F1 | 24.2 |
| PEG F1 | NA |
| P/S TTM | 1.5 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | | | | | 8,253 E |
| 2020 | 1,902 A | 1,864 E | 2,045 E | 2,054 E | 7,905 E |
| 2019 | 2,020 A | 2,036 A | 2,075 A | 2,045 A | 8,175 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | | | | | \$3.43 E |
| 2020 | \$0.71 A | \$0.66 E | \$0.83 E | \$0.86 E | \$3.04 E |
| 2019 | \$0.80 A | \$0.88 A | \$0.92 A | \$0.81 A | \$3.45 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 06/24/2020. The reports text is as of 06/25/2020.

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 Dec 31, 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 36% of 2019 revenues) – Expeditors typically acts either as a freight consolidator, or as an agent for the airline carrying the shipment.

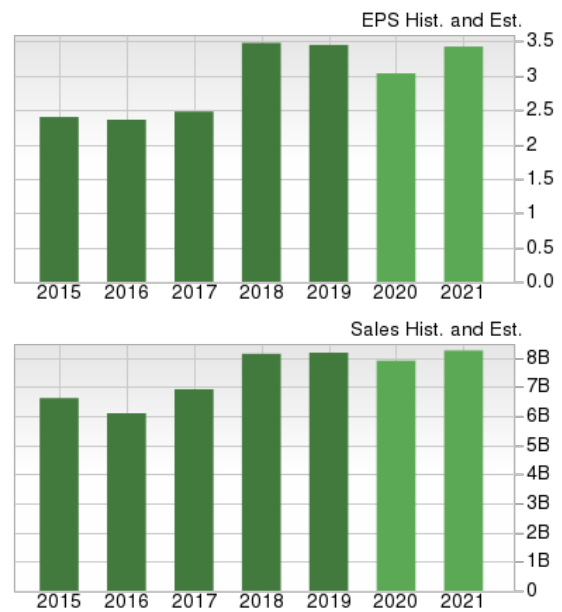
The company procures shipments from its customers, determines the routing, consolidates shipments bound for a particular airport distribution point, and selects the airline for transportation to the distribution point.

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%) – 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 (37%) – 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 2019, the company repurchased 5.3 million shares on average price of \$72.91 per share. Again, in first-quarter 2020, the company repurchased 4 million shares at an average price of \$70.81 per share. Moreover, in May 2020, the company announced 4% hike in semi-annual cash dividend to 52 cents per share (annualized \$1.04 per share).
- ▲ Expeditors' trailing 12-month return on equity (ROE) supports its growth potential. The company's ROE of 27% compares favorably with its industry's ROE of 13.3% and the S&P 500 index's 18%. The favorable readings support the company's efficiency in utilizing its shareholders' funds. We are optimistic about the buyout of Fleet Logistics' Digital Platform. The acquisition is expected to boost Expeditors' online LTL shipping platform, Koho. The move is in line with the company's focus on Digital Solutions. Amid the coronavirus crisis, the acquisition is expected to expand business and get further investments that are expected to drive the top line in the upcoming quarters.
- ▲ We are also encouraged by Expeditors' sound balance sheet. As of Mar 31, 2020, the company had no long-term debt (other than lease liabilities), mainly due to its asset-light business model. Moreover, its current ratio stood at 2.26 and 2.37 at the end of the first quarter of 2020 and at the end of the fourth quarter of 2019 respectively, comparing favorably with the respective figures for the industry of 1.72 and 1.83. Additionally, despite the weakness in the company's airfreight division, 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.

Reasons To Sell:

- ▼ Expeditors' top line declined in first-quarter 2020 due to supply-chain disruptions from the coronavirus pandemic. The extended closure of factories in China due to the virus outbreak dented freight volumes in the March quarter. Notably, volumes pertaining to airfreight tonnage and ocean container contracted 7% and 10%, respectively, year over year. Operating income dropped 15% to \$159 million in the first quarter of 2020. Factory shutdowns apart, commercial flight cancellations and reduced ocean sailings resulted in the double-digit fall in operating income.
- ▼ The trade tensions between the United States and China proved to be a huge setback for Expeditors. Given the company's exposure in China (26% of 2019 revenues came from China exports and imports) it is suffering because of low shipment volumes. Notably, revenues from North Asia declined significantly in 2019. In fact, revenues from Airfreight Services, declined 10.5% in 2019 mainly due to weakness pertaining to its operations in China.
- ▼ Expeditors operates in more than 60 countries across the globe. With the global economy currently experiencing a slowdown due to the COVID-19 pandemic, Expeditors' operations are being hurt. For instance, North Asia, South Asia and North America registered tonnage declines of 9%, 11% and 4%, respectively in first-quarter 2020. With the health peril showing no signs of subsiding, volumes is likely to be weak in the second quarter as well, thereby hurting overall results.

Supply chain disruptions from the coronavirus pandemic are weighing on Expeditors' volumes.

Last Earnings Report

Earnings Beat at Expeditors in Q1

Expeditors' earnings of 71 cents per share surpassed the Zacks Consensus Estimate by 3 cents. The earnings beat in such challenging times seems to have pleased investors. As a result, the stock gained in early trading. However, the bottom line decreased 11.3% on a year-over-year basis.

Further, total revenues of \$1,901.9 marginally missed the Zacks Consensus Estimate of \$1,902.7 and also declined 5.9% year over year. The top line was hurt by supply-chain disruptions due to the coronavirus pandemic. The extended closure of factories in China due to the virus outbreak dented freight volumes in the March quarter.

Notably, volumes pertaining to airfreight tonnage and ocean container contracted 7% and 10%, respectively, year over year. Operating income dropped 15% to \$159 million in the first quarter of 2020. Factory shutdowns apart, commercial flight cancellations and reduced ocean sailings resulted in the double-digit fall in operating income.

During the first quarter, the company repurchased 4 million shares at an average price of \$70.81 per share. The company exited the quarter with cash and cash equivalents of \$1.11 billion compared with \$1.23 billion at the end of 2019.

Segmental Revenues

Airfreight Services revenues slid 0.8% year over year to \$709 million in the first quarter. Ocean Freight and Ocean Services revenues deteriorated 13.2% to \$493.4 million. Moreover, Customs Brokerage and Other Services revenues decreased 5% year over year to \$699.4 million.

Quarter Ending **03/2020**

| Report Date | May 05, 2020 |
|------------------|--------------|
| Sales Surprise | -0.04% |
| EPS Surprise | 4.41% |
| Quarterly EPS | 0.71 |
| Annual EPS (TTM) | 3.32 |

Recent News

Acquisition of Fleet Logistics' Digital Platform – May 27, 2020

Expeditors completed the acquisition of Fleet Logistics' Digital Platform. The buyout is expected to boost Expeditors' online LTL shipping platform, Koho. The move is in line with the company's focus on Digital Solutions.

Apart from supporting Koho, the investment is also expected to brace small shippers quote, book, manage and track the LTL shipments online.

Amid the coronavirus crisis, the acquisition is expected to expand business and get further investments that are expected to drive the top line in the upcoming quarters. Further details of the deal were not disclosed.

Valuation

Expeditors shares are down 5.6% in the year-to-date period but up 0.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 2.8% and 15.2% in the year-to-date period respectively. Over the past year, the Zacks sub-industry is up 5.4% while the sector is down 9.9%.

The S&P 500 index is down 2.7% in the year-to-date period but up 7.7% in the past year.

The stock is currently trading at 22.84X forward 12-month price-to-earnings, which compares to 32.1X for the Zacks sub-industry, 34.27X for the Zacks sector and 22.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.02X and as low as 15.6X, with a 5-year median of 20.76X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 24.22X 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 F12M | Current | 22.84 | 32.1 | 34.27 | 22.46 |
| | 5-Year High | 27.02 | 32.1 | 37.97 | 22.46 |
| | 5-Year Low | 15.6 | 9.18 | 10.48 | 15.23 |
| | 5-Year Median | 20.76 | 19.93 | 13.3 | 17.49 |
| EV/EBITDA TTM | Current | 14.78 | 13.07 | 7.16 | 11.3 |
| | 5-Year High | 16.54 | 21.69 | 11.16 | 12.85 |
| | 5-Year Low | 9.23 | 8.96 | 5.44 | 8.25 |
| | 5-Year Median | 13.29 | 12.72 | 7.32 | 10.83 |
| P/S F12M | Current | 1.52 | 1.6 | 1.2 | 3.42 |
| | 5-Year High | 1.7 | 2.26 | 1.42 | 3.44 |
| | 5-Year Low | 1.1 | 0.6 | 0.85 | 2.53 |
| | 5-Year Median | 1.47 | 1.44 | 1.2 | 3.02 |

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|--------------|------|
| FedEx Corporation (FDX) | Neutral | 3 |
| J.B. Hunt Transport Services, Inc. (JBHT) | Neutral | 3 |
| Ryder System, Inc. (R) | Neutral | 3 |
| United Parcel Service, Inc. (UPS) | Neutral | 3 |
| C.H. Robinson Worldwide, Inc. (CHRW) | Underperform | 5 |
| Hertz Global Holdings, Inc. (HTZ) | Underperform | 3 |
| Hub Group, Inc. (HUBG) | Underperform | 5 |
| Landstar System, Inc. (LSTR) | Underperform | 4 |

| Industry Comparison Industry: Transportation - Services | | | | Industry Peers | | |
|---|-----------|------------|-----------|----------------|---------|----------|
| | EXPD | X Industry | S&P 500 | CHRW | JBHT | R |
| Zacks Recommendation (Long Term) | Neutral | - | - | Underperform | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 5 | 3 | 3 |
| VGM Score | B | - | - | D | A | A |
| Market Cap | 12.25 B | 1.11 B | 21.05 B | 10.57 B | 12.34 B | 1.93 B |
| # of Analysts | 5 | 3 | 14 | 11 | 10 | 6 |
| Dividend Yield | 1.41% | 0.00% | 1.99% | 2.60% | 0.92% | 6.24% |
| Value Score | B | - | - | C | B | A |
| Cash/Price | 0.09 | 0.11 | 0.07 | 0.03 | 0.00 | 0.20 |
| EV/EBITDA | 13.53 | 7.59 | 12.43 | 13.49 | 11.01 | 4.06 |
| PEG Ratio | NA | 4.12 | 2.85 | 3.06 | 1.82 | NA |
| Price/Book (P/B) | 6.07 | 2.56 | 2.87 | 6.66 | 5.41 | 0.86 |
| Price/Cash Flow (P/CF) | 19.55 | 6.51 | 11.32 | 15.68 | 12.10 | 0.86 |
| P/E (F1) | 23.87 | 26.57 | 20.46 | 27.58 | 27.27 | NA |
| Price/Sales (P/S) | 1.52 | 0.80 | 2.19 | 0.69 | 1.32 | 0.22 |
| Earnings Yield | 4.13% | 2.85% | 4.57% | 3.63% | 3.67% | -5.51% |
| Debt/Equity | 0.15 | 0.48 | 0.77 | 0.69 | 0.57 | 3.26 |
| Cash Flow (\$/share) | 3.77 | 1.92 | 7.01 | 5.01 | 9.67 | 41.99 |
| Growth Score | C | - | - | D | B | B |
| Hist. EPS Growth (3-5 yrs) | 12.05% | 12.06% | 10.84% | 6.73% | 11.64% | -6.34% |
| Proj. EPS Growth (F1/F0) | -12.00% | -54.26% | -10.79% | -32.02% | -12.23% | -296.04% |
| Curr. Cash Flow Growth | -4.59% | -4.59% | 5.46% | -11.01% | -2.99% | 25.93% |
| Hist. Cash Flow Growth (3-5 yrs) | 8.52% | 11.86% | 8.55% | 5.98% | 9.02% | 9.98% |
| Current Ratio | 2.26 | 1.53 | 1.29 | 1.44 | 1.54 | 0.85 |
| Debt/Capital | 13.34% | 35.16% | 45.14% | 40.77% | 36.34% | 76.55% |
| Net Margin | 7.12% | 2.52% | 10.53% | 3.21% | 5.71% | -2.01% |
| Return on Equity | 27.00% | 8.30% | 16.06% | 29.94% | 24.76% | 5.32% |
| Sales/Assets | 2.21 | 1.24 | 0.55 | 3.27 | 1.73 | 0.62 |
| Proj. Sales Growth (F1/F0) | -3.31% | -2.78% | -2.70% | -3.97% | -0.89% | -5.52% |
| Momentum Score | C | - | - | C | C | D |
| Daily Price Chg | -2.40% | -0.33% | -3.07% | 1.59% | -2.34% | -6.17% |
| 1 Week Price Chg | -0.03% | 1.67% | 0.92% | 0.03% | 3.07% | -0.08% |
| 4 Week Price Chg | -2.33% | 4.48% | -3.03% | -2.02% | -2.08% | 2.78% |
| 12 Week Price Chg | 12.43% | 34.54% | 22.03% | 17.98% | 29.33% | 45.98% |
| 52 Week Price Chg | 0.60% | -12.99% | -8.53% | -5.74% | 32.47% | -35.04% |
| 20 Day Average Volume | 1,326,588 | 215,154 | 2,805,937 | 1,870,309 | 834,766 | 669,108 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.47% | 0.00% |
| (F1) EPS Est 4 week change | 1.34% | 0.00% | 0.00% | 0.00% | 0.42% | -59.25% |
| (F1) EPS Est 12 week change | -12.25% | -45.27% | -12.33% | -22.71% | -21.38% | -270.45% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | 0.00% | 0.00% | -1.76% | -38.07% |

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 | B |
| Growth Score | C |
| Momentum Score | C |
| 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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