



**Hub
Group**

The Hub Group (NYSE:HUBG)

Entry Price: 48.81

Target Price: 63.72

Market Cap: \$1.66B

WACC: 8.15%

Probability of Upside: 93%

Credit Rating: A



Suggested Functions

GIP Chart intraday price movements

OMON Monitor live prices for options

Who is HUBG?

Hub Group, Inc. is a leading, world class supply chain management company that provides value-added multi-modal transportation and logistics solutions by offering reliability, visibility and value to our customers. Our service offerings include comprehensive intermodal, truck brokerage, dedicated trucking, managed transportation, freight consolidation, warehousing, international transportation and other logistics services. The Company is a Delaware corporation that was incorporated on March 8, 1995 as successor to a business that was founded in 1971.



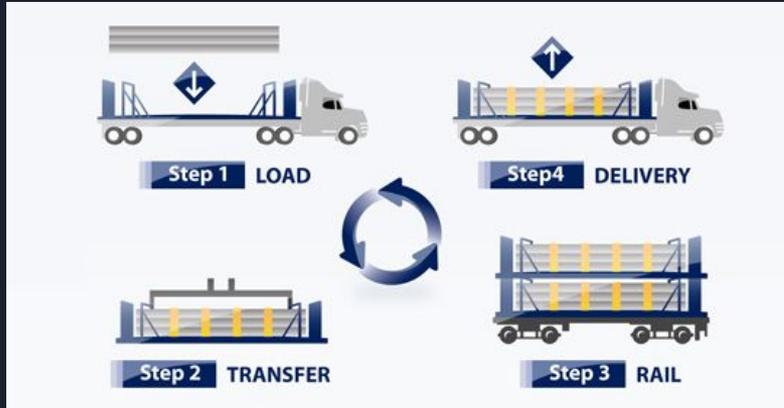


Operations

- Through their network, they have the ability to arrange for the movement of freight in and out of every major city in the United States, Canada and Mexico.
- Utilize an asset-light strategy that employs a combination of company-operated equipment as well as assets operated by third parties to transport and store customers' goods
- Allows HUBG to minimize their investment in equipment and facilities and reduce capital requirements.

Intermodal Segment

- As an intermodal provider, they arrange for the movement of customers' freight in containers and trailers, typically over long distances of 750 miles or more.
- Contract railroads to provide transportation for the long-haul portion of the shipment between rail terminals. Local pickup and delivery services between origin or destination and rail terminals (referred to as "drayage") are provided by their HGT subsidiary and third-party local trucking companies.





Relationships with railroads

A key element of HUBG's business strategy is to strengthen their close working relationships with the major intermodal railroads in North America. Due to size and relative importance, some railroads have dedicated support personnel to focus on day-to-day service requirements

Have relationships with each of the following major railroads:

Burlington, Northern Santa Fe, Florida East Coast, Canadian National, Kansas City Southern, Canadian Pacific, Norfolk Southern, CSX and Union Pacific

Dedicated Trucking Segment

- Dedicated operation contracts with customers who seek to outsource a portion of their trucking transportation needs. Offer a dedicated fleet of equipment and drivers to each customer, as well as the management and infrastructure to operate according to the customer's high service expectations.
- Contracts with customers generally include fixed and variable pricing arrangements.
- Dedicated operation currently operates a fleet of approximately 1,400 tractors and 4,500 trailers at 130 locations throughout the United States. As of December 31, 2018, Dedicated employed approximately 1,900 drivers.



Truck Brokerage Segment

- Operate one of the largest truck brokerage operations in the U.S., providing customers with an over the road service option for their transportation needs.
- HUBG's brokerage does not operate any trucks; instead they match customers' needs with carriers' capacity to provide the most effective service and price combination.





Logistics Segment

- Logistics business operates under the names Unyson Logistics and CaseStack.
- Unyson Logistics is a network of logistics professionals dedicated to developing, implementing and operating customized logistics solutions for customers. Unyson Logistics offers a wide range of solutions including:
 - Shipment optimization, load consolidation, mode selection, carrier management, load planning and execution and web-based shipment visibility.
- CaseStack logistics business leverages proprietary technology along with collaborative partnerships with retailers and logistics providers to deliver cost savings and performance-enhancing supply chain services to consumer-packaged goods clients.
- CaseStack contracts with third-party warehouse providers in seven markets across North America to which its customers ship their goods to be stored and eventually consolidated, into full truckload shipments destined to major North American retailers.

Segment Breakdown

- Intermodal: 59.6%
- Truck Brokerage: 13.5%
- Logistics: 19%
- Dedicated: 8%

RESULTS OF OPERATIONS

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table summarizes our revenue by business line (in thousands):

	<u>Twelve Months Ended December 31, 2018</u>	<u>Twelve Months Ended December 31, 2017</u>
Intermodal	\$ 2,195,316	\$ 1,870,873
Truck brokerage	497,282	481,635
Logistics	698,138	655,543
Dedicated	292,857	115,012
Total revenue	<u>\$ 3,683,593</u>	<u>\$ 3,123,063</u>

Key statistics

HUBG US \$ ↓ 48.81 -0.38 Q48.81 / 48.83Q 2x16 At 17:20 d Vol 322,901 O 49.66Q H 50.00P L 48.60D Val 15.883M							
HUBG US Equity 96) Actions ▾ 97) Export ▾ 98) Settings					Financial Analysis		
39) ADJ Hub Group Inc				ASC 842 ? Periodicity		Annuals ▾ Cur FRC (USD) ▾	
1) Key Stats		2) I/S		3) B/S		4) C/F	
5) Ratios		6) Segments		7) Addl		8) ESG	
9) Custom							
11) Adj Highlights		12) GAAP Highlights		13) Earnings		14) Enterprise Value	
15) EV Ex Operating Leases		16) Multiples		17) Pe...			
In Millions of USD							
2015 Y		2016 Y		2017 Y		2018 Y	
Current/LTM		2019 Y Est		2020 Y Est			
12 Months Ending		12/31/2015		12/31/2016		12/31/2017	
12/31/2018		06/30/2019		12/31/2019		12/31/2020	
Market Capitalization	1,196.0	1,481.2	1,633.8	1,277.3	1,663.4		
- Cash & Equivalents	207.7	127.4	28.6	61.4	149.9		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	149.2	174.0	302.5	338.4	338.0		
Enterprise Value	1,137.4	1,527.7	1,907.8	1,554.2	1,851.5		
Revenue, Adj	3,525.6	2,750.4	3,123.1	3,683.6	3,805.7	3,838.7	3,997.9
Growth %, YoY	-1.3	-22.0	13.5	17.9	9.8	4.2	4.1
Gross Profit, Adj	412.7	331.3	337.6	445.6	513.6	536.7	545.4
Margin %	11.7	12.0	10.8	12.1	13.5	14.0	13.6
EBITDA, Adj	154.8	144.8	139.3	207.8	264.4	267.8	282.2
Margin %	4.4	5.3	4.5	5.6	6.9	7.0	7.1
Net Income, Adj	71.6	59.9	47.7	86.9	110.5	112.5	111.8
Margin %	2.0	2.2	1.5	2.4	2.9	2.9	2.8
EPS, Adj	1.99	1.77	1.43	2.59	3.30	3.35	3.39
Growth %, YoY	14.9	-11.1	-19.0	80.6	-17.1	29.7	1.0
Cash from Operations	171.7	102.5	125.2	210.8	248.5		
Capital Expenditures	-83.0	-107.4	-74.5	-199.8	-159.2	-105.1	-130.6
Free Cash Flow	88.7	-4.9	50.7	11.0	89.2	141.0	111.9

Compared to peers

Name (BI Peers)	Sales Growth Yoy (%)	EBITDA Margin (%)	EBITDA Growth Yoy (%)	Operating Margin (%)
Median	17.59%	8.10%	16.29%	5.49%
100) HUB GROUP INC-CL A	17.95%	5.64%	49.21%	3.36%
101) FORWARD AIR CORP	12.96%	12.42%	8.57%	9.23%
102) EXPEDITORS INTL WAS...	17.59%	10.45%	13.48%	9.79%
103) XPO LOGISTICS INC	12.34%	8.54%	11.99%	4.40%
104) LANDSTAR SYSTEM INC	26.59%	8.10%	31.92%	7.16%
105) ECHO GLOBAL LOGISTI...	25.56%	3.73%	72.12%	2.22%
106) C.H. ROBINSON WORLD...	11.85%	6.07%	16.29%	5.49%



Name (BI Peers)	Trailing 12M Sales Growth	Trailing 12M Operating	Trailing 12M Gross Margin	Capex/Sales	Return on Assets	Return on Equity	Return on Capital
Median	5.63%	5.93%	16.17%	1.23%	11.00%	16.55%	11.71%
100) HUB GROUP INC-CL A	9.80%	4.12%	13.49%	1.27%	6.03%	11.99%	9.67%
101) FORWARD AIR CORP	9.44%	8.86%	20.46%	3.62%	11.00%	16.55%	13.76%
102) EXPEDITORS INTL WAS...	11.53%	9.54%	31.71%	0.64%	18.72%	32.21%	29.44%
103) XPO LOGISTICS INC	2.68%	4.57%	48.97%	2.78%	3.34%	13.56%	6.83%
104) LANDSTAR SYSTEM INC	5.63%	7.47%	13.75%	0.44%	19.47%	37.33%	30.92%
105) ECHO GLOBAL LOGISTI...	2.23%	2.20%	16.17%	1.23%	2.89%	4.56%	4.76%
106) C.H. ROBINSON WORLD...	0.90%	5.93%	8.88%	0.21%	15.27%	43.93%	--



Name (BI Peers)	Net Debt / EBITDA	Debt / EBITDA	Net Debt / Total Capital (%)	Debt / Total Capital	Debt / Enterprise Value
Median	1.04	1.25	25.96	27.40%	0.12
100) HUB GROUP INC-CL A	0.70	1.25	15.41	24.66%	0.21
101) FORWARD AIR CORP	1.13	1.22	25.96	27.40%	0.11
102) EXPEDITORS INTL WAS...	-0.76	0.40	-52.39	15.52%	0.03
103) XPO LOGISTICS INC	3.19	3.42	70.82	72.21%	0.59
104) LANDSTAR SYSTEM INC	-0.35	0.39	-22.55	17.20%	0.04
105) ECHO GLOBAL LOGISTI...	1.86	2.03	31.93	33.85%	0.26
106) C.H. ROBINSON WORLD...	1.04	1.36	41.34	47.88%	0.12



CaseStack Acquisition



- Helped improve logistics and efficiency for Hub Group
- CaseStack is the leader in providing warehousing and consolidation services to customers selling into the North American retail market. CaseStack offers customers shipment visibility, transportation cost savings, high service and compliance with retailers' increasingly stringent supply chain requirements.
- CaseStack contracts with third-party warehouse providers in seven markets across North America to which its customers ship their goods to be stored and eventually consolidated.
- Total consideration for the transaction is \$252.1 million. Paid \$248.7 million in cash and \$3.5 million was a deferred purchase consideration to be paid equally over twenty four months.

Estenson Acquisition

- Estenson is a leading North American dedicated trucking company that operated over 1,000 trucks and employed approximately 1,300 drivers. Estenson now operates under the name Hub Group Dedicated
- The base purchase price was adjusted by the assumed debt to arrive at the final consideration of \$172.0 million. To facilitate the Estenson Acquisition, HUBG assumed \$112.7 million of Estenson debt and paid \$165.9 million in cash, including \$55.0 million of cash which was borrowed under a credit agreement.





Second Quarter Earnings

- Revenue increased by 3% second quarter
- EPS increased by 71%
- Operating income by 60%, operating income increased by double digits across all business lines except for trucking which was flat. Result of reducing operating costs.
- EBITDA was \$69.4 million or an increase a 55% over 2018, \$44.8 million.
- Union Pacific and Norfolk Southern continue to improve operations and this will improve intermodal competition.
- Logistics business posted strong results in profitability and revenue growth, onboarding CaseStack benefit of logistics, which led to a 540 basis point improvement in gross margin as a percentage of sales.
- Able to win several new customer engagements during the quarter in both CaseStack and our legacy logistics business that will drive growth in the back half of this year and into next year.



Key Catalysts

Strong growth in sales:

- Deepen and diversify our customer relationships through a best-in-class customer experience across all solutions. 76% of top customers use multiple service lines.
- Drive organic growth by investing in assets and reducing costs. Revenue grew 18% to \$3.7 billion in 2018.
- HUBG continued to implement operational and pricing best practices across all of their businesses. Investment in 3,700 containers in 2018 brings total container count to 38,000, the second largest in the industry. Added approximately 650 trucks and 600 drivers in 2018, increasing driver count 16% in a challenging driver market.



Key Catalysts

Build a world class technology platform to drive growth and support future innovation:

- In 2017 launched, Elevate program, a multi-year process improvement and technology investment initiative which includes the implementation of core foundational technologies such as Oracle Enterprise Resource Planning, Oracle Human Capital Management and Oracle Transportation Management .
- Invested over \$66 million in technology in 2018.
- In 2018, converted two Hub Group Trucking terminals to a newly designed process and technology solution for fleet operations. We also deployed a state-of-the-art transportation management system, OTM, allowing HUBG to optimally plan drivers and loads



Key Catalysts

Improving Operational Costs:

- A focus on yield management and cost containment resulted in a 32% increase in gross margin
- A 110 basis point increase in operating income margin to 3.4% which represented 72% year over year growth in operating income.
- Technology is really starting to take hold, which is allowing HUBG to make better front line decisions. Plan to integrate Robotic Process Automation to help make the best decisions.