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**Forward Air** NASDAQ: FWRD

**Buy**

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**S&P Sector - Industrials**

**Industry—Trucking**

## MARKET DATA

Price	\$31.67
52 wk range	\$20.3 to \$47.75
Price Target	50
Stop Price:	20
Market Cap:	686.1 million
Beta	0.98
Price/Book (mrq)	6.61
P/S (ttm)	2.92
P/E (ttm)	31.3
P/Op Cash (ttm)	17.5



## COMPANY OVERVIEW

Forward Air offers scheduled ground transportation as a cost effective alternative to air transportation. The company ships cargo that must be delivered by a certain time, but is less time sensitive than traditional air freight. The average shipment size in 2000 was 700 lbs. The company owns and operates 75 terminals located in or near airports in the U.S. and Canada. The company does not own its trucks but typically contracts with owner operators for its transportation requirements. Forward Air receives most of its business from air freight forwarders and airlines.

The company has two primary segments: linehaul (92% of revenue in 3Q01) and logistics (8% of revenue).

## INVESTMENT CONCLUSION

Buy 300 shares of FWRD

## SUMMARY

- ☐ DCF valuation of \$38 / share: Based on 20% free cash flow growth in 2002, declining to 3% terminal growth in 2008. (see page 4 for details)
- ☐ Strategy focused on providing a low cost ground based alternative to air travel has allowed company to grow rapidly and to gain market share in current economic environment. 29%, 51%, and 91% CAGR for Revenue, Net Income, and Operating cash flow from 1998 to 2000. Revenues declined 4.5% vs 11% decline in air freight volume for the most recent quarter
- ☐ Recent FAA regulations on air freight and mail should push traffic to FWRD.
- ☐ Strong balance sheet with no long term debt and sufficient cash flow to fund expansion.

## Industry Overview

Transportation industry revenues are down in line with the economic slowdown. The World Trade Center attack has magnified the effects of the slowdown for air carriers. Domestic air freight volumes were down 11% in the third quarter. By providing an cost effective ground-based alternative to air transport, FWRD managed to gain market share and posted a lower revenue decline of 4.5%.

## Historical P/E Range

Price Ratios	Company	Industry	S&P 500
Current P/E Ratio	31.3	94.5	52.5
P/E Ratio 5-Year High	46	38.7	48.5
P/E Ratio 5-Year Low	6.9	10.2	22.8
Price/Sales Ratio	2.92	0.37	1.55
Price/Book Value	6.61	1.72	3.38
Price/Cash Flow Ratio	24.2	7.1	18.9

Industry: Trucking Ratios based on latest 12 month's results

## INVESTMENT HIGHLIGHTS

### Overall Effect on Wright Fund

The Wright Fund currently has no other companies in the transportation sector. FWRD will also be the only small cap in the industrials sector as GE, TYC, and CEFT are all large caps and ASD is a mid cap. Adding 300 shares will bump up the fund sector weighting to the same level as S&P 500 from current 2% under weighting.

### Rationale & Risks

Forward Air is unique in its focus on less than truckload air freight alternative transportation. Forward Air's strategy of providing a cost effective ground based solution to air freight has led to rapid growth as evidenced by 29%, 51%, and 91% CAGR of revenues, net income, and operating cash flow from 1998 to 2000. The strategy has also helped it to weather the current economic downturn as line-haul revenues declined 4.5% in the third quarter versus an 11% decline for the overall market. FWRD is priced attractively compared to its peers with a PEG of 0.6 versus 1.1 for CHRW and 0.8 for USFC ... see table below:

Symbol	P/E	Earnings Growth 1998 - 2000	PEG
FWRD	31.3	51%	0.6
CHRW	31.4	29%	1.1
USFC	13	16%	0.8

#### Risks:

1. Continued and prolonged economic decline would hurt FWRD since they do have a fixed cost base with terminals that they own. FWRD has a higher fixed cost structure than a freight forwarder like CHRW, which doesn't own any terminals. However, FWRD has a lower fixed cost structure than trucking companies that own their truck fleet.
2. Competitive threats from freight forwarders that could decide to directly compete with FWRD instead of sending business to them.

### Recent Results & Guidance

3rd Quarter Results: 10/18/01

1. EPS of \$0.19 below consensus estimate of \$0.22.
2. Operating margin declined to 21.5% from 24.5% primarily due to lower utilization rates as company added facilities but revenue was flat.
3. Total revenue for the quarter was down 0.6% yoy. Linehaul revenue of \$46.0 MM was down 4.5% yoy. Logistics revenue of \$3.9 MM grew 45% yoy. 4.5% linehaul revenue decline compared favorably with 11% reduction in air freight volume for the quarter.

## Recent Annual Financials (from MSN Investor)

<b>Annual Income Statement (\$MM)</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>	<b>Dec-97</b>	<b>Dec-96</b>
Sales	214.9	170.8	130.4	190.4	157.1
Cost of Sales	120.9	99.1	76.5	99	85.5
Gross Operating Profit	94	71.7	53.9	91.4	71.6
Selling, General & Admin. Expense	50.9	40.3	33.6	63.4	51.7
EBITDA	43.1	31.4	20.3	28	19.9
Depreciation & Amortization	5.8	5	4.3	11.2	10.5
EBIT	37.3	26.4	16	16.8	9.4
Other Income, Net	0.8	0.3	0	-0.1	0.1
Total Income Avail for Interest Exp.	38.1	26.7	16	16.7	9.5
Interest Expense	0.1	0.8	1.2	2.6	3
Pre-tax Income	38	25.9	14.8	14.1	6.5
Income Taxes	14.5	10	5.7	5.5	2.5
Special Income/Charges	0	0	0	0	0
Net Income from Cont. Operations	23.4	16	9.2	8.6	4
Net Income from Total Operations	23.4	16	10.2	8.6	4
Normalized Income	23.4	16	9.2	8.6	4
<b>Total Net Income</b>	<b>23.4</b>	<b>16</b>	<b>10.2</b>	<b>8.6</b>	<b>4</b>
Basic EPS from Cont. Operations	1.11	0.8	0.49	0.48	0.23
Diluted EPS from Cont. Operations	1.05	0.76	0.48	0.47	0.22
<b>Annual Cash Flow (in Millions)</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>	<b>Dec-97</b>	<b>Dec-96</b>
<b>Cash Flow from Operating Activities</b>					
Net Income (Loss)	23.4	16	10.2	8.6	4
Depreciation and Amortization	5.8	5	4.3	11.2	10.5
Deferred Income Taxes	2.8	1.5	1.9	2.6	1.7
Operating (Gains) Losses	1.7	1.5	-0.1	1	0.1
(Increase) Decr. in Receivables	-2.4	-9.1	-4.2	-5.7	-6.4
(Increase) Decr. in Inventories	0.2	-0.3	-0.1	-0.2	-0.2
(Increase) Decr. in Other Curr. Assets	-0.6	0.8	-1.2	-0.9	-0.2
(Decrease) Incr. in Payables	3.2	5	8.3	5.9	2
(Decrease) Incr. in Other Curr. Liabs.	-0.3	-0.3	-17.2	0	0.9
Net Cash from Cont. Operations	33.8	20.1	1.9	22.6	12.5
<b>Net Cash from Operating Activities</b>	<b>33.8</b>	<b>20.1</b>	<b>1.9</b>	<b>22.6</b>	<b>12.5</b>
<b>Cash Flow from Investing Activities</b>					
<b>Cash Flow Provided by:</b>					
Sale of Property, Plant, Equipment	0.5	1	0.1	1.3	2.9
<b>Cash Used by:</b>					
Purchase of Property, Plant, Equipmt.	-27.2	-14.2	-11.8	-20.3	-8.8
Other Investing Changes Net	-0.1	-0.1	-5.3	0	-0.2
<b>Net Cash from Investing Activities</b>	<b>-26.9</b>	<b>-13.4</b>	<b>-17</b>	<b>-19</b>	<b>-6</b>
<b>Cash Flow from Financing Activities</b>					
<b>Cash Flow Provided by:</b>					
Issuance of Debt	1.9	19.5	21.8	6.8	2.7
Issuance of Capital Stock	2.8	0	2.5	0.6	0.6
<b>Cash Used for:</b>					
Repayment of Debt	-2	-20.7	-9.6	-10.3	-11.9
Repurchase of Capital Stock	0	0	0	0	-1.8
<b>Net Cash from Financing Activities</b>	<b>2.6</b>	<b>-1.2</b>	<b>14.6</b>	<b>-2.9</b>	<b>-10.3</b>
Net Change in Cash & Cash Eq.	9.6	5.5	-0.4	0.7	-3.8
Cash at Beginning of Period	6	0.5	0.9	0	3.8
Free Cash Flow	6.6	5.9	-9.9	2.3	3.7

## DCF VALUATION

### Summary of Model

2002 Free Cash Flow (20% over 2001)	\$46.9 Million
Free Cash Flow Growth from 2003 to 2007	Declines to 4%
Growth Rate in Free Cash Flow after 2007	3%
Beta	0.98
Risk Free Rate (5 year T-Bill)	3.8%
Equity Premium	6.0%
Discount Rate	9.8%
DCF "Fair Value" Share Price	\$38
Current Share Price	\$31.8

## CHARTS / TECHNICAL

