

Landstar System, Inc. (LSTR)

\$100.23 (As of 03/05/20)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

Shares of Landstar System have underperformed the industry in a year's time, primarily due to weak truck pricing due to soft freight demand. As an evidence, revenues at the truck transportation segment, its main revenue generating unit, declined 12% in 2019. Moreover, management expects first-quarter 2020 truck revenue per load to decrease in a mid-single-digit-percentage range year over year. Performance of the company's rail intermodal unit (2019 revenues down 8.3%) is concerning as well. The downward revision of the Zacks Consensus Estimate for current-quarter earnings reflects the negative sentiments surrounding the stock. However, Landstar's efforts to control costs bode well. In 2019, total costs declined 11.6%. Landstar's efforts to reward its shareholders through dividend payouts and share buybacks are encouraging too.

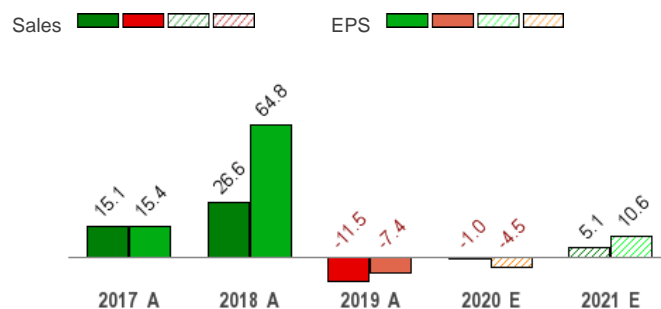
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$120.23 - \$94.99
20 Day Average Volume (sh)	315,723
Market Cap	\$4.0 B
YTD Price Change	-12.0%
Beta	1.17
Dividend / Div Yld	\$0.74 / 0.7%
Industry	Transportation - Truck
Zacks Industry Rank	Bottom 12% (224 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.9%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	17.5
P/E F1	18.4
PEG F1	1.5
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	989 E	1,085 E	1,105 E	1,106 E	4,250 E
2020	934 E	1,009 E	1,040 E	1,055 E	4,043 E
2019	1,033 A	1,045 A	1,012 A	995 A	4,085 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.29 E	\$1.55 E	\$1.63 E	\$1.62 E	\$6.04 E
2020	\$1.13 E	\$1.35 E	\$1.44 E	\$1.45 E	\$5.46 E
2019	\$1.58 A	\$1.53 A	\$1.35 A	\$1.27 A	\$5.72 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 03/05/2020. The reports text is as of 03/06/2020.

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 66,000 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 primarily through two segments: the transportation logistics segment and the insurance segment.

Transportation Logistics Segment

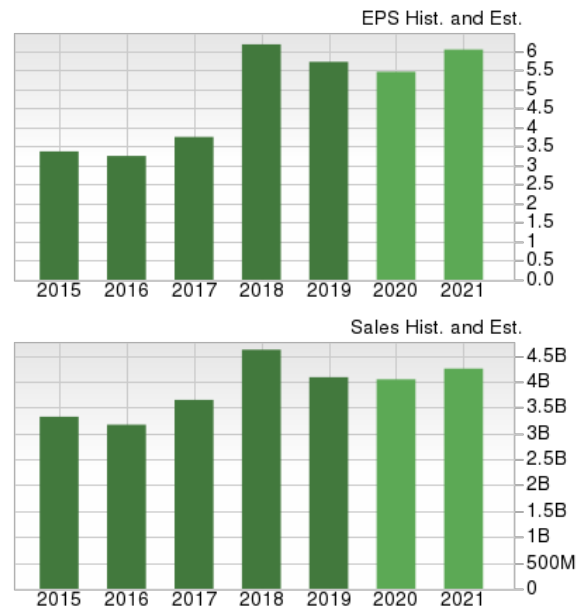
Landstar System provides integrated transportation management solutions such as truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized etc. The segment offers services across a wide 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 2019, the company recorded revenues of \$4.08 billion, down roughly 11.5% year over year. The Truck Transportation, Rail Intermodal and Ocean and Air Cargo Carriers units contributed 92.2%, 2.9% and 2.9%, respectively, to the top line.

The balance came from other sources like reinsurance premium revenue generated by the insurance segment and intra-Mexico transportation services revenue generated by Landstar Metro.

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



Reasons To Sell:

- ▼ The truck transportation segment is Landstar's primary revenue generating unit. However, the segment has been performing disastrously for quite time due to lower truck volumes and unfavorable pricing. Landstar's top line declined roughly 11.5% in 2019 mainly due to the lackluster performance of the truck transportation segment. What is worse is that the situation is unlikely to improve in the first quarter of 2020. Management expects first-quarter truck revenue per load to decrease in a mid-single-digit-percentage range year over year.
- ▼ Apart from truck transportation, the rail intermodal segment is delivering a dismal performance. As a result, revenues in the rail intermodal segment deteriorated 8.3% in 2019 as number of loads declined 10.3% at the division. In the event of this key segment continuing to report below-par revenues, shares of the company might be hit significantly.
- ▼ 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. The downward revision of the Zacks Consensus Estimate for current-quarter earnings reflects the negative sentiment surrounding the stock.
- ▼ Landstar has an unimpressive earnings surprise history, having outpaced the Zacks Consensus Estimate in only one of the trailing four quarters. The company reported lower-than-expected earnings per share in the other three quarters. Such a disappointing earnings surprise history is reflected in its stock price performance. Notably, shares of Landstar have underperformed the industry in a year's time.

Unfavorable pricing & low truck volumes are major headwinds for Landstar.

Risks

- 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. In 2019, Landstar rewarded its shareholders with \$116.46 million through dividends (\$27.89 million) and buybacks (\$88.57 million). The company generated free cash flow of \$288.42 million in the year. In fact, free cash flow generation has exhibited an increasing trend since 2015. Impressive free cash flow generation is a major positive and might lead to an uptick in shareholder-friendly activities.
 - 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 11.6% in 2019. 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. Efforts to control debts are encouraging as well.
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Last Earnings Report

Earnings Miss at Landstar in Q4

Landstar's earnings of earnings of \$1.27 per share missed the Zacks Consensus Estimate by 14 cents. Moreover, the bottom line declined 24.4% on a year-over-year basis, mainly due to lower revenues. Notably, revenues dipped 15.9% on a year-over-year basis to \$994.9 million.

The top-line figure, however, surpassed the Zacks Consensus Estimate of \$992.5 million. Lower truck volumes and unfavorable pricing dented truck revenues, mainly due to unfavorable market conditions, thereby hurting results. Gross profit (revenues excluding the cost of purchased transportation and commissions to agents) came in at \$148.68 million in the reported quarter, down 12% year over year.

Further, operating margin (operating income divided by gross profit) dipped to 44.7% from the prior year's 51%. Total costs and expenses (on a reported basis) declined to \$929.7 million from the \$1.09 billion incurred in the prior-year period.

Total revenues in the truck transportation segment — accounting for bulk (91.7%) of the top line — were \$911.8 million, down 15.4%. Within the truck transportation segment, truckload transportation revenue hauled via van equipment in the reported quarter fell 18.9% to \$571.77 million. Also, truckload transportation revenue hauled via unsided/platform equipment decreased 9.1% to \$315.2 million.

Less-than-truckload revenues went down 4.7% to \$24.85 million. The overall fourth-quarter truck revenue per load too dropped 9.2% on a year-over-year basis.

Rail intermodal revenues of \$30.75 million fell 6.7%. Moreover, revenues in the ocean and air cargo carriers segment plunged 37.9% to \$32.22 million. Meanwhile, other revenues increased to \$20.1 million.

At the end of 2019, the company's cash and cash equivalents were \$319.51 million compared with the \$199.74 million recorded at the end of December 2018. Additionally, long-term debt (excluding current maturities) totaled \$70.21 million compared with \$84.86 million at the end of 2018.

Q1 Guidance

The company expects revenues between \$915 million and \$965 million for the March-end quarter. Management expects current-quarter earnings per share in the \$1.10-\$1.20 range (excluding the resolution of a fatal accident that occurred in January).

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	0.24%
EPS Surprise	-9.93%
Quarterly EPS	1.27
Annual EPS (TTM)	5.73

Recent News

Dividend Update — Jan 29, 2020

Landstar's board approved a quarterly cash dividend of 18.5 cents per share (annualized 74 cents), payable Mar 13, to its shareholders of record as of Feb 17, 2020.

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.

Valuation

Landstar System shares are up 5.1% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 6.3% and 7.3% respectively.

The S&P 500 index is up 12.5% over the past year.

The stock is currently trading at 18.01X forward 12-month price-to-earnings, which compares to 18.41X for the Zacks sub-industry, 11.44X for the Zacks sector and 17.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.63X and as low as 14.71X, with a 5-year median of 17.6X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$85 price target reflects 15.3X 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 F12M	Current	18.01	18.41	11.44	17.89
	5-Year High	20.63	19.11	13.66	18.68
	5-Year Low	14.71	13.36	11.44	16.13
	5-Year Median	17.6	17.33	12.85	17.38
EV/EBITDA TTM	Current	10.91	8.56	6.86	10.93
	5-Year High	12.85	9.38	8.11	12.56
	5-Year Low	9.64	6.78	6.86	10.49
	5-Year Median	11.37	8.2	7.77	11.21
P/S F12M	Current	0.97	1.37	0.99	3.3
	5-Year High	1.14	1.47	1.18	3.43
	5-Year Low	0.86	1.05	0.99	3
	5-Year Median	1.02	1.36	1.11	3.19

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (224 out of 255)



Top Peers

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

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	LSTR Underperform	X Industry	S&P 500	FWRD Underperform	ODFL Neutral	ULH Neutral
VGM Score	B	-	-	B	C	A
Market Cap	3.96 B	800.10 M	21.47 B	1.60 B	16.06 B	404.05 M
# of Analysts	10	4.5	13	4	9	1
Dividend Yield	0.74%	0.46%	2.04%	1.26%	0.46%	2.84%
Value Score	D	-	-	C	D	A
Cash/Price	0.09	0.04	0.05	0.04	0.03	0.04
EV/EBITDA	10.70	5.52	12.81	10.64	14.57	5.52
PEG Ratio	1.53	1.53	1.88	NA	2.60	NA
Price/Book (P/B)	5.49	2.10	2.95	2.78	5.22	2.12
Price/Cash Flow (P/CF)	14.54	6.02	11.75	12.43	18.51	3.66
P/E (F1)	18.31	15.99	17.19	17.10	23.93	6.02
Price/Sales (P/S)	0.97	0.93	2.32	1.14	3.91	0.27
Earnings Yield	5.45%	6.06%	5.81%	5.84%	4.18%	16.61%
Debt/Equity	0.10	0.20	0.70	0.30	0.01	1.94
Cash Flow (\$/share)	6.89	4.90	7.01	4.59	10.89	4.04
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	18.59%	12.50%	10.85%	11.29%	23.76%	12.50%
Proj. EPS Growth (F1/F0)	-4.55%	4.06%	6.27%	9.62%	9.96%	83.58%
Curr. Cash Flow Growth	-8.92%	3.80%	6.07%	-3.74%	3.97%	68.30%
Hist. Cash Flow Growth (3-5 yrs)	10.35%	9.43%	8.52%	6.96%	15.99%	10.31%
Current Ratio	1.80	1.50	1.23	1.72	2.37	0.91
Debt/Capital	8.87%	19.99%	42.57%	23.14%	1.44%	65.94%
Net Margin	5.58%	5.58%	11.69%	6.18%	14.98%	2.49%
Return on Equity	31.05%	12.78%	16.66%	16.25%	21.30%	27.37%
Sales/Assets	2.96	1.46	0.54	1.49	1.07	1.63
Proj. Sales Growth (F1/F0)	-1.02%	3.14%	3.90%	11.67%	5.34%	11.52%
Momentum Score	C	-	-	D	D	B
Daily Price Chg	-4.89%	-3.80%	-3.79%	-4.01%	-2.17%	-3.20%
1 Week Price Chg	-8.95%	-14.35%	-12.06%	-9.80%	-12.92%	-17.68%
4 Week Price Chg	-11.97%	-15.57%	-10.92%	-15.63%	-7.48%	-16.52%
12 Week Price Chg	-11.16%	-16.88%	-8.10%	-18.57%	7.50%	-21.47%
52 Week Price Chg	-5.09%	-17.36%	4.09%	-7.08%	43.08%	-27.79%
20 Day Average Volume	315,723	200,829	2,483,920	155,329	440,837	55,793
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.16%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.06%	-7.64%	0.11%	0.00%
(F1) EPS Est 12 week change	-9.92%	-6.88%	-0.42%	-6.87%	-1.23%	-10.55%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.29%	-13.16%	0.47%	0.00%

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	D
Growth Score	A
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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