

Landstar System Inc. (LSTR)

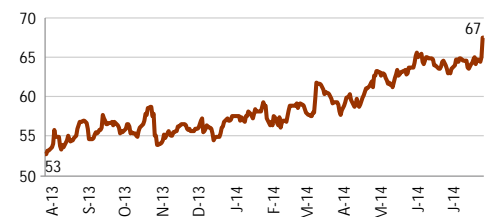
A Sweet Spot Found with 1H14 Spot Market Trends and Agent/BCO Initiatives

Remain Neutral-rated, but raising price target to \$74. 2Q14 EPS and 3Q14's outlook were both above expectations, as 1H14 spot/transactional activity continues to favor LSTR's unique model. Questions about LSTR's effectiveness selling integrated solutions to customers remain after late 2013's LSCS sale; however, 1) recent refocus on core agent/BCO network bearing fruit, and 2) LSTR's FCF and BS capacity remains robust. Look for pullbacks below \$65 or continued traction in agent/BCO recruitment initiatives to become more constructive.

- **2Q14 EPS above expectations.** 2Q14 EPS of \$0.80 (+21% yoy) above our \$0.78 estimate, recent \$0.77 consensus, and management's \$0.73-0.78 guidance.
- **Revenue trends accelerated in 2Q14.** Gross revenue +21% to \$814 million, above management's guided range of \$750-800 million. Overall truck volumes +9% yoy; yield (revenue per load) +13% yoy. Management noted load growth in its platform equipment accelerated through 2Q14 (+5% yoy in April, +6% in May, and +8% in June), with June's trend continuing in July.
- **3Q14 outlook above consensus.** Management expects 3Q14 revenue, gross profit, EBIT and EPS to be similar to 2Q14 levels. Implied EPS guidance of ~0.80 above recent \$0.76 consensus.
- **Recent refocus on core agent/BCO strategy bearing fruit, particularly into the robust 1H14 spot/transactional freight dynamics.** Growth in LSTR's contracted capacity (BCO) accelerated in 2Q14 (+2.7%, from +0.9% in 1Q14) into an increasingly competitive owner-operator environment given recent recruiting initiatives. Questions about model's effectiveness in selling comprehensive and integrated solutions to customers remain after late 2013 Supply Chain Services divestiture; but current conditions clearly favor LSTR's unique agent-based model.
- **Remain Neutral-rated.** Forward estimates modestly higher given continued strength in transactional trucking trends. LSTR's positioning in the market is unique: its contracted BCO base provides a fixed-cost source of capacity, and its asset-light model generates significant free cash flow (5.2% 2014E). Demonstration of ability to attract both agents and BCOs is the critical catalyst to monitor, as it would reinforce ability to achieve long-term growth targets (~5% net revenue growth, 15% EPS growth).
- **Raising price target to \$74,** which reflects 20x our forward EPS estimate, one year out. We believe in the current environment and given LSTR's balance sheet capacity, mid-teen EPS growth is reasonable this cycle, supporting a 20x NTM P/E. We look to become better buyers on pullbacks below \$65.

RAISING PRICE TARGET

1-Year Price Chart



Stock Data

Rating:	Neutral
Suitability:	Higher Risk
Price Target/Previous:	▲\$74/\$70
Price (7/23/14):	\$67.39
Market Cap (mil):	\$3,039
Shares Out (mil):	45.1
Average Daily Vol (mil):	0.32
Dividend Yield:	0.4%

Estimates

FY Dec	2013A	2014E	2015E
Q1	0.57 A	0.61 A	
Q2	0.64 A	0.80 A	
Q3	0.64 A	0.80 E	
Q4	0.55 A	0.80 E	
Fiscal EPS	2.37 A	2.99 E	3.44 E
Previous Est	2.42 A	2.91 E	3.31 E
Fiscal P/E	28.4x	22.5x	19.6x

Chart/Table Sources: Bloomberg and Baird Data

Landstar is a leading non-asset-based truckload provider, managing the largest fleet of independent truckload contractors in North America.

Please refer to Appendix
- Important Disclosures
and Analyst Certification

Details

Investment perspective. While we continue to prefer asset-based transport exposure at this point in the cycle, and therefore remain Neutral-rated on LSTR, we recognize that current conditions favor LSTR's model: spot activity has been strong during 1H14, particularly within the industrial end-markets serviced by flatbed trucking capacity. Conditions are expected to remain favorable for models exposed to transactional volumes during 2H14, as driver recruitment challenges limit capacity availability and industrial-end market growth remains solidly positive.

Importantly, LSTR primarily possesses two unique characteristics that differentiate it from a traditional brokerage model.

First, LSTR has refocusing on its core agent and BCO network, emphasized by its divestiture of its Landstar Supply Chain Services companies (see more here) in December 2013. LSTR's platform is differentiated from common truck brokers in two key areas: its flatbed platform disproportionately exposes it to industrial-related trends relative to common truck brokers, which are generally exposed to retail/consumer end-markets; and its agent network contrasts from the employee-based network at many traditional brokers. We believe the LSCS divestiture is an acknowledgment of some of the challenges that LSTR's agent-based network provides the company, but by ridding the company of a platform that was difficult to integrate, we believe LSTR will focus on strengthening its core value proposition. This renewed focus on both agent recruitment and its BCO network appears to be bearing fruit in 2014, with BCO count growth accelerating to +2.7% in 2Q14, from +0.9% in 1Q14 and -1.1% in 2013.

The emerging industry consolidation theme within the US trucking market presents opportunities to LSTR, as it should lead attrition among the existing capacity base and resulting pressure to sub-scale agents. LSTR believes the recruitment potential of both owner-operators and agents to its industry-leading platform is significant. The counterpoint is the potential pressure placed on LSTR's own network given what we expect to be a challenging owner-operator recruiting/operating environment, which will in turn place pressure on individual agent's ability to source capacity. While the resulting shrinkage of capacity should raise industry rates—a benefit to LSTR's model, given ~60% of its revenue is derived from fixed-rate arrangements—the pressures could limit LSTR's ability to both recruit agents/BCOs and place incremental pressure on their own “assets,” those being their agents and BCOs. Greater clarity to this dynamic is critical to our investment thesis on LSTR.

Second, the company possesses plenty of balance sheet capacity. We expect LSTR to generate in excess of \$135 million in free cash flow in both 2014 and 2015, used to support attaining its targeted long-term mid-teen EPS growth rate. Additionally, its balance sheet is underlevered (0.4x debt/EBITDA, with capacity to support greater than 1.0x). We believe LSTR will likely be forced to look to acquisitions that provide its agents with access to reliable capacity over time (consistent with our “model convergence” theme), which can be facilitated by LSTR's balance sheet capacity.

We see downside protected by the company's strong FCF profile (4.7% 2014E FCF yield). Meantime, we remain Neutral rated on the stock, awaiting developments on either the recruitment of agents or BCOs of the two elements above before becoming more constructive with our rating.

Estimates and price target. Our forward estimates are modestly higher given 1Q14's overage and firming industry trends. Our \$74 price target reflects 20x NTM EPS, one year out; upside to both estimates and multiple if sustained agent/BCO recruitment traction is demonstrated. Assuming LSTR's 15% long-term EPS growth target is achievable, we believe a 20x NTM P/E multiple is justified (1.33x PEG), and our forward EPS estimates could prove conservative.

Detailed Summary of 2Q14 Results

Landstar System (LSTR - NASDAQ)

Quarterly Results and Variance Sheet

	Quarterly Results					Percent of Revenue		
	2Q14	2Q13	Chg	BAIRD	Variance	2Q14	2Q13	BAIRD
Revenue	814,443	674,390	21%	778,943	5%			
Purchased Trans.	628,933	517,040	22%	596,814	5%	77.2%	76.7%	76.6%
Agent Commissions	63,861	53,741	19%	60,062	6%	7.8%	8.0%	7.7%
Net Revenue	121,649	103,609	17%	122,066	0%	14.9%	15.4%	15.7%
Other Operating Costs	6,243	4,145	51%	7,154	-13%	0.8%	0.6%	0.9%
Insurance & Claims	13,849	11,809	17%	13,585	2%	1.7%	1.8%	1.7%
SG&A	36,752	32,500	13%	38,655	-5%	4.5%	4.8%	5.0%
D&A	6,565	7,125	-8%	6,802	-3%	0.8%	1.1%	0.9%
Other Expenses	63,409	55,579	14%	66,195	-4%	7.8%	8.2%	8.5%
Operating Income	58,572	48,401	21%	56,169	4%	7.2%	7.2%	7.2%
EBIT as % of Net Rev	48.1%	46.7%		46.0%				
Interest & Debt Exp	718	771		709				
Pre-Tax Income	57,854	47,630	21%	55,460	4%			
Income Tax Rate	37.9%	38.1%		37.5%				
Net Income	35,925	29,466	22%	34,643	4%	4.4%	4.4%	4.4%
EPS	\$0.80	\$0.66	21%	\$0.78	3%			
Consensus	\$0.78							
Diluted Shares	45,128	46,386	-3%	44,684	1%			

Source: Company reports, Baird estimates

Overall Operating Results:

LANDSTAR SYSTEM INC. DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Net Revenue Growth	9%	3%	-9%	-7%	-4%	-7%	-7%	9%	12%	13%	13%	12%	5%
Net Revenue Margin*	16.3%	16.0%	15.5%	16.0%	16.0%	14.8%	15.6%	15.3%	14.9%	15.1%	14.4%	14.9%	14.9%
Operating Income Growth	27%	12%	-3%	-9%	-12%	-20%	-11%	8%	9%	20%	43%	19%	7%
Operating Margin**	42.4%	46.2%	43.4%	49.5%	43.9%	38.7%	43.9%	42.7%	48.1%	46.7%	47.3%	46.3%	47.2%

*as a percentage of gross revenue

**as a percentage of net revenue

Source: Company data, Baird estimates

Core Truck:

CORE TRUCK SEGMENT DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth	10%	6%	-4%	-8%	-5%	1%	-4%	12%	23%	22%	22%	20%	5%
BCO	7%	1%	-8%	-8%	-4%	4%	-4%	13%	16%	18%	22%	17%	5%
Truck Brokerage	14%	14%	0%	-9%	-7%	-2%	-5%	11%	31%	28%	21%	23%	5%
Volume*	1%	5%	-2%	-5%	-4%	2%	-2%	4%	9%	11%	10%	8%	3%
BCO	-2%	0%	-6%	-5%	-1%	5%	-2%	6%	4%	6%	8%	6%	3%
Truck Brokerage	4%	11%	4%	-4%	-8%	0%	-2%	1%	14%	16%	12%	11%	3%
Yield**	9%	2%	-3%	-4%	-1%	-2%	-2%	8%	13%	11%	11%	11%	2%
BCO	8%	1%	-2%	-3%	-3%	-1%	-2%	7%	12%	11%	13%	11%	2%
Truck Brokerage	10%	3%	-4%	-5%	0%	-2%	-2%	10%	14%	10%	8%	11%	2%

*Load count

**Revenue per load

Source: Company data, Baird estimates

Rail/Air/Ocean:

RAIL/AIR/OCEAN SEGMENT DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth	22%	-9%	12%	3%	0%	6%	5%	-14%	-6%	2%	3%	-4%	5%
Rail	8%	-3%	4%	-1%	0%	-3%	0%	-8%	10%	3%	5%	2%	6%
Air/Ocean	37%	-14%	19%	7%	0%	17%	10%	-19%	-19%	1%	1%	-9%	4%
Volume*													
Rail	1%	-5%	-2%	-4%	3%	-2%	-1%	-9%	7%	0%	2%	0%	4%
Air/Ocean	20%	-2%	0%	4%	12%	0%	4%	-2%	1%	1%	1%	0%	4%
Yield**													
Rail	7%	2%	6%	3%	-3%	-1%	1%	0%	3%	3%	3%	2%	2%
Air/Ocean	14%	-12%	20%	3%	-11%	17%	6%	-18%	-20%	0%	0%	-10%	0%

*Load count

**Revenue per load

Source: Company data, Baird estimates

Balance Sheet and Cash Flow:

BALANCE SHEET AND CASH FLOW (\$millions)

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	Q1E	Q2E	Q3E	Q4E	2015E
Net Income	113	130	27	30	29	60	146	28	36	35	35	134	30	38	38	37	143
D&A	26	27	7	8	8	5	28	7	7	7	7	27	7	7	7	7	27
Other	23	13	3	5	0	(35)	(27)	(0)	1	1	1	4	1	1	1	1	5
Working Capital	(44)	(44)	16	(12)	10	(8)	6	(21)	(44)	22	22	(20)	-	-	-	-	-
Cash Flow from Operating	118	126	53	32	47	21	153	14	(0)	66	65	144	38	46	46	45	175
Capital Expenditures (Gross)	(4)	(7)	(2)	(1)	(2)	(2)	(6)	(1)	(1)	(2)	(2)	(6)	(2)	(2)	(2)	(2)	(6)
Cash Flow from Investing	9	(21)	(10)	3	(5)	78	66	(4)	(0)	(1)	(1)	(6)	(1)	(1)	(1)	(1)	(2)
Issuance (Repayment) of Debt (net)	(33)	(121)	(20)	(12)	(12)	(18)	(62)	(13)		(13)	(13)	(38)	(13)	(13)	(13)	(13)	(50)
Sales (Repurchase) of Stock (net)	(50)	(26)	-	(47)	-	(13)	(59)	(37)	(19)	(72)	(72)	(200)	(50)	(50)	(50)	(50)	(200)
Cash Flow from Financing	(90)	(111)	(26)	(58)	(12)	(21)	(118)	(75)	(22)	(69)	(69)	(234)	(58)	(58)	(58)	(58)	(230)
Ending Cash Balance	109	110	140	102	132	215	215	150	130	126	122	122	102	90	77	64	64
Ending Debt Balance	132	114	103	119	118	102	102	89	93	99	104	104	99	94	89	84	84
Debt / Total Cap (incl Op leases)	32%	24%	21%	24%	23%	19%	19%	18%	18%								

Source: Company data, Baird estimates

Investment Thesis

Current thoughts. We remain Neutral-rated, but LSTR presents an interesting opportunity to build exposure to emerging industry consolidation theme within US trucking market. 2Q14 results were above consensus given LSTR's favorable exposure to strong spot market trends; and trends remain solid into July. LSTR's positioning in the market is unique: its contracted BCO base provides a fixed-cost source of capacity, and its model generates significant free cash flow (5.0% 2014E). The emerging constraints this cycle are likely to directly benefit LSTR's business model, but also present potential challenges to its core agents and owner-operator/BCO base. Demonstration of ability to attract both agents and BCOs is the critical catalyst for us to monitor, as it would reinforce ability to achieve long-term growth targets (~5% net revenue growth, 15% EPS growth).

Industry leader with unique business model. LSTR operates one of the largest fleets of independent truckload contractors and ranks among the largest truckload capacity providers in North America. By relying on independent sales agents and third-party capacity providers, LSTR limits asset ownership, providing a variable-cost model that scales more flexibly with market demand. The company focuses on service- and information-intensive transportation needs, resulting in premium line haul rates and a strong competitive position in this highly competitive industry.

Attractive market. The truckload market is highly fragmented with the top 10 carriers accounting for roughly 10% of the market. In the near term, growth will be pressured by the challenging external environment. Over the longer term, we expect LSTR to benefit from this highly fragmented market by continuing to take share. We believe LSTR should be capable of double-digit revenue growth in a healthy economy.

Strong financial returns. Landstar's asset-light business model has produced impressive returns on capital and strong free cash flow. Over the past five years, return on capital averaged 31%, the highest among public transport companies. During the same period, management used nearly \$300 million to repurchase shares while maintaining a solid balance sheet. We believe LSTR will maintain its industry-leading capital returns and cash flows.

Valuation. LSTR's five-year target is mid-teen annual EPS growth, which the company should achieve in a healthy environment. Landstar's third-party logistics model's attributes include market share gains, strong free cash flow, and solid EPS growth. 3PLs historically trade in a range of 18-25x forward estimated earnings. LSTR has averaged 19x NTM EPS (11.5x EV/EBITDA) estimates over the past five years (17-23x NTM range, 10-14x EV/EBITDA range). Our \$74 price target reflects 20x our forward EPS estimate, one year out, modestly above LSTR's 19x average 5-year NTM P/E multiple to reflect our expectations for mid-teen EPS growth this cycle.

Risks & Caveats

- **Highly competitive industry.** The transportation industry is highly fragmented and competitive. Increased competition could materially affect revenue and earnings growth. Success of the non-asset-based, third-party logistics business model has attracted new entrants over the past several years.
- **Division integration.** Management has gradually worked to integrate management, operations, and systems across its independent operating companies. We believe this gradual integration approach is the proper path, but failure to closely monitor and advance the process throughout the organization may negatively affect growth.

- **Industry consolidation.** We believe Landstar benefits from the highly fragmented nature of the truckload market, by being able to consolidate, organize, and manage capacity, conveniently making it available to customers. Significant industry consolidation alters LSTR's valuation proposition.
- **Acquisition risk.** We believe that management is willing to complete acquisitions should the proper opportunity arise. Failure to properly identify, value, and integrate future acquisitions could be a distraction to operations.
- **Insurance liability.** LSTR retains certain insurance liability for internal and BCO (business capacity owner) insurance offerings. Failure to maintain a safe operating record could result in significant volatility in earnings due to added insurance expenses.

Company Description

Landstar is a leading non-asset-based truckload provider, managing the largest fleet of independent truckload contractors in North America. LSTR focuses on service-sensitive customers with specialized requirements or hard-to-find capacity. In 2013, the company generated \$2.7 billion in revenue in its transportation services which includes truckload services, intermodal rail, and international services. Recent acquisitions provide the ability for LSTR to expand into managed transportation services.

LSTR minimizes asset exposure by using independent agents to identify and secure loads and third-party capacity providers (either BCOs or broker partners) for transport. LSTR provides the liquidity and infrastructure of a large transportation network (ranks among the top five asset-based truckload carriers), which is attractive to the agent, capacity provider, and shippers.

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(LSTR - NASDAQ)



Income Statement (\$millions)

Robert W. Baird & Co., Inc.

	2006	2007	2008	2009	2010	2011	Q1	Q2	Q3	Q4	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue																						
Total BCO	1,352	1,377	1,388	1,140	1,289	1,375	329	372	356	328	1,385	304	341	342	340	1,327	344	397	403	414	1,558	1,633
Growth (%)	-4%	2%	1%	-18%	13%	7%	7%	2%	1%	-7%	1%	-8%	-8%	-4%	4%	-4%	13%	16%	18%	22%	17%	5%
Total Brokerage	871	885	996	694	920	1,053	271	308	308	311	1,198	271	281	285	304	1,141	302	368	364	368	1,401	1,475
Growth (%)	-1%	2%	13%	-30%	32%	14%	27%	19%	12%	2%	14%	0%	-9%	-7%	-2%	-5%	11%	31%	28%	21%	23%	5%
Intermodal/Air/Ocean	156	180	193	128	136	166	35	41	39	37	152	39	43	39	39	160	34	40	40	40	153	161
Growth (%)	-21%	16%	7%	-34%	7%	22%	-7%	3%	-13%	-17%	-9%	12%	3%	0%	6%	5%	-14%	-6%	2%	3%	-4%	5%
Gross Revenue	2,514	2,487	2,643	2,009	2,400	2,649	649	736	717	691	2,793	623	679	681	692	2,675	688	814	816	832	3,151	3,310
Growth (%)	0%	-1%	6%	-24%	19%	10%	13%	9%	5%	-4%	5%	-4%	-8%	-5%	0%	-4%	10%	20%	20%	20%	18%	5%
Net Revenue	423	402	407	345	394	432	106	117	113	110	446	96	109	109	103	417	105	122	123	120	471	494
Growth (%)	-2%	-5%	1%	-15%	14%	9%	10%	5%	2%	-3%	3%	-9%	-7%	-4%	-7%	-7%	9%	12%	13%	17%	13%	5%
Expenses																						
Purchased Transportation	1,891	1,884	2,033	1,504	1,824	2,007	493	563	548	525	2,129	477	517	518	534	2,047	530	629	629	647	2,435	2,560
Agent Commissions	200	201	203	161	181	210	50	56	56	56	218	49	54	54	55	211	53	64	64	65	245	256
Other Op Costs	46	29	28	29	29	29	6	5	6	5	23	5	4	6	6	22	7	6	7	7	27	29
Insurance & Claims	40	50	36	46	49	43	11	9	8	9	37	12	12	13	14	50	12	14	14	14	54	57
SG&A	134	125	138	132	149	153	39	38	37	40	154	31	33	34	37	135	36	37	38	36	146	150
D&A	17	19	21	24	25	26	7	7	7	7	27	6	7	8	7	28	7	7	7	7	27	27
Total Expenses	2,327	2,308	2,460	1,894	2,258	2,468	606	678	663	642	2,589	581	626	633	653	2,494	644	756	759	776	2,934	3,078
EBITDA	208	204	208	139	169	209	50	65	61	57	233	48	61	56	47	211	52	65	64	63	245	260
Growth (%)	-3%	-2%	2%	-33%	21%	24%	23%	19%	10%	-2%	12%	-3%	-7%	-9%	-17%	-9%	7%	7%	15%	36%	16%	6%
EBIT	191	185	187	116	144	183	43	59	54	50	206	42	54	48	40	183	45	59	58	57	218	233
EBIT Margin % Gross	7.6%	7.4%	7.1%	5.8%	6.0%	6.9%	6.6%	8.0%	7.6%	7.2%	7.4%	6.7%	7.9%	7.0%	5.7%	6.8%	6.5%	7.2%	7.0%	6.8%	6.9%	7.0%
EBIT Margin % Net	45.2%	45.9%	45.9%	33.6%	36.4%	42.4%	40.8%	50.4%	48.1%	45.0%	46.2%	43.4%	49.5%	43.9%	38.7%	43.9%	42.7%	48.1%	46.7%	47.3%	46.3%	47.2%
Growth (%)	-4%	-3%	1%	-38%	24%	27%	27%	21%	10%	-3%	12%	-3%	-9%	-12%	-20%	-11%	8%	9%	20%	43%	19%	7%
Interest Expense	(7)	(7)	(7)	(4)	(4)	(3)	(1)	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)	(3)	(3)
Pretax Income	184	178	179	112	140	180	42	58	54	49	203	41	53	47	39	180	44	58	57	56	215	230
Tax Rate (%)	38.7%	38.4%	38.2%	36.3%	36.5%	37.3%	36.7%	38.2%	38.2%	30.3%	36.0%	37.3%	38.1%	37.7%	35.3%	37.8%	37.5%	37.9%	37.9%	37.9%	37.8%	37.9%
Net Income	113.1	109.7	110.9	71.6	89.9	112.9	26.8	35.9	33.1	34.0	129.8	25.8	29.5	29.2	25.2	109.7	27.6	35.9	35.3	34.8	133.6	143.1
Shares Outstanding	58.7	55.2	52.9	51.3	49.6	47.5	47.1	47.1	46.7	46.6	46.9	46.7	46.4	45.9	45.9	46.2	45.6	45.1	44.2	43.8	44.7	41.6
Continuing Ops EPS	\$1.93	\$1.99	\$2.10	\$1.40	\$1.81	\$2.38	\$0.57	\$0.76	\$0.71	\$0.73	\$2.77	\$0.57	\$0.64	\$0.64	\$0.55	\$2.40	\$0.61	\$0.80	\$0.80	\$0.80	\$2.99	\$3.44
Growth (%)	-3%	3%	6%	-33%	30%	31%	33%	23%	11%	5%	17%	0%	-17%	-10%	-25%	-13%	6%	25%	25%	45%	25%	15%
Dividend	\$0.10	\$0.14	\$0.16	\$0.17	\$0.19	\$0.21	\$0.06	\$0.06	\$0.06	\$0.50	\$0.67	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24	\$0.24
Expense Ratios																						
Purchased Transportation	75.2%	75.8%	76.9%	74.8%	76.0%	75.8%	75.9%	76.5%	76.4%	76.0%	76.2%	76.7%	76.1%	76.1%	77.2%	76.5%	77.0%	77.2%	77.1%	77.7%	77.3%	77.3%
Agent Commissions	7.9%	8.1%	7.7%	8.0%	7.6%	7.9%	7.7%	7.7%	7.8%	8.0%	7.8%	7.9%	7.9%	7.9%	7.9%	7.9%	7.7%	7.8%	7.8%	7.8%	7.8%	7.7%
Other Op Costs	1.8%	1.2%	1.1%	1.5%	1.2%	1.1%	1.0%	0.6%	0.9%	0.8%	0.8%	0.8%	0.6%	0.9%	0.9%	0.8%	1.0%	0.8%	0.9%	0.9%	0.9%	0.9%
Insurance & Claims	1.6%	2.0%	1.4%	2.3%	2.1%	1.6%	1.7%	1.3%	1.1%	1.3%	1.3%	1.9%	1.7%	2.0%	2.0%	1.9%	1.7%	1.7%	1.8%	1.7%	1.7%	1.7%
SG&A	5.3%	5.0%	5.2%	6.6%	6.2%	5.8%	6.0%	5.1%	5.2%	5.7%	5.5%	5.1%	4.8%	5.0%	5.3%	5.0%	5.2%	4.5%	4.6%	4.3%	4.6%	4.5%
D&A	0.7%	0.8%	0.8%	1.2%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.2%	1.0%	1.1%	1.0%	0.8%	0.8%	0.8%	0.8%	0.8%
Company Total																						
Load Count	4.1%	2.4%	-4.0%	-10.2%	10.9%	0.8%	8.7%	7.8%	6.3%	-4.7%	3.2%	-1.5%	-4.8%	-3.8%	2.3%	-2.1%	3.3%	8.4%	9.0%	8.5%	8.0%	2.8%
Revenue/Load	3.4%	0.2%	10.0%	-15.3%	7.8%	9.7%	4.6%	1.1%	-1.4%	0.8%	-0.8%	-1.9%	-3.1%	-1.4%	-1.3%	-2.3%	7.0%	11.5%	8.2%	8.3%	10.5%	2.2%
BCO																						
Load Count		0.6%	-4.3%	-7.2%	7.8%	-1.6%	3.7%	2.5%	0.9%	-7.8%	-0.2%	-5.7%	-5.3%	-1.1%	4.9%	-1.9%	5.9%	3.9%	6.0%	8.0%	5.9%	2.5%
Revenue/Load		1.2%	5.4%	-11.6%	5.0%	8.3%	3.4%	0.0%	0.5%	0.5%	1.0%	-2.1%	-3.1%	-2.7%	-1.3%	-2.3%	6.7%	11.9%	11.0%	13.0%	10.8%	2.2%
Truck Brokerage																						
Load Count		3.4%	-2.9%	-12.2%	17.9%	3.7%	16.4%	15.9%	14.2%	-0.7%	10.9%	3.8%	-4.4%	-7.5%	-0.3%	-2.3%	0.9%	14.3%	16.0%	12.0%	10.8%	3.0%
Revenue/Load		-1.8%	16.0%	-20.7%	12.4%	10.4%	8.8%	2.8%	-2.0%	2.6%	2.6%	-3.7%	-4.5%	0.2%	-2.0%	-2.5%	10.4%	14.4%	10.0%	8.0%	10.8%	2.2%
Rail Intermodal																						
Load Count		12.7%	-6.7%	-35.2%	-18.0%	1.0%	-1.4%	1.2%	-5.7%	-12.8%	-5.0%	-2.0%	-3.8%	3.2%	-2.3%	-1.2%	-8.7%	6.8%	0.0%	2.0%	0.1%	3.7%
Revenue/Load		-3.1%	9.2%	-13.6%	12.3%	7.0%	7.1%	1.4%	3.9%	-1.3%	2.4%	5.7%	3.1%	-3.2%	-0.7%	1.1%	0.3%	2.9%	3.0%	3.0%	2.3%	2.0%

Source: Company reports and Robert W. Baird & Co. estimates.
Please refer to Appendix - Important Disclosures and Analyst Certification.

Benjamin J. Hartford, CFA (414) 765-3752

Landstar System, Inc.
(LSTR - NASDAQ)

BAIRD

Balance Sheet (\$000)

	2006	2007	2008	2009	2010	2011	2012	2013	2Q14
ASSETS									
Cash and cash equivalents	\$113,039	\$83,671	\$122,383	\$110,044	\$67,972	\$108,844	\$109,812	\$215,241	\$129,766
Net trade receivables	318,983	310,258	315,065	278,854	307,350	368,377	408,787	378,732	460,079
Net other receivables	14,198	11,170	10,083	18,149	23,943	53,263	55,278	73,903	54,615
Other current	25,142	28,554	27,871	19,565	21,652	21,308	18,067	14,592	28,712
Total Current	471,362	433,653	475,402	426,612	420,917	551,792	591,944	682,468	673,172
Net property & equipment	110,957	132,369	124,178	116,656	132,649	142,146	158,953	177,329	175,086
Goodwill	31,134	31,134	31,134	57,470	57,470	57,470	57,470	31,134	31,134
Other assets	33,198	31,845	32,816	48,054	72,846	57,041	71,054	79,765	83,136
Total Assets	646,651	629,001	663,530	648,792	683,882	808,449	879,421	970,696	962,528
LIABILITIES & EQUITIES									
Current debt	18,730	23,155	24,693	24,585	22,172	17,212	19,016	27,567	29,419
Overdraft	25,435	25,769	32,065	28,919	24,877	25,905	33,647	27,780	27,202
Accounts payable	122,313	117,122	105,882	121,030	137,297	163,307	188,981	157,796	195,335
Insurance claims	25,238	28,163	23,545	41,627	40,215	76,624	64,509	92,280	77,909
Other current liabilities	58,478	55,366	50,400	42,474	53,785	48,065	38,186	69,267	42,285
Total Current	250,194	249,575	236,585	258,635	278,346	331,113	344,339	374,690	372,150
Long-term debt	110,591	141,598	111,752	68,313	99,439	115,130	95,125	73,938	63,386
Insurance claims	36,232	37,631	38,278	30,680	31,468	27,494	21,896	24,171	23,821
Deferred taxes, other	19,360	19,411	23,779	23,013	23,662	34,135	38,607	43,416	43,113
Shareholders' equity	230,274	180,786	253,136	268,151	250,967	300,577	379,454	454,481	460,058
Total Liabilities and Equities	646,651	629,001	663,530	648,792	683,882	808,449	879,421	970,696	962,528

Balance Sheet Analysis	2006	2007	2008	2009	2010	2011	2012	2013	2Q14
Current Ratio	1.9	1.7	2.0	1.6	1.5	1.7	1.7	1.8	1.8
Days Sales Outstanding (DSO)	62	46	43	54	45	47	51	54	54
Debt / Total Cap	36%	48%	35%	26%	33%	31%	23%	18%	17%
Debt / Total Cap (incl Op leases)	40%	50%	37%	28%	34%	32%	24%	19%	18%
Book Value/Share	\$3.93	\$3.28	\$4.85	\$5.30	\$5.19	\$6.40	\$8.14	\$9.91	\$10.19
EBIT/Interest Expense	28.0	27.6	25.4	28.7	39.7	58.9	66.3	55.9	60.0
Debt to EBITDA	0.6x	0.8x	0.7x	0.7x	0.7x	0.6x	0.5x	0.5x	0.4x

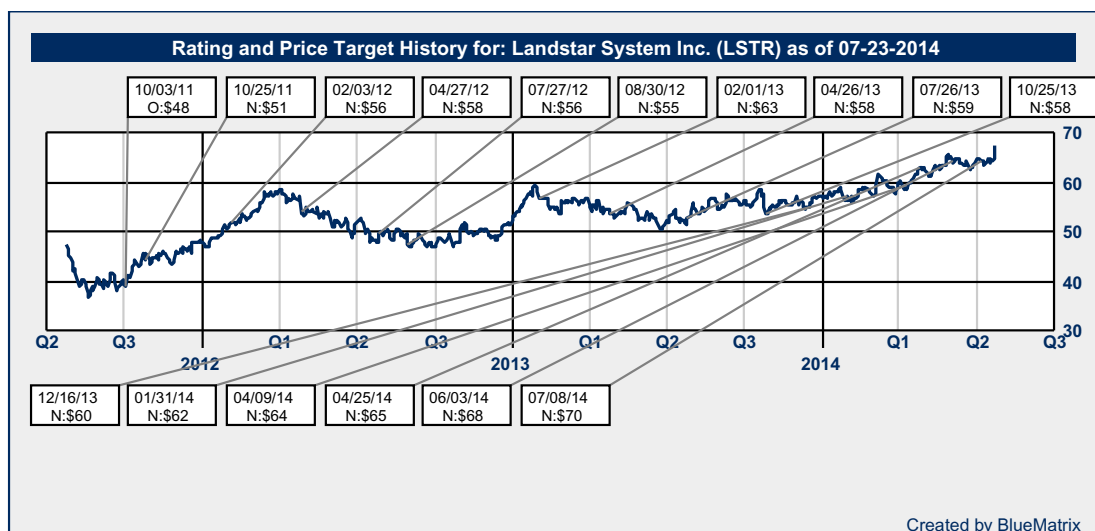
Source: Company reports and Robert W. Baird & Co. estimates.
Please refer to Appendix - Important Disclosures and Analyst Certification.

Cash Flow Statement	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Net Income	\$113,085	\$109,653	\$110,930	\$69,950	\$86,582	\$112,945	\$129,781	\$146,009	\$133,642	\$143,099
Depreciation and Amortization	16,796	19,088	20,960	23,528	24,804	25,814	27,456	27,667	26,529	26,723
Other	15,518	11,435	18,452	15,536	10,487	22,839	12,817	(26,854)	4,236	5,219
NWC Changes	146,769	432	(30,653)	35,950	(13,115)	(43,564)	(44,470)	5,823	(20,000)	0
Cash Flow from Ops (CFO)	292,168	140,608	119,689	144,964	108,758	118,034	125,584	152,645	144,406	175,041
Capital Expenditures	(1,553)	(2,806)	(8,143)	(1,874)	(25,819)	48	2,658	3,338	(2,373)	(2,373)
Free Cash Flow (FCF)	290,615	137,802	111,546	143,090	82,939	118,082	128,242	155,983	142,033	172,668
Acquisitions	0	0	0	(14,888)	0	0	0	74,505	0	0
Dividends	(6,361)	(7,389)	(8,136)	(8,686)	(9,422)	(9,983)	(33,981)	0	(26,595)	(10,100)
Net Cash Flow (NCF)	284,254	130,413	103,410	119,516	73,517	108,099	94,261	230,488	115,438	162,568
FCF/Share	5.07	2.58	2.14	2.83	1.72	2.52	2.75	3.40	3.24	4.28
NCF/Share	4.96	2.44	1.98	2.36	1.52	2.30	2.02	5.02	2.64	4.03

Du Pont Formula	2006	2007	2008	2009	2010	2011	2012	2013	LTM
Net Margins (N/S)	4.5%	4.4%	4.2%	3.6%	3.7%	4.3%	4.6%	4.1%	4.1%
Assets Turnover (S/A)	3.57	3.90	4.09	3.06	3.60	3.55	3.31	2.89	3.10
Leverage (A/E)	2.92	3.10	2.98	2.52	2.57	2.71	2.48	2.22	2.18
Return on Equity	46.8%	53.4%	51.1%	27.5%	34.6%	41.0%	38.2%	26.3%	27.7%
Return on Assets	16.0%	17.2%	17.2%	10.9%	13.5%	15.1%	15.4%	11.9%	12.7%
Return on Capital	42.6%	37.9%	37.9%	26.4%	31.3%	34.4%	36.7%	26.5%	26.3%

Valuation Measures	2006	2007	2008	2009	2010	2011	2012	2013	LTM
Historical P/E High	25	26	28	30	25	22	21	25	23
Historical P/E Low	20	18	13	19	19	15	17	21	19
Historical P/FCF High - current yr	10	20	27	15	27	21	21	17	18
Historical P/FCF Low - current yr	7	14	13	10	20	15	17	15	16
Enterprise Value								Recent Price:	\$65.03
Market Value	2,188,783	2,289,667	1,524,152	2,010,100	1,970,589	2,422,522	2,435,115	2,695,262	2,934,674
ST+LT Debt	129,321	164,753	136,445	92,898	121,611	132,342	114,141	101,505	92,805
Cash & Equivalents	87,604	57,902	90,318	81,125	43,095	82,939	76,165	187,461	100,347
Enterprise Value (EV)	2,230,500	2,396,518	1,570,279	2,021,873	2,049,105	2,471,925	2,473,091	2,609,306	2,927,132
EBITDA	208,015	203,781	207,801	139,275	168,575	209,059	233,309	207,967	219,204
EV / EBITDA	10.7	11.8	7.6	14.5	12.2	11.8	10.6	12.5	13.4

Appendix - Important Disclosures and Analyst Certification



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