

## Landstar System, Inc. (LSTR)

**\$113.35** (As of 01/03/20)

Price Target (6-12 Months): **\$119.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

### Summary

Shares of Landstar have underperformed its industry in a year's time, primarily due to soft truck pricing on account of weak freight demand. As an evidence, revenues at the truck transportation segment declined 10.9% in the first nine months of 2019. Moreover, management expects truck revenue per load to have fallen in the high single-digit percentage range year over year in the December quarter. Performance of the company's rail intermodal segment (revenues down 8.8% in the first nine months) is concerning as well. However, Landstar's efforts to control costs bode well. In the first nine months of 2019, total costs declined 10.2%. With revenues anticipated to remain weak in the near term, we expect its cost-control initiatives to drive the bottom line. The company's efforts to reward its shareholders are also encouraging.

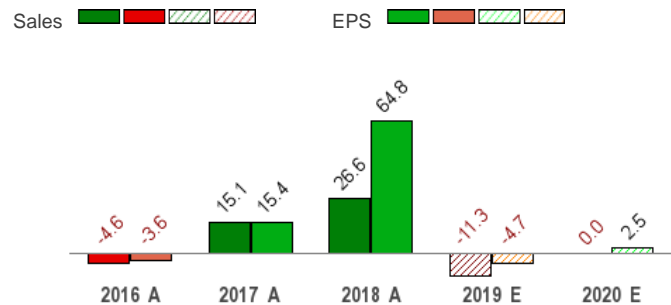
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$120.23 - \$94.99</b>
20 Day Average Volume (sh)	<b>190,492</b>
Market Cap	<b>\$4.5 B</b>
YTD Price Change	<b>-0.5%</b>
Beta	<b>1.24</b>
Dividend / Div Yld	<b>\$0.74 / 0.7%</b>
Industry	<b><a href="#">Transportation - Truck</a></b>
Zacks Industry Rank	<b>Bottom 9% (230 out of 252)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-6.3%</b>
Last Sales Surprise	<b>-1.4%</b>
EPS F1 Est- 4 week change	<b>-0.3%</b>
Expected Report Date	<b>01/29/2020</b>
Earnings ESP	<b>-1.8%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	941 E	1,032 E	1,052 E	1,055 E	4,097 E
2019	1,033 A	1,045 A	1,012 A	994 E	4,095 E
2018	1,048 A	1,183 A	1,202 A	1,182 A	4,615 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.37 E	\$1.51 E	\$1.54 E	\$1.55 E	\$6.04 E
2019	\$1.58 A	\$1.53 A	\$1.35 A	\$1.43 E	\$5.89 E
2018	\$1.37 A	\$1.51 A	\$1.63 A	\$1.68 A	\$6.18 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>18.5</b>
P/E F1	<b>18.8</b>
PEG F1	<b>1.6</b>
P/S TTM	<b>1.1</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

## Overview

Landstar System, Inc. is an asset-light provider of integrated transportation management solutions, incorporated in 1991. Based in Jacksonville, FL, the company provides services throughout the United States, Canada, Mexico as well as other countries in North America. The company delivers safe, specialized transportation services to a broad range of customers utilizing a network of over 1,200 independent commission sales agents as well as over 68,000 third-party capacity owners. The company's business model is such that large part of its operating costs is directly proportional to revenues.

The company's independent commission sales agents work towards locating freight, making the same available to Landstar's capacity providers and coordinating the freight transportation between customers and capacity providers. Meanwhile, the third-party capacity providers supply truck capacity to the company.

Landstar operates in two segments: the transportation logistics segment and the insurance segment.

### Transportation Logistics Segment

Landstar System provides integrated transportation management solutions such as truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized etc. The segment offers services across a wide array of industries including automotive products, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics and military equipment.

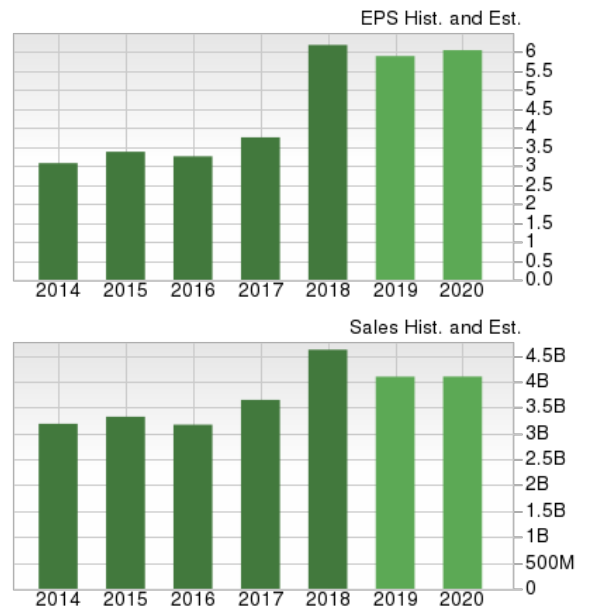
The division also provides services to other third-party logistics and less-than-truckload service providers in the transportation sector. This segment is further divided into three sub-groups, namely Truck Services, Rail Intermodal Services and Air and Ocean Services.

In 2018, the company recorded revenues of \$4.65 billion, up 26.5% year over year. The Truck Transportation, Rail Intermodal and Ocean and Air Cargo Carriers units contributed 92.7%, 2.8% and 2.9%, respectively, to the top line.

### Insurance Segment

The segment provides risk and claims management services to some of Landstar's operating subsidiaries. Revenues from the segment accounted for approximately 1% of the top line in 2018.

The company's fiscal year coincides with the calendar year.



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## Reasons To Buy:

- ▲ Landstar's efforts to reward its shareholders through dividends and share buybacks deserve praise. In a shareholder-friendly move, the company hiked its quarterly dividend by 12% to 18.5 cents per share (74 cents annually) in July 2019. Notably, the company raised its dividend twice in 2018. Landstar has distributed profits worth \$109.16 million among its shareholders through dividends (\$20.58 million) and buybacks (\$88.57 million) in the first nine months of 2019. In December 2019, the company's board bolstered the current share buyback program by an additional purchase of 1.8 million shares. As a result, Landstar is now authorized to purchase a total of 3 million shares including 1.2 million currently under its authorization.
- ▲ We are impressed by Landstar's efforts to control costs for offsetting the softness in revenues due to slowdown in freight demand. As an evidence, total expenses declined 10.2% in the first nine months of 2019. Cost reduction efforts are anticipated to have aided the company's bottom line in the fourth quarter. With revenues anticipated to be weak in the near term, we expect the company's cost-containment initiatives to drive the bottom line going forward.
- ▲ Landstar's asset-light business model sets it apart from other players in the industry. In an industry that is mostly capital intensive in nature with heavy fixed costs, Landstar operates with low fixed costs as it utilizes a network of independent sales agents and third-party truck capacity providers to offer services. Thus it is spared of the lump sum fixed costs of owning the heavy trucking equipment. This in turn, helps it generate higher return on investments.

Landstar's efforts to reward shareholders via dividends and share repurchases are impressive.

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### Reasons To Sell:

- ▼ With truck capacity having loosened, the company has been struggling with sluggish freight demand since the end of 2018. This highly unfavorable scenario affected trucking volumes and pricing with trucking revenues decreasing 10.9% in the first nine months of 2019. With the situation having persisted in the December quarter as well, Management expects truck revenue per load to have dropped in a high single-digit percentage range on a year-over-year basis in the December quarter.
- ▼ Apart from truck transportation, the rail intermodal segment is performing disappointingly. As a result, revenues in the rail intermodal segment deteriorated 8.8% in the first nine months of 2019. In the event of this key segment continuing to report below-par revenues, shares of the company might be hit badly.
- ▼ The entire trucking industry is plagued by driver crisis, which is hampering business operations. Since Landstar generates majority of its revenues from trucking, this is a huge challenge for the company. Moreover, shares of the company have underperformed its industry in a year's time due to the above-mentioned headwinds.

Sluggish freight demand is a major headwind for Landstar, which might hamper fourth-quarter results.

## Last Earnings Report

### Earnings Miss at Landstar in Q3

Landstar's earnings of \$1.35 per share missed the Zacks Consensus Estimate by 9 cents. Moreover, the bottom line declined 17.2% on a year-over-year basis despite lower costs.

Revenues of \$1,011.7 million too fell short of the Zacks Consensus Estimate of \$1,025.5 million. The top line also decreased 15.8% year over year. Lower truck volumes and the resultant decline in truck revenues, mainly due to unfavorable market conditions, hampered results. Management on the conference call stated that the rate paid to truck brokerage carriers in the third quarter was 116 basis points, lower than the year-ago figure.

Gross profit (revenues excluding the cost of purchased transportation and commissions to agents) came in at \$152.6 million in the reported quarter, down 10.9% year over year. Further, operating margin (operating income divided by gross profit) dipped to 46.3% from 50.8% in the prior year. Total costs and expenses (on a reported basis) declined to \$942.3 million from \$1.12 billion a year earlier.

Total revenues in the truck transportation segment — accounting for bulk (92.1%) of the top line — were \$932.1 million, down 16.6%. Rail intermodal revenues of \$28.97 million also fell 15.8%. Plus, ocean and air cargo carriers generated revenues of \$30.36 million that slipped year over year. Meanwhile, other revenues augmented 11.1% to \$20.1 million.

Truckload transportation revenue hauled via van equipment in the reported quarter declined 19.8% to \$575 million. Also, truckload transportation revenue hauled via unsided/platform equipment decreased 13.3% to \$331.8 million. Moreover, revenue hauled by rail, air and ocean cargo carriers was \$59.3 million in the third quarter, down 9.7% year over year. The overall third-quarter truck revenue per load too dropped 12.7% on a year-over-year basis.

### Liquidity

At the end of the third quarter, the company's cash and cash equivalents were \$284.43 million compared with \$199.74 million at the end of December 2018. Additionally, long-term debt (excluding current maturities) totaled \$61.39 million compared with \$84.86 million at the end of last December.

### Q4 Outlook

The company expects truck revenue per load in the December quarter to fall in a high single-digit percentage range compared with the figure recorded in fourth-quarter 2018. Revenues in the ongoing quarter are expected between \$970 million and \$1.02 billion. Management expects current-quarter earnings per share in the \$1.40-\$1.46 range.

**Quarter Ending** **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-1.35%
EPS Surprise	-6.25%
Quarterly EPS	1.35
Annual EPS (TTM)	6.14

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## Recent News

### Buyback Program Boosted — Dec 11, 2019

Landstar's board bolstered the current share buyback program by an additional purchase of 1.8 million shares. Following this stepped-up repurchase plan, the company is now authorized to purchase a total of 3 million shares including 1.2 million currently under its authorization. Simultaneously, the board approved a special one-time cash dividend of \$2 per share. The amount is payable Jan 24, 2020 to its shareholders of record as of Jan 10.

### Dividend Update — Oct 23, 2019

Landstar's board approved a quarterly cash dividend of 18.5 cents per share (annualized 74 cents), payable Dec 6, to its shareholders of record as of Nov 12, 2019.

## Valuation

Landstar System shares are up 13.1% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 25.2% and 15.8% respectively.

The S&P 500 index is up 25.7% over the past year.

The stock is currently trading at 18.74X forward 12-month price-to-earnings, which compares to 19.04X for the Zacks sub-industry, 13.01X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.35X and as low as 13.98X, with a 5-year median of 18.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$119 price target reflects 19.67X of forward 12-month earnings.

The table below shows summary valuation data for LSTR

Valuation Multiples - LSTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.74	19.04	13.01	18.71
	5-Year High	28.35	25.09	16.98	19.34
	5-Year Low	13.98	13.24	10.46	15.17
	5-Year Median	18.94	17.88	13.1	17.44
EV/EBITDA TTM	Current	11.75	9.09	7.89	11.99
	5-Year High	17.35	23.44	11.1	12.86
	5-Year Low	8.69	5.75	5.98	8.48
	5-Year Median	11.53	8.44	7.43	10.67
P/S F 12M	Current	1.09	1.46	1.13	3.47
	5-Year High	1.24	1.57	1.44	3.47
	5-Year Low	0.68	0.79	1.03	2.54
	5-Year Median	0.96	1.18	1.23	3

As of 01/03/2020

## Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 252)



## Top Peers

ArcBest Corporation (ARCB)	Neutral
Forward Air Corporation (FWRD)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Marten Transport, Ltd. (MRTN)	Neutral
Old Dominion Freight Line, Inc. (ODFL)	Neutral
Schneider National, Inc. (SNDR)	Neutral
Knight-Swift Transportation Holdings Inc. (KNX)	Underperform
Universal Logistics Holdings, Inc. (ULH)	Underperform

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	LSTR Neutral	X Industry	S&P 500	FWRD Neutral	ODFL Neutral	ULH Underperform
<b>VGM Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Market Cap	4.47 B	935.69 M	23.66 B	1.96 B	15.15 B	509.08 M
# of Analysts	10	4.5	13	5	9	1
Dividend Yield	0.65%	0.36%	1.79%	1.04%	0.36%	2.25%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>A</b>
Cash/Price	0.07	0.03	0.04	0.02	0.02	0.03
EV/EBITDA	11.24	6.27	13.88	12.83	14.21	6.27
PEG Ratio	1.53	1.56	1.99	NA	2.71	NA
Price/Book (P/B)	5.92	2.42	3.36	3.49	5.22	2.68
Price/Cash Flow (P/CF)	15.22	6.93	13.62	15.11	18.55	4.61
P/E (F1)	18.36	18.19	18.74	19.32	22.28	7.59
Price/Sales (P/S)	1.05	1.00	2.67	1.41	3.67	0.33
Earnings Yield	5.33%	5.36%	5.32%	5.17%	4.49%	13.18%
Debt/Equity	0.08	0.26	0.72	0.33	0.02	1.94
Cash Flow (\$/share)	7.45	4.98	6.94	4.60	10.23	4.04
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	18.15%	11.09%	10.56%	11.03%	22.90%	8.03%
Proj. EPS Growth (F1/F0)	2.65%	10.44%	7.41%	14.75%	10.67%	20.00%
Curr. Cash Flow Growth	50.82%	43.50%	14.83%	19.14%	48.06%	68.30%
Hist. Cash Flow Growth (3-5 yrs)	16.49%	11.52%	9.00%	11.46%	20.20%	10.31%
Current Ratio	2.01	1.31	1.23	1.54	2.03	0.91
Debt/Capital	7.51%	22.67%	42.92%	24.82%	1.52%	65.94%
Net Margin	5.76%	5.46%	11.08%	6.54%	15.29%	2.49%
Return on Equity	33.90%	13.93%	17.10%	17.06%	22.62%	29.93%
Sales/Assets	3.13	1.52	0.55	1.56	1.11	1.68
Proj. Sales Growth (F1/F0)	0.04%	2.13%	4.20%	4.51%	6.75%	10.85%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Daily Price Chg	-0.08%	-0.61%	-0.61%	-0.34%	-1.19%	0.81%
1 Week Price Chg	-0.10%	-0.07%	0.13%	0.20%	0.39%	0.63%
4 Week Price Chg	3.11%	2.45%	2.60%	0.07%	3.20%	-0.74%
12 Week Price Chg	2.26%	-0.97%	8.87%	14.15%	13.81%	-19.91%
52 Week Price Chg	19.59%	17.00%	29.34%	29.26%	59.59%	2.92%
20 Day Average Volume	190,492	200,989	1,603,615	131,371	1,182,572	71,116
(F1) EPS Est 1 week change	0.00%	0.10%	0.00%	0.44%	0.20%	0.00%
(F1) EPS Est 4 week change	-0.28%	-0.50%	0.00%	0.44%	-0.29%	-19.61%
(F1) EPS Est 12 week change	-4.44%	-6.22%	-0.57%	0.19%	-0.23%	-10.55%
(Q1) EPS Est Mthly Chg	1.29%	-1.38%	0.00%	1.93%	-0.44%	-51.52%

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## 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.

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### 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	D
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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