

# Expeditors International of Washington (EXPD)

## 3Q15 Beat On A Favorable Yield Environment; Maintain Neutral Rating

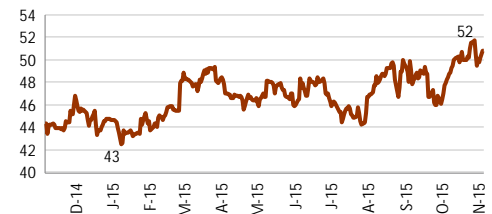
**Maintain Neutral rating.** 3Q15 results were above consensus on favorable yield conditions during the quarter (as previewed in [October Freight Flows](#)). The yield tailwind during 2015, however, likely shifts to become a headwind in 2016 given strengthening prior-year comparisons and a more competitive 2016 bid environment. As such, we expect 2016 consensus EPS estimates to fall to our unchanged estimate. However, we continue to warm structurally to the name, viewing pullbacks near \$47 as an attractive entry point.

- 3Q15 EPS slightly above consensus.** 3Q15 EPS was \$0.62 (+19% yoy), above our \$0.61 estimate and \$0.60 consensus. Core operating profit was 6% above our estimate, driven predominantly by net revenue expansion (on favorable buy rates during the quarter). Results include a \$0.02/sh drag versus our estimate in Other Income given forex losses.
  - **Net revenue** +11% yoy, roughly 2% above our expectation, given better-than-expected Airfreight and Ocean Freight yields, helped by favorable underlying freight rates during the quarter.
  - **Operating leverage.** EBIT +21% yoy. EBIT margins (as % of NR) expanded 270 bps yoy to 33.7%, ahead of our expectation of 32.4%, driven by operating leverage from the better-than-expected net revenue growth.
- Weak industry volume trends and low underlying freight rates create a challenging setup in early 2016.** EXPD's 3Q15 AF volume growth (+3% yoy) was slightly above market growth rates (Figure 1); and flat OF volume growth was consistent with market growth rates against a strong prior-year comp. However, we expect EXPD's net revenue growth to decelerate in 2016 (from +11% in 2015E to +0% yoy, below management's double-digit long-term growth target) given continued softness in underlying demand and a waning yield tailwind into what is likely to be a more competitive bid environment in 2016.
- Initial consensus 2016 EPS estimates appear too high.** Our forward EPS estimates are unchanged: 4Q15/2016 EPS estimates of \$0.61/2.44, versus recent \$0.59/2.51 consensus. Note our forward EPS estimates assume no incremental share buybacks.
- Remain Neutral-rated** given decelerating net revenue growth headwinds and the need for forward estimates to reset. However, we see EXPD's process-oriented Information Service model as being particularly well suited to drive sustained share gains this cycle (as discussed following EXPD's [early September Investor Day](#)). We view pullbacks toward \$47 as an attractive entry point for long-term investors.

EXPD, headquartered in Seattle, WA, is a \$6.6 billion, industry-leading provider of international air and ocean freight forwarding and logistics services (customs brokerage).

### RAISING PRICE TARGET

#### 1-Year Price Chart



#### Stock Data

Rating:	Neutral
Suitability:	Average Risk
Price Target/Previous:	▲\$52/\$51
Price (11/3/15):	\$49.95
Market Cap (mil):	\$9,471
Shares Out (mil):	189.6
Average Daily Vol (mil):	1.83
Dividend Yield:	1.4%

#### Estimates

FY Dec	2014A	2015E	2016E
Q1	0.42 A	0.55 A	0.55 E
Q2	0.46 A	0.61 A	0.62 E
Q3	0.53 A	0.62 A	0.63 E
Q4	0.51 A	0.61 E	0.64 E
<b>Fiscal EPS</b>	<b>1.92 A</b>	<b>2.40 E</b>	<b>2.44 E</b>
Previous Est		2.38 E	
Fiscal P/E	26.0x	20.8x	20.5x

Chart/Table Sources: Factset and Baird Data

Please refer to Appendix  
- Important Disclosures  
and Analyst Certification

## Details

**Investment perspective.** 3Q15 EPS was slightly above expectations, driven by stronger-than-expected net revenue growth (+11% yoy, roughly 2% above our expectation) and resulting operating leverage (EBIT +21% yoy as EBIT improved 270 bps yoy to 33.7%, ahead of our expectation of 32.4%), as EXPD was able to take advantage of soft underlying freight rates to drive better-than-expected yields (as previewed in [October Freight Flows](#)). Additionally, the company continues to return capital to shareowners via share repurchases (~\$209 million in 3Q15, up from \$128 million in 2Q15 and \$77 million in 1Q15) and has the capacity to continue to do so (\$969 million in cash, no debt).

2015's yield tailwind from 1Q15's US West Coast port disruptions and softer-than-expected industry demand and underlying buy rates during 2Q15 and 3Q15 have supported the stock YTD: EXPD is +9% YTD versus the S&P 500, meaningfully outperforming broader transports (Dow Jones Transports -12% relative to the S&P 500 YTD); and EXPD's solid 2015 outperformance follows meaningful underperformance over the past 5- and 10-year periods (-44% and -14%, respectively). That said, we expect net revenue growth to decelerate in 2016 (from +11% in 2015E to +0% yoy, below management's double-digit long-term growth target) given continued softness in underlying demand and a waning yield tailwind into what is likely to be a more competitive bid environment in 2016. As such, we expect 2016 consensus EPS estimates to fall toward our unchanged estimate (\$2.44 versus recent \$2.51 consensus).

That all being said, we are warming to the stock structurally. We believe EXPD remains the highest quality international freight forwarder in the space (underscored by its average 25% EPS growth and its above-market volume growth within its core AF and OF markets over the past five quarters), and we see EXPD's process-oriented Information Service model as being particularly well suited to drive sustained share gains in what will very likely be a structurally slower industry growth profile in upcoming years relative to the previous 25 years.

Fundamentally, we look for the development of key catalysts, including: 1) evidence of stabilization in industry fundamentals and/or signs of accelerating industry consolidation, which would provide EXPD a source of continued share gains; 2) continued success in managing through EXPD's organizational generational change; and 3) greater optimization of its balance sheet to become more constructive with our rating. Look to trim positions near-term into strength as the stock approaches our \$52 price target, but we view pullbacks toward \$47 as a attractive entry point for long-term investors.

We consider year-out risk/reward to be \$42-60.

- **Reasonable good case \$60** reflects ~23x (~21x ex-cash) our forward EPS estimate, one year out. The assumed multiple is above EXPD's ~22x average NTM P/E over the past decade and inflated from current levels (~19x NTM P/E), which would be appropriate into confidence of sustained 10-15% EPS growth this cycle, in our view.
- **Reasonable bad case \$42** reflects ~17.5x (~15x ex-cash) our NTM EPS estimate. A 17.5x NTM P/E is slightly below EXPD's trough over the past decade (19x-40x range) and would reflect the discounting of 8-10% long-term EPS growth before considering any utilization of its balance sheet.

**Forward EPS estimates unchanged** (4Q15/2016 EPS estimates of \$0.61/2.44, versus recent \$0.59/2.51 consensus). Note our forward EPS estimates assume no incremental share buybacks.

**Our new \$52 price target** reflects ~20x our forward EPS estimate, one year out. Alternatively, our price target reflects 11.1x our EV/forward EBITDA estimate and a ~6% unlevered FCF yield using our 2016 estimate.

FIGURE 1: VOLUME GROWTH AMONG LEADING INTERNATIONAL FORWARDERS

		C2009	C2010	C2011	C2012	C2013	1Q14	2Q14	3Q14	4Q14	C2014	1Q15	2Q15	3Q15
DHL	Air	-13%	19%	-1%	-5%	-5%	0%	2%	5%	3%	2%	0%	-7%	
	Ocean	-9%	5%	-1%	4%	0%	5%	6%	5%	3%	5%	2%	0%	
DSV	Air	-11%	29%	5%	-1%	0%	12%	11%	14%	8%	11%	8%	10%	10%
	Ocean	-17%	19%	3%	0%	6%	10%	9%	8%	7%	8%	4%	2%	2%
EXPD	Air	-13%	35%	0%	-6%	3%	6%	6%	12%	11%	10%	13%	9%	3%
	Ocean	-17%	20%	2%	-2%	6%	12%	12%	11%	9%	11%	12%	5%	0%
Kuehne + Nagel	Air	-9%	25%	13%	2%	4%	1%	6%	6%	7%	5%	7%	4%	5%
	Ocean	-5%	16%	11%	6%	3%	7%	9%	7%	3%	7%	-1%	-3%	0%
Panalpina	Air	-19%	22%	-5%	-6%	3%	6%	2%	4%	4%	4%	1%	-5%	-3%
	Ocean	-14%	13%	6%	6%	8%	6%	9%	9%	6%	7%	5%	1%	-3%
UTIW	Air	-5%	27%	-2%	-10%	2%	2%	-9%	-6%	-7%	-5%	-4%	-7%	
	Ocean	-7%	15%	2%	2%	11%	1%	-3%	5%	-5%	0%	-6%	-10%	
Mkt Vol	Air	-10%	19%	-1%	-3%	1%	3%	3%	3%	3%	3%	4%	2%	0%
Growth	Ocean	-10%	11%	5-6%	2%	3%	4%	4%	4%	4%	4%	3%	2%	1%

Source: Company data, Baird estimates

FIGURE 2: FORWARDING YIELD TRENDS

		C2009	C2010	C2011	C2012	C2013	1Q14	2Q14	3Q14	4Q14	C2014	1Q15	2Q15	3Q15
DHL	Air	21.5%	19.2%	19.9%	20.7%	20.2%	19.1%	19.5%	17.3%	16.4%	18.0%	17.1%	19.3%	
	Ocean	21.0%	16.7%	18.8%	18.9%	19.3%	18.5%	19.1%	17.7%	18.0%	18.3%	14.6%	16.5%	
DSV	Air	24.9%	21.0%	21.6%	22.6%	21.9%	21.8%	21.2%	22.0%	20.8%	21.4%	23.9%	23.8%	25.0%
	Ocean	24.1%	18.5%	21.6%	20.7%	20.8%	20.4%	20.8%	20.2%	20.1%	20.4%	21.8%	23.6%	25.7%
EXPD	Air	26.7%	22.7%	24.2%	23.7%	24.3%	25.4%	24.6%	24.7%	23.0%	24.3%	27.5%	26.9%	29.6%
	Ocean	25.0%	19.7%	23.2%	21.9%	22.3%	21.7%	21.0%	20.8%	21.5%	21.2%	21.3%	24.9%	25.7%
Kuehne + Nagel	Air	16.6%	13.3%	13.9%	14.8%	15.2%	15.7%	15.3%	15.2%	13.8%	15.0%	15.9%	16.5%	16.6%
	Ocean	17.7%	14.4%	16.3%	15.3%	15.7%	16.3%	15.6%	15.5%	15.0%	15.6%	15.8%	16.4%	17.0%
Panalpina	Air	20.7%	19.0%	21.0%	20.2%	20.7%	20.6%	20.6%	19.9%	19.9%	20.3%	22.4%	22.9%	22.4%
	Ocean	19.4%	16.3%	19.0%	17.6%	17.7%	18.4%	17.7%	16.7%	16.7%	17.3%	17.4%	18.3%	18.9%
UTIW*	Air	23.9%	20.8%	21.6%	21.9%	22.1%	23.9%	23.1%	21.3%	18.1%	21.7%	21.6%	23.3%	
	Ocean	19.5%	16.2%	17.1%	17.0%	16.5%	17.4%	16.8%	18.1%	8.7%	15.4%	11.9%	16.2%	

Source: Company data, Baird estimates

FIGURE 3: EBIT CONVERSION (% of NR)

	C2009	C2010	C2011	C2012	C2013	1Q14	2Q14	3Q14	4Q14	C2014	1Q15	2Q15	3Q15
DHL	11.4%	15.4%	15.9%	17.1%	16.9%	8.2%	14.8%	10.0%	7.7%	10.2%	2.7%	5.6%	
DSV***	27.1%	32.0%	33.1%	33.1%	32.4%	29.4%	34.6%	36.7%	33.6%	33.7%	31.6%	37.1%	39.6%
EXPD*	27.8%	32.3%	32.6%	29.1%	29.5%	29.1%	29.4%	31.0%	30.4%	30.0%	31.9%	33.1%	33.7%
KNIN	27.9%	32.0%	31.4%	28.1%	28.1%	28.6%	28.6%	30.2%	28.5%	29.0%	29.7%	31.7%	33.3%
PWTN*	6.9%	10.9%	11.8%	8.2%	13.1%	10.8%	12.3%	13.1%	8.2%	11.1%	9.0%	13.2%	11.6%
UTIW**	11.5%	14.0%	15.6%	11.1%	8.0%	1.6%	7.0%	1.7%	NM	NM	NM	NM	

Source: Company data, Baird estimates

\* Freight Forwarding EBIT (Overall corporate EBIT prior to 2012) (PWTN 2009-2010 adj EBIT)

\*\* UTIW calendar year approximation

\*\*\* EBITA (ex-restructuring)

## Summary of 3Q15 Results

**Expeditors International of Washington, Inc. (EXPD - NASDAQ)**  
 Quarterly Results and Variance Sheet

	Quarterly Results					% of Net Rev		
	3Q15	3Q14	Chg	BAIRD	Var.	3Q15	3Q14	BAIRD
Gross Revenue	1,651,332	1,705,105	-3%	1,732,096	-5%			
<b>Net Revenue</b>	<b>569,981</b>	<b>513,256</b>	<b>11%</b>	<b>557,318</b>	<b>2%</b>			
Salaries & Related Costs	295,566	272,548	8%	293,159	1%	51.9%	53.1%	52.6%
Rent & Occupancy Costs	25,747	26,396	-2%	25,949	-1%	4.5%	5.1%	4.7%
D&A	11,475	12,741	-10%	11,312	1%	2.0%	2.5%	2.0%
Selling & Promotion	10,370	9,240	12%	10,033	3%	1.8%	1.8%	1.8%
Other Costs	34,930	33,200	5%	36,050	-3%	6.1%	6.5%	6.5%
Operating Expenses	378,088	354,125	7%	376,503	0%	66.3%	69.0%	67.6%
<b>Operating Income</b>	<b>191,893</b>	<b>159,131</b>	<b>21%</b>	<b>180,814</b>	<b>6%</b>	<b>33.7%</b>	<b>31.0%</b>	<b>32.4%</b>
Other Inc (Exp)	(419)	5,129		6,598				
Pre-Tax Income	191,474	164,260	17%	187,412	2%	33.6%	32.0%	33.6%
Income Tax Rate	38.0%	37.4%		38.0%				
Net Income	118,310	102,381	16%	115,627	2%	20.8%	19.9%	20.7%
<b>EPS</b>	<b>\$0.62</b>	<b>\$0.53</b>	<b>19%</b>	<b>\$0.61</b>	<b>3%</b>			
Consensus	\$0.60							
Diluted Shares	189,642	195,001	-3%	190,575	0%			

						% of Gross Rev		
	3Q15	3Q14	Chg	BAIRD	Var.	3Q15	3Q14	BAIRD
Airfreight	659,607	686,434	-4%	686,434	-4%	39.9%	40.3%	39.6%
Ocean Freight	559,976	600,483	-7%	600,483	-7%	33.9%	35.2%	34.7%
Customs Brokerage	431,749	418,188	3%	445,179	-3%	26.1%	24.5%	25.7%
<b>Gross Revenue</b>	<b>1,651,332</b>	<b>1,705,105</b>	<b>-3%</b>	<b>1,732,096</b>	<b>-5%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Airfreight	195,446	169,465	15%	183,194	7%	29.6%	24.7%	26.7%
Ocean Freight	143,901	125,023	15%	141,236	2%	25.7%	20.8%	23.5%
Customs Brokerage	230,634	218,768	5%	232,888	-1%	53.4%	52.3%	52.3%
<b>Net Revenue</b>	<b>569,981</b>	<b>513,256</b>	<b>11%</b>	<b>557,318</b>	<b>2%</b>	<b>34.5%</b>	<b>30.1%</b>	<b>32.2%</b>

Source: Company reports, Baird estimates

(\$000s)	Geography Breakdown			% of Net Rev	
	3Q15	3Q14	Chg	3Q15	3Q14
United States	232,912	215,320	8%	40.9%	42.0%
Asia	181,458	148,248	22%	31.8%	28.9%
Europe	77,250	80,024	-3%	13.6%	15.6%
Other	78,361	69,664	12%	13.7%	13.6%
<b>Net Revenue</b>	<b>569,981</b>	<b>513,256</b>	<b>11%</b>	<b>100.0%</b>	<b>100.0%</b>
United States	65,389	68,972	-5%	28.1%	32.0%
Asia	88,264	57,226	54%	48.6%	38.6%
Europe	14,188	14,921	-5%	18.4%	18.6%
Other	24,052	18,012	34%	30.7%	25.9%
<b>Operating Income</b>	<b>191,893</b>	<b>159,131</b>	<b>21%</b>	<b>33.7%</b>	<b>31.0%</b>

Source: Company reports

## Balance Sheet and Cash Flow

BALANCE SHEET AND CASH FLOW (\$millions)

	2011	2012	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4E	2015E	2016E
Net Income	386	333	350	84	92	103	101	379	107	118	119	114	459	459
D&A	37	40	48	12	12	13	12	49	12	11	11	12	46	47
Other	39	55	23	16	15	9	(4)	36	21	21	3	1	46	36
Working Capital	(5)	(58)	(14)	61	(74)	(37)	(19)	(70)	(5)	31	(1)	(1)	(8)	(8)
<b>Cash Flow from Operating</b>	<b>457</b>	<b>370</b>	<b>408</b>	<b>174</b>	<b>45</b>	<b>87</b>	<b>90</b>	<b>395</b>	<b>134</b>	<b>182</b>	<b>133</b>	<b>126</b>	<b>543</b>	<b>534</b>
Capital Expenditures (Gross)	(78)	(48)	(53)	(9)	(10)	(8)	(11)	(37)	(9)	(13)	(10)	(8)	(40)	(45)
<b>Cash Flow from Investing</b>	<b>(80)</b>	<b>(47)</b>	<b>(77)</b>	<b>(67)</b>	<b>(38)</b>	<b>38</b>	<b>(12)</b>	<b>(79)</b>	<b>31</b>	<b>(60)</b>	<b>27</b>	<b>(8)</b>	<b>(10)</b>	<b>(45)</b>
Issuance (Repayment) of Debt (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales (Repurchase) of Stock (net)	(55)	(250)	(202)	(219)	(109)	(89)	(65)	(482)	(42)	(103)	(155)	-	(301)	-
<b>Cash Flow from Financing</b>	<b>(157)</b>	<b>(363)</b>	<b>(332)</b>	<b>(218)</b>	<b>(172)</b>	<b>(89)</b>	<b>(127)</b>	<b>(606)</b>	<b>(42)</b>	<b>(172)</b>	<b>(155)</b>	<b>(68)</b>	<b>(436)</b>	<b>(151)</b>
<b>Ending Cash Balance</b>	<b>1,295</b>	<b>1,261</b>	<b>1,274</b>	<b>1,218</b>	<b>1,057</b>	<b>1,031</b>	<b>967</b>	<b>967</b>	<b>1,033</b>	<b>1,033</b>	<b>977</b>	<b>1,027</b>	<b>1,027</b>	<b>1,365</b>
<b>Ending Debt Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Debt / Total Cap (incl Op leases)	5%	4%	4%	4%	4%	4%	5%	5%	5%	5%	5%			

Source: Company data, Baird estimates

## Investment Thesis

**Current thoughts.** 3Q15 EPS was slightly above expectations, driven by stronger-than-expected net revenue growth (+11% yoy, roughly 2% above our expectation) and resulting operating leverage (EBIT +21% yoy as EBIT improved 270 bps yoy to 33.7%, ahead of our expectation of 32.4%), as EXPD was able to take advantage of soft underlying freight rates to drive better-than-expected yields (as previewed in [October Freight Flows](#)). Additionally, the company continues to return capital to shareowners via share repurchases (~\$209 million in 3Q15, up from \$128 million in 2Q15 and \$77 million in 1Q15) and has the capacity to continue to do so (\$969 million in cash, no debt). We believe EXPD remains the highest quality international freight forwarder in the space (underscored by its average 25% EPS growth and its above-market volume growth within its core AF and OF markets over the past five quarters), and we see EXPD's process-oriented Information Service model as being particularly well suited to drive sustained share gains in what will very likely be a structurally slower industry growth profile in upcoming years relative to the previous 25 years. As a result, we are structurally warming to the name. However, lingering concerns about muted underlying demand trends, structural forwarding industry yield pressure, and tough comparisons during 2H15 leave us Neutral-rated. Fundamentally, we look for the development of key catalysts, including: 1) evidence of stabilization in industry fundamentals and/or signs of accelerating industry consolidation, which would provide EXPD a source of continued share gains; 2) continued success in managing through EXPD's organizational generational change; and 3) greater optimization of its balance sheet to become more constructive with our rating. Look to trim positions near our slightly raised \$52 price target, but view pullbacks toward \$47 as attractive entry point for long-term investors.

**International logistics leader.** Expeditors is one of the most profitable and sizable international third-party logistics (3PL) providers offering international air and ocean freight forwarding services. Management has relied exclusively on organic growth to develop its globally integrated business, culture, and infrastructure.

**Long-term growth prospects attractive but on a lower trajectory than previous cycles.** Industry fundamentals appear to have stabilized at a more steady-state, albeit slower rate of growth. In recent years, industry AF volume growth declined in expedited airfreight modes, and tighter capacity management by carriers resulted in yield pressure. Over the intermediate term, slower global economic growth creates more limited opportunities for growth for EXPD. That said, global trade growth, multinational supply chains, technology innovation, and trade regulations complicate logistics

operations. Shippers will continue to expand their reliance on leading logistics partners to simplify these growing complications. As a global leader with an integrated international network servicing less than 5% of its addressable market, we believe Expeditors should grow faster than the overall market.

**Excellent long-term track record.** Since its IPO in the early 1980s, EXPD has generated double-digit annual EBIT growth in all but five years. Over the past decade, the company generated a net revenue and EPS CAGR of 6% and 8%, respectively, and has done so without acquisitions.

**Compelling returns, strong balance sheet.** Ending 2014, EXPD has \$967 million in cash (\$5.00/share), is generating free cash flow exceeding \$350 million annually, and is generating a five-year average return on trailing capital of nearly 19%. This financial strength is a compelling attribute of EXPD's model.

**Premium multiple warranted, but at below-historical valuation.** Over the past decade, the stock traded in a representative range of 18-35x forward EPS estimates with an average valuation of 25x. Recent below-trend growth and structural concerns about growth, particularly on its incumbent Asia-US lane, likely prevents a return to EXPD's historical average valuation multiple. However, given the strong organic historical results (10-year EBIT CAGR of 7%), attractive long-term growth prospects (10-15% EPS growth in a healthy market), and a strong financial position, we believe a premium multiple relative to the market and its peer group is warranted. Our \$52 price target reflects ~11.1x EV/forward EBITDA, a discount to EXPD's 12.4x five-year average, and a ~6% unlevered FCF yield using our 2016 estimate. Alternatively, our price target reflects ~20x (~18x ex-cash) our forward EPS estimate, one year out, a discount to EXPD's ~22x five-year average.

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## Risks & Caveats

- **Economic sensitivity.** Expeditors is dependent upon economic growth and global trade. Factors that hinder these items (e.g., recessions, trade restrictions, geopolitical issues) could negatively affect growth and profitability.
- **Dependent on asset-based carriers.** As a non-asset-based 3PL, EXPD does not own transportation assets and, as a result, depends on asset-based transportation providers to move its shipments. Inability to properly manage these relationships could permanently impact EXPD's brand and reputation.
- **Competitive markets.** Global transportation markets are highly competitive. Several competitors including UPS and Deutsche Post have larger scale and deeper financial resources.
- **Regulated market.** Expeditors must operate among the various regulations that exist in the international transportation market for airfreight, ocean freight, customs brokerage, and import services. The company's inability to successfully integrate these regulations into daily operations could impair its competitive position.
- **Exposure to foreign markets.** Virtually all of Expeditors' revenue involves international trade with many operations taking place outside the US. EXPD must manage the risks associated with local laws and regulation, currency, and political and economic instability.

## Company Description

EXPD is a leading provider of international freight forwarding and logistics services. EXPD's non-asset-based approach provides air and ocean freight forwarding and customs brokerage on an international basis. Shippers benefit from EXPD's value-added services, international expertise, and attractive buying power. Carriers benefit because EXPD provides an effective sales arm and increases asset utilization. The segments are as follows:

- Airfreight Forwarding - uses core group of carriers to transport international freight; uses charters as necessary.
- Ocean Freight Forwarding - Non-Vessel Operating Common Carrier (NVOCC) primarily providing less-than-container load (LCL) consolidation; Cargo Management Services (ECMS) end-to-end vendor consolidation services.
- Customs Brokerage and Other Services - works globally to expeditiously and efficiently process shipments through customs; also provides a full range of distribution services allowing integrated door-to-door logistics coverage.





**Expeditors International of Washington, Inc.**  
**(EXPD - NASDAQ)**



**Balance Sheet**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	3Q15
<b>ASSETS</b>										
Cash and cash equivalents	\$511,936	\$575,273	\$741,686	\$926,584	\$1,084,989	\$1,294,828	\$1,260,981	\$1,273,989	\$967,443	\$976,943
Accounts receivable, net	811,486	933,519	788,176	810,369	1,003,884	934,752	1,031,376	1,073,500	1,236,042	1,166,300
Other current assets	18,415	25,905	43,497	50,877	51,482	57,303	65,242	67,780	85,765	92,217
<b>Total Current</b>	<b>1,341,837</b>	<b>1,534,697</b>	<b>1,573,359</b>	<b>1,787,830</b>	<b>2,140,355</b>	<b>2,286,883</b>	<b>2,357,599</b>	<b>2,415,269</b>	<b>2,289,250</b>	<b>2,235,460</b>
Property & equipment, net	450,856	497,892	493,129	495,701	498,648	538,806	556,204	563,064	538,415	527,893
Goodwill & Intangibles	15,511	15,759	14,430	12,865	11,643	10,557	7,927	7,927	7,927	7,927
Other assets	14,134	20,717	19,921	27,326	28,533	30,581	32,395	28,552	55,313	55,738
<b>Total Assets</b>	<b>1,822,338</b>	<b>2,069,065</b>	<b>2,100,839</b>	<b>2,323,722</b>	<b>2,679,179</b>	<b>2,866,827</b>	<b>2,954,125</b>	<b>3,014,812</b>	<b>2,890,905</b>	<b>2,827,018</b>
<b>LIABILITIES &amp; EQUITIES</b>										
Current debt	-	-	-	-	-	-	-	-	-	-
Accounts payable	544,028	613,108	491,823	546,675	652,161	606,628	641,593	648,156	770,238	718,555
Accrued comp and benefits	122,081	129,669	150,487	145,545	177,869	169,445	178,995	200,301	192,468	208,771
Deferred income taxes	-	-	-	-	-	-	-	-	-	-
Income taxes payable	43,036	26,976	28,039	16,166	31,948	20,072	21,970	21,743	21,077	27,876
<b>Total Current</b>	<b>709,145</b>	<b>769,753</b>	<b>670,349</b>	<b>708,386</b>	<b>861,978</b>	<b>796,145</b>	<b>842,558</b>	<b>870,200</b>	<b>983,783</b>	<b>955,202</b>
Long-term debt	-	-	-	-	-	-	-	-	-	-
Deferred taxes, Other	43,258	72,741	64,072	53,989	69,047	60,613	78,997	58,281	35,514	29,624
Shareholders' equity	1,069,935	1,226,571	1,366,418	1,561,347	1,748,154	2,010,069	2,032,570	2,086,331	1,871,608	1,842,192
<b>Total Liabilities and Equities</b>	<b>1,822,338</b>	<b>2,069,065</b>	<b>2,100,839</b>	<b>2,323,722</b>	<b>2,679,179</b>	<b>2,866,827</b>	<b>2,954,125</b>	<b>3,014,812</b>	<b>2,890,905</b>	<b>2,827,018</b>

<b>Balance Sheet Analysis</b>	2006	2007	2008	2009	2010	2011	2012	2013	2014	3Q15
Current Ratio	1.9	2.0	2.3	2.5	2.5	2.9	2.8	2.8	2.3	2.3
Days Sales Outstanding (DSO)	60	61	56	71	55	58	60	63	64	63
Net WC/LTM Revenue	2.6%	3.6%	2.9%	3.7%	3.2%	3.2%	4.2%	4.5%	5.1%	4.5%
Debt / Total Cap	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Debt / Total Cap (incl op leases)	7%	5%	5%	7%	6%	5%	4%	4%	5%	5%
Book Value/Share	\$4.81	\$5.55	\$6.30	\$7.22	\$8.07	\$9.39	\$9.73	\$10.15	\$9.68	\$9.71
Cash/Share	\$2.30	\$2.60	\$3.42	\$4.28	\$5.01	\$6.05	\$6.03	\$6.20	\$5.00	\$5.15

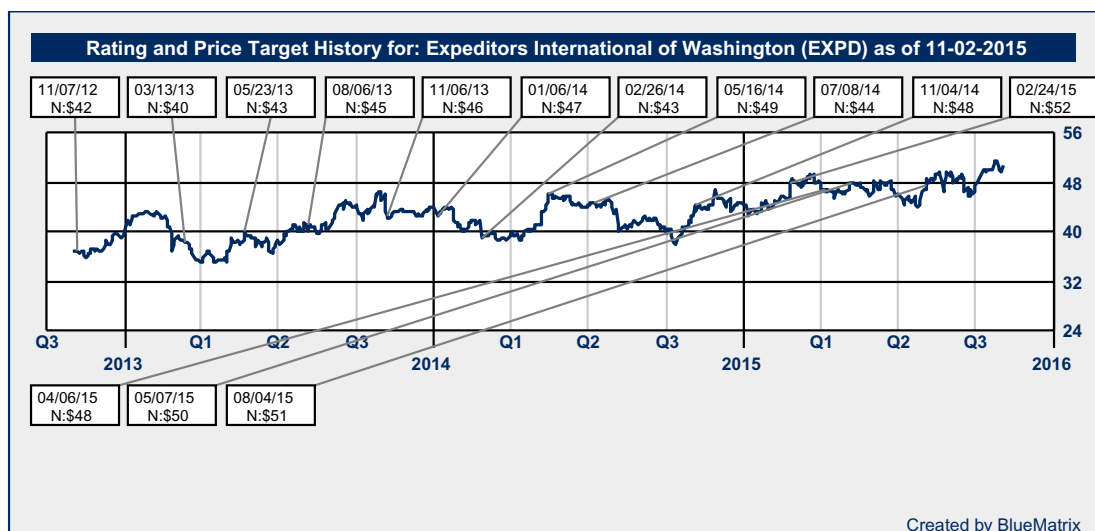
Source: Company reports and Robert W. Baird & Co. estimates.  
Please refer to Appendix - Important Disclosures and Analyst Certification.

<b>Cash Flow Statement</b>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E
Net Income	\$235,094	\$269,154	\$301,014	\$240,288	\$344,205	\$386,243	\$332,969	\$350,011	\$379,460	\$458,819	\$459,472
Depreciation and Amortization	35,448	39,303	40,003	40,035	36,900	36,776	39,940	48,071	49,292	45,954	46,700
Other	50,558	37,866	55,543	34,641	35,078	38,736	55,070	23,459	35,945	46,022	36,000
NWC Changes	12,630	(33,738)	12,406	15,836	(20,665)	(4,624)	(57,853)	(14,005)	(69,731)	(8,290)	(8,290)
<b>Cash Flow from Ops (CFO)</b>	<b>333,730</b>	<b>312,585</b>	<b>408,966</b>	<b>330,800</b>	<b>395,518</b>	<b>457,131</b>	<b>370,126</b>	<b>407,536</b>	<b>394,966</b>	<b>542,505</b>	<b>533,882</b>
Capital Expenditures	(105,828)	(77,226)	(59,357)	(34,424)	(42,048)	(77,922)	(47,291)	(53,411)	(37,472)	(40,000)	(45,000)
<b>Free Cash Flow (FCF)</b>	<b>227,902</b>	<b>235,359</b>	<b>349,609</b>	<b>296,376</b>	<b>353,470</b>	<b>379,209</b>	<b>322,835</b>	<b>354,125</b>	<b>357,494</b>	<b>502,505</b>	<b>488,882</b>
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Dividends	(47,019)	(59,748)	(68,103)	(80,555)	(84,872)	(106,011)	(117,263)	(123,292)	(124,634)	(136,711)	(150,955)
<b>Net Cash Flow (NCF)</b>	<b>180,883</b>	<b>175,611</b>	<b>281,506</b>	<b>215,821</b>	<b>268,598</b>	<b>273,198</b>	<b>205,572</b>	<b>230,833</b>	<b>232,860</b>	<b>365,795</b>	<b>337,927</b>
FCF/Share	1.03	1.06	1.61	1.37	1.63	1.77	1.54	1.72	1.85	2.66	2.59
NCF/Share	0.81	0.79	1.30	1.00	1.24	1.28	0.98	1.12	1.20	1.94	1.79

	2006	2007	2008	2009	2010	2011	2012	2013	2014	LTM
Net Margins (NI/Net Rev.)	18.2%	18.5%	18.8%	17.4%	20.3%	20.3%	18.3%	18.6%	19.0%	20.4%
Assets Turnover (Net Rev./A)	0.76	0.75	0.77	0.63	0.68	0.68	0.63	0.63	0.67	0.75
Leverage (A/E)	1.71	1.69	1.61	1.51	1.51	1.48	1.44	1.45	1.49	1.54
<b>Return on Equity</b>	<b>23.7%</b>	<b>23.4%</b>	<b>23.2%</b>	<b>16.4%</b>	<b>20.8%</b>	<b>20.5%</b>	<b>16.5%</b>	<b>17.0%</b>	<b>19.0%</b>	<b>23.6%</b>
<b>Return on Assets</b>	<b>13.9%</b>	<b>13.8%</b>	<b>14.4%</b>	<b>10.9%</b>	<b>13.8%</b>	<b>13.9%</b>	<b>11.5%</b>	<b>11.7%</b>	<b>12.8%</b>	<b>15.4%</b>
<b>ROC</b>	<b>23.4%</b>	<b>22.8%</b>	<b>22.5%</b>	<b>15.7%</b>	<b>19.7%</b>	<b>19.7%</b>	<b>16.4%</b>	<b>16.3%</b>	<b>18.8%</b>	<b>23.2%</b>

<b>Valuation Measures</b>	2006	2007	2008	2009	2010	2011	2012	2013	2014	LTM
Historical P/E High	55	45	36	34	36	31	30	28	24	17
Historical P/E Low	31	32	18	22	20	22	22	21	20	10
Historical P/FCF High - current yr	57	51	31	28	35	32	31	27	25	14
Historical P/FCF Low - current yr	32	36	15	17	20	23	22	20	21	9
<b>Debt Adj. Market Value</b>									<b>Recent Price:</b>	<b>\$50.38</b>
Market Value	9,042,942	9,882,878	7,217,110	7,523,482	11,825,676	9,795,666	8,264,495	8,027,855	8,623,443	6,593,844
ST+LT Debt	-	-	-	-	-	-	-	-	-	-
Cash, Equivalents & ST Invest.	511,936	575,273	741,686	926,584	1,084,989	1,294,828	1,260,981	1,273,989	967,443	976,943
Total DAMV	8,531,006	9,307,605	6,475,424	6,596,898	10,740,687	8,500,838	7,003,514	6,753,866	7,656,000	5,616,901
EBITDA	410,564	462,703	513,139	425,036	584,130	655,103	570,738	600,144	643,940	747,539
<b>DAMV / EBITDA</b>	<b>20.8</b>	<b>20.1</b>	<b>12.6</b>	<b>15.5</b>	<b>18.4</b>	<b>13.0</b>	<b>12.3</b>	<b>11.3</b>	<b>11.9</b>	<b>7.5</b>

## Appendix - Important Disclosures and Analyst Certification



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