

Landstar System, Inc. (LSTR)

\$131.39 (As of 08/20/20)

Price Target (6-12 Months): **\$151.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

Landstar's efforts to control costs are encouraging. Total expenses declined 13.1% year over year in first-half 2020. Additionally, the company's measures to add shareholder value raise optimism in the stock. In July, it raised quarterly dividend by 13.5% to 21 cents per share (annualized 84 cents). Gradual recovery in the freight scene is a boon to the company. Landstar has seen an increase in the number of loads and revenue per load on loads hauled via trucks from the lows in April and May. The company also has a sound liquidity position. Amid this positivity, the Zacks Consensus Estimate for 2020 earnings has been revised upward in the past 60 days. However, weak performance of the truck-transportation unit is concerning, which is the primary reason behind shares of the company underperforming its industry in a year's time.

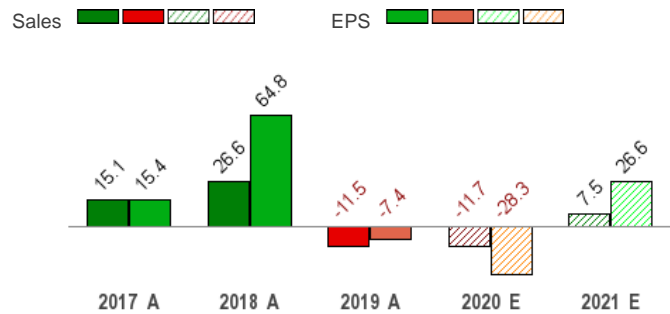
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$133.70 - \$85.30
20 Day Average Volume (sh)	297,333
Market Cap	\$5.0 B
YTD Price Change	15.4%
Beta	1.00
Dividend / Div Yld	\$0.84 / 0.6%
Industry	Transportation - Truck
Zacks Industry Rank	Top 10% (26 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.1%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	11.6%
Expected Report Date	10/28/2020
Earnings ESP	1.8%
P/E TTM	28.3
P/E F1	32.1
PEG F1	2.7
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	953 E	999 E	992 E	1,022 E	3,875 E
2020	928 A	824 A	912 E	957 E	3,606 E
2019	1,033 A	1,045 A	1,012 A	995 A	4,085 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.23 E	\$1.28 E	\$1.32 E	\$1.36 E	\$5.19 E
2020	\$1.04 A	\$0.98 A	\$1.12 E	\$1.25 E	\$4.10 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 08/20/2020. The reports text is as of 08/21/2020.

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

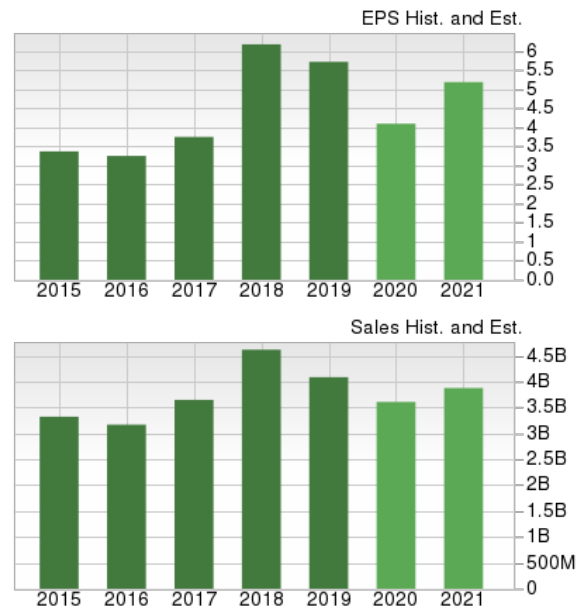
Landstar System provides integrated transportation management solutions such as truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized etc. The segment offers services across a wide 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 Buy:

- ▲ Landstar's efforts to reward its shareholders through dividends and share buybacks deserve praise. In a shareholder-friendly move, the company increased its quarterly dividend by 13.5% to 21 cents per share (annualized 84 cents) in July. During the first half of 2020, the company rewarded its shareholders with \$93.4 million through dividend payouts. The company's impressive free cash flow-generation capacity supports such shareholder-friendly measures. In the first half of 2020, Landstar generated \$178 million of free cash flow.
- ▲ We are impressed by Landstar's efforts to control costs in order to offset the softness in revenues due to slowdown in freight demand. Evidently, total expenses declined 13.1% year over year to \$1.67 billion in first-half 2020. With revenues anticipated to be weak in the near term, we expect the company's cost-containment initiatives to drive the bottom line. Additionally, the gradual recovery in the freight scene is a boon to the company. Landstar has seen an increase in the number of loads and revenue per load on loads hauled via trucks from the lows in April and May.
- ▲ 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. Moreover, Landstar's cash and cash equivalents at the end of the second quarter stood at \$282 million, way above the current debt figure of \$74 million, implying that the company has sufficient cash to meet its current debt obligations.

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

Risks

- The truck-transportation segment, which is Landstar's primary revenue generating unit, is under significant pressure due to the coronavirus-led weakness in freight demand. A slowdown in economic activities is weighing on trucking volumes. With truck-transportation revenues declining 16.3% year over year in the first half of 2020, the top line fell 15.7%. Although freight demand has improved from the peak declines in April and May, it is still way below year-ago levels. Given the current economic conditions, a full recovery in freight is likely to take a while.
 - For the third quarter, Landstar expects the number of loads hauled via trucks to decline in mid-single-digit percentage range compared to that in the year-ago period. Third-quarter truck revenue per load is also anticipated to decrease in mid-single-digit percentage range from the third quarter of 2019. Apart from the truck-transportation segment, softness in the intermodal and, ocean and air cargo carriers segment is also concerning. While revenues in the intermodal segment declined 12.4% year over year in the first half of 2020, the same in the ocean- and air-cargo carriers unit dipped 2.8%.
 - Amid coronavirus-related woes, the company's forecast for third-quarter earnings and revenues is bleak. Revenues for the quarter are predicted in the range of \$885-\$935 million. The mid-point — \$910 million — of the guided range is below the year-ago reported figure of \$1.05 billion. Additionally, earnings for the third quarter are estimated in the range of \$1.11-\$1.17 per share. The mid-point — \$1.14 — of the guided range is below the year-ago reported figure of \$1.53.
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Last Earnings Report

Earnings Beat at Landstar in Q2

Landstar's second-quarter 2020 earnings (excluding 35 cents from non-recurring items) of 98 cents per share beat the Zacks Consensus Estimate of 72 cents. However, the bottom line declined significantly year over year. Although revenues of \$823.5 million surpassed the Zacks Consensus Estimate of \$782.6 million, it plunged 21.2% year over year. Results were hurt by coronavirus-induced weak freight demand.

Detailed Statistics

Gross profit (revenues excluding the cost of purchased transportation and commissions to agents) came in at \$113.1 million in the reported quarter, down 28.4% year over year.

Further, operating income fell 60.2% from the prior-year quarter's figure to \$32.18 million. Total costs and expenses (on a reported basis) declined 18% to \$792.17 million.

Total revenues in the truck transportation segment — contributing 91.5% to the top line — amounted to \$753.33 million, down 22.2% from the year-ago quarter's figure. Within the truck transportation segment, truckload transportation revenues hauled via van equipment fell 20.2% to \$483.02 million. Also, truckload transportation revenues hauled via unsided/platform equipment declined 26.8% to \$247.39 million.

Less-than-truckload revenues slipped 7.3% to \$22.92 million. The overall second-quarter truck transportation revenue per load dropped 7.1% year over year.

Rail intermodal revenues of \$23.19 million decreased 18.8% from the figure recorded in second-quarter 2019. Meanwhile, revenues in the ocean and air cargo carriers segment increased 8.6% year over year to \$30.66 million. Other revenues declined 18.5% to \$16.33 million.

Liquidity

At the end of the second quarter, Landstar had cash and cash equivalents of \$245.47 million, compared with the \$319.51 million recorded at the end of 2019. Additionally, long-term debt (excluding current maturities) totaled \$60.15 million at the end of the second quarter, compared with \$70.21 million at the end of 2019.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	5.23%
EPS Surprise	36.11%
Quarterly EPS	0.98
Annual EPS (TTM)	4.64

Recent News

Dividend Hike — Jul 23, 2020

Landstar's board of directors has increased quarterly dividend by 13.5% to 21 cents per share (annualized 84 cents). The dividend is payable on Aug 28, to shareholders of record as of Aug 10.

Valuation

Landstar shares are up 15.4% and 19.9% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry are up 28.2%, while those in the Zacks Transportation sector are down 0.9% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are up 42.4% and 6.6% respectively.

The S&P 500 index is up 4.7% and 15.7% in the year-to-date period and in the past year respectively.

The stock is currently trading at 28.32X trailing 12-month price-to-earnings, which compares to 29.13X for the Zacks sub-industry, 33.64X for the Zacks sector and 23.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.79X and as low as 15.04X, with a 5-year median of 20.69X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$151 price target reflects 32.54X trailing 12-month earnings.

The table below shows summary valuation data for LSTR

Valuation Multiples - LSTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	28.32	29.13	33.64	23.89
	5-Year High	30.79	32.85	33.64	23.89
	5-Year Low	15.04	13.97	11.53	15.98
	5-Year Median	20.69	19.88	15.52	19.26
EV/EBITDA TTM	Current	17.24	12.07	10.34	12.76
	5-Year High	17.66	21.94	11.07	12.85
	5-Year Low	8.53	5.98	5.4	8.25
	5-Year Median	12.03	8.73	7.24	10.91
P/S F 12M	Current	1.34	2.04	1.35	3.7
	5-Year High	1.34	2.04	1.41	3.7
	5-Year Low	0.68	0.83	0.84	2.53
	5-Year Median	1	1.29	1.2	3.05

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Top 10% (26 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
ArcBest Corporation (ARCB)	Outperform	1
Forward Air Corporation (FWRD)	Outperform	3
KnightSwift Transportation Holdings Inc. (KNX)	Outperform	1
Marten Transport, Ltd. (MRTN)	Outperform	2
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Old Dominion Freight Line, Inc. (ODFL)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	2
Universal Logistics Holdings, Inc. (ULH)	Underperform	2

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	LSTR	X Industry	S&P 500	FWRD	ODFL	ULH
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	1	-	-	3	3	2
VGM Score	C	-	-	A	C	A
Market Cap	5.04 B	1.17 B	23.46 B	1.61 B	22.98 B	526.53 M
# of Analysts	8	5	14	4	9	1
Dividend Yield	0.64%	0.00%	1.65%	1.25%	0.31%	0.00%
Value Score	C	-	-	B	D	A
Cash/Price	0.06	0.05	0.07	0.05	0.02	0.03
EV/EBITDA	14.04	6.83	13.34	10.85	20.92	6.44
PEG Ratio	2.67	2.35	3.00	NA	4.17	NA
Price/Book (P/B)	7.77	2.43	3.12	2.84	7.74	2.43
Price/Cash Flow (P/CF)	19.06	8.42	12.60	12.53	26.98	3.95
P/E (F1)	32.05	24.96	21.61	35.71	39.58	12.23
Price/Sales (P/S)	1.34	1.18	2.44	1.18	5.83	0.38
Earnings Yield	3.12%	3.40%	4.43%	2.80%	2.53%	8.18%
Debt/Equity	0.09	0.16	0.76	0.39	0.03	1.88
Cash Flow (\$/share)	6.89	4.97	6.93	4.59	7.26	4.95
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	16.72%	13.09%	10.44%	8.50%	24.61%	18.23%
Proj. EPS Growth (F1/F0)	-28.39%	-21.95%	-5.53%	-47.04%	-3.11%	19.40%
Curr. Cash Flow Growth	-8.92%	-0.06%	5.20%	-3.74%	3.97%	17.75%
Hist. Cash Flow Growth (3-5 yrs)	10.35%	8.82%	8.52%	6.96%	15.99%	11.30%
Current Ratio	1.77	1.68	1.33	1.68	1.96	0.90
Debt/Capital	8.48%	20.88%	44.50%	27.88%	3.24%	65.24%
Net Margin	4.48%	4.23%	10.13%	4.23%	14.95%	1.34%
Return on Equity	26.42%	10.09%	14.67%	11.27%	19.66%	19.50%
Sales/Assets	2.82	1.33	0.51	1.33	0.99	1.43
Proj. Sales Growth (F1/F0)	-11.71%	-5.14%	-1.54%	-10.40%	-5.14%	-11.68%
Momentum Score	F	-	-	B	D	F
Daily Price Chg	0.73%	0.16%	-0.59%	-1.30%	-0.09%	0.93%
1 Week Price Chg	1.62%	2.50%	1.09%	3.38%	3.00%	2.54%
4 Week Price Chg	7.78%	7.07%	1.91%	14.41%	6.35%	8.73%
12 Week Price Chg	13.73%	16.63%	6.82%	16.57%	18.12%	29.11%
52 Week Price Chg	19.88%	24.74%	1.47%	-5.54%	78.23%	-2.78%
20 Day Average Volume	297,333	211,928	1,873,576	174,262	762,591	50,327
(F1) EPS Est 1 week change	-0.16%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	11.60%	11.23%	1.79%	19.21%	7.02%	NA
(F1) EPS Est 12 week change	11.25%	16.71%	3.35%	7.62%	8.35%	NA
(Q1) EPS Est Mthly Chg	16.33%	9.32%	0.42%	25.60%	10.04%	25.00%

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	C
Momentum Score	F
VGM Score	C

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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