

Getting Squeezed at the Margin, Hub Group Issues 2013 Guidance Below Street

Hub Group became the fifth company under our coverage, and the second in as many days, to issue a negative pre-announcement for its 2013 earnings. The company now expects diluted earnings per share to fall in a range from \$0.48 to \$0.51 in 3Q13. Prior to the release, the Street consensus was \$0.54—estimates ranged from a low of \$0.52 to a high of \$0.57. The company also guided expectations for FY2013 EPS to a range from \$1.85 to \$1.95, well below the Street consensus of \$2.02. Our takeaways and derivative commentary are as follows:

- **Challenging intermodal price environment and traffic mix impacted the company's intermodal franchise—most likely impairing margins.** Softness in pricing and demand should have been evident, given the slowing price environment for truckers and negative intermodal volume on Union Pacific's network exhibited in 3Q13. However, management was adamant that 2H13 volumes would be up in the mid- to high-single digits; although that may still be the case, softer freight demand from the West Coast and lower than expected price increases most likely led to margin compression.
- **Truck brokerage results were impacted by increased competition from asset-based carriers and unfavorable mix.** The increased competition resulted in less new business than expected. Additionally, the company's business mix shifted away from higher margin, high value-added services. As a result, we expect net revenue margin compressed by a fair amount y/y.
- **Is economic growth in 2H13 not shaping up the way most thought it would?** Recall that nine transportation companies pre-announced to the negative in 3Q12. With this release, Hub Group becomes the fifth transportation company to negatively pre-announce in 3Q13. Although there have been some positive economic data points during the quarter, given the growing negative pre-announcements and "lackluster" freight growth we have heard anecdotally, we wonder whether 2H13 will be similar to 2H12.
- **Lowering our forward estimates due to the softer pricing and margin impacts.** Our updated 2013, 2014, and 2015 EPS estimates become \$1.90, \$2.17, and \$2.45, respectively, down from \$2.06, \$2.35, and \$2.66. Our updated EPS estimates represent an 8% reduction each year, resulting from lower expected top-line revenue growth, lower net revenue margin, and lower operating ratios than previously assumed.
- **Investment rating remains Hold:** Our 12-month fair value estimate decreases from \$43 (or 16.0x our former 2015 EPS estimate of \$2.66) to \$39 (or 16.0x our updated 2015 EPS estimate of \$2.45), and does not provide enough upside potential at present to warrant a rating review, although we expect shares to trade down today.

Changes	Previous	Current
Rating	—	Hold
Target Price	—	NA
FY13E EPS (Net)	\$2.06	\$1.90
FY14E EPS (Net)	\$2.35	\$2.17
FY13E Rev (Net)	\$3.35B	\$3.31B
FY14E Rev (Net)	\$3.60B	\$3.56B

Price (10/09/13):	\$37.31
52-Week Range:	\$41 – \$28
Market Cap.(mm):	1,405.2
Shr.O/S-Diluted (mm):	37.7
Enterprise Val. (mm):	\$1,342.3
Avg Daily Vol (3 Mo):	152,271
LT Debt/Total Cap.:	1.7%
Net Cash/Share:	\$1.91
Book Value/Share:	\$14.21
Dividend(\$ / %)	\$0.00 / 0.0%
S&P Index	1,656.40

EPS (Net)	2012A	2013E	2014E
Q1	\$0.37	\$0.42A	\$0.45
Q2	0.46	0.50A	0.55
Q3	0.50	0.49	0.58
Q4	0.51	0.50	0.58
FY Dec	\$1.83A	\$1.90	\$2.17
P/E	20.4x	19.6x	17.2x

Rev (Net)	2012A	2013E	2014E
Q1	\$739.9	\$769.0A	\$836.4
Q2	778.3	836.7A	902.8
Q3	804.9	855.9	918.5
Q4	801.0	848.0	905.8
FY Dec	\$3.12B	\$3.31B	\$3.56B
EV/Revenue	0.4x	0.4x	0.4x

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Company Description

Hub Group, Inc., an asset-light third party logistics company, is a leading provider of intermodal services to shippers, steamship companies, and other logistics companies. In addition, the company provides one of the largest truck brokerage operations through its Highway Services division and also provides technology-based supply chain services through its Unyson Logistics division.

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Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Closing Price 10/9/2013	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of			Enterprise value as a multiple of				TTM ROA	TTM ROE	TTM ROIC	PEG ratio ^(d)	Div. Yield	2013E FCF Yld		
								2012A ^(b)	2013E ^(b)	2014E ^(b)	Book value	TTM Revenue	2013E EBITDA	TTM EBITDA							TTM EBITDAR ^(c)	TTM EBIT
Intermodal																						
Hub Group (HUBG)	Hold	37.31	37.7	1,405.2	9.1	72.0	1,342.3	20.4x	19.6x	17.2x	2.6x	3.6x	11.1x	10.9x	9.5x	11.5x	7.6%	14.2%	14.2%	1.3	0.0%	1.2%
J.B. Hunt Transport Svcs. (JBHT)	Hold	70.83	117.9	8,347.8	674.1	5.9	9,016.0	27.3x	24.1x	20.5x	9.3x	1.7x	10.6x	11.4x	11.3x	16.4x	12.9%	40.0%	22.8%	1.4	0.8%	3.3%
Pacer International (PACR)	Buy	6.06	35.4	214.5	0.0	26.8	187.7	NM	24.2x	15.2x	1.7x	0.8x	8.3x	8.6x	3.9x	14.0x	3.2%	6.2%	6.7%	1.0	0.0%	1.8%
	Min			214.5	0.0	5.9	187.7	20.4x	19.6x	15.2x	1.7x	0.8x	8.3x	8.6x	3.9x	11.5x	3.2%	6.2%	6.7%	1.0	0.0%	1.2%
	Mean			3,322.5	227.8	34.9	3,515.3	23.9x	22.7x	17.6x	4.5x	2.1x	10.0x	10.3x	8.2x	14.0x	7.9%	20.1%	14.6%	1.2	0.3%	2.1%
	Max			8,347.8	674.1	72.0	9,016.0	27.3x	24.2x	20.5x	9.3x	3.6x	11.1x	11.4x	11.3x	16.4x	12.9%	40.0%	22.8%	1.4	0.8%	3.3%
Stifel Transportation Average				8,652.7	1,552.3	433.4	9,832.5	20.2x	19.4x	16.3x	3.1x	2.3x	8.9x	9.6x	8.9x	17.6x	5.3%	17.5%	9.8%	1.3	1.0%	2.2%

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest

(b) Stifel estimates for those rated and First Call mean estimates for unrated securities

(c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA for the valuation multiple calculation

(d) 2014E P/E divided by First Call mean or Stifel estimated long-term growth rate

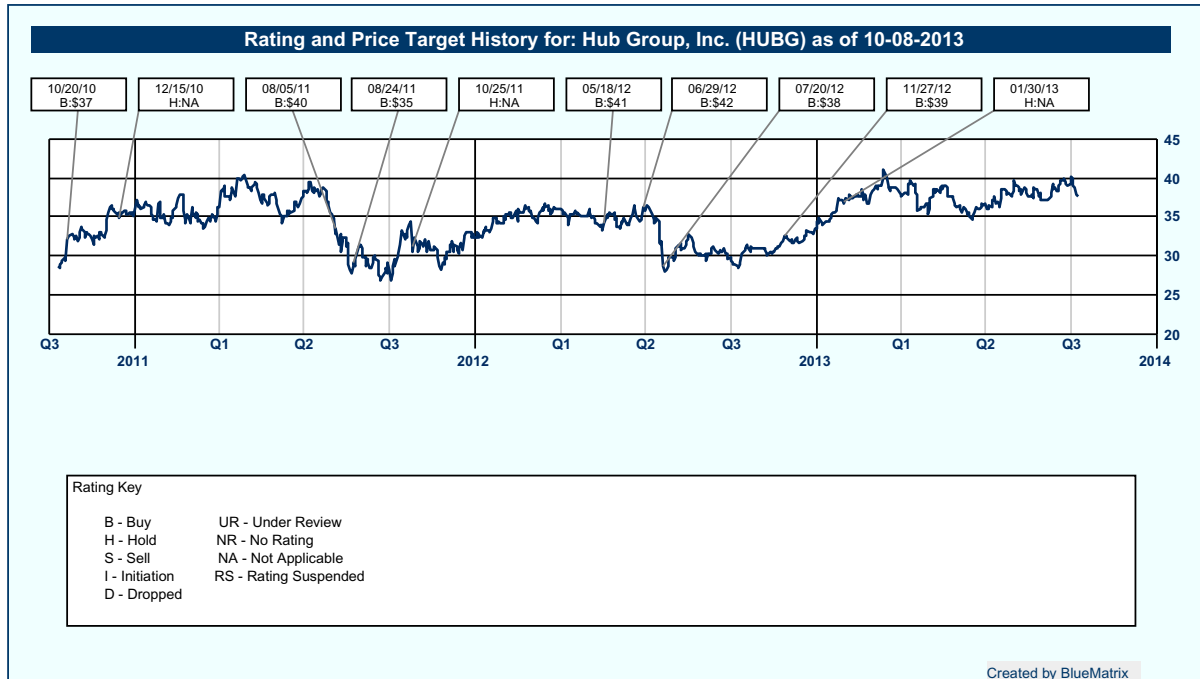
Excludes non-recurring items

Calculations may vary due to rounding

Source: Company data, First Call, and Stifel estimates

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For a price chart with our ratings and target price changes for HUBG go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=HUBG>

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Stifel makes a market in the securities of Hub Group, Inc..

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BUY -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

HOLD -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

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