J.B. Hunt Transport Services, Inc. (JBHT)

BUY: US$121.52 (+13.0%)

NUS INVESTMENT SOCIETY

Equity Research Department - Industrials

18 April 2020

Analysts

Kevin Mak - Lead Analyst
e0175159@u.nus.edu

Keith Gan
gankeith@u.nus.edu

Joe Lee
joelee@u.nus.edu

Basic Information

Last Closed Price	USD$107.58
12M Target Price	USD$121.52
+/- Potential	+13.0%
Ticker	JBHT
GICS Sector	Industrials
GICS Sub-Industry	Transportation

1Y Price v Relative Index

Company Description

J.B. Hunt Transport Services, Inc., along with its subsidiaries, provide transportation and delivery services throughout the United States, Canada and Mexico. It operates in four segments, namely Intermodal ("JBI"), Dedicated Contract Services ("DCS"), Integrated Capacity Solutions ("ICS"), and Truckload ("JBT").

Key Financials

Market Cap	10.5398b
Basic Shares O/S	106.3m
Free Float	78.9%
52-Wk High-Low	US$75.29 - US$122.29
Fiscal Year End	31-Dec-2019

(US$b)	FY18A	FY19A	FY20E	FY21E
Revenue	8.61	9.17	8.26	12.9
Gr Rate (%)	*19.8*	*6.4*	*-9.8*	*12.9*
EBITDA	1.12	1.23	1.11	1.26
Margin (%)	*13.0*	*13.5*	*13.5*	*13.5*
ROE (%)	24.8	23.6	19.2	20.7
ROA (%)	10.2	9.8	8.1	9.0
ROIC(%)	16.9	16.3	12.7	12.7
D/E (%)	54.7	57.2	83.1	81.0

Key Executives

John Roberts	Chief Executive Officer
John Kuhlow	Chief Financial Officer
Darren Field	Executive Vice President, Intermodal
Brad Delco	Vice President of Finance and Investor Relations
Shelly Simpson	Chief Commercial Officer
Nick Hobbs	President, Dedicated

We are initiating coverage on J.B. Hunt Transport Services, Inc. ("J.B. Hunt") with a BUY rating and a **US$121.52** 12M price target.

FY19 Earnings Highlights

- Consolidated operating revenues increased by 6.4% from US$8.61b in FY18 to US$9.17b in FY19
- Increase in operating revenues was mainly driven by DCS segment revenue growth of 24.6% from FY18, which is attributed to an increase in revenue per truck per week and the acquisition of Cory 1st Choice Home Delivery
- ICS segment revenue growth of 1.0% driven by weak load volume growth of just 0.8% and revenue per load remaining relatively flat, increasing by 0.3% from FY18
- JBI segment revenue growth of 0.6%, 3.4% decrease in load volumes partially offset by an increase in revenue per load of 4.1%
- JBT segment revenue fell 6.7% due to a decline in revenue per tractor per week, accompanied by a decrease in load volumes

Investment Thesis

- Increased intermodal load volume is expected on the back of improved digital service offerings and higher operating efficiencies offered by railways, facilitating the conversion from trucking to intermodal transportation for long haul deliveries
- Resilient DCS segment with long-term contractual agreements and high customer retention forms an economic moat
- Emphasis on ramping up its home delivery capabilities through recent acquisitions is expected to drive near term growth, supported by an expected acceleration of growth in the last mile delivery market

Catalysts

- A fall in the number of new US coronavirus infections could signal the beginning of a normalisation of economic activity, which is a positive sign for J.B. Hunt's freight volumes
- Accelerating trend towards e-commerce and digitization in the freight service industry
- Better-than-expected operational synergies with RDI Last Mile & Cory 1st Choice Home Delivery
- A greater shift in customer preferences towards fleet outsourcing

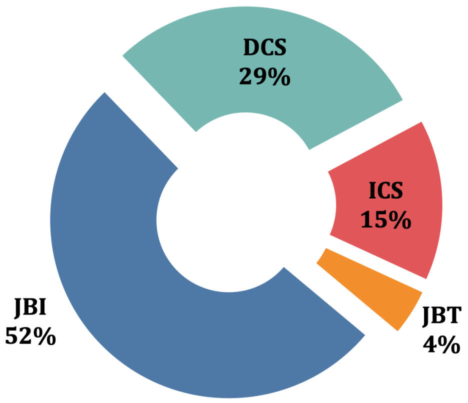
Valuations

Our 12M price target from the date of coverage is **US$121.52.** Valuation was derived using two distinctive valuation methods: DCF model, using an EV/EBITDA exit multiple of 9.40x based on the mean FY19 multiples of J.B. Hunt's peer comparable companies, and a Relative Valuation Approach, using the 75th percentile +1FY P/B multiple of 4.78x. We think that J.B. Hunt's digitally-driven business approach and synergistic capabilities of its asset-based and non-asset based business segments, justify the usage of premium multiple.

Investment Risks

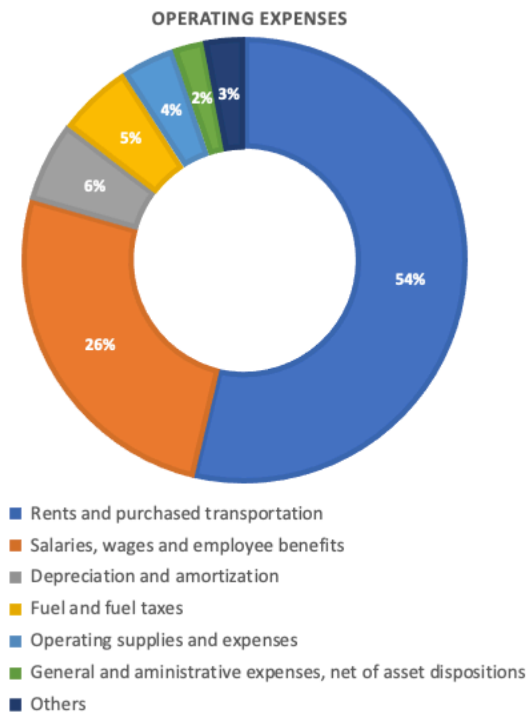
- **Short-term liquidity of customers:** COVID-19 related supply chain disruptions may result in customers being unable to make payments on time
- **Non-renewal of contracts:** Short-term contracts signed under JBI, ICS and JBT segments will potentially have a lower renewal rate in view of suspended businesses during this downturn
- **Reliance on third parties:** Dependency on contractual relationships, third-party carriers and independent contractors expose J.B. Hunt to external risks which can potentially hamper its operations

Figure 1. Revenue Breakdown by Segment



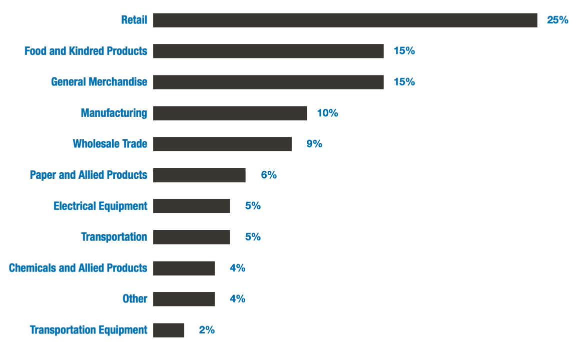
Source: J.B. Hunt

Figure 2. Breakdown of Operating Expenses



Source: J.B. Hunt

Figure 3. J.B. Hunt provides services to a diversified base of customers



Source: J.B. Hunt

Company Overview

J.B. Hunt Transport Services, Inc. is one of the top transportation and logistics companies in the US with an annual turnover of US$8.1b in FY19 and a market cap exceeding US$10b. Founded in 1961, J.B. Hunt was one of the pioneers in intermodal transport, when it first partnered with Santa Fe Railway to offer the first intermodal service for customers in the United States.

They offer a wide range of freight services beyond intermodal. It owns a diverse fleet of trucks, tractors, trailing equipment and containers, working with company-hired drivers as well as independent contractors to provide freight services that cater to the needs of customers. J.B. Hunt's business is broken down into four segments: Intermodal ("JBI"), Dedicated Contract Services ("DCS"), Integrated Capacity Solutions ("ICS"), and Truckload ("JBT"). The revenue breakdown for these four segments are 51.8%, 29.4%, 14.7%, and 4.2%, respectively. In terms of operating income, JBI is responsible for 60.9% of operating income, followed by DCS at a 36.6% contribution, while ICS and JBT combined contributed a marginal amount of 2.5% in FY19.

Intermodal (JBI)

J.B. Hunt's biggest revenue driver is its intermodal business, which includes freight transported over rail as well as short distance trucking services, as a part of the longer supply chain. With a largely company-owned trailing equipment fleet that exceeds 96,743 and 6,376 drivers, J.B Hunt's intermodal service is the largest intermodal service in the US, according to Transport Topics. FY19 JBI operating margin and EBITDA margin were 9.4% and 13.2% respectively.

Dedicated Contract Services (DCS)

Through Dedicated Contract Services (DCS), J.B. Hunt provides revenue equipment and drivers to a specific customer under long-term customer contracts with specified rates. DCS includes final mile delivery services that are supported with a network of 120 cross-dock locations. FY19 DCS operating margin and EBITDA margin were 10.0% and 19.0% respectively.

Integrated Capacity Solutions (ICS)

Integrated Capacity Solutions provides freight brokerage to customers using a combination of third-party carriers and company-owned equipment. In 2014, J.B. Hunt launched J.B. Hunt 360, a transport management system that provides real-time information to customers. In 2017, they further expanded J.B. Hunt 360 to include Marketplace, which connects shippers to carriers using artificial intelligence capabilities. J.B. Hunt Carrier 360, launched in 2017, further enhanced the experience of small fleets and owner-operators. FY19 ICS operating margin was -1.0% due to increased technology spending on the J.B. Hunt 360 platform. No depreciation and amortization expenses were allocated to ICS.

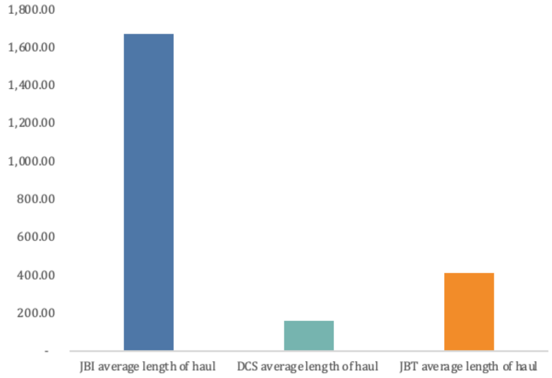
Truckload (JBT)

In the truckload segment, J.B. Hunt offers full-load, dry-van freight services to customers using their fleet of 845 company-owned tractors and 868 drivers. In addition, 986 independent contractors operated in the truckload segment. FY19 JBT operating margin and EBITDA margin were 7.5% and 15.9% respectively.

Market Segmentation of JBI and JBT Services By Length Of Haul

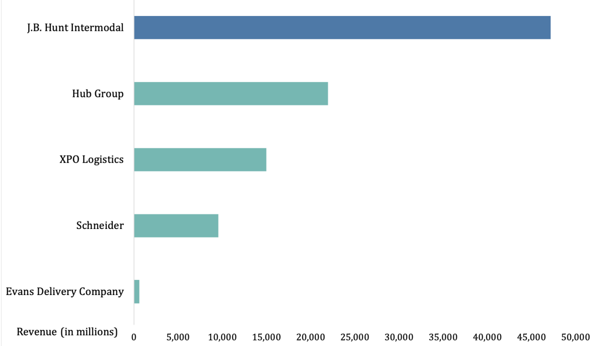
Intermodal helps shippers to generate most cost savings for long haul deliveries as compared short haul deliveries. Conversely, truckload tends to be more cost effective for short haul deliveries. This is clearly reflected by the IHS Markit Journal of Commerce ("JOC") Domestic Spot Intermodal Savings Index ("Spot ISI") which measures intermodal cost savings over trucking in the spot market. Index values greater than 100 signify that intermodal is cheaper while values below 100 indicate that truckload is cheaper. As of FY19, lanes which are less

Figure 4. Average Length of Haul for JBI, DCS & JBT Business Segments (Miles)



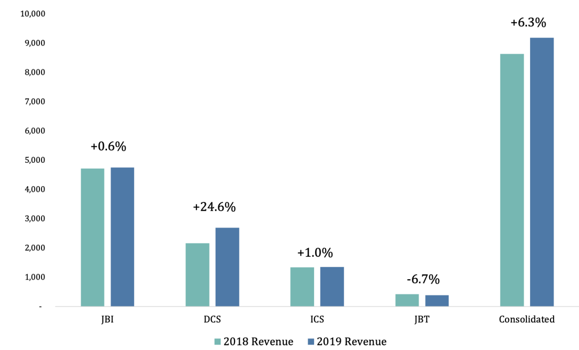
Source: J.B. Hunt

Figure 5. J.B. Hunt's Intermodal revenues lead the market



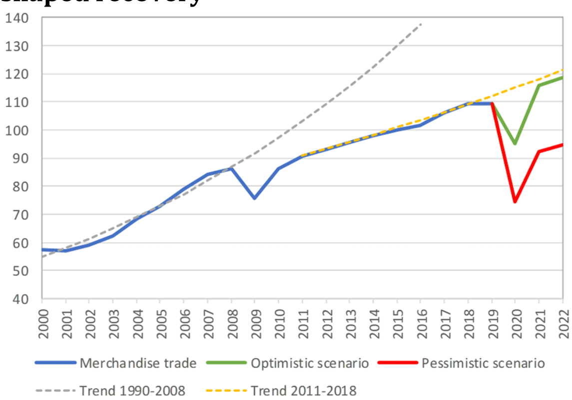
Source: Transport Topics

Figure 6. DCS segment was the main driver of growth in FY19



Source: J.B. Hunt

Figure 7. World trade projected to follow a V-shaped recovery



Source: WTO

than 700 miles had a 12-month average Spot ISI of 89 while lanes between 1,200 and 2,000 miles had a 12-month average of about 105. For distances between 800 to 1,200 miles, this is where there is the most competition between truckload and intermodal with a 12-average Spot ISI of 100. The data aligns well with J.B Hunt's market segmentation where the FY19 average length of haul ("ALOH") for its JBI and JBT segments were 1,679 miles and 415 miles respectively. This avoids any potential risks of cannibalization between JBI and JBT. In other words, any potential capturing of load volumes within each segment would not be at the expense of the other.

Operating Cost Structure

The bulk of J.B. Hunt's operating expenses comes from rents and purchased transportation cost. These expenses arise from the payments made to 3rd party rail and truck carriers within the JBI and ICS segments. From FY18 to FY19, rents and purchased transportation costs increased by 2.1%, primarily due to increased rail and truck transportation rates and JBI rail purchased transportation costs. Salaries, wages and employee benefits also take a significant portion of J.B Hunt's operating expenses, increasing by 12.5% from in FY19 due to an increase in the number of employees and a tighter supply of drivers. Depreciation and amortization expenses increased by 14.5% in FY19 which was primarily driven by equipment purchased related to DCS long-term customer contracts. Fuel and fuel taxes rose by 0.9% in 2019 due to an increase in road miles, offset by lower fuel prices. J.B. Hunt has a fuel surcharge programme with a majority of its customers which is adjusted based on changes in prevailing fuel prices, though there exists a time lag before fuel surcharge adjustments are reflected in revenues. Fuel costs associated with 3rd party payments are classified under purchased transportation expense.

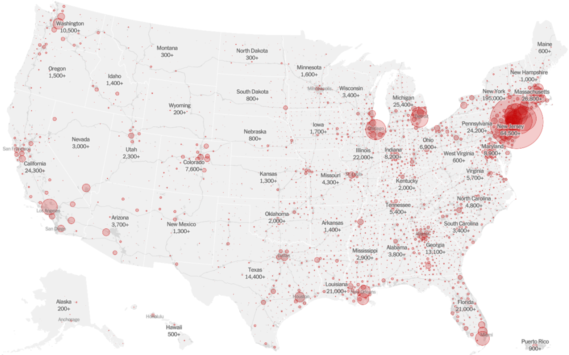
Other operating expenses include operating supplies and expenses (+9.7%), general and administrative expenses(+17.6%), insurance and claims (+21.5%), operating taxes and licenses (+8.3%) and lastly, communication and utilities expenses (+12.6%). Increased technology spending on J.B. Hunt 360, advertising expenses and FMS network facility costs accounted for the large increase in general and administrative expenses.

Operating cost margins are primarily dictated by changes in market conditions, third party contract negotiations as well as changes in freight mixes. Hence, we made a simplifying assumption that operating ratios remain constant at the FY19 level of 92.0% in our cost projections.

FY19 Earnings Review

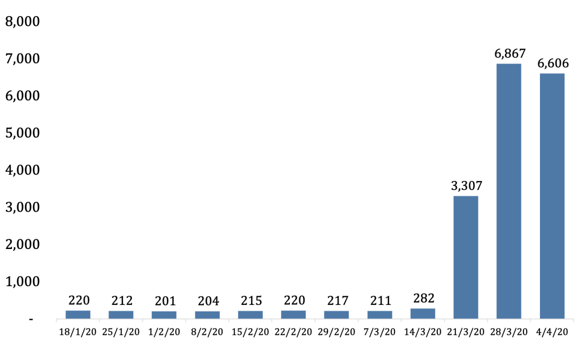
- Consolidated operating revenues increased 6.4% from US$8.61b in FY18to US$9.17b in FY19
- DCS segment revenue of US$2.69b, a 24.6% y-o-y increase from FY18, mainly attributed to an increase in revenue per truck per week of 8.0%, primarily due to the acquisition of Cory 1st Choice Home Delivery and the addition of new customer accounts
- ICS segment saw increased load volumes of 0.8% while the JBI segment saw a higher revenue per load of 4.1% which was partially offset by a decreased load volume, leading to marginal revenue increases of 1.0% and 0.6%, respectively
- Operating income of ICS was negative due to higher expenses spent on the J.B. Hunt 360 digital platform, marketing, and personnel
- JBT segment witnessed a reduction in rates per loaded mile and the number of operating tractors; operating income decreased by 21.6% due to higher competition and driver shortage
- Despite the cost pressures, overall operating margins remained relatively constant at 8.0% in FY19 as compared to 7.9% in FY18, due to profit margin increases from the JBI and DCS segments

Figure 8. US is facing the coronavirus pandemic in most states



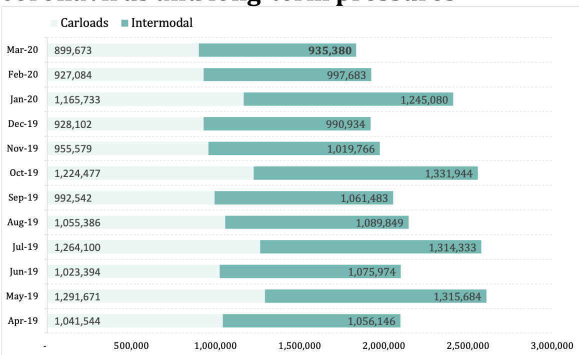
Source: NY Times

Figure 9. Unprecedented rise in US jobless claims



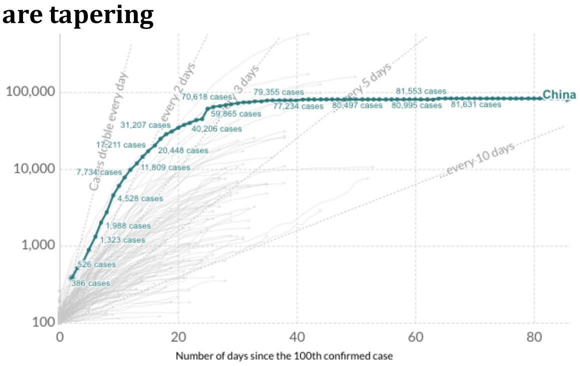
Source: Labour Department

Figure 10. Intermodal traffic is down y/y due to coronavirus and long-term pressures



Source: Association of American Railroads

Figure 11. Number of COVID-19 cases in China are tapering



Source: World Economic Forum

Industry Outlook

Economic Recession Due To COVID-19 Imminent

Multiple data points suggest that the global economy is about to enter into a recession, induced by the damaging effects of the COVID-19 pandemic. The IMF has projected that the global economy will contract by 3%, predicting the worst financial crisis since the Great Depression. According to projections from the World Trade Organisation, world trade is expected to fall by between 13% and 32%, depending on the trajectory of the virus. Most regions are expected to record double-digit declines in imports and exports, with US trade expected to fall by between 17.1% and 40.9%. If the economy begins to recover by the latter half of 2020 or early-2021, US trade could recover by between 19.3% to 23.7%. Against the backdrop of a worldwide global recession, transportation loads are expected to face downward pressure as manufacturing and industrial activity falls.

The US is one of the countries that is hit the hardest by the coronavirus outbreak. It is currently the global epicentre of the pandemic with the highest number of total confirmed cases among all countries at 583,220; New York has become a hotbed for the virus spread, with a total of 195,000+ confirmed cases, according to Johns Hopkins University as of 18 April 2020. In the light of the coronavirus pandemic, the federal government and states have issued stay-home orders and encouraged social distancing measures and this would have a huge impact on the economy as businesses shut down. As economic activity slows, the number of jobless claims are rising. A total of 17 million Americans have filed for unemployment claims since mid-March, pointing to an unemployment rate of close to 15% in the coming weeks. The unprecedented level of unemployment is a strong indicator that an economic recession is imminent.

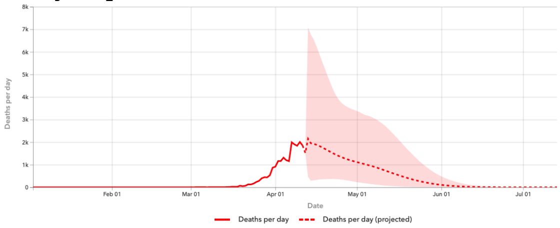
In the near-term, we expect rail traffic volumes to decline due to both supply and demand side pressures. Ports are seeing less container volume owing to slowdown in trade. The Port of Los Angeles has seen nearly 60 blank sailings – where a sailing has been cancelled – and the US as a whole has seen roughly 110 blank sailings from early February to early April, according to maritime research group Sea-Intelligence. Cargo volume in the Port of Los Angeles was down 25% in February. A decline in port activity will likely ripple throughout transportation and logistics networks and lead to declines in intermodal and truckload activities. Furthermore, the US economy will likely see a fall in demand as the pandemic continues and this will weigh on freight volumes. According to the Association of American Railroads, intermodal container traffic has fallen 9% year over year to 997,683 intermodal containers.

Freight Volumes Could See a V-Shaped Recovery

Despite the economic downturn that has resulted in freight volumes decreasing, the transportation industry as a whole is likely to be relatively more resilient to the impact of the coronavirus as essential goods still require freight services. While volumes may face pressure on the back of decreased demand, the transportation industry is unlikely to see precipitous declines that other companies may face during this pandemic. J.B. Hunt has a diversified base of customers from multiple industries and this could help to cushion the impact of near-term freight volume declines in the hardest-hit industries. Essential goods will still need to be transported and their supply chains are unlikely to be hit as hard by the pandemic.

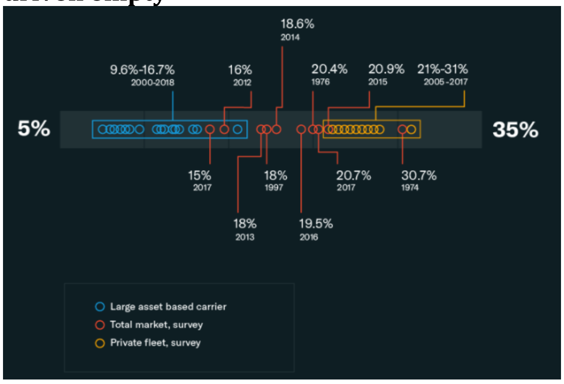
In the more optimistic scenario, supply chain disruptions may be resolved as lockdown measures gain traction in limiting the number of coronavirus cases. There are some signs pointing towards the pandemic slowing its pace. In China, the number of new cases has been on the decline, as they have managed to 'flatten the curve' of COVID-19 cases. According to the Ministry of Industry and Information, over 95% of industrial companies in Hubei and 76.8% of small and midsize companies across China have resumed work as at March 13, 2020. As

Figure 12. Coronavirus pandemic in the US likely to peak soon



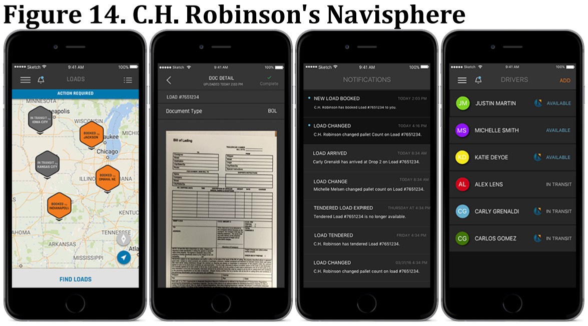
Source: Institute for Health Metrics and Evaluation

Figure 13. About ~20% of truckload miles are driven empty



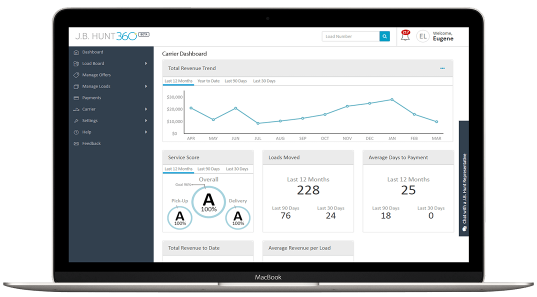
Source: Convoy

Figure 14. C.H. Robinson's Navisphere



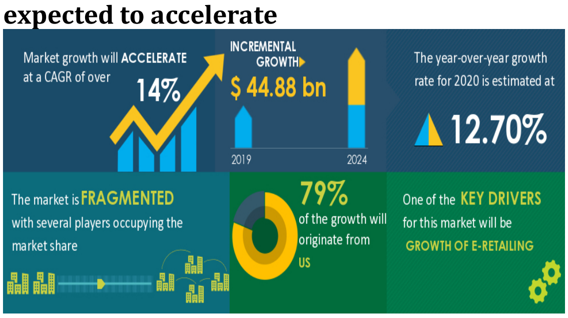
Source: C.H. Robinson

Figure 15. J.B. Hunt's 360 Platform allows for digital load-matching



Source: J.B. Hunt

Figure 16. Last mile delivery market growth expected to accelerate



Source: Technavio

long as China continues on its current trajectory, it appears that the global supply chain could experience a recovery in the second half of 2020.

The bigger question is whether demand will recover in the US. With supply-chain disruptions likely out of the way, a V-shaped recovery is possible as companies restock inventories that were not replenished due to the supply chain disruptions. This is, of course, contingent upon the pandemic situation improving in the US. Gradually, states and the federal government are planning to reopen the economy based on hopes that the number of new fatalities has peaked. J.B. Hunt's intermodal segment should be well-positioned to take advantage of the increases in freight volumes. Precision schedule railroading is likely to make it easier for railway service providers to accommodate rapid increases in volumes.

Shift Towards Technology-Enabled Service Offerings

Technology is set to disrupt the transportation industry as companies roll out digital platforms that can track in real-time any excess capacity and eliminate it. Apps like Uber Freight and Convoy are attempting to gain market share from incumbents by providing brokerage services that promise to eliminate inefficiencies in the logistics sector. While apps like Uber have already brought wide-changing disruptions to the private car-for-hire industry, the automation change within the logistics sector has been more slow-paced.

Among the new players in the digitalization push are Silicon Valley start-ups like Uber Freight and Convoy, but established industry players like C.H. Robinson have also ventured into technology with their Navisphere which offers load-matching and billing status updates. XPO Logistics has launched their XPO Connect platform that promises to automate the freight brokerage process. Technology automation using artificial intelligence can help companies to increase utilisation of their trucks, given that an estimated ~20% of trucking miles are driven empty. J.B. Hunt's offering in digital freight matching is made through its J.B. Hunt 360 platform, a multi-modal platform that allows shippers to choose between full truckload, less-than-truckload, and intermodal.

We can expect to see more market consolidation as 3rd party logistics providers step up their digitalisation efforts. Smaller logistics brokerage firms may have trouble finding the capital to build up their own digital capabilities and may have to venture into more niche services to remain competitive. Competition to provide value to shippers and carriers will become tougher, and the ones that will thrive in this environment are those companies that are able to offer a full suite of service offerings. Scale of the digital platforms will be key to improving the automated load-matching and price visibility that will help companies gain market share in the brokerage segment. In that regard, we believe that J.B. Hunt is well-positioned to fully take advantage of this industry trend using their large base of company-owned assets. With a long standing history of operational experience in the industry, J.B. Hunt has a competitive advantage over those with less transportation and logistics experience such as Uber Freight.

Growth In Big-Box Last Mile Delivery

With the disruption of e-commerce, traditional brick-and-mortar stores have seen a drop in sales in recent years. Sears, a major retailer of appliances, has been closing hundreds of stores per year and Macy's, a department chain carrying furniture, has been seen closing its store count by 25% since 2014. Such declines have been more apparent in retailers of furniture and appliances due to the advent of technology. The hassle of customers previously having to drop by a retail location has been removed through the use of augmented reality applications, which allow customers to visualize 3D-rendered furniture in their homes. Naturally, this has led to a rise in the number of pure-play e-commerce furniture retailers. According to GoodData, pure-play e-commerce retailer sales are up 34% y-o-y in the U.S. and Canada and the number of orders has increased 52% y-o-y as of March this year.

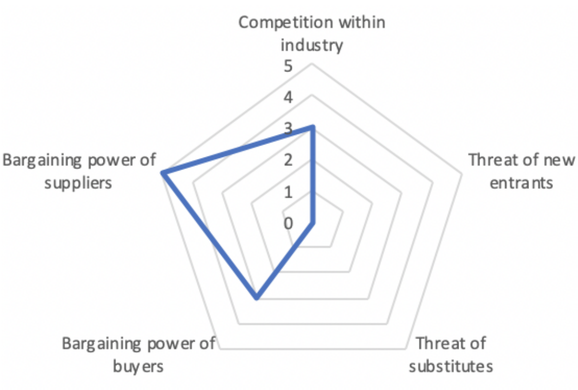
The shift towards adopting an omnichannel approach has also contributed to the growing emphasis placed on e-commerce sales, which presents an opportunity to transport and logistics companies such as J.B. Hunt. Those with the ability to offer high-quality last mile services will be seen as a major asset to such retailers as they can help to fill in gaps within the supply chain.

Robust growth in the last mile delivery market is expected to be seen in North America. The market is expected to grow by 44.88b (14% CAGR) from 2019 to 2024 according to Technavio. The main driving force behind this uptrend is the rapid growth in the e-commerce market, which is expected to grow by 20% this year according to Armstrong & Associates. We believe this growth potential will largely be captured by industry leaders as we see a trend in market consolidation to extend existing last mile capabilities and cross selling opportunities, thereby weeding out the smaller players.

Porter's Five Forces

Putting the points into a Porter's Five Forces diagram, we observe that the expected competition will be moderate given that the current industry is facing a consolidation in the market. Due to high barriers to entry, it is unlikely that there will be new entrants, particularly in the near term. Given that freight volumes could see a recovery, the industry will likely face an increasing need for drivers to meet the demand.

Figure 17. Porter's 5 Forces



Source: NUS Investment Society Estimates

Competition within industry - Moderate

The dynamic nature of the industry has pushed forth digitalisation which has heightened the competition within the industry. Such competition has been intensified through an increasing rate of acquisitions by established players, such as Knight-Swift and XPO Logistics. On the other spectrum, we foresee an extended slowdown in the industry due to economic headwinds, creating pressures from an overcapacity, forcing players out of the market.

Figure 18. Recent acquisitions by prominent players in the industry

Acquirer	Target Company
Knight Transportation	Swift Transportation
XPO Logistics	Kuehne + Nagel *(UK logistics segment)*
Hub Group	CaseStack
Ryder Systems	Metro Truck and Tractor Leasing
C.H. Robinson	Prime Distribution Services
C.H. Robinson	Space Cargo Group

Source: Crunchbase

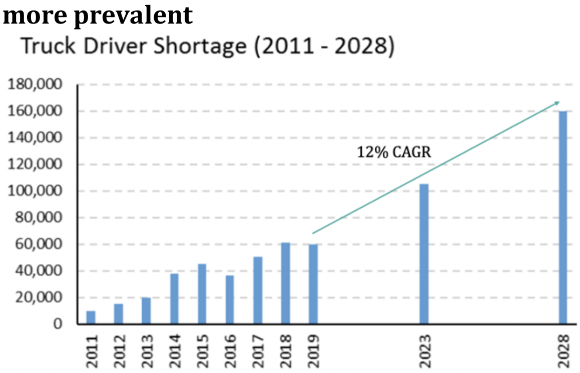
Threat of new entrants - Low

The capital intensive nature in terms of owning a fleet of containers and drayage fleets acts as a significant barrier to entry for new entrants. This is coupled with strong headwinds due to the COVID-19 pandemic acting as a form of deterrence in the short-term. Furthermore, the growing need to innovate and build digitalisation capabilities requires a high investment of time to be spent on research and development.

Threat of substitutes - Low

With the utilization of various modes of transportation, the threat of substitutes is relatively weak in the industry. We observe that there are currently little alternatives around intermodal freight, especially with established players offering a full suite of services. Additionally, intense capital requirements to achieve J.B. Hunt's scale serve as an additional deterrence to substitutes.

Figure 19. Truck driver shortage becoming more prevalent

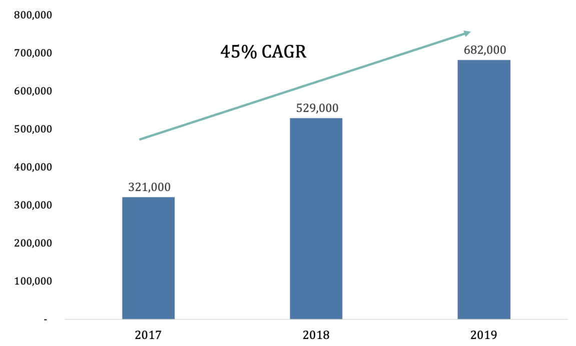


Source: American Trucking Association

Bargaining power of buyers - Moderate

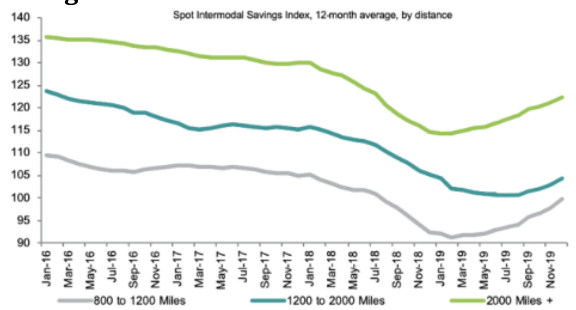
With the rise in companies offering a wider range of services and a greater price transparency, buyers have the power over businesses as differentiation is lowered. Although buyers have the ability to locate similar services at more affordable rates, the overall switching cost is moderate as existing customers are less likely to defect to competitors given other qualitative factors. The marginal difference in cost might not incentivize them to bear a greater exposure to uncertainty risks such as timely and safe delivery of goods.

Figure 20. Carrier count on J.B. Hunt 360 Marketplace has been increasing rapidly



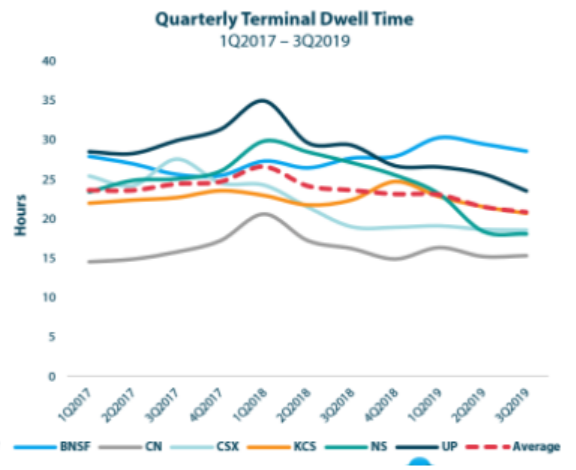
Source: J.B. Hunt

Figure 21. US Domestic Spot Intermodal Savings Index



Source: IHS Markit

Figure 22. Terminal dwell time at Class I railroads have been declining



Source: Breakthrough

Figure 23. Railroads have become more efficient in the past three years

Source: Breakthrough

Bargaining power of suppliers - High

Cost margins could increase should the railroads demand higher fees for transportation across railroads. Furthermore, a shortage of independent contractors or third-party carriers will cause supply chain disruptions resulting in shipping delays and higher storage costs. The struggle that was first surfaced 15 years ago has been made more apparent as unfilled truck driver positions have swelled by 20% in recent years.

Investment Thesis

1. Increased Intermodal Load Volumes From Digital Marketplace And Better Rail Service Offerings

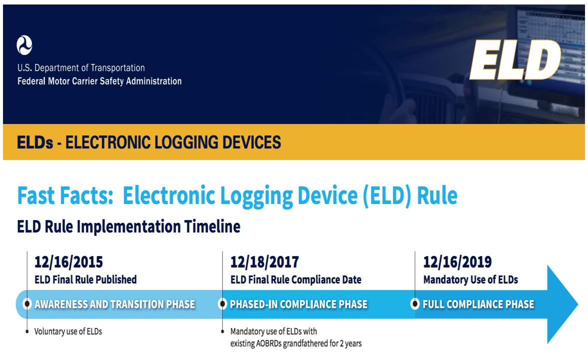
While intermodal load volumes have been facing tough competitive pressures from trucking and the coronavirus-related retail slump, load volumes could exceed expectations towards the latter half of the year as economic activity begins to normalize. Volumes will be increased in part due to J.B. Hunt 360, where opportunities for conversion into intermodal from trucking may arise. Precision scheduled railroading ("PSR") by Class I railroads has given intermodal a competitive edge over truckload for long haul deliveries. As JBI is precisely targeted at long haul delivery services, its intermodal volumes should benefit from its digitization efforts. Furthermore, recent trends in the Spot ISI indicate that the cost effectiveness of intermodal has been improving for distances 800 miles and above. With greater price discovery enabled through the J.B. Hunt 360 digital brokerage platform, this presents a potential opportunity for JBI to capture additional market share in the long haul delivery market. Though in the short-term a truck driver surplus is likely to occur due to the COVID-19 slowdown, a long-term trend of truck driver shortage (Figure 19) should also drive up trucking prices which will facilitate a greater conversion from trucking to intermodal for freight customers.

The J.B. Hunt 360 Marketplace shows promising signs of achieving scale; the number of carriers on the platform has increased 29% year over year to reach 682,000, and it is likely to continue growing given the continuing amount of capital expenditures poured into building the digital platform. Management estimates that between 7 and 11 million shipments are able to transition to intermodal. As the J.B. Hunt 360 platform achieves scale, more shippers will be able to access transparent rates, and this could accelerate the conversion to the intermodal mode of transport. J.B. Hunt 360 is likely to have a competitive advantage over other digital brokerage platforms because they are able to integrate their large base of company-owned assets to provide a comprehensive multi-modal service offering.

While past declines in intermodal load volumes were due to the temporal disruption caused by the PSR trends, greater supply chain efficiencies can be expected in the near term. With most of the low-volume lanes already closed, increased railroad train speeds and decreased dwell times should lead to greater operating efficiency and this should make intermodal transportation more competitive relative to trucking in the long run.

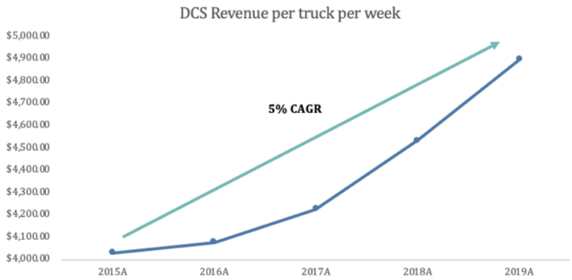
J.B. Hunt 360 has also made further improvements with the introduction of the its new service called J.B Hunt 360box in May 2019 which integrates its company-owned trailer equipment assets with the digital brokerage platform. The company will be dedicating its trailer asset from its JBT segment to 360box, allowing shippers to reserve them for drop-and-hook solutions. Drop-and-hook setups enable shippers to pre-load trailing equipment for carriers to pick-up immediately, thus eliminating the time wastage at docks waiting for live loading. This increased efficiency is ideal for both shippers as well as carriers. With its large fleet of assets that is can use to support 360box, J.B. Hunt will be able to rapidly scale this service if there is a rapid increase in customer demand. We think this synergistic relationship between its asset-based business segments and non-asset

Figure 24. FMCSA ELD Rule Implementation Timeline



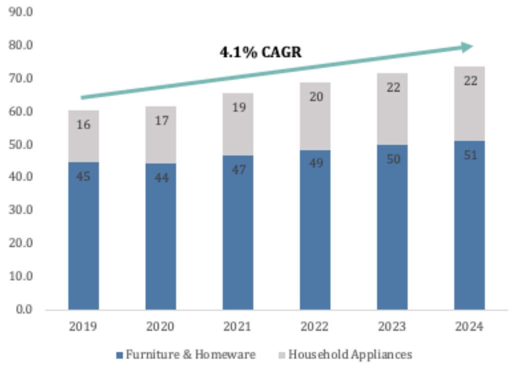
Source: FMCSA

Figure 25. Rapid Productivity Gains In DCS Segment



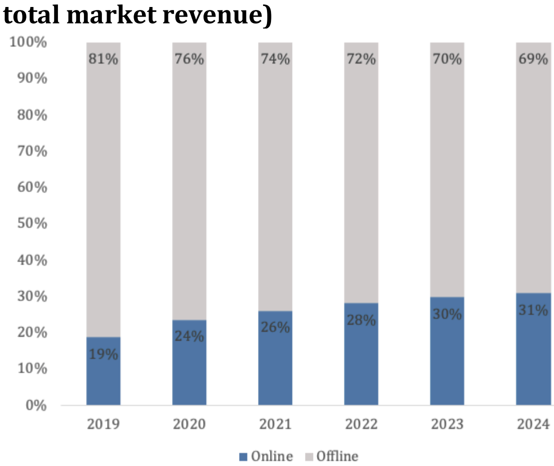
Source: J.B. Hunt

Figure 26. Market Size of US Furniture and Appliances E-commerce (US$b) Expected to Grow



Source: Statista (Forecast adjusted for expected impact of COVID-19)

Figure 27. Expansion of US Online Sales Channels for Furniture and Appliances (% of total market revenue)



Source: Statista

based ICS will help J.B Hunt to further acquire market share in the freight brokerage business.

It is also important to highlight that the engagement of 3rd party carriers via the digital platform is in no way a cannibalization of its asset-based businesses as JBI and JBT services can be used to execute customers' freight needs as well. In turn, the increased market penetration enabled by J.B. Hunt 360 should help it to strengthen its geographical presence within North America and stimulate additional growth in its asset-based divisions.

2. Resilient DCS Segment With Rapid Growth & Proven Track Record Forms An Economic Moat

The business model for J.B. Hunt's DCS segment focuses on converting customers' in-house managed private fleets into long-term outsourcing agreements. Being one of the pioneers in the industry with over 50 years of long-standing supply chain success, J.B. Hunt has built up a diverse spread of Fortune 500 customers under its belt, such as PPG Industries and Walmart. Contracts falling under its DCS segment typically consist of long-term agreements ranging from 3 to 10 years, with an average of 5 years. This provides a safety net in the short-term and minimizes its exposure to the risk of non-renewals given the current COVID-19 pandemic. With regards to periodic renewals in the long run, J.B. Hunt's DCS segment has managed to preserve a 98% customer retention rate, which is a testament to the high quality of service and value provided to its customers.

With its well-renowned brand name and close engagement with key customers to solidify working relationships, we believe that J.B. Hunt's core value propositions would make customers more inclined to renew long term contracts with the company for their fleet outsourcing needs. In this regard, we believe that DCS would continue to serve as J.B. Hunt's cash cow with stable business growth moving forward, especially in the long run.

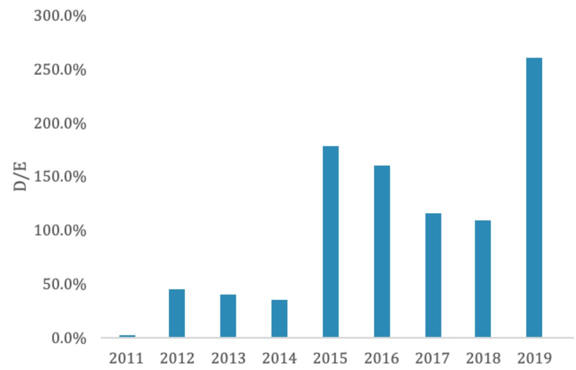
DCS revenues (excluding FMS contributions) have increased by 19.0% from FY19 to FY20 and the business has also shown huge productivity gains with revenue per truck per week having grown at a 5.0% CAGR from FY15 to FY19. Additionally, of the 972 new trucks that were added to DSC's operations, 58% consist of private fleet conversions. Given the electronic logging device ("ELD") mandate that was issued last year by the U.S. Department of Transportation's Federal Motor Carrier Safety Administration ("FMCSA"), which requires all truck drivers to use ELDs, this increased inconvenience should discourage customers from managing private fleets, in turn creating a greater inclination towards fleet outsourcing. This new regulation should serve as a tailwind for the DCS business.

All in all, we think that J.B. Hunt's proven track record of providing high quality supply chain solutions to customers, coupled with a growing preference for private fleet conversion, make the DCS segment a robust economic moat.

3. Ramping Up Of Home Delivery Capabilities Through Acquisitions, Bolstered By Robust Growth In Last Mile Delivery Market

Delivery of big-box items and demand for white glove service is set to grow as more furniture and appliance retailers take on an omnichannel approach, driving traffic to their e-commerce sites. Coupled with the rise in sales volume from pure-play e-commerce furniture retailers, the last mile delivery market in the US is becoming an increasingly attractive investment opportunity for many transportation and logistics ("T&L") companies. The market should see greater consolidation going forward as larger T&L companies acquire smaller, pure-play final mile delivery companies. In January 2020, before the COVID-19 pandemic came into full effect, experts predicted better activity in acquisitions of final mile companies, according to Transport Topics. With its well-integrated suite of assets

Figure 28. XPO Logistics Highly Levered



Source: XPO Logistics

Figure 29. List of XPO Logistics' Acquisitions

Announcement Date	Deal Size (US$m)	Target Company	Business Segment
08-May-2012	3.7	Continental Freight Services Inc	Freight Brokerage
03-Aug-2012	8.0	Kelron Logistics Inc-Freight Brokerage Operations	Freight Brokerage
25-Oct-2012	50.0	Turbo Logistics Inc	Freight Brokerage
12-Feb-2013	9.3	East Coast Air Charter Inc	Freight Brokerage
26-Feb-2013	12.2	Covered Logistics & Transportation LLC	Freight Brokerage
06-May-2013	4.0	Interide Logistics LLC	Freight Brokerage
15-Jul-2013	365.0	3PD Inc	Last Mile Delivery
15-Nov-2013	26.6	Optima Service Solutions LLC	Last Mile Delivery
11-Dec-2013	87.0	Landstar System Inc-Supply Chain Subsidiaries	Freight Brokerage
06-Jan-2014	271.8	Pacer International Inc	Intermodal
28-Jul-2014	36.5	Atlantic Central Logistics	Last Mile Delivery
29-Jul-2014	615.0	New Breed Holding Co	Contract Logistics Solutions
09-Feb-2015	59.0	UX Specialized Logistics LLC	Last Mile Delivery
28-Apr-2015	3,560.0	Groupe Norbert Dentressangle SA	Third Party Logistics
04-May-2015	100.0	Bridge Terminal Transport Inc	Asset-light drayage
09-Sep-2015	3,015.8	Con-way Inc	Less-than-Truckload

Source: XPO Logistics, Reuters Eikon

along the entire supply chain, coupled with a healthy balance sheet, we think that J.B. Hunt is well-poised to capture market share through additional strategic acquisitions.

To date, J.B. Hunt has made three acquisitions to grow its last mile delivery capabilities – Special Logistics LLC in July 2017, Cory 1st Choice Home Delivery in September 2019 and most recently, RDI Last Mile Co ("RDI") in December 2019. The cumulative value of these acquisitions amount to US$253.2m. As of 3Q19, management announced that the company's Final Mile network had expanded by over 40%. From FY18 to FY19, FMS revenue has increased by a whopping 51.1%. The acquisition of RDI is expected to further drive revenue growth through an expansion of customer accounts, as well as improved asset integration and operational synergies. This emphasis on FMS being a key component of future growth has been made apparent by the management as it will be reflected as a separate segment in its financial reports moving forward. FMS segment was previously parked under DCS.

J.B. Hunt's closest competitor, XPO Logistics, is also a key market player in the final mile delivery market, having acquired a total of four final mile logistics companies between FY13 to FY15, with a cumulative value of about US$487.1m. Despite its size, its Last Mile business segment saw a 18.0% decrease in revenues, reflecting underlying operational weaknesses. In January 2020, the company also announced a possible sale or spinoff of one or more of its business units, on the back of weaker earnings amidst the pandemic.

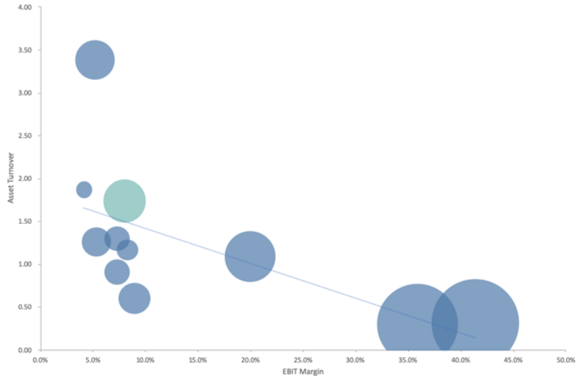
As a company who relies heavily on aggressive acquisition strategies to grow its business (17 acquisitions from FY11 to FY15), XPO Logistics has also taken on large amounts of debt. As of FY19, its debt-to-equity ("D/E") ratio stands at whopping 260.2% and has an interest coverage ratio ("ICR") of 3.3x. On the other hand, J.B. Hunt still has an ample debt headroom with a D/E ratio of 57.2% and an ICR of 13.4x.

Having displayed stronger last mile delivery revenue performance, paired with lesser debt burden, we think this puts J.B. Hunt in a better position to consolidate the market through further strategic acquisitions. There is the potential for significant economies of scale can be reaped from this market consolidation.

Catalysts

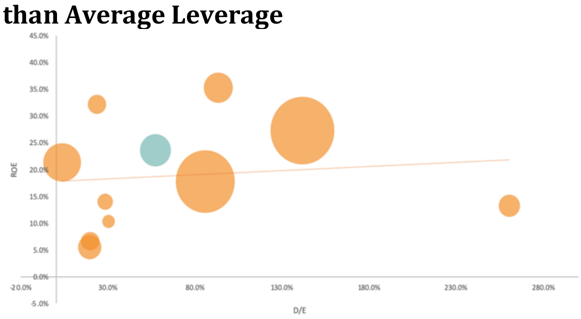
- A fall in the number of new US coronavirus infections could signal the beginning of a normalisation of economic activity, which is a positive sign for J.B. Hunt's freight volumes
- Accelerating trend towards e-commerce and digitization in the freight service industry
- Better-than-expected operational synergies with RDI Last Mile & Cory 1st Choice Home Delivery
- Potential penalties and general inconvenience associated with non-adherence to ELD mandate will drive a greater shift in customer preferences towards fleet outsourcing

Figure 30. J.B. Hunt's FY19 ROE Drivers VS Peers (Bubble size represents Market Cap)



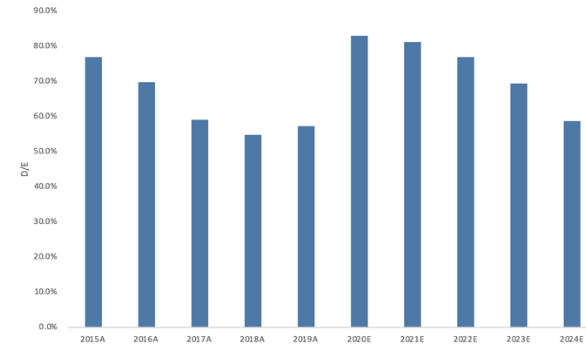
Source: Reuters Eikon, NUS Investment Society Estimates

Figure 31. J.B. Hunt's Strong ROE Despite Lower than Average Leverage



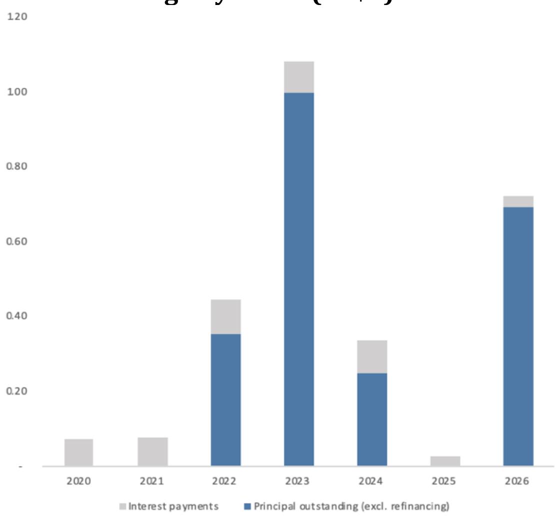
Source: Reuters Eikon, NUS Investment Society Estimates

Figure 32. J.B. Hunt's Historical and Projected Leverage



Source: Reuters Eikon, NUS Investment Society Estimates

Figure 33. J.B. Hunt's Debt Maturity Profile & Outstanding Payments (US$b)



Source: NUS Investment Society Estimates

Financial Analysis

Financial Ratios	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Profitability										
Revenue growth		5.9%	9.7%	19.8%	6.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBITDA growth		2.6%	-6.9%	10.9%	10.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBITDA margin	17.1%	16.5%	14.0%	13.0%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
EBIT growth		0.7%	-13.5%	9.2%	7.8%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBIT margin	11.6%	11.0%	8.7%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Net profit growth		1.1%	58.8%	-28.7%	5.5%	-13.8%	14.0%	9.7%	14.9%	13.6%
Net income margin	6.9%	6.6%	9.5%	5.7%	5.6%	5.4%	5.4%	5.4%	5.5%	5.6%
Return on Investment Ratios										
Return of Invested Capital		19.1%	27.0%	16.9%	16.3%	12.7%	12.7%	13.3%	14.1%	15.2%
Return on Equity		31.8%	42.2%	24.8%	23.6%	19.2%	20.7%	21.1%	22.3%	22.8%
Return on Assets		11.4%	16.3%	10.2%	9.8%	8.1%	9.0%	9.2%	10.0%	10.6%
Credit Statistics										
Debt/Equity	76.7%	69.7%	59.0%	54.7%	57.2%	83.1%	81.0%	76.9%	69.2%	58.7%
Total Debt/EBITDA	0.95x	0.91x	1.08x	1.03x	1.05x	1.77x	1.63x	1.51x	1.34x	1.13x
Net Debt/EBITDA	0.94x	0.91x	1.06x	1.02x	1.02x	1.76x	1.62x	1.50x	1.33x	1.11x
EBITDA/Interest Expense	41.26x	42.80x	34.99x	27.63x	22.55x	14.86x	16.09x	14.80x	19.03x	20.13x
(EBITDA-capex)/Interest Expense	12.91x	17.56x	16.69x	3.00x	6.93x	6.84x	7.12x	6.57x	8.82x	9.96x
EBIT/Interest Expense	27.98x	28.51x	21.67x	16.85x	13.42x	8.85x	9.58x	8.81x	11.32x	11.98x
Liquidity										
Current Ratio	1.61	1.54	1.45	1.11	1.43	1.39	1.05	1.39	1.17	1.39
Quick Ratio	1.57	1.51	1.43	1.10	1.41	1.37	1.03	1.37	1.16	1.37
Cash Ratio	0.01	0.01	0.02	0.01	0.03	0.01	0.01	0.01	0.01	0.01
Activity										
Asset Turnover Ratio		1.73	1.71	1.80	1.74	1.51	1.65	1.72	1.80	1.91
Fixed Asset Turnover Ratio		2.38	2.48	2.68	2.59	2.24	2.41	2.54	2.70	2.92
Receivables Turnover Ratio		7.87	6.72	6.81	7.14	7.14	7.14	7.14	7.14	7.14
Payables Turnover Ratio		16.10	13.36	12.13	12.85	12.85	12.85	12.85	12.85	12.85
Inventory Turnover Ratio		279.37	334.43	371.91	391.40	391.40	391.40	391.40	391.40	391.40

Overview:

The table above shows the historical and projected financial ratios for J.B. Hunt. Overall, we see that despite shrinking margins, J.B. Hunt has sustained strong asset turnover ratios and achieved strong returns while deleveraging its capital structure. These financial indicators are a testament to J.B. Hunt's strong operating efficiency which reinstates its robust position in the industry.

Strong Financial Position

J.B. Hunt has a debt-to-equity ratio of 57.2% as compared to its peer average of 70.5%, indicating that the company is less leveraged relative to competitors. J.B. Hunt's relatively conservative capital structure is crucial as it grants them further capability to withstand a prolonged economic recession and possibly fund future acquisitions in technology and last-mile services.

Higher Asset Turnover Relative to Industry

The asset-heavy nature of the logistics and trucking industry suggests that revenues are highly dependent on asset turnovers. J.B. Hunt's total asset turnover of 1.74 is higher than its peer average of 1.22, which likely reflects better utilisation of assets due to their digitalisation efforts and greater scale in securing shipment loads.

Higher Returns than Peers Despite Lower Margins

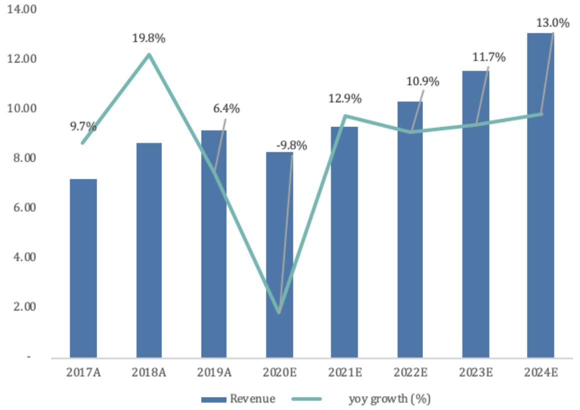
J.B. Hunt's FY19 ROE of 23.6% is higher than its peers average of 18.4%. Its ROA of 9.8% is also higher than the peer average of 8.6%. As such, in spite of its lower operating margins as compared to its peers, it still generates higher returns through greater asset efficiency while being less reliant on debt. We think that J.B. Hunt's higher asset efficiency can be explained by its well-integrated services along the supply chain, giving it the flexibility to move assets between segments when needed. This is further supported by its J.B. Hunt 360 platform which leverages on 3rd party assets to drive revenue.

We expect the broad-based economic slowdown to weigh on ROE in FY20, with a gradual pick-up thereafter as the economy recovers.

Company Debt Profile

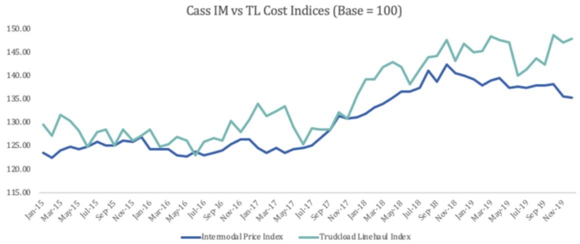
As of FY19 J.B. Hunt has three separate issuances of senior notes that are outstanding. They are US$250m of 3.85% senior notes issued in March 2014 and due in March 2024,US$350m of 3.30% senior notes issued in Aug 2015 and due in Aug 2022, and lastly, US$700m of 3.875% senior notes issued in March 2020 and due in March 2026. On top of these, at 31st December 2019, J.B. Hunt was authorized to borrow up to US$750m under a senior revolving line of credit matures in September 2023. This senior credit facility allows for an additional borrowing of up to US$250m and one year extension of the maturity date. Given our estimates and assumptions on minimum cash holdings, we think the current funds would be insufficient. Revenue headwinds posed by the COVID-19 pandemic and continued usage of cash for

Figure 34. Revenue Growth Projections (US$b)



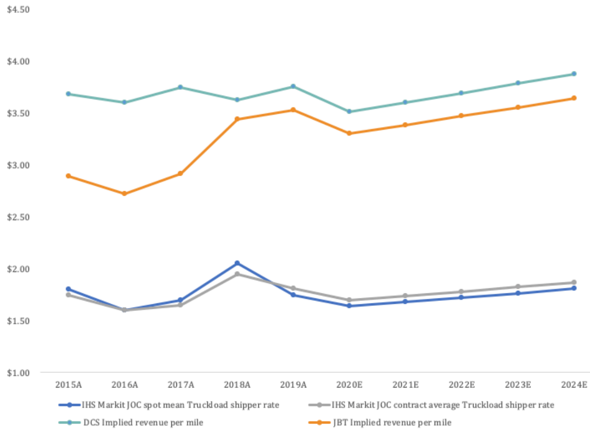
Source: J.B. Hunt, *NUS Investment Society Estimates*

Figure 35. Cass IM & TL Price Index History



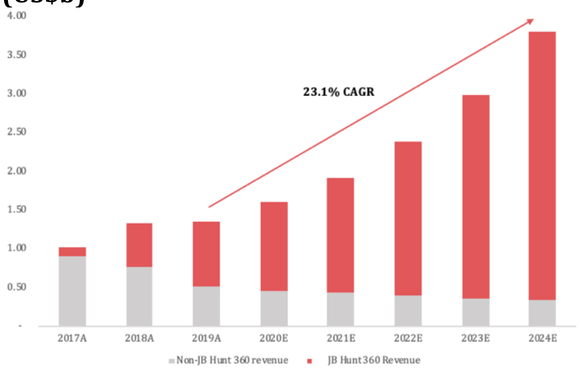
Source: Cass Transportation Index Report 2020

Figure 36. IHS Markit JOC TL Rates VS DCS & JBT Implied Prices ($/mile)



Source: IHS Markit, NUS Investment Society Estimates

Figure 37. Projected Trend In ICS Revenue (US$b)



Source: J.B. Hunt, *NUS Investment Society Estimates*

Figure 38. Projected Trend In FMS Revenue (US$b)

regular maintenance of operations and technological developments would require J.B. Hunt to issue additional debt in FY23 based on our projections. For simplicity, we assumed that this would be another senior revolving line of credit. That being said, we see no near term risk of default as the servicing of maturity profile is relatively spread out and J.B. Hunt also has additional headroom to accommodate additional debt.

Valuation

Valuation Price Target: **$121.52 (+13.0%)** as of 18th April 2020.

Revenue Model

J.B. Hunt's revenue was projected using a segmented approach by looking at each of its four main business segments individually – JBI, DCS, ICS and JBI. We leveraged on key operating metrics reported in J.B. Hunt's company filings on segment loads, revenue per load, ALOH, as well as industry specific data on freight pricing provided by IHS Markit and Cass Information Systems ("Cass") to derive our underlying revenue drivers.

Due to the lack of information on J.B. Hunt's prices, we derived implied prices in terms of revenue per mile by multiplying revenue per load by load volume and then dividing this by average miles. Collectively, we forecast operating revenue to achieve a CAGR of 7.3% over the next five years. We expect a contraction in FY20 due to the broad economic slowdown caused by the COVID-19 pandemic, followed by a large pick-up in FY21 as economic activity recovers which then tapers off in subsequent years.

JBI Revenue

JBI revenues can be projected by multiplying annual average miles by the intermodal price per mile. Annual average miles was derived by multiplying the ALOH (which is defined as miles per load) by the total annual load volume. As intermodal services are significantly influenced by overall economic activity, where the demand for transportation of goods and services is tied to aggregate consumption levels, we pegged load volume growth projections to expected US GDP growth. We regressed the historical rail freight intermodal traffic growth, obtained from the Association of American Railroads, against historical US GDP growth and used the parameters to estimate and the year over year growth in loads. We assigned a 25% weightage to actual historical load growth from 1Q19 to 1Q20, and a 75% weightage to our regression estimates to obtain our FY20 projections. We assume that ALOH remains flat, implying that underlying freight capacity does not change.

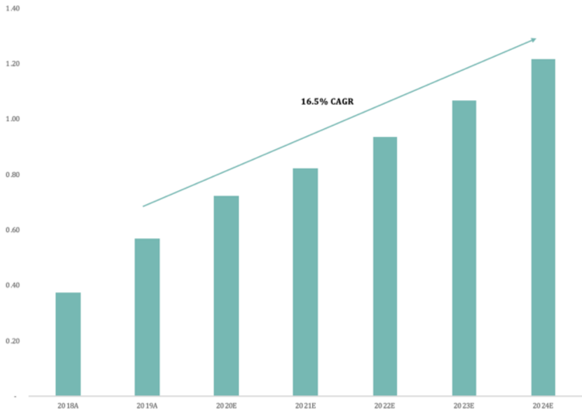
From 1Q19 to 1Q20, the Cass Intermodal ("IM") Cost Index fell by 4.0% due to demand headwinds. We assumed that would carry forward to the rest of FY20. Subsequently, we applied the 15'-19' CAGR of the Cass IM Cost Index for FY21 to FY24.

A final adjustment was done to account for the potential synergy between J.B. Hunt 360 and JBI revenue. As of 1Q20, US$34m of JBI revenues were driven by the execution of 3rd party transactions on the platform, which is about 14.5% of the platform's revenue generation. As such, we assumed that for each year, JBI revenue, in absolute terms, would increase by an additional 0.145x the projected J.B. Hunt 360 revenue.

We project the 19'-24' CAGR of JBI revenues to be at 1.8%, accounted for by huge damages in FY20 and a gradual recovery thereafter.

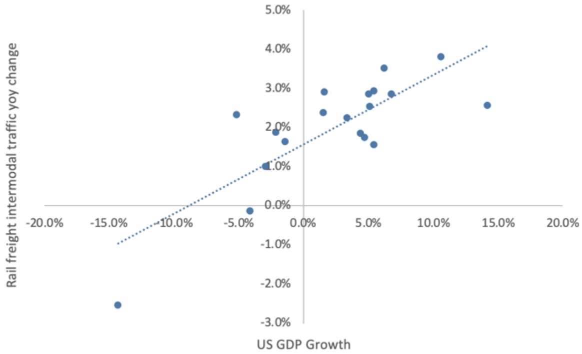
DCS & JBT Revenues

For both DCS and JBT load projection, we regressed historical load growth in these segments against US GDP growth to obtain our parameters. Similarly, a 25% weightage was applied to the historical load growth from 1Q19-1Q20 for the FY20 projection.



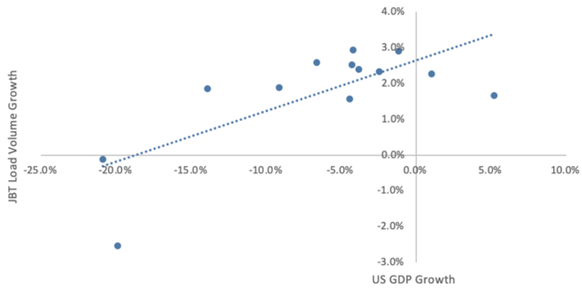
Source: J.B. Hunt, *Frost & Sullivan, NUS Investment Society Estimates*

Figure 39. Scatterplot of US GDP Growth Against Rail Intermodal Traffic Growth



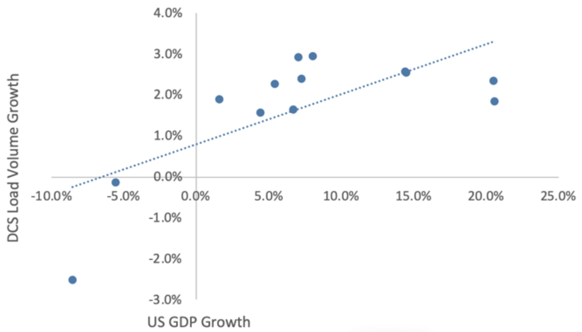
Source: Congressional Budget Office, Association of American Railroads, *NUS Investment Society Estimates*

Figure 40. Scatterplot of US GDP Growth Against DCS Load Volume Growth



*Source: J.*B. Hunt, *Congressional Budget Office, NUS Investment Society Estimates*

Figure 41. Scatterplot of US GDP Growth Against JBT Load Volume Growth



*Source: J.*B. Hunt, *Congressional Budget Office, NUS Investment Society Estimates*

From our implied prices, we notice that both these services price their services at a premium over the IHS Markit JOC truckload ("TL") shipper rates. DCS operates based on long-term customer contracts with customers while JBT is more exposed to spot market activity. The FY19 percentage premium of DCS prices over the JOC contract average TL shipper rate holds at about 107.5% while the FY19 percentage premium of JBT prices over the spot rate holds at about 101.7%. We think these premiums can be possibly explained by additional provisions in customer contracts as well as J.B. Hunt's company-specific revenue booking policies. Co-movement between our implied prices and JOC TL rates validates the usage of the latter as a proxy. To derive our future prices, we first assumed that both the JOC contract and spot TL rates grow at the historical 15'-19' CAGR of the Cass TL Cost Index from FY21 onwards. For FY20, we assumed that the 1Q19-1Q20 fall in the Cass TL Index of 6.33% would carry forward to the rest of the year. We then applied the historical premiums to their respective JOC TL rate estimates. Additionally, we assumed that non-paid empty miles remain at their FY19 levels for the JBT segment. We project the 19'-24' CAGR of DCS and JBT revenues to be at -8.5% and 4.2% respectively.

FMS Revenue

The FMS segment was evaluated separately from the DCS segment. The recent company presentation on the segmentation of revenue for DCS and FMS for FY19 and FY18 was used to derive our estimates. Operating metrics on the number of stops completed in the FMS segment were reported. With this, we assumed that revenue per stop remained at FY19 levels while the number of stops would grow by 14% yoy based on industry estimates on the expected market growth in last mile delivery service. A 25% weightage was applied to the historical growth in FMS stops from 1Q19-1Q20 for the FY20 projection. We project the FMS segment to achieve a 19'-24' CAGR of 16.5%.

ICS Revenue

From FY17 to FY19, the transition into J.B. Hunt 360 has caused revenue contributions by J.B. Hunt 360 to increase rapidly while traditional revenue contributions have declined. As a percentage of total ICS revenue, J.B. Hunt 360 revenue contribution has increased from just 12.3% in FY17 to 62.3% in FY19. From 1Q19 to 1Q20, J.B. Hunt 360 revenue increased by 42.8%, while non-J.B. Hunt 360 revenues fell by 12.0%.

Frost and Sullivan projected the Truck-as-a-Service ("TaaS") market, which includes digital freight brokerage, to hit US$79.2b by 2025, from the 2019 market size of US$11.2b. The implied CAGR of 32.3% was used to project growth in J.B. Hunt 360 revenues. Non-J.B. Hunt revenue is projected to decline at a rate of 7.7% growth based on the trend observed from FY15 to FY19. A 25% weightage was applied to the historical revenue growth from 1Q19-1Q20 for the FY20 projections.

Collectively, we expect the 19'-24' CAGR of ICS revenues to be at 23.1%, reinstating our strong confidence in the potential of J.B. Hunt 360 platform.

Discounted Cash Flow Model

A Discounted Cash Flow Model was used as the primary method of valuation for JB Hunt, with a 5-year forecast (FY20E to FY24E). We used the EV/EBITDA exit multiple method ("EMM"), taking the mean FY19 EV/EBITDA multiple of its peer companies of 9.40x. We derived an implied share price of $125.56.

Weighted Average Cost of Capital (WACC)

We used the CAPM model to determine J.B. Hunt's WACC. The risk-free rate of 0.65% is based on the current yield to maturity of the US 10-year Treasury Note. We used most recent estimates of a forward

Figure 42. WACC Calculation

WACC Calculation	
Description	**Values**
Debt/Total Capitalization	36.4%
Equity/Total Capitalization	63.6%
US 10 Year Treasury Note Rate	0.647%
USA Implied Market Return	6.24%
Implied Market Risk Premium	5.59%
Levered Beta	0.94
Cost of Equity	**5.90%**
Pre Tax Cost of Debt	3.88%
After-Tax Cost of Debt	**2.94%**
WACC	**4.83%**

Source: Reuters Eikon, Fenebris.com, NUS Investment Society Estimates

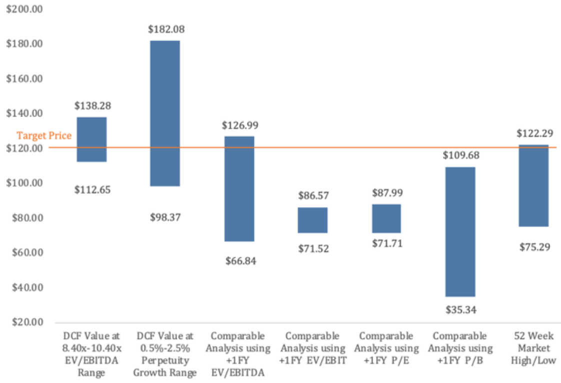
Figure 43. Sensitivity Tables

WACC	Perpetual growth rate 0.50%	1.00%	1.50%	2.00%	2.50%
3.83%	132.90	156.18	189.47	240.99	331.38
4.33%	113.37	130.24	153.07	185.73	236.27
4.83%	98.37	111.09	127.64	150.05	182.08
5.33%	86.49	96.39	108.87	125.10	147.09
5.83%	76.85	84.74	94.45	106.70	122.63

WACC	EV/EBITDA 8.40x	8.90x	9.40x	9.90x	10.40x
3.83%	118.44	125.16	131.88	138.60	145.33
4.33%	115.50	122.07	128.63	135.19	141.75
4.83%	112.65	119.06	125.46	131.87	138.28
5.33%	109.88	116.13	122.39	128.65	134.90
5.83%	107.18	113.29	119.40	125.51	131.62

Source: NUS Investment Society Estimates

Figure 44. Football Field Analysis



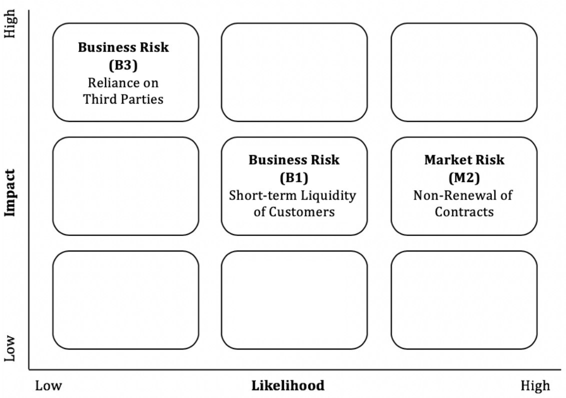
Source: Reuters Eikon, NUS Investment Society Estimates

Figure 45. Blended Target Price Calculation

Methodology	Weightage	Implied price (US$)
DCF (EMM)	75%	$125.46
Peer Comps (P/B multiple at 75th percentile)	25%	$109.68
Blended TP	$121.52	
Current Price	$107.58	
Upside	*13.0%*	
as of 18-Apr-20		

Source: NUS Investment Society Estimates

Figure 46. Investment Risk Matrix



Source: NUS Investment Society Estimates

looking implied market return in the US to derive our expected equity return of 6.24%. Using a levered beta of 0.94 (Reuters Eikon), we arrived at a cost of equity of 5.90%. The pre-tax cost of debt of 3.88% was determined by taking the interest rate of the most recently issued J.B. Hunt bond which matures in FY26 (JBHT 3.875 01-MAR-2026 '26). With an effective tax rate of 24.2% and a capital structure of 63.6% equity and 36.4% debt, the WACC is determined to be 4.83%.

Relative Valuation

We compared the +1FY EV/EBITDA, EV/EBIT, P/E and P/B multiples of J.B. Hunt and its peer comparable companies with similar industry exposure and size.

J.B. Hunt is currently trading at a premium for all four metrics. In particular, it is trading above the 75th percentile +1FY P/E and EV/EBIT multiples. Our DCF valuation of US$125.56 lies within the 25th-75th percentile range for the EV/EBITDA price range. However, it lies above the 25th-75th percentile range for the P/E, EV/EBIT and P/B price ranges.

We think that J.B Hunt's premium over the mean P/B multiple is deserving at it has a strong software-focused business approach and has also managed to achieve synergy between its non-asset based ICS segment and its assed-based divisions. The high premium over mean P/E and EV/EBIT multiples is also justified given J.B. Hunt's stronger earnings potential, on the back of unrealized gains from its recent acquisitions and digital marketplace. Taking into J.B. Hunt's large holdings of physical assets, the high depreciation and amortization costs associated with a its large asset base results in a magnified premium, moving from the EV/EBITDA to the EV/EBIT multiple. Given the different D&A policies associated with varying asset holdings, we used the EV/EBITDA and P/B multiples as our primary valuation benchmarks.

We applied the 75th percentile +1FY P/B multiple of 4.78x to analyst estimates of J.B Hunt's net asset value per share to obtain a relative valuation of US$109.68.

Blended Price Target

Applying a 75/25 weightage split between our DCF and Relative Valuation approached, we arrived at our blended PT of US$121.52 which presents an 13.0% upside from the current share price of $107.58 (18th April 2020). We remain confident that J.B. Hunt's strong fundamentals and robust business model will enable it to outperform the market in the next 12 months. Hence, we recommend a BUY position.

Investment Risks

<u>Business Risk (B1)</u>

1) **Short-term liquidity of customers:** As the COVID-19 pandemic situation drags on and its effects become more pronounced, J.B. Hunt may run into liquidity issues as receivables turnover decreases. Its current receivables turnover is 9.06, better than the industry average of 8.55, but the economic downturn could exacerbate the short-term loss in income for its customers and lead to difficulty in collecting payment.

<u>Market Risk (M2)</u>

2) **Non-renewal of contracts:** JBI, ICS, JBT segments will be directly affected by the COVID-19 pandemic, particularly if it results in an extended downturn. As the mentioned segments consist of shorter-term contracts, there will be a lower renewal rate in view of suspended businesses. This adverse impact, however, could be cushioned as these three segments are subject to seasonal variations in which J.B. Hunt receives higher freight volumes during the period of August to November. Given existing border closures and soft lockdowns in its

areas of operations, the situation could potentially be uplifted by 3Q20.

Business Risk (B3)

3) **Reliance on third parties:** The nature of J.B. Hunt's business creates a dependency on third parties which include contractual relationships with railroads, third-party carriers and independent contractors in its business operations. As the majority of its business travels on BNSF and Norfolk Southern railways, a material change in the relationship would have an adverse effect on its operations. Work stoppages or any disruptions at the mentioned ports could also be detrimental. This risk, however, may be mitigated by the long-standing relationship that JBHT has historically had with the railroad providers. Given that JBHT is a large customer with the necessary asset base to provide intermodal services, the relationship with third-party railroad providers is unlikely to significantly disadvantage JBHT. Additionally, third-party carriers and contractors utilised to complete its services are subject to similar regulatory requirements which may have a more significant impact on their operations, causing them to exit the industry. Besides the company's best in class recruitment and retainment practices, its inability to obtain reliable replacements could potentially hamper its operations. Growth in intermodal loads might also be limited due to the consolidation of railroads driven by the PSR transition.

Appendix:

Company Information

J.B. Hunt Transport Services General Information

General Information	
Company Name	J B Hunt Transport Services INC
Ticker	NASDAQ:JBHT
Industry	Industrials
Sub-Industry	Transportation
Fiscal Year ending	31-Dec
Credit Rating	BBB+/Baa1
Predicted Beta (5Y Monthly)	0.94

Selected Market Data		
Current Price (USD)	18-Apr-20	$ 107.58
52-week High Price		$ 122.29
52-week Low Price		$ 75.29
Dividend Yield (%)		1.10%
Fully Diluted Shares Outstanding ('000)		108,307.00
Equity Value / Market Cap ('000)		11,651,667.06
Plus: Total Debt		1,295,740.00
Plus: Preferred Stock		-
Plus: Non-controlling Interest		-
Less: Cash & Cash Equivalents		(35,000.00)
Enterprise Value ('000)		12,912,407.06

Trading Multiples		Reuters Eikon forecast mean		
	FY 2019A	NFY 2020E	NFY+1 2021E	NFY+2 2022E
EV/EBITDA	10.47x	11.08x	9.58x	9.03x
EV/EBIT	17.60x	20.01x	16.09x	14.65x
P/E	22.57x	25.50x	20.30x	18.58x
P/B	5.14x	4.69x	4.29x	4.27x
EV/Sales	1.41x	1.45x	1.34x	1.26x

Financial Ratios	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Profitability										
Revenue growth		5.9%	9.7%	19.8%	6.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBITDA growth		2.6%	-6.9%	10.9%	10.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBITDA margin	17.1%	16.5%	14.0%	13.0%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
EBIT growth		0.7%	-13.5%	9.2%	7.8%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBIT margin	11.6%	11.0%	8.7%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Net profit growth		1.1%	58.8%	-28.7%	5.5%	-13.8%	14.0%	9.7%	14.9%	13.6%
Net income margin	6.9%	6.6%	9.5%	5.7%	5.6%	5.4%	5.4%	5.4%	5.5%	5.6%
Return on Investment Ratios										
Return of Invested Capital		19.1%	27.0%	16.9%	16.3%	12.7%	12.7%	13.3%	14.1%	15.2%
Return on Equity		31.8%	42.2%	24.8%	23.6%	19.2%	20.7%	21.1%	22.3%	22.8%
Return on Assets		11.4%	16.3%	10.2%	9.8%	8.1%	9.0%	9.2%	10.0%	10.6%
Credit Statistics										
Debt/Equity	76.7%	69.7%	59.0%	54.7%	57.2%	83.1%	81.0%	76.9%	69.2%	58.7%
Total Debt/EBITDA	0.95x	0.91x	1.08x	1.03x	1.05x	1.77x	1.63x	1.51x	1.34x	1.13x
Net Debt/EBITDA	0.94x	0.91x	1.06x	1.02x	1.02x	1.76x	1.62x	1.50x	1.33x	1.11x
EBITDA/Interest Expense	41.26x	42.80x	34.99x	27.63x	22.55x	14.86x	16.09x	14.80x	19.03x	20.13x
(EBITDA-capex)/Interest Expense	12.91x	17.56x	16.69x	3.00x	6.93x	6.84x	7.12x	6.57x	8.82x	9.96x
EBIT/Interest Expense	27.98x	28.51x	21.67x	16.85x	13.42x	8.85x	9.58x	8.81x	11.32x	11.98x
Liquidity										
Current Ratio	1.61	1.54	1.45	1.11	1.43	1.39	1.05	1.39	1.17	1.39
Quick Ratio	1.57	1.51	1.43	1.10	1.41	1.37	1.03	1.37	1.16	1.37
Cash Ratio	0.01	0.01	0.02	0.01	0.03	0.01	0.01	0.01	0.01	0.01
Activity										
Asset Turnover Ratio		1.73	1.71	1.80	1.74	1.51	1.65	1.72	1.80	1.91
Fixed Asset Turnover Ratio		2.38	2.48	2.68	2.59	2.24	2.41	2.54	2.70	2.92
Receivables Turnover Ratio		7.87	6.72	6.81	7.14	7.14	7.14	7.14	7.14	7.14
Payables Turnover Ratio		16.10	13.36	12.13	12.85	12.85	12.85	12.85	12.85	12.85
Inventory Turnover Ratio		279.37	334.43	371.91	391.40	391.40	391.40	391.40	391.40	391.40

Pro Forma Financial Statements

J.B. Hunt Transport Services Financial Statements

(USD'000)		2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Financial Statement Assumptions											
Income Statement											
Operating revenues, excluding fuel surcharge revenue		5,516,282.00	6,007,347.00	6,435,858.00	7,557,648.00	8,122,600.00	7,203,162.95	8,132,764.39	9,015,820.65	10,073,777.85	11,380,963.56
yoy growth (%)			8.9%	7.1%	17.4%	7.5%	-11.3%	12.9%	10.9%	11.7%	13.0%
Fuel surchage revenues		671,364.00	548,112.00	753,710.00	1,057,226.00	1,042,658.00	1,061,655.37	1,198,666.90	1,328,818.25	1,484,747.80	1,677,410.48
yoy growth (%)			-18.4%	37.5%	40.3%	-1.4%	1.8%	12.9%	10.9%	11.7%	13.0%
fuel surcharges revenue contribution)		12.2%	9.1%	11.7%	14.0%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%
Total operating revenues	*19'-24' CAGR*	6,187,646.00	6,555,459.00	7,189,568.00	8,614,874.00	9,165,258.00	8,264,818.32	9,331,431.29	10,344,638.90	11,558,525.65	13,058,374.04
yoy growth (%)	*7.3%*		5.9%	9.7%	19.8%	6.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
Operating expenses:											
Rents and purchased transportation		2,994,586.00	3,255,692.00	3,650,806.00	4,434,540.00	4,528,812.00	4,083,879.41	4,610,922.90	5,111,577.30	5,711,392.92	6,452,510.24
% revenue		48.4%	49.7%	50.8%	51.5%	49.4%	49.4%	49.4%	49.4%	49.4%	49.4%
yoy growth (%)			8.7%	12.1%	21.5%	2.1%					
Salaries, wages and employee benefits		1,394,239.00	1,469,187.00	1,608,378.00	1,926,213.00	2,167,851.00	1,954,870.74	2,207,155.83	2,446,809.00	2,733,928.65	3,088,686.56
% revenue		22.5%	22.4%	22.4%	22.4%	23.7%	23.7%	23.7%	23.7%	23.7%	23.7%
yoy growth (%)			5.4%	9.5%	19.8%	12.5%					
Depreciation and amortization		339,613.00	361,510.00	383,518.00	435,893.00	499,145.00	450,106.56	508,194.89	563,374.73	629,483.67	711,166.24
% revenue		5.5%	5.5%	5.3%	5.1%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
yoy growth (%)			6.4%	6.1%	13.7%	14.5%					
Fuel and fuel taxes		313,034.00	283,437.00	347,573.00	459,011.00	463,195.00	417,688.46	471,593.09	522,798.71	584,146.27	659,945.80
% revenue		5.1%	4.3%	4.8%	5.3%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
yoy growth (%)			-9.5%	22.6%	32.1%	0.9%					
Operating supplies and expenses		220,597.00	233,223.00	257,239.00	303,529.00	333,113.00	300,386.35	339,152.60	375,977.82	420,096.76	474,609.02
% revenue		3.6%	3.6%	3.6%	3.5%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
yoy growth (%)			5.7%	10.3%	18.0%	9.7%					
General and aministrative expenses, net of asset dispositions		72,522.00	87,053.00	125,878.00	163,270.00	191,933.00	173,076.57	195,412.90	216,630.84	242,051.29	273,460.16
% revenue		1.2%	1.3%	1.8%	1.9%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
yoy growth (%)			20.0%	44.6%	29.7%	17.6%					
Incurance and claims		73,689.00	78,410.00	123,579.00	129,406.00	157,251.00	141,801.89	160,102.08	177,485.98	198,312.99	224,046.33
% revenue		1.2%	1.2%	1.7%	1.5%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
yoy growth (%)			6.4%	57.6%	4.7%	21.5%					
Operating taxes and licenses		43,084.00	45,954.00	44,825.00	51,080.00	55,336.00	49,899.52	56,339.28	62,456.61	69,785.55	78,841.01
% revenue		0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
yoy growth (%)			6.7%	-2.5%	14.0%	8.3%					
Communication and utilities		20,588.00	19,973.00	23,983.00	30,911.00	34,797.00	31,378.37	35,427.90	39,274.66	43,883.33	49,577.68
% revenue		0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
yoy growth (%)			-3.0%	20.1%	28.9%	12.6%					
Total operating expenses		5,471,952.00	5,834,439.00	6,565,779.00	7,933,853.00	8,431,433.00	7,603,087.87	8,584,301.47	9,516,385.66	10,633,081.43	12,012,843.04
% revenue		88.4%	89.0%	91.3%	92.1%	92.0%	92.0%	92.0%	92.0%	92.0%	92.0%
yoy growth (%)			6.6%	12.5%	20.8%	6.3%					
EBIT		715,694.00	721,020.00	623,789.00	681,021.00	733,825.00	661,730.45	747,129.82	828,253.24	925,444.22	1,045,531.00
Interest Income		86.00	71.00	235.00	224.00	1,754.00	-	-	-	-	-
Interest expense		25,577.00	25,294.00	28,785.00	40,427.00	54,684.00	74,805.13	77,996.32	94,035.20	81,721.74	87,264.35
Earnings before income tax		690,203.00	695,797.00	595,239.00	640,818.00	680,895.00	586,925.32	669,133.50	734,218.04	843,722.49	958,266.65
Income taxes		262,968.00	263,707.00	(91,024.00)	151,233.00	164,575.00	141862.1578	161,732.20	177,463.39	203,931.04	231,616.82
Net Income		427,235.00	432,090.00	686,263.00	489,585.00	516,320.00	445,063.16	507,401.30	556,754.65	639,791.44	726,649.83
Effective tax rate (%)		38%	38%	-15%	24%	24%	24%	24%	24%	24%	24%
Balance Sheet											
Current Assets											
Day sales outstanding for trade receivables			38.13	42.29	41.79	41.09	41.09	41.09	41.09	41.09	41.09
Day sales outstanding for other receivables			8.26	12.01	11.82	10.05	10.05	10.05	10.05	10.05	10.05
Day inventory outstanding			1.31	1.09	0.98	0.93	0.93	0.93	0.93	0.93	0.93
Prepaid expenses (% operating expenses)			1.8%	1.6%	1.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cash & cash equivalents (% of operating expenses)			0.10%	0.16%	0.14%	0.25%	0.16%	0.16%	0.16%	0.16%	0.16%
Current Liabilities											
Days payable outstanding for trade accounts payable			22.67	27.32	30.10	28.41	28.41	28.41	28.41	28.41	28.41
Claims accruals (% operating expenses)			2.9%	3.7%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Accrued payroll (% operating expenses)			1.0%	0.7%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Other accrued expenses (% operating expenses)			0.5%	0.4%	0.4%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Non Current Liabilities											
Other long-term liabilities (% operating expenses)			1.1%	1.2%	1.3%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Cash Flow											
PP&E Capex (based on guidance & forecasts)							600,000.00	700,000.00	773,500.00	834,000.00	887,500.00
Divident payout ratio (%)		22.8%	22.9%	14.8%	21.4%	21.7%	21.7%	21.7%	21.7%	21.7%	21.7%
Share-based compensation (% of operating expenses)		0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Non-cash lease expense (% lease outstanding)											
Income taxes paid		163,304.00	143,634.00	190,783.00	83,822.00	71,681.00	70,208.26	80,042.03	87,827.48	100,926.44	114,628.27
% of income tax expense		62%	54%	-210%	55%	44%	49%	49%	49%	49%	49%

J.B. Hunt Transport Services Financial Statements

(USD'000)		2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Income Statement											
Revenue	CAGR (19'-24')	6,187,646.00	6,555,459.00	7,189,568.00	8,614,874.00	9,165,258.00	8,264,818.32	9,331,431.29	10,344,638.90	11,558,525.65	13,058,374.04
yoy growth (%)	7.3%		5.9%	9.7%	19.8%	6.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
EBITDA		1,055,307.00	1,082,530.00	1,007,307.00	1,116,914.00	1,232,970.00	1,111,837.01	1,255,324.71	1,391,627.97	1,554,927.90	1,756,697.24
yoy growth (%)			2.6%	-6.9%	10.9%	10.4%	-9.8%	12.9%	10.9%	11.7%	13.0%
margin (%)		17.1%	16.5%	14.0%	13.0%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Depreciation & Amortization		339,613.00	361,510.00	383,518.00	435,893.00	499,145.00	450,106.56	508,194.89	563,374.73	629,483.67	711,166.24
EBIT		715,694.00	721,020.00	623,789.00	681,021.00	733,825.00	661,730.45	747,129.82	828,253.24	925,444.22	1,045,531.00
yoy growth (%)			0.7%	-13.5%	9.2%	7.8%	-9.8%	12.9%	10.9%	11.7%	13.0%
margin (%)		11.6%	11.0%	8.7%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Net interest expense		(25,491.00)	(25,223.00)	(28,550.00)	(40,203.00)	(52,930.00)	(74,805.13)	(77,996.32)	(94,035.20)	(81,721.74)	(87,264.35)
PBT		690,203.00	695,797.00	595,239.00	640,818.00	680,895.00	586,925.32	669,133.50	734,218.04	843,722.49	958,266.65
Income Tax		262,968.00	263,707.00	(91,024.00)	151,233.00	164,575.00	141,862.16	161,732.20	177,463.39	203,931.04	231,616.82
Net Income	CAGR (19'-24')	427,235.00	432,090.00	686,263.00	489,585.00	516,320.00	445,063.16	507,401.30	556,754.65	639,791.44	726,649.83
yoy growth (%)	7.1%		1.1%	58.8%	-28.7%	5.5%	-13.8%	14.0%	9.7%	14.9%	13.6%
margin (%)		6.9%	6.6%	9.5%	5.7%	5.6%	5.4%	5.4%	5.4%	5.5%	5.6%
Balance Sheet		Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
		-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents		5,566.00	6,377.00	14,612.00	7,600.00	35,000.00	12,446.14	14,052.37	15,578.18	17,406.20	19,664.84
Trade accounts and receivable, net		624,294.00	745,288.00	920,767.00	1,051,698.00	1,011,829.00	930,398.02	1,050,470.18	1,164,530.32	1,301,181.58	1,470,024.49
Other receivables, net		106,986.00	189,665.00	283,499.00	274,511.00	230,331.00	227,621.93	256,997.59	284,902.41	318,334.15	359,641.58
Inventories		23,191.00	18,577.00	20,688.00	21,977.00	21,106.00	19,425.16	21,932.06	24,313.45	27,166.50	30,691.66
Prepaid expenses		97,888.00	107,513.00	99,162.00	147,195.00	183,033.00	148,892.39	168,107.65	186,360.79	208,229.21	235,249.28
Total current assets		857,925.00	1,067,420.00	1,338,728.00	1,502,981.00	1,481,299.00	1,338,783.64	1,511,559.85	1,675,685.15	1,872,317.63	2,115,271.85
Property and equipment, at cost:											
Revenue and service equipment		3,636,767.00	3,820,439.00	4,158,878.00	4,716,860.00	4,837,747.00					
Land		39,026.00	46,827.00	47,231.00	49,486.00	58,692.00					
Stuctures & improvements		154,142.00	175,900.00	202,730.00	238,202.00	302,184.00					
Furniture & office equipment		189,516.00	215,749.00	261,625.00	324,695.00	442,183.00					
Total PP&E, at cost		4,019,451.00	4,258,915.00	4,670,464.00	5,329,243.00	5,640,806.00	6,240,806.00	6,940,806.00	7,714,306.00	8,548,306.00	9,435,806.00
Accumulated depreciation		1,318,122.00	1,440,124.00	1,687,133.00	1,884,132.00	2,019,940.00	2,470,046.56	2,978,241.45	3,541,616.18	4,171,099.86	4,882,266.10
Net PP&E		2,701,329.00	2,818,791.00	2,983,331.00	3,445,111.00	3,620,866.00	3,770,759.44	3,962,564.55	4,172,689.82	4,377,206.14	4,553,539.90
Goodwill		-	-	39,764.00	40,087.00	96,326.00	96,326.00	96,326.00	96,326.00	96,326.00	96,326.00
Other intangible asset, net		-	2,356.00	73,691.00	65,070.00	106,506.00	106,506.00	106,506.00	106,506.00	106,506.00	106,506.00
Other assets		70,290.00	62,160.00	29,835.00	38,398.00	165,857.00	165,857.00	165,857.00	165,857.00	165,857.00	165,857.00
Total Assets		3,629,544.00	3,950,727.00	4,465,349.00	5,091,647.00	5,470,854.00	5,478,232.08	5,842,813.40	6,217,063.97	6,618,212.77	7,037,500.75
Current portion of long-term debt		-	-	-	250,706.00	-	-	353,100.00	-	248,640.00	-
Trade accounts payable		340,332.00	384,308.00	598,594.00	709,736.00	602,601.00	591,703.30	668,065.35	740,603.94	827,509.76	934,888.43
Claims accruals		104,220.00	231,484.00	251,980.00	275,139.00	279,590.00	250,114.86	282,393.34	313,055.63	349,790.99	395,180.30
Accrued payroll		59,420.00	51,929.00	42,382.00	80,922.00	68,220.00	67,244.78	75,923.03	84,166.76	94,043.27	106,246.44
Other accrued expenses		28,445.00	27,152.00	28,888.00	35,845.00	85,355.00	54,646.36	61,698.73	68,397.98	76,424.11	86,340.99
Total Current Liabilities		532,417.00	694,873.00	921,844.00	1,352,348.00	1,035,766.00	963,709.30	1,441,180.44	1,206,224.31	1,596,408.13	1,522,656.16
Long-term debt		998,003.00	986,278.00	1,085,649.00	898,398.00	1,295,740.00	1,295,740.00	942,640.00	942,640.00	694,000.00	694,000.00
Other long-term liabilities		58,552.00	64,881.00	76,661.00	96,056.00	173,241.00	173,241.00	173,241.00	173,241.00	173,241.00	173,241.00
Deferred income taxes		740,220.00	790,634.00	541,870.00	643,461.00	699,078.00	-	-	-	-	-
Revolver 1							673,931.67	754,517.27	1,000,000.00	-	-
Revolver 2							-	-	159,539.35	1,142,843.36	1,282,808.24
Total Liabilities		2,329,192.00	2,536,666.00	2,626,024.00	2,990,263.00	3,203,825.00	3,106,621.97	3,311,578.71	3,481,644.66	3,606,492.48	3,672,705.40
Preferred stock		-	-	-	-	-					
Common stock		1,671.00	1,671.00	1,671.00	1,671.00	1,671.00	1,671.00	1,671.00	1,671.00	1,671.00	1,671.00
Additional paid-in capital / Share premium		268,728.00	293,087.00	310,811.00	340,457.00	374,049.00	402,402.19	436,961.00	477,414.70	524,930.87	581,173.25
Retained earnings		2,885,843.00	3,218,943.00	3,803,844.00	4,188,435.00	4,592,938.00	4,941,615.92	5,339,131.70	5,775,312.61	6,276,547.42	6,845,830.11
Treasury stock		(1,855,890.00)	(2,099,640.00)	(2,277,001.00)	(2,429,179.00)	(2,701,629.00)	(2,974,079.00)	(3,246,529.00)	(3,518,979.00)	(3,791,429.00)	(4,063,879.00)
Total Shareholders' Equity		1,300,352.00	1,414,061.00	1,839,325.00	2,101,384.00	2,267,029.00	2,371,610.11	2,531,234.69	2,735,419.31	3,011,720.29	3,364,795.35
Total Liabilities & Equity		3,629,544.00	3,950,727.00	4,465,349.00	5,091,647.00	5,470,854.00	5,478,232.08	5,842,813.40	6,217,063.97	6,618,212.77	7,037,500.75

J.B. Hunt Transport Services Financial Statements

(USD'000)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Cash Flow										
Operating Activities										
Net Income	427,235.00	432,090.00	686,263.00	489,585.00	516,320.00	445,063.16	507,401.30	556,754.65	639,791.44	726,649.83
Adjustments:										
Depreciation & amortization	339,613.00	361,510.00	383,518.00	435,893.00	499,145.00	450,106.56	508,194.89	563,374.73	629,483.67	711,166.24
Noncash lease expense	-	-	-	-	39,517.00	-	-	-	-	-
Share-based compensation	37,228.00	40,625.00	38,291.00	47,369.00	53,324.00	48,085.19	54,290.81	60,185.71	67,248.17	75,974.37
Loss on sale of revenue equipment & other	(1,281.00)	5,490.00	7,370.00	12,107.00	13,057.00	-	-	-	-	-
Advance deposit impairment	-	-	20,240.00	-	-	-	-	-	-	-
Deferred income taxes	80,427.00	50,414.00	(248,764.00)	101,591.00	55,617.00	(699,078.00)	-	-	-	-
Changes in working capital:										
Trade accounts receivable	8,011.00	(120,994.00)	(166,111.00)	(130,931.00)	50,310.00	81,430.98	(120,072.16)	(114,060.14)	(136,651.26)	(168,842.91)
Income taxes receivable or payable	3,055.00	60,956.00	(45,542.00)	(41,071.00)	41,447.00	-	-	-	-	-
Other current assets	(26,493.00)	(37,101.00)	69,462.00	(6,133.00)	(4,975.00)	38,530.52	(51,097.82)	(48,539.35)	(58,153.21)	(71,852.66)
Trade accounts payable	8,600.00	60,818.00	85,237.00	98,037.00	(85,327.00)	(10,897.70)	76,362.04	72,538.59	86,905.82	107,378.68
Claims accruals	7,502.00	5,524.00	25,021.00	21,580.00	(20,727.00)	(29,475.14)	32,278.48	30,662.29	36,735.36	45,389.31
Accrued payroll & other accrued expenses	(10,589.00)	(5,189.00)	168.00	59,814.00	(59,361.00)	(31,683.86)	15,730.61	14,942.98	17,902.64	22,120.05
Cash from operations	873,308.00	854,143.00	855,153.00	1,087,841.00	1,098,347.00	292,081.71	1,023,088.15	1,135,859.47	1,283,262.64	1,447,982.91
Investing Activities										
Addtions to property and equipment	(725,122.00)	(638,430.00)	(526,928.00)	(995,650.00)	(854,115.00)	(600,000.00)	(700,000.00)	(773,500.00)	(834,000.00)	(887,500.00)
Proceeds from sale of equipment	168,686.00	153,174.00	16,413.00	110,165.00	165,918.00	-	-	-	-	-
Business acquisition	-	-	(136,879.00)	-	(115,654.00)	-	-	-	-	-
Change in other assets	(20,096.00)	(132.00)	(3,888.00)	(1,288.00)	(111.00)	-	-	-	-	-
Cash from investing activites	(576,532.00)	(485,388.00)	(651,282.00)	(886,773.00)	(803,962.00)	(600,000.00)	(700,000.00)	(773,500.00)	(834,000.00)	(887,500.00)
Financing activites										
Proceeds from long-term debt issuance	349,129.00	-	-	-	700,000.00	-	-	-	-	-
Payments on long-term debt	(250,000.00)	-	-	-	(250,000.00)	-	-	(353,100.00)	-	(248,640.00)
Proceeds / (Payments) from credit revolver	2,110,800.00	1,715,427.00	2,716,155.00	3,204,715.00	1,591,014.00	673,931.67	80,585.60	405,022.08	(16,696.00)	139,964.88
Payments on revolving lines of credit and other	(2,138,466.00)	(1,724,365.00)	(2,612,501.00)	(3,137,900.00)	(1,904,000.00)	-	-	-	-	-
Purchase of treasury stock	(262,275.00)	(249,760.00)	(179,813.00)	(150,338.00)	(275,657.00)	(275,657.00)	(275,657.00)	(275,657.00)	(275,657.00)	(275,657.00)
Stock repurchased for payroll taxes and other (additional paid-in capital change)	(29,018.00)	(23,310.00)	(20,567.00)	(17,723.00)	(19,732.00)	(19,732.00)	(19,732.00)	(19,732.00)	(19,732.00)	(19,732.00)
Restricted share issuance (change in treasury stock)	7,146.00	6,010.00	2,452.00	(1,840.00)	3,207.00	3,207.00	3,207.00	3,207.00	3,207.00	3,207.00
Tax benefit of stock options exercised and restricted shares issued	12,877.00	7,044.00	-	-	-	-	-	-	-	-
Dividends paid	(97,364.00)	(98,990.00)	(101,362.00)	(104,994.00)	(111,817.00)	(96,385.24)	(109,885.52)	(120,573.74)	(138,556.63)	(157,367.14)
Cash from financing activities	(297,171.00)	(367,944.00)	(195,636.00)	(208,080.00)	(266,985.00)	285,364.43	(321,481.92)	(360,833.66)	(447,434.63)	(558,224.27)
Net increase(decrease) in cash & cash equivalents	(395.00)	811.00	8,235.00	(7,012.00)	27,400.00	(22,553.86)	1,606.23	1,525.81	1,828.01	2,258.65

J.B. Hunt Transport Services Financial Statements

(USD'000)		2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E		
Debt & Interest Schedule													
Senior Notes:													
Tranche 1: Mar'2024 semi-annual													
Amount Outstanding	248,640.00												
Term	5.00												
Rate	3.85%												
Maturity	2024												
Opening Balance							248,640.00	248,640.00	248,640.00	248,640.00	248,640.00		
Total Payment							(9,572.64)	(9,572.64)	(9,572.64)	(9,572.64)	(258,212.64)		
Interest Payment							(9,572.64)	(9,572.64)	(9,572.64)	(9,572.64)	(9,572.64)		
Principle Payment							-	-	-	-	(248,640.00)		
Closing Balance							248,640.00	248,640.00	248,640.00	248,640.00	-		
Tranche 2: Aug'2022 semi-annual													
Amount Outstanding	353,100.00												
Term	3.00												
Rate	3.30%												
Maturity	2022												
Opening Balance							353,100.00	353,100.00	353,100.00	-	-		
Total Payment							(11,652.30)	(11,652.30)	(364,752.30)	-	-		
Interest Payment							(11,652.30)	(11,652.30)	(11,652.30)	-	-		
Principle Payment							-	-	(353,100.00)	-	-		
Closing Balance							353,100.00	353,100.00	-	-	-		
Tranche 3: Mar'2026 semi-annual													
Amount Outstanding	694,000.00												
Term	7.00												
Rate	3.88%												
Maturity	2026												
Opening Balance							694,000.00	694,000.00	694,000.00	694,000.00	694,000.00	694,000.00	694,000.00
Total Payment							(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)	(720,892.50)
Interest Payment							(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)	(26,892.50)
Principle Payment							-	-	-	-	-	-	(694,000.00)
Closing Balance							694,000.00	694,000.00	694,000.00	694,000.00	694,000.00	694,000.00	-
Revolving Credit Facility:													
Credit Limit	1,000,000.00												
Federal Funds Rate - A	0.05%												
Credit spread for Baa Bonds (BAA) - B	3.91%												
Rate (A+B)	3.96%												
Cash available at beginning of the period							35,000.00	12,446.14	14,052.37	15,578.18	17,406.20		
Minimum cash base							12,446.14	14,052.37	15,578.18	17,406.20	19,664.84		
Cash generated during the current year							(22,553.86)	1,606.23	1,525.81	1,828.01	2,258.65		
Cash surplus / (deficit)							(0.00)	0.00	(0.00)	0.00	(0.00)		
Interest expense on revolver							(26,687.69)	(29,878.88)	(45,917.76)	(45,256.60)	(50,799.21)		
Total principal payment							-	-	(353,100.00)	-	(248,640.00)	-	(694,000.00)
Total interest expense							(74,805.13)	(77,996.32)	(94,035.20)	(81,721.74)	(87,264.35)	(26,892.50)	(26,892.50)
Total long-term debt outstanding							1,295,740.00	1,295,740.00	942,640.00	942,640.00	694,000.00	694,000.00	
Current portion of LT Debt							-	353,100.00	-	248,640.00	-	694,000.00	

Debt Profile	2020	2021	2022	2023	2024	2025	2026
Principal outstanding (excl. refinancing)	-	-	353,100.00	1,000,000.00	248,640.00	-	694,000.00
Interest payments	74,805.13	77,996.32	94,035.20	81,721.74	87,264.35	26,892.50	26,892.50

JBHT Revenue Model

J.B. Hunt Transport Services Revenue Model

		2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Key Assumption Drivers & Data											
US GDP growth (%)		2.9%	1.6%	2.4%	2.9%	2.3%	-5.6%	2.8%	1.7%	1.6%	1.6%
Cass Truckload Cost Index (annual mean)	*CAGR (15'-19')*	125.01	124.35	126.64	137.42	137.89					
yoy change (%)	*2.5%*		*-0.5%*	*1.8%*	*8.5%*	*0.3%*					
Cass Intermodal Cost Index (annual mean)	*CAGR (15'-19')*	127.98	126.97	130.92	142.66	145.49					
yoy change (%)	*3.3%*		*-0.8%*	*3.1%*	*9.0%*	*2.0%*					
IHS Markit JOC spot mean Truckload shipper rate		$ 1.80	$ 1.60	$ 1.70	$ 2.05	$ 1.75	$ 1.64	$ 1.68	$ 1.72	$ 1.76	$ 1.81
yoy change (%)			*-11.1%*	*6.3%*	*20.6%*	*-14.6%*	-6.3%	2.5%	2.5%	2.5%	2.5%
IHS Markit JOC contract average Truckload shipper rate		1.75	1.60	$ 1.65	$ 1.95	$ 1.81	$ 1.70	$ 1.74	$ 1.78	$ 1.82	$ 1.87
yoy change (%)			*-8.6%*	*3.1%*	*18.2%*	*-7.2%*	-6.3%	2.5%	2.5%	2.5%	2.5%
IHS Markit JOC contract intermodal rate estimate ($/mile)		$ 1.20	$ 1.25	$ 1.30	$ 1.50	$ 1.45					
yoy change (%)			4.2%	4.0%	15.4%	-3.3%					
IHS Markit JOC spot intermodal rate estimate ($/mile)		$ 1.35	$ 1.40	$ 1.60	$ 1.80	$ 1.55					
yoy change (%)			3.7%	14.3%	12.5%	-13.9%					
Technavio expected 19'-24' CAGR in last mile delivery market	*14.0%*										
Frost & Sullivan expected 19'-25' CAGR in Truck-as-a-Service market (implied)	*32.29%*										
1Q20 Operating Data:											
Change in Cass TL Index (1Q19-1Q20)	*-6.33%*										
Change in Cass IM Index (1Q19-1Q20)	*-4.00%*										
Growth in JBI loads (1Q19-1Q20)	*6.8%*										
Growth in DCS loads (1Q19-1Q20)	*14.9%*										
Growth in JBT Loads (1Q19-1Q20)	*14.8%*										
Growth in FMS stops (1Q19-1Q20)	*66.9%*										
Growth in JB Hunt 360 revenue (1Q19-1Q20)	*42.8%*										
Growth in non JB Hunt 360 revenue (1Q19-20)	*-12.0%*										
1Q20 JBI execution on JBHT 360 (% of JBHT 360 revenue)	*14.5%*										
Intermodal (JBI)											
JBI Operating Revenue (millions)	*CAGR (19'-24')*	3,665.00	3,796.00	4,084.00	4,717.00	4,745.00	3,951.06	4,331.68	4,590.96	4,865.72	5,178.10
yoy growth (%)	*1.8%*		*3.6%*	*7.6%*	*15.5%*	*0.6%*	*-16.7%*	*9.6%*	*6.0%*	*6.0%*	*6.4%*
JBI Operating Income (millions)		477.00	450.00	407.00	401.00	447.00					
JBI operating margin (%)		*13.0%*	*11.9%*	*10.0%*	*8.5%*	*9.4%*					
JBI D&A		148.00	160.00	163.00	173.00	181.00					
JBI EBITDA		625.00	610.00	570.00	574.00	628.00					
JBI EBITDA margin (%)		*17.1%*	*16.1%*	*14.0%*	*12.2%*	*13.2%*					
JBI Operating Costs (millions)		3,188.00	3,346.00	3,677.00	4,316.00	4,298.00					
yoy growth (%)			*5.0%*	*9.9%*	*17.4%*	*-0.4%*					
Loads	CAGR (15'-19')	1,772,808.00	1,916,303.00	1,999,807.00	2,049,014.00	1,979,169.00	1,645,507.5	1,731,460.8	1,753,938.9	1,770,449.9	1,787,116.4
yoy growth (%)	*2.79%*		*8.1%*	*4.4%*	*2.5%*	*-3.4%*	-16.9%	5.2%	1.3%	0.9%	0.9%
Revenue per load		$ 2,067.00	$ 1,981.00	$ 2,042.00	$ 2,302.00	$ 2,397.00	$ 2,401.12	$ 2,501.75	$ 2,617.52	$ 2,748.29	$ 2,897.46
yoy growth (%)			*-4.2%*	*3.1%*	*12.7%*	*4.1%*	*0.2%*	*4.2%*	*4.6%*	*5.0%*	*5.4%*
Operating cost per load		$ 1,798.28	$ 1,746.07	$ 1,838.68	$ 2,106.38	$ 2,171.62					
yoy growth (%)			*-2.9%*	*5.3%*	*14.6%*	*3.1%*					
JBI average length of haul		1,652.00	1,657.00	1,681.00	1,648.00	1,679.00	1,679	1,679	1,679	1,679	1,679
Average miles		2,928,678,816	3,175,314,071	3,361,675,567	3,376,775,072	3,323,024,751	2,762,807,137.21	2,907,122,731.08	2,944,863,421.43	2,972,585,459.43	3,000,568,464.17
Implied revenue per mile		$ 1.25	$ 1.20	$ 1.21	$ 1.40	$ 1.43	$ 1.37	$ 1.42	$ 1.46	$ 1.51	$ 1.56
yoy change (%)			-4%	2%	15%	2%	-4.0%	3.3%	3.3%	3.3%	3.3%
Dedicated Contract Services (DCS) incl. FMS											
Total DCS & FMS Operating Revenue (millions)	*CAGR (19'-24')*	1,451.00	1,533.00	1,719.00	2,163.00	2,695.00	2,445.95	2,801.57	3,116.22	3,457.83	3,838.12
yoy growth (%)	*7.3%*		*5.7%*	*12.1%*	*25.8%*	*24.6%*	*-9.2%*	*14.5%*	*11.2%*	*11.0%*	*11.0%*
DCS Operating Income (millions)		163.00	205.00	171.00	193.00	269.00					
DCS operating margin (%)		*11.2%*	*13.4%*	*9.9%*	*8.9%*	*10.0%*					
DCS D&A		133.00	143.00	158.00	200.00	246.00					
FMS revenue contribution	*CAGR (19'-24')*	-	-	-	374.85	566.56	720.77	821.68	936.71	1,067.85	1,217.35
yoy growth (%)	*16.5%*					*51.1%*	*27.2%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*
DCS revenue contribution	*CAGR (19'-24')*	1,451.00	1,533.00	1,719.00	1,788.16	2,128.44	1,725.18	1,979.89	2,179.51	2,389.98	2,620.77
yoy growth (%)	*4.2%*		*5.7%*	*12.1%*	*4.0%*	*19.0%*	*-18.9%*	*14.8%*	*10.1%*	*9.7%*	*9.7%*
DCS EBITDA		296.00	348.00	329.00	393.00	515.00					
DCS EBITDA margin (%)		*20.4%*	*22.7%*	*19.1%*	*18.2%*	*19.1%*					
DCS Operating Costs (millions)		1,288.00	1,328.00	1,548.00	1,970.00	2,426.00					
yoy growth (%)			*3.1%*	*16.6%*	*27.3%*	*23.1%*					
Total Loads		2,250,099.00	2,401,332.00	2,575,245.00	2,981,344.00	3,615,850.00					
yoy growth (%)			6.7%	7.2%	15.8%	21.3%					
DCS Load contribution		2,250,099.00	2,401,332.00	2,575,245.00	2,782,683.00	3,353,553.00	2,902,014.88	3,249,866.28	3,490,929.10	3,735,373.24	3,996,934.02
yoy growth (%)			6.7%	7.2%	8.1%	20.5%	-13.5%	12.0%	7.4%	7.0%	7.0%
FMS Load contrbution		-	-	-	198,661.00	262,297.00					
FMS stops		-	-	-	1,942,173.00	4,175,725.00	5,312,260.08	6,055,976.49	6,903,813.19	7,870,347.04	8,972,195.63
yoy growth (%)						*115.0%*	27.2%	14.0%	14.0%	14.0%	14.0%
FMS Revenue per stop					$ 193.00	$ 135.68	$ 135.68	$ 135.68	$ 135.68	$ 135.68	$ 135.68
Revenue per load (DCS)		$ 644.86	$ 638.40	$ 667.51	$ 642.60	$ 634.68	$ 594.48	$ 609.22	$ 624.34	$ 639.82	$ 655.69
yoy growth (%)			*-1.0%*	*4.6%*	*-3.7%*	*-1.2%*	*-6.3%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Operating cost per load		$ 572.42	$ 553.03	$ 601.11	$ 660.78	$ 670.93					
yoy growth (%)			*-3.4%*	*8.7%*	*9.9%*	*1.5%*					
Revenue per truck per week / productivity		$ 4,028.00	$ 4,077.00	$ 4,226.00	$ 4,534.00	$ 4,895.00					
yoy growth (%)	*5.0%*		*1.2%*	*3.7%*	*7.3%*	*8.0%*					
Implied no. of weeks		*51.37*	*51.46*	*51.19*	*51.50*	*51.33*					
DCS average length of haul		175.00	177.00	178.00	177.00	169.00	169.00	169.00	169.00	169.00	169.00
DCS average miles		393,767,325.00	425,035,764.00	458,393,610.00	492,534,891.00	566,750,457.00	490,440,515.04	549,227,400.80	589,967,017.94	631,278,078.14	675,481,848.67
DCS Implied revenue per mile		$ 3.68	$ 3.61	$ 3.75	$ 3.63	$ 3.76	$ 3.52	$ 3.60	$ 3.69	$ 3.79	$ 3.88
yoy change (%)			*-2.1%*	*4.0%*	*-3.2%*	*3.4%*	*-6.3%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
% premium to JOC TL contract index		110.6%	125.4%	127.3%	86.2%	107.5%	107.5%	107.5%	107.5%	107.5%	107.5%
Average trucks during period		7,012.00	7,307.00	7,946.00	9,264.00	10,725.00					
Trucks (end of period):											
Company-owned		8,124.00	6,976.00	8,124.00	9,652.00	10,542.00					
Independent contractor		10.00	15.00	59.00	51.00	40.00					
Customer-owned (DCS-operated)		436.00	410.00	544.00	412.00	505.00					
Total trucks		8,570.00	7,401.00	8,727.00	10,115.00	11,087.00					
Trailing equipment (end of period)		21,672.00	22,688.00	28,118.00	26,710.00	28,118.00					
Average effective trailing equipment usage		22,391.00	22,827.00	28,147.00	26,806.00	28,147.00					

J.B. Hunt Transport Services Revenue Model

		2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Integrated Capacity Solutions (ICS)											
ICS Operating Revenue (millions)	*CAGR (19'-24')*	699.00	852.00	1,025.00	1,335.00	1,348.00	1,596.79	1,927.14	2,378.35	2,988.36	3,807.45
yoy growth (%)	*23.1%*		*21.9%*	*20.3%*	*30.2%*	*1.0%*	*18.5%*	*20.7%*	*23.4%*	*25.6%*	*27.4%*
Non-JB Hunt 360 revenue	**CAGR (15'-19')**	699.00	852.00	899.20	777.20	508.20	463.76	428.23	395.43	365.14	337.17
yoy growth (%)	*-7.7%*		*21.9%*	*5.5%*	*-13.6%*	*-34.6%*	*-8.7%*	*-7.7%*	*-7.7%*	*-7.7%*	*-7.7%*
ICS Operating Income (millions)		36.00	36.00	33.00	50.00	(11.00)					
ICS operating margin (%)		*5%*	*4%*	*3%*	*4%*	*-1%*					
ICS Operating Costs (millions)		663.00	816.00	992.00	1,285.00	1,359.00					
yoy growth (%)			*23.1%*	*21.6%*	*29.5%*	*5.8%*					
Loads		542,947.00	852,179.00	992,834.00	1,234,632.00	1,243,992.00					
yoy growth (%)			*57.0%*	*16.5%*	*24.4%*	*0.8%*					
Revenue per load		$ 1,288.00	$ 999.00	$ 1,032.00	$ 1,081.00	$ 1,084.00					
yoy growth (%)			*-22.4%*	*3.3%*	*4.7%*	*0.3%*					
Operating cost per load		$ 1,221.11	$ 957.55	$ 999.16	$ 1,040.80	$ 1,092.45					
yoy growth (%)			*-21.6%*	*4.3%*	*4.2%*	*5.0%*					
Gross profit margin (%)		15%	14%	13%	15%	13%					
Employee count (end of period)		670.00	824.00	954.00	1,142.00	1,213.00					
Approximate number of third-party carriers (end of period)		45,700.00	50,900.00	56,700.00	73,100.00	84,400.00					
Marketplace for JB Hunt 360:											
Approximate carrier tractor count (end of period)		-	-	312,000.00	529,000.00	682,000.00					
JB Hunt 360 Revenue	*CAGR (19'-24')*	-	-	125.80	557.80	839.80	1,133.04	1,498.90	1,982.92	2,623.22	3,470.28
yoy growth (%)	*32.8%*				*343.4%*	*50.6%*	*34.9%*	*32.3%*	*32.3%*	*32.3%*	*32.3%*
JB Hunt 360 (% ICS revenue)		*0.0%*	*0.0%*	*12.3%*	*41.8%*	*62.3%*	*71.0%*	*77.8%*	*83.4%*	*87.8%*	*91.1%*
Truckload (JBT)											
JBT Operating Revenue (millions)	*CAGR (19'-24')*	386.00	388.00	378.00	417.00	389.00	286.01	286.05	274.11	261.62	249.71
yoy growth (%)	*-8.5%*		*0.5%*	*-2.6%*	*10.3%*	*-6.7%*	*-26.5%*	*0.0%*	*-4.2%*	*-4.6%*	*-4.6%*
JBT Operating Income (millions)		40.00	30.00	23.00	37.00	29.00					
JBT operating margin (%)		*10.4%*	*7.7%*	*6.1%*	*8.9%*	*7.5%*					
JBT D&A		42.00	41.00	41.00	38.00	33.00					
JBT EBITDA		**82.00**	**71.00**	**64.00**	**75.00**	**62.00**					
JBT EBITDA margin (%)		*21.2%*	*18.3%*	*16.9%*	*18.0%*	*15.9%*					
JBT Operating Costs (millions)		*346.00*	*358.00*	*355.00*	*380.00*	*360.00*					
yoy growth (%)			*3.5%*	*-0.8%*	*7.0%*	*-5.3%*					
Loads		366,297.00	385,298.00	370,591.00	355,038.00	346,459.00	271,963.71	265,410.74	248,176.95	231,140.84	215,274.17
yoy growth (%)			*5.2%*	*-3.8%*	*-4.2%*	*-2.4%*	*-21.5%*	*-2.4%*	*-6.5%*	*-6.9%*	*-6.9%*
Revenue per load		$ 1,053.79	$ 1,007.01	$ 1,019.99	$ 1,174.52	$ 1,122.79	$ 1,051.66	$ 1,077.75	$ 1,104.49	$ 1,131.88	$ 1,159.96
yoy growth (%)			*-4.4%*	*1.3%*	*15.2%*	*-4.4%*	*-6.3%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Operating cost per load		$ 944.59	$ 929.15	$ 957.93	$ 1,070.31	$ 1,039.08					
yoy growth (%)			*-1.6%*	*3.1%*	*11.7%*	*-2.9%*					
JBT average length of haul		448.00	455.00	435.00	427.00	415.00	415.00	415.00	415.00	415.00	415.00
Average miles (less nonpaid miles)		133,368,737.70	142,329,081.20	129,669,790.90	121,245,477.00	110,208,607.90	86,511,656.93	84,427,156.56	78,945,088.73	73,525,901.76	68,478,714.97
JBT Implied revenue per mile		$ 2.89	$ 2.73	$ 2.92	$ 3.44	$ 3.53	$ 3.31	$ 3.39	$ 3.47	$ 3.56	$ 3.65
yoy change (%)			*-5.8%*	*6.9%*	*18.0%*	*2.6%*	*-6.3%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
% premium to JOC TL spot index		*60.8%*	*70.4%*	*71.5%*	*67.8%*	*101.7%*	*101.7%*	*101.7%*	*101.7%*	*101.7%*	*101.7%*
Loaded miles (000)		163,115.00	175,038.00	160,932.00	151,322.00	143,511.00					
Total miles (000)		193,856.00	207,998.00	192,433.00	181,718.00	177,035.00					
Average nonpaid empty miles per load		83.90	85.60	85.10	85.50	96.90	96.90	96.90	96.90	96.90	96.90
Revenue per tractor per week		$ 3,698.00	$ 3,458.00	$ 3,556.00	$ 4,148.00	$ 3,917.00					
yoy growth (%)			*-6.5%*	*2.8%*	*16.6%*	*-5.6%*					
Implied no. of weeks		*50.89*	*51.21*	*50.67*	*50.52*	*50.72*					
Consolidated											
Total segment revenues (millions)		**6,201.00**	**6,569.00**	**7,206.00**	**8,632.00**	**9,177.00**	8,279.82	9,346.43	10,359.64	11,573.53	13,073.37
Intersegment eliminations (millions)		(13.00)	(14.00)	(16.00)	(17.00)	(12.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)
Total revenue (millions)		**6,188.00**	**6,555.00**	**7,190.00**	**8,615.00**	**9,165.00**	**8,264.82**	**9,331.43**	**10,344.64**	**11,558.53**	**13,058.37**
									Final Revenue Ouput		
Total segment operating income (millions)		**716.00**	**721.00**	**634.00**	**681.00**	**734.00**					
Consolidated operating margin (%)		*11.6%*	*11.0%*	*8.8%*	*7.9%*	*8.0%*					
Total segment EBITDA (millions)		**1,039.00**	**1,065.00**	**996.00**	**1,092.00**	**1,194.00**					
Unallocated D&A (millions)		17.00	18.00	22.00	25.00	39.00					
Total EBITDA (millions)		1,056.00	1,083.00	1,018.00	1,117.00	1,233.00					
Consolidated EBITDA margin (%)		*17.1%*	*16.5%*	*14.2%*	*13.0%*	*13.5%*					
Total load		**4,932,151.00**	**5,555,112.00**	**5,938,477.00**	**6,620,028.00**	**7,185,470.00**					
yoy growth (%)			*13%*	*7%*	*11%*	*9%*					
Consolidated revenue per load approx.		$ 1,254.63	$ 1,179.99	$ 1,210.75	$ 1,301.35	$ 1,275.49					
yoy growth (%)			*-6%*	*3%*	*7%*	*-2%*					
Total trucks (end of period):											
Company-owned		8,124.00	6,976.00	8,124.00	9,652.00	10,542.00					
Independent contractor		10.00	15.00	59.00	51.00	40.00					
Customer-owned (DCS-operated)		436.00	410.00	544.00	412.00	505.00					
Total trucks		**8,570.00**	**7,401.00**	**8,727.00**	**10,115.00**	**11,087.00**					
Total tractors (end of period):											
Company-owned		5,738.00	5,957.00	6,067.00	6,156.00	5,834.00					
Independent contractor		1,492.00	1,447.00	1,505.00	1,606.00	1,556.00					
JB Hunt 360 carrier tractors		-	-	312,000.00	529,000.00	682,000.00					
Total tractors		**7,230.00**	**7,404.00**	**7,572.00**	**7,762.00**	**7,390.00**					
Total trailing equipment (end of period)	*CAGR (15'-19')*	**108,233.00**	**114,924.00**	**123,848.00**	**128,412.00**	**131,836.00**					
Total end of period vehicles & equipment	*4.9%*	**124,033.00**	**129,729.00**	**140,147.00**	**146,289.00**	**150,313.00**					
Total average trucks during period		7,012.00	7,307.00	7,946.00	9,264.00	10,725.00					
Total average tractors during period		7,000.00	7,413.00	7,460.00	7,541.00	7,593.00					
Total average length of haul (miles) / miles-per-load		2,275.00	2,289.00	2,294.00	2,252.00	2,263.00					

DCF Model

J.B. Hunt Transport Services Discounted Cash Flow Model

WACC Calculation	
Description	**Values**
Debt/Total Capitalization	36.4%
Equity/Total Capitalization	63.6%
US 10 Year Treasury Note Rate	0.647%
USA Implied Market Return	6.24%
Implied Market Risk Premium	5.59%
Levered Beta	0.94
Cost of Equity	**5.90%**
Pre Tax Cost of Debt	3.88%
After-Tax Cost of Debt	**2.94%**
WACC	**4.83%**

USD ('000)		Projected Years			
	2020	2021	2022	2023	2024
EBIT*(1-t)	501,788	566,546	628,061	701,761	792,822
Plus: Depreciation & Amortization	450,107	508,195	563,375	629,484	711,166
Less: Capital Expenditure	(600,000)	(700,000)	(773,500)	(834,000)	(887,500)
Less: Increase/(Decrease) in NWC	47,905	(46,799)	(44,456)	(53,261)	(65,808)
Unlevered Free Cash Flow (FCFF)	399,799	327,942	373,480	443,984	550,681
Discount Rate (WACC)	4.83%				
PV of FCFF	381,393.99	298,442.69	324,238.25	367,701.85	435,071.70

Methodologies

Perpetual Growth Method		
Perpetual Growth Rate		1.70%
Terminal Value		17,917,283
PV of Terminal Value		14,155,757
% of Enterprise Value		*88.7%*
PV of FCFF		1,806,848
Enterprise Value ('000)		15,962,605.30
Implied Equity Value & Share Price		
Enterprise Value		15,962,605
Less: Total Debt ('000)		(1,295,740)
Less: Preferred Stock ('000)		-
Less: Non-controlling Interest ('000)		-
Plus: Cash & Cash Equivalents ('000)		35,000
Implied Equity Value ('000)		14,701,865
Weighted average diluted shares outstanding		108,307
Implied Share Price (USD)	**$**	**135.74**
Current Share Price (USD)	$	107.58
Upside		26.18%
Implied Exit Multiple (EV/EBITDA)		10.20x

Exit Multiple (EV/EBITDA) Method		
Terminal Year EBITDA		1,756,697
Exit Multiple		9.40x
Terminal Value		16,508,370
PV of Terminal Value		13,042,628
% of Enterprise Value		*87.8%*
PV of FCFF		1,806,848
Enterprise Value ('000)		14,849,477
Implied Equity Value & Share Price:		
Enterprise Value ('000)		14,849,477
Less: Total Debt ('000)		(1,295,740)
Less: Preferred Stock ('000)		-
Less: Non-controlling Interest ('000)		-
Plus: Cash & Cash Equivalents ('000)		35,000
Implied Equity Value ('000)		13,588,737
Weighted average diluted shares outstanding		108,307
Implied Share Price (USD)	**$**	**125.46**
Current Share Price (USD)	$	107.58
Upside		16.62%
Implied Perpetual Growth Rate		1.44%

Sensitivty Analysis

	Perpetual growth rate				
WACC	0.50%	1.00%	1.50%	2.00%	2.50%
3.83%	132.90	156.18	189.47	240.99	331.38
4.33%	113.37	130.24	153.07	185.73	236.27
4.83%	98.37	111.09	127.64	150.05	182.08
5.33%	86.49	96.39	108.87	125.10	147.09
5.83%	76.85	84.74	94.45	106.70	122.63

	EV/EBITDA				
WACC	8.40x	8.90x	9.40x	9.90x	10.40x
3.83%	118.44	125.16	131.88	138.60	145.33
4.33%	115.50	122.07	128.63	135.19	141.75
4.83%	112.65	119.06	125.46	131.87	138.28
5.33%	109.88	116.13	122.39	128.65	134.90
5.83%	107.18	113.29	119.40	125.51	131.62

Relative Valuation

J.B. Hunt Transport Services Relative Valuation

			Valuation Multiples									
			EV/EBITDA		EV/EBIT		EV/Sales		PE		P/B	
Company	NAICS Industry Group Name	Ticker	FY	+1 FY	FY	+1 FY	FY	+1FY	FY	+1 FY	FY	+1 FY
J.B. Hunt Transport Services	General Freight Trucking	NASDAQ:JBHT	10.47x	11.08x	17.60x	20.01x	1.41x	1.45x	22.57x	25.50x	5.14x	4.69x
Hub Group, Inc.	Freight Transportation Arrangement	NASDAQ:HUBG	6.86x	7.52x	12.12x	13.64x	0.50x	0.51x	15.60x	17.10x	1.58x	1.45x
C.H. Robinson Worldwide, Inc.	Freight Transportation Arrangement	NASDAQ:CHRW	12.43x	15.03x	13.74x	16.80x	0.71x	0.73x	17.72x	21.70x	5.99x	6.18x
XPO Logistics	General Freight Trucking	NYSE:XPO	7.92x	7.47x	14.48x	14.06x	0.77x	0.78x	16.52x	13.84x	2.02x	1.62x
Knight-Swift Transportation Holdings Inc.	General Freight Trucking	NYSE:KNX	7.97x	8.04x	16.48x	15.91x	1.48x	1.56x	20.33x	19.36x	1.10x	1.05x
Old Dominion Freight Line, Inc.	General Freight Trucking	NASDAQ:ODFL	14.87x	14.91x	19.47x	20.00x	3.88x	3.90x	26.74x	26.74x	4.79x	4.62x
Landstar System, Inc.	General Freight Trucking	NASDAQ:LSTR	11.08x	12.21x	12.74x	14.22x	0.93x	0.96x	18.11x	20.04x	5.67x	5.26x
Schneider National, Inc.	General Freight Trucking	NYSE:SNDR	5.70x	6.32x	10.53x	12.59x	0.77x	0.80x	25.82x	18.47x	1.70x	1.57x
CSX Corporation	Rail Transportation	NASDAQ:CSX	10.05x	10.93x	12.80x	14.41x	5.30x	5.71x	15.05x	16.69x	4.10x	3.85x
Norfolk Southern Corporation, Inc.	Rail Transportation	NYSE:NSC	10.35x	11.22x	13.26x	14.83x	4.76x	5.25x	15.68x	17.41x	2.73x	2.62x
Werner Enterprises, Inc.	Specialized Freight Trucking	NASDAQ:WERN	6.74x	6.77x	14.99x	16.37x	1.24x	1.28x	16.85x	20.57x	2.50x	2.28x
25th Percentile			6.83x	7.30x	12.58x	13.95x	0.75x	0.77x	15.66x	17.00x	1.67x	1.54x
Mean			9.40x	10.04x	14.06x	15.28x	2.03x	2.15x	18.84x	19.19x	3.22x	3.05x
Median			9.01x	9.49x	13.50x	14.62x	1.08x	1.12x	17.28x	18.92x	2.61x	2.45x
75th Percentile			11.42x	12.89x	15.37x	16.48x	4.10x	4.24x	21.70x	20.85x	5.01x	4.78x

+1FY	2020E EBITDA	EV/EBITDA	Implied Enterprise Value	Less: Net Debt	Less: Minority Interest	Implied Equity Value	Fully Diluted Shares	Implied Share Price
25th Percentile	1,165.00	7.30x	8,499.73	(1,260.74)	-	7,238.99	108.307	66.84
Mean	1,165.00	10.04x	11,699.83	(1,260.74)	-	10,439.09	108.307	96.38
75th Percentile	1,165.00	12.89x	15,014.74	(1,260.74)	-	13,754.00	108.307	126.99

+1FY	2020E EBIT	EV/EBIT	Implied Enterprise Value	Less: Net Debt	Less: Minority Interest	Implied Equity Value	Fully Diluted Shares	Implied Share Price
25th Percentile	645.45	13.95x	9,007.10	(1,260.74)	-	7,746.36	108.307	71.52
Mean	645.45	15.28x	9,864.22	(1,260.74)	-	8,603.48	108.307	79.44
75th Percentile	645.45	16.48x	10,636.68	(1,260.74)	-	9,375.94	108.307	86.57

+1FY	2020E Net Income	P/E	Implied Equity Value	Fully Diluted Shares	Implied Share Price
25th Percentile	457.00	17.00x	7,766.92	108.307	71.71
Mean	457.00	19.19x	8,770.93	108.307	80.98
75th Percentile	457.00	20.85x	9,529.86	108.307	87.99

+1FY	2020E Net Asset Value	P/B	Implied Equity Value	Fully Diluted Shares	Implied Share Price
25th Percentile	2,485.00	1.54x	3,827.41	108.307	35.34
Mean	2,485.00	3.05x	7,581.78	108.307	70.00
75th Percentile	2,485.00	4.78x	11,879.35	108.307	109.68

Price Target

J.B. Hunt Transport Services Price Target & Football Field Analysis

Valuation Methodology	Low	Difference	High	Mean
DCF Value at 8.40x-10.40x EV/EBITDA Range	$ 112.65	$ 25.63	$ 138.28	$ 125.46
DCF Value at 0.5%-2.5% Perpetuity Growth Ran	$ 98.37	$ 83.71	$ 182.08	$ 127.64
Comparable Analysis using +1FY EV/EBITDA	$ 66.84	$ 60.15	$ 126.99	$ 96.38
Comparable Analysis using +1FY EV/EBIT	$ 71.52	$ 15.05	$ 86.57	$ 79.44
Comparable Analysis using +1FY P/E	$ 71.71	$ 16.28	$ 87.99	$ 80.98
Comparable Analysis using +1FY P/B	$ 35.34	$ 74.34	$ 109.68	$ 70.00
52 Week Market High/Low	$ 75.29	$ 47.00	$ 122.29	

Methodology	Weightage	Implied price (US$)
DCF (EMM)	75%	$125.46
Peer Comps (P/B multiple at 75th percentile)	25%	$109.68
Blended TP	$121.52	
Current Price	$107.58	
Upside	*13.0%*	
as of 18-Apr-20