J.B. Hunt Transport Services, Inc. (JBHT) CEO John Roberts on Q3 2019 Results - Earnings Call Transcript

Oct. 15, 2019 10:18 PM ET
by: SA Transcripts

Q3: 10-15-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.4 misses by $-0.05 | Revenue of $2.36B (6.96% Y/Y) beats by $26.3M

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J.B. Hunt Transport Services, Inc. (NASDAQ:JBHT) Q3 2019 Results Conference Call
October 15, 2019 5:00 PM ET

Company Participants

Brad Delco - Vice President, Investor Relations

John Roberts - Chief Executive Officer

David Mee - Chief Financial Officer

Terry Matthews - President of Intermodal

Shelley Simpson - Chief Commercial Officer and President of Highway Services

John Kuhlow - Chief Accounting Officer

Darren Field - EVP of Intermodal

Brad Hicks - EVP of Dedicated

Eric McGee - EVP of Highway Services

Conference Call Participants

Todd Fowler - KeyBanc

Dave Ross - Stifel

Tom Wadewitz - UBS

Brian Ossenbeck - JPMorgan

Jordan Alliger - Goldman Sachs

Ben Hartford - Baird

Justin Long - Stephens

Jason Seidl - Cowen

Allison Landry - Credit Suisse

Chris Weatherby - Citi

Bascome Majors - Susquehanna

Scott Group - Wolfe Bank

Operator

Good afternoon. And welcome to JB Hunt's Third Quarter 2019 Earnings Conference Call. All participants are and will be in a listen only mode until the Q&A portion of the call. After today's brief presentation, there will be an opportunity to ask questions. [Operator instructions] Today's webcast is being recorded and will be available for replay after the call on the company's Web site at jbhunt.com.

I would now like to turn the conference over to Brad Delco, Vice President of Investor Relations. Mr. Delco, please go ahead with your presentation.

Brad Delco

Good afternoon, and thanks for joining us. Hopefully everyone has had an opportunity to review our earnings release that was issued earlier today. If not, you should be able to access the release on the investor section of our Web site at jbhunt.com.

Before I introduce the speakers on today's call, I would like to take some time to provide some disclosures regarding forward looking statements. This call may contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects, anticipates, intends, estimates, or similar expressions are intended to identify these forward looking statements.

These statements are based on JB Hunt's current plans and expectations and involve risks and uncertainties that could cause future activities and results to be materially different from those set forth in the forward-looking statements. For more information regarding risk factors, please refer to JB Hunt's Annual Report on Form 10-K and other reports and filings with the Securities and Exchange Commission.

With that out of the way, I would like to introduce the speakers on today's call. This afternoon I'm joined by our CEO, John Roberts; our CFO, David Mee; Terry Matthews, President of Intermodal; Nick Hobbs, President of Dedicated; Shelley Simpson, Chief Commercial Officer and President of Highway Services; John Kuhlow, our Chief Accounting Officer; Darren Field, EVP of Intermodal; Brad Hicks, EVP of Dedicated; and Eric McGee, EVP of Highway Services.

At this time, I'd like to turn the call over to our CEO, Mr. John Roberts, for some opening comments. John?

John Roberts

Thanks Brad. Today, we're introducing a new element to our calls, which will focus on our strategic longer term point of view to help better shape the information you're getting from us each quarter. We hope this will enhance and align your understanding more closely to ours, and the extended perspectives we use to make decisions.

Let's reflect on some of the key steps and our more recent strategic efforts that will help outline the building blocks that are in place today. That there are key events that have occurred in each of the last five years that are very consistent with the cultural approach we have always taken as evolving growth oriented transportation service provider.

From 2015 to 2017, we implemented new processes to help identify and remove the waste from all aspects of the company using employee input, known as elevation. We also completely restructured our information technology change from the top down and publicly committed to reporting incremental growth channels in the commercialization of our freight management tools known as JB Hunt 360 and also to growing our Final Mile services business.

In 2018, we launched 360 Marketplace and continued growing and digitizing our brokerage business, running nearly $600 million on the platform that year. We also closed on the first acquisition the company has made in 26 years with special logistics to expand our presence in fulfillment and for deployment supporting Final Mile. This acquisition, now two years old, is performing above our expectations compared to the data we used in purchase decision.

During 2019, we have focused on and invested in growing the programming and infrastructure needed to support our new technology initiatives. The carriers have expanded to more than 600,000 trucks with a sign on through the JB Hunt 360 platform. And transactions executed through the marketplace for JB Hunt 360 are currently on a billion dollar run rate. We've also closed on a second acquisition in Final Mile, expanding our furniture delivery and agent presence with Cory. Overall through acquisition and organic growth, we have expanded the Final Mile network by over 40% so far year-to-date. And we will be breaking out this channel in 2020.

With regard to our legacy businesses so far, in 2019, Intermodal has continued to move towards accommodated service levels with help from our rail providers and the substantive completion of lane and service changes in what is commonly known as PSR. Our fleets continued to have elasticity in potential box turns, and we expect to return to historically sound utilization metrics per month. But we're prudently initiating new purchase orders to further expand the container fleets.

DCS accelerated organic growth through the past two years, reaching unprecedented contracted expansion in unit count and revenues. As expected, the implementation expenses related to strong growth have mitigated over time, and we expect the core business in private fleet services to return to targeted margin performance. We also expect continued organic growth in this channel with private fleet creation and conversion.

Highway Services, including our truckload business and all brokerage services, continues to migrate to a more digital and lighter asset model, moving towards independent contractors and contract carriers with our capital focusing on the trailer fleets. We're exploring new and different ways to approach the trailer needs of our customers and carriers with the 360 box programs, and hope to find the right equation to expand this opportunity.

Overall, I'm generally pleased with our progress on this part of our journey and continue to believe in our direction. I reiterate my confidence in this leadership team and our employee base across the country.

I will now ask David Mee for his comments on the quarter. Dave?

David Mee

Thank you, boss. For the most part, we thought the quarter played out pretty much as anticipated. Again, in general, freight volumes are still below 2018 levels. But we have seen seasonal uptick remain and continue its pace. And most of it was evidenced in each of our segments.

In Intermodal, overall volumes were flat with year ago as we announced. During the quarter, we saw absolute year-over-year changes. In other words, calendar-month to calendar-month; we saw July, down 2%, August down 1% and September up 3%. However, as we pointed out in our second quarter call, we've been paying particular attention to the daily load counts each month, both in recognition at the lower 2019 freight volumes and looking for some assurance that a traditional seasonal pattern would remain even at the lower freight levels.

So for the third quarter 2019, loads per workday for July was 78.51, August was 79.87 and September was 83.42. And as a starting point for reference and a reminder, June loads per work day was 78.17. While we were encouraged by the increased throughput, we are still experiencing cost pressures, primarily in rail purchase transportation rates and localized driver inflations, not across the country but definitely in local markets, as well as the additional costs associated with growing our network, which is now more inbound out of balance than it has been in the past.

In Dedicated, new truck additions were lower than recent quarters, but they actually were in line with first and second quarter 2018. But the pipeline as it stands today remains very robust and we're confident that we'll add the 800 to 1,000 trucks in 2019. And we expect Final Mile continue to see good throughput in both the historical and newly acquired business. And the two acquisitions have positioned us to generate higher than expected organic growth in Final Mile in this current year, in 2019.

ICS results for the quarter reflect what we believe is the current state of the market. Competitive and even aggressive contractual pricing to retain business and/or grow market share resulted in gross margin pressure with little or no opportunity in spot market to mitigate the gross margin decline. We compounded ICS's operating margin decline by increasing our technology spend on the marketplace for J.B. Hunt 360 by over 60% year-over-year, and 10% sequentially from second quarter with the expectation that we will compete and we'll have to compete for share in this environment to gain scale on the platform for the rest of 2019 and most likely through 2020.

Trucks, our same store sales contract rates were positive in the third quarter and year-over-year. However, customer spot activity was less than half of what it was a year ago, which affected both load counts and overall rate for loaded mile. While we have seen some seasonality in the market and customers are meeting their truckload contractual commitments, customer spot activity is not expected to rebound substantially in the fourth quarter of 2019.

Brad, that concludes what I have prepared.

Brad Delco

All right. Michelle, we're ready for questions. So let's open up the queue.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Todd Fowler. Please repeat your name and company affiliation. Your line is now open.

Todd Fowler

Great, good evening. It's Todd Fowler with KeyBanc Capital Markets. I feel little bit guilty. You know John did a nice job of laying out some longer term things. But I'm going to start with some near-term questions. Dave or Terry, can you share some thoughts on just how you see the fourth quarter peak shaping up. You got volumes that are comping positive in September. One of the other truckload carriers talking about a little bit of a less robust peak, I know some of your earlier guidance talked about fourth quarter volumes turning positive based on bid compliance. So if you can just share some comments and what you're expecting for fourth quarter, both on the volume and the margin side for intermodal, I'd appreciate it.

Terry Matthews

Yes. This is Terry. So with regards to the fourth quarter, I think in the second quarter we talked about we would be in positive territory for volume in the fourth quarter, and we haven't changed that direction with regards to positive volumes in the fourth quarter. As far as peak is concerned, September from the West Coast was stronger than the September we saw in 2018. So it's been rather robust, and we see that starting to continue into October. With regards to margin, we believe our margin in the fourth quarter from an OR basis should improve from what we saw in the third quarter.

Todd Fowler

And just for a follow up, Terry, your comments on the September strength. Do you have a sense of any of that has to do with potential pull forward related to tariffs, or do you think that that's maybe more of a reflection of just true demand in the marketplace? Thanks.

Terry Matthews

I haven't heard anything from our customers. Shelly might have heard something. But I haven't heard anything from our customers that they're pulling forward product and shipping it early. I see her head shaking no. So I think it's more just basically what's going on in the marketplace.

Operator

Our next caller -- our next question comes from the line of David Ross. David, please repeat your name, your company affiliation. Your line is now open.

David Ross

Thank you, Dave Ross from Stifel. Good afternoon. Just a question on Final Mile, which seems to be growing quite nicely, you said it's been in the network for 40% year-to-date. How big do you think that could get in two years' time?

John Roberts

Well, our run rate of about $500 million $550 million and we're very comfortable to continue to grow at a very fast clip. I don't know if we're giving guidance today on some targets, or if we're going to be…

David Mee

Two years…

John Roberts

Yes, two years…

David Mee

Well, 10% a year, 5% a year?

John Roberts

10% 10% plus.

David Ross

And then on the on the dedicated side is that going to grow at a similar clip or is that expected to be a little bit more BDP plus? And have you seen any difference in the private fleet conversion recently versus the last couple of years?

John Roberts

The only thing that's really changed in the private fleet is we were really hot in '18, and I think it's back to a normal decision timeframe of 18 to 24 months that we've seen very consistently other than when it sped up a little bit in '18 because of the market. But I think you will see us be very consistent with the truck adds we have this year it's probably the truck add will have again next year. Our pipeline, as Dave said, is very good. We're very confident in the private fleet conversions. And we're -- our retention rate is still very, very high 98%. So we feel very good about where that's going next year.

Operator

We have next question. Caller, please state your name, company affiliation. Your line is now open. Caller?

Tom Wadewitz

Hi. It's Tom Wadewitz from UBS. I wanted to ask a question, how we might think about the Intermodal margin? It seems like you've -- you're executing on the transition in volumes and certainly seeing volume growth in the transcontinental side. It seems like price is a lever that you're pushing to some extent to get that growth. So how would we think about intermodal margin perhaps the next couple quarters or if you look into 2020? Is it reasonable to think that margins improve if you have volume growth but less price? How do we think about kind of that leverage the volume in price moving different ways and what that might mean for margin?

John Roberts

In the third quarter, we thought it was going to improve versus the second quarter. But because of some of the network imbalances that we have, we had to reposition more antes, and there are antes costs which exceeded what we anticipated it would be in the third quarter. And as I mentioned earlier, we believe the margin should improve in the fourth quarter as we compare it to the third quarter. As far as next year, we're still in the budget process. We don't foresee anything that should change our margin profile if we can continue to grow, and to continue to watch our costs and not have anything from a macro standpoint on the economy, we would anticipate that our margins should improve.

Tom Wadewitz

I guess just one additional question or one follow-up. How do we think about the numbers that you're providing in ICS of more volume going through that system and what that means? I mean, obviously, I guess it means you're utilizing the system. But is there a point where as more goes through the margin performance should be better? Or do we think about more going through being in acceleration in coming acceleration volume performance? Or what does it mean when you put more through 360 in terms of the impacts on results?

Shelley Simpson

Yes. So Dave talked about scaling the business, and I think that's a key piece in building a platform. We focused this year on really being able to move unit shipments through the platform. And we're about by the end of this year should be 85% of our volume, should be able to execute inside the platform if we were fully utilized inside that. But for us it really is about scaling our revenue and allowing us to really get after what we believe is the bigger idea, which is creating a more efficient transportation network in North America.

So it's about reducing costs for our shippers and increasing time for carriers, saving them money and giving them a better experience overall. So we believe there is a better way to move goods, just like Intermodal was a better way to move goods from truckload. We believe using a digital freight platform is actually a better way to transact in for customers and carriers alike.

Tom Wadewitz

Do you have a sense of the time lag of when we would see that, or is that tough to identify?

Shelley Simpson

We definitely are talking about that here internally. As Dave spoke earlier, we did further accelerate our investment into the platform. The more that we see the transactions that are occurring in the platform, the more we see the opportunity to further eliminate the waste in the system. And so I think we'll be going into 2020 with more work, particularly on the data science side with what we can do with the data that we see in the platform.

One other things that we're really focusing on, we've seen a 400% increase in the level of data that we see interacting in the platform, so about 5 billion sets of data points. We are really trying to discern in different categories how we apply more machine learning and AI into that information. It's one of the ways that we will create a more efficient transportation network. That work is really just beginning. I would say, we're at the infancy stage as we've been building the platform, we've been collecting data now our ability to really create a different way to move goods whether that's with a different carrier or a different mode.

So we've talked for a long time about how there are somewhere between 7 million and 11 million shipments that are on the nation's highways that we believe to move into Intermodal. That's one big idea we have through the platform, the more data we see the more information we have, the more we know how goods should move over a longer period.

Operator

Our next question comes from the line of Brian Ossenbeck. Brian, repeat your name and company affiliation. Your line is now open.

Brian Ossenbeck

Thank you. Brian Ossenbeck from JPMorgan. Thanks for taking my question. Maybe Shelley if we can continue on that last thought about the shipments converting off the highway to Intermodal over time. And maybe just a bigger longer term picture for John as well. What do you think really gets the intermodal business back to sort of secular growth that we've seen over the last couple of decades? When do you think the truck conversion really becomes material contribution to that, and still think service has ways to go on the rail side before you get there? And then if you could just size up the, maybe secondary opportunities when you’re look at research as the rail start to offload more trailers and more containers, and then anything material on the transport opportunity?

Shelley Simpson

So can I shift over to platform just for a second as it relates to Intermodal, because I think one of the things the platform allows is access, access to shipments and access to capacity. If you look at what's happening in the market, we see it about $80 billion to $85 billion of freight every year and that's continue to grow for us as we've illustrated. Really I would say mid to large customers, we've really not moved into small midsized market as much overall. So customers that are currently shipping in truckload, so this is more of a macro view. Customers that currently shipped truckload just don't know another way to do that. And I would even say those are in the midsize names.

And so they want, they believe that they have the assurance of how their shipments can move at a predictive price and predictive service by using what they've historically done. If you really give access to small midsize shippers to really what can transact on a real time basis making movements more dynamic, it changes the way a shipper can move and can open up what the market can look like. So I would just talk about that from a market perspective.

Terry Matthews

Yes, this is Terry. So from a growth perspective, I think I've identified before four or five key things. What is the price of fuel relative to truck? Price of fuel and what is the truck rate? What is the truck capacity? What is the rail service, which is a real key in terms of being able to convert highway freight to rail? And then what are the general macro economics? So when you put those five things together, we keep on looking at a bucket of freight of 8 million to 10 million loads that we see that fit the intermodal network in North America, but yet not have converted.

So as those factors turn positive and more of those factors that turn positive, you'll see the acceleration of intermodal. The second thing I would mention is that the railroads want to grow intermodal publicly stated the two Eastern roads they said they'd like to go 10% in 2020 in the East Coast. And these five factors will be key as to how we'll be able to try to accomplish that goal. So you have railroads willing and able and then you have some market conditions, but we also see the freight. So the timing of how all that melds together is really the big question. And I think you'll see, as I mentioned, as those five things turn positive for intermodal, you'll see an acceleration.

John Roberts

I'll just add a little bit on the top to question of transloading or refrigerated. All markets that we're studying, there're some big numbers in those channels that we want to pay attention to. I think the key point is that the railroads are [interested]. And we definitely hear them talking with us about what do we need to do to continue to be able to organically convert incremental volumes into their networks. PSR being sustainably done is at a clip and little bit of a cleansing activity. I think the conversations are positive. And their -- look the highway conversion and refrigerate transload and another, they're certainly looking at the future potential of intermodal as being growth oriented. And lastly with regards to refrigerated, we're up to 1,000 refrigerated containers. And we plan on adding containers in 2020 to continue to be able to grow that that business double-digit.

Operator

Our next question comes from the line of Jordan Alliger. Jordan please repeat your name, company affiliation and ask your question. Your line is now open.

Jordan Alliger

Yes. Hi, Jordan Alliger at Goldman Sachs. One question is can you talk a little bit about the impact of the IT spend versus the impact of the fundamentals on the ICS business some sort of order of magnitude. And as I know you're going to keep spending on IT as we go into next year. But is this sort of like the peak quarter impact, or is there a way to frame that? Thanks.

Shelley Simpson

So we aren't just spending money on the technology side, we're actually investing on the people side as well to build the marketplace is we really believe that's creating an experience, which has ratings in from both shippers and carriers is the most critical component to the platform. So in areas where carriers are interacting in the platform or shippers don't have an identity, we're having to insert our people in the process.

We also have quite a few people inside that space that are focused on what the experience actually is. It's a bit more from the sales perspective on both carriers and customers. So quite a bit there, I don't think we've given guidance as to what that looks like. I think leaning into next year, we will continue to make investments on technology. We are working, as I spoke earlier, around what we can do with the data and we still have to firm up what our budgets look like that. But I would expect further spending at least at the same level if not possibly more and on the people side, continuing to grow people.

One of the reasons [indiscernible] from an earlier discussion, or an earlier question is what do we get for that. We do think that technology will create speed, speed at which we can move transactions. But it will really fuel our growth from a highway perspective, and even the opportunity to talk to customers about ways to move goods. So I would say next year continuing to have pressure on our operating income results but our longer term focus really for us our three to five year vision on creating more efficient networks, create a very large marketplace, and that really is our north star.

Jordan Alliger

And then just on the -- so I guess sort of just as a follow up, and I know the fundamentals are separate, and I know there'll be pressure on even in 2020. Is there a way to get a sense will profits go back in the black at some point, or do you expect it to stay sort of in the negative range in some way?

Shelley Simpson

So we're still working on our budget for next year. But I would say, I think we're going to have pressure on our bottom line performance. We will be watching all the key metrics in the platform that can be our biggest driver overall. We know there will be inefficiency. Today we have inefficiency that's happening in the platform from material purchasing perspective and also from new freight that we're onboarding into the platform that will work itself out over time. And as we get through startups, that's probably more impactful right now. But as we continue to accelerate our growth, which is the key theme for us, we're continue to onboard new carriers new lanes for both customers and for carriers, and that's going to put pressure on our margins as well.

John Roberts

Yes. And Jordan, taking a little bit longer view. The answer is no, we don't expect this exercise to be a loss leader just to get into the market. We expect this business unit to take this technology and turn it into a profitable business using the technology, the people and all the investments that are occurring here in 2019 and most likely throughout 2020.

Does that mean that actually turns black in 2021 yet? We don't know. Five years ago, it was pretty easy to put some numbers on a chalkboard and say absolutely, yes. But the market's changed as we've seen in the meantime. But yes, I would say that from our perspective and from a strategic standpoint, this is not a loss leader. This is to be designed to be a profit center just as it was before we started spending the money to transform it into a more digital platform.

Jordan Alliger

And just one other quick question perhaps. Can you give a sense for what, on the Intermodal front, your thoughts on bid season and bid season timing? You're able to do 5% ex-fuel surcharge 2% all-in this quarter. I know you've talked sort of low single digit of late. So I'm just curious any follow up thoughts on that front?

John Roberts

Well, bid season is just starting and we haven't really got any results back. So last two years, it's been a very orderly market. And I would anticipate next year to be an orderly market, knowing the pressures that other providers have with regards to rail, PTE that's out in the marketplace. So if our costs are up, our expectation is that we would have positive price to cover those costs.

Operator

Our next question comes from the line of Benjamin Hartford. Benjamin, please state your name, company affiliation. Your line is now open.

Ben Hartford

Ben Hartford with Baird. Thanks. Maybe, Shelly, back to ICS here. When you measure success as you build up this platform how do you kind of singularly define success? I guess I'm looking at this $200 million in revenue executed through marketplace and ICS this quarter up 50 million year-over-year. Has the profile of the customer that you engage with through marketplace has it changed, is it meaningfully different from the profile of customers that you typically interact with across the business lines? It's a bit of a leading question. But I'm curious if you're able to engage with small or medium sized customers more effectively in that $200 million bucket this quarter year-over-year, and if not yet will you? Maybe you could talk a little bit about the profile of that customer and how it's changed and how it could change over time?

Shelley Simpson

Sure. So we have largely spent time with customers that know us and know us very well. And so the interactions that you see currently in marketplace, our customers that we have deep relationships with and that really buy across our nine services that we offer insider our business segments. We do plan to go into the small and midsize market. We really don't participate as an organization there much. That's something that will be coming up in 2020 and that's definitely part of our plan in our scaling out of the platform.

Ben Hartford

And then just looking at the gross margins this quarter, understanding some of the competitive dynamics. As this project matures and as you do kind of supplement the growth with some of the small or medium sized customers as that development continues. How do you anticipate that gross margin percentage trending over time if we kind of smooth the average if we look at this quarter as a baseline? And should it benefit from mix offset by the natural competitive pressures? Or is there something else going on as we think about the gross margin trend?

Shelley Simpson

I think that the gross margin percentage could stay similar to what you see inside our earnings results in Q3, plus or minus 100 or 200 basis points in total. But I think the bottom line performance can get back into the range that we've really talked about 4% to 6% in total. If you look at what's happening inside ICS just in the base part of our business, we're up as expense as a percent of revenue really across everywhere that we're investing. So certainly in our employee expense where we expect to get leverage in our direct expense, our E&T and all of our new system that all have significant expense sitting inside that.

We do watch each one of those metrics so that we can understand what our productivity and our throughput looks like. But as we lean into the back end of next year, so maybe fourth quarter of next year moving into 2021, we do expect productivity improvement to start to occur inside our people. We're just getting started on the points of automation that we need to really happen from an employee base perspective, and that we think will enable us to start getting to back to profitability.

Operator

Next caller, please state your name, company affiliation. And your line is now open.

Justin Long

This is Justin Long with Stephens. Thanks for taking the question. Maybe to start with Intermodal. I know you were successful winning some Intermodal business late in a bid season. If you were to strip out the tailwind from some of those market share gains. How would you say the underlying volume environment trended in the third quarter relative to what you would view as normal seasonality?

John Roberts

I think there's kind of two stories we had, four or five bid events that happened towards the latter part of the second quarter plus we had bid events prior to that, that should have allowed us to grow even more than what we're anticipating. And it really came down to the compliance that we've talked about. I think what you've seen in the latter part of the third quarter and into now is that the compliance is better than what we saw in the second quarter, and that's kind of lifting all boats, if you will. So we have four or five big customers that have helped us, but then the compliance with the rest of the base has also given us a lift.

Justin Long

And going back to the Intermodal OR questions and thinking about the progression going forward. Terry, do you feel like we need to see price increases in next year's bid season in order for the Intermodal OR to improve in 2020? Or do you think there's enough levers with volume growth, better rail service, et cetera to drive improvement in margins next year even if pricing is flattish?

Terry Matthews

Well, pricing is the lever quicker than volume so obviously price would help us to get there. I think with the momentum that we have with volume moving into the first half of next year, we should have some good volume comps given the economy staying where it's at and nothing new showing up with regards to the macro economy. So to answer your question, the price would move the needle quicker. The question will be is how much of that can we get and what are the costs that we have to try to cover to add margin.

Justin Long

And just to clarify something you said earlier, you said if your costs are up in Intermodal, you expect pricing to be up as well. Do you feel like Intermodal pricing can be at the even if truckload pricing is down contractually in 2020?

if truckload pricing is down contractually in 2020?

Terry Matthews

Well, that's what happened so far in 2019. I think there's a probability that yes, you could see that.

Operator

Our next question comes from the line of Ken Hoexter. Ken, please repeat your name and company affiliation. Your line is now open.

Ken Hoexter

It's Ken Hoexter from Bank of America Merrill Lynch. Thanks for the time, and good afternoon. Maybe just to follow on that maybe more near-term. If you're looking on pricing, you're looking for positive volumes for the fourth quarter. I guess you're saying that revenue per load can also be positive. And maybe you could just talk about the rate environment, not only in Intermodal but perhaps for each segment?

John Roberts

Yes, I think in the second quarter conference call, I mentioned that we should have a positive rate for load in the fourth quarter and we haven't changed that thought process.

Shelley Simpson

I would say brokerage both -- I think Dave spoke to the competitive environment inside brokerage. And I would say that we're just starting in the bid season. We do see competitive pressure to retain our current business inside brokerage and on the asset part of the business, nearly too early to tell having different conversations with different customers.

John Roberts

And I'll just say on the dedicated side, 70% of our business has ECI, CPI built in, so that portion will get whatever those indexes dictate. We got 30% that does not have that in there. But two-thirds of that's not up for renewal in the next year, so that will not feel any pressure. So that leaves about 10% of our business that would face some pressure that could face potential pressure in one way market. But we feel good about that. Overall, our rates will be up in dedicated is our feeling.

Ken Hoexter

And a quick follow up. Maybe -- you talked about the acceleration from the West Coast volumes and obviously, a decline still on the East Coast. Can you talk about -- are there any service issues still cleaning out lanes, or is it just demand picked up on a trans con versus the decline in the regional volumes? Maybe just talk a little bit about on the volume side for Intermodal.

Terry Matthews

Yes, services picked up from where it was last year, it's not where the railroads had targeted to be. But they have definitely improved and it's helped our velocity, and they're on time service to the customer. The East Coast is -- continue to see pressure with truck on the fringes and that hasn't really subsided at all with regards to what we're seeing in the marketplace today.

Ken Hoexter

So just to clarify, it's more of truck competition than it is a lane closure or change PSR strategy from your main provider?

Terry Matthews

Yes, we still have -- the hangover for another four or five months with regards to the PSR where we lost 60,000 or 70,000 loads starting in really January. And that we should comp that in January through March I think is where -- and those were implemented. So that's about 70% of what's going on in the East in terms of our negative volume. The others kind of the fringe phrase, as I call it, the 1%, 2%, 3% with regards to the competition with truck and then the slash the port service that we saw last year, those combinations where we've lost a couple percent to truck. But if service picks up and if the market starts to tighten that usually gives back our way.

Operator

Next caller, your line is now open. Please state your name, company affiliation and ask your question.

Jason Seidl

This is Jason Seidl from Cowen. Two quick ones here. One, you guys did a good job sort of breaking down how you see the market going forward. Obviously, you're not going to be predicting the economy or fuel. But I guess where do you see truck capacity going in 2020? And are you confident in what you've seen thus far from the PSR implementors that rail service will be improved next year?

John Roberts

Well, from a rail service perspective. Yes, I think the railroads will continue to get better, especially as other commodities are a little bit slow. So I anticipate that the rail service will get better. They have not met their targets that they have set out to meet. And I think they will improve versus what we've seen this year.

Terry Matthews

And Jason, are you talking about iron when you say the truck market, or are you talking about truck service?

Jason Seidl

Overall truck capacity?

Terry Matthews

Capacity, no that's -- okay, I'm going to let someone -- I thought you meant -- I don't know if you meant the price of used trucks or not that's why I was asking. I'll let Shelly talk about that.

Shelley Simpson

So I would say the macro view from a capacity perspective, obviously, would change our view. We think that it's sluggish in the market mostly from the supply side demand if not as strong as anyone would like. I don't know how confident we are in that being that we've done budgets now for 20 years and we never hit our budget up or down from a capacity perspective. So I would say next year -- first half of next year could be more sluggish similar to right now. Second half, I think macro will be more of a negative.

Jason Seidl

And I guess my follow up here is your main western partner is the only ones who not implement PSR, or at least a form thereof. Is that something that you envision them doing at some point?

John Roberts

You really have to ask them. The conversations that we have had with them they've said that they've had some form of PSR going on in the railroad for over a decade. So they might -- I would think that they're doing certain things, but they aren't calling it PSR.

Operator

Our next question comes from the line of Allison Landry. Allison, please repeat your name, company affiliation. Your line is now open.

Allison Landry

Allison Landry from Credit Suisse. Dave, you've commented earlier about some aggressive behavior in terms of brokerage contractual rate. So just curious if you think that's sort of normal from a cyclical standpoint, or are you seeing increased competition from either tech-based entrants or some of your more traditional peers that that might be also going after the digital freight marketplace?

John Roberts

I'll let Shelley answer that question.

Shelley Simpson

I would say it's more competitive than it has been. Certainly, I think technology in general has changed the way our customers view the level of predictability. So I think that what's happening in the brokerage space today, cost, and capacity and service is more predictable right now than it was a year ago. Our customers leaned into more asset mix. In this season last year, I think this season based on early discussions with customers, they are more comfortable leaning into brokerage based on the pricing that they're seeing from early bid season. I would say there could be likely a shift to more brokerage here this bid season at a macro view, and I would say it is more competitive.

Allison Landry

And then just as a follow up in terms of the extra repositioning and network imbalance costs that you saw in JBI. Could you help to maybe give us a sense or quantify what that was in the quarter, and give us a little bit of color on what drove that? Maybe seems like it was a little bit worse than you guys had anticipated. Thank you.

John Roberts

Yes, some of that came from the bid cycle. The last third of the bids that came out, part of its customer compliance where we thought we had balance and the customer didn't give us the freight that they thought that they were going to give us, that sort of created that. I think what I mentioned that if we hadn't had that extra costs that we would have improved our OR versus the second quarter, and I think I'll leave it with that.

Operator

Our next question comes from the line of Chris Weatherby. Chris, please repeat your name, company affiliation. Your line is now open.

Chris Weatherby

Chris Wetherby from Citi. Just to follow up on that question to make sure I understand repositioning costs we should not expect that to continue into the fourth quarter that was likely into 3Q?

John Roberts

It's too early to tell. We're only 15 days in. If the West Coast continues to stay strong like we've seen it, we could have some extra repositioning costs. Typically that fades off in the last 45 days of the month. It's too early to really make that call.

Chris Weatherby

That's helpful, I appreciate it. And then maybe coming back just to make sure we put some numbers around it, the tech spend. I think, Dave, you mentioned maybe up, I think you said 60% sequentially. I don't know if it puts us into the sort of $16 million or so million dollars. I don't know if my math is right there. But could you quantify sort of what that tech spend is? And Shelley, you mentioned that maybe it goes up going forward. Just trying to frame this up a little bit. I mean is it possible that maybe we're talking about an $80 million or $100 million for annual spend in this? I just want to trying to get a sense of sort of how maybe that adds up as we go out into 2021?

David Mee

Well, are you talking enterprise wide or inside ICS?

Chris Weatherby

Both…

David Mee

Enterprise wide, yes, $100 million enterprise wide guidance is piece of cake, that's easy. We -- through to September, we're past that and that's just the OpEx side. Inside ICS itself, ICS in the quarter, I think the tech side was a little bit shy of $14 million in a quarter.

Chris Weatherby

Okay…

David Mee

And that's up 60% year-over-year, and that's just on the -- that's just on the development side.

Chris Weatherby

Okay, that makes sense. And then I guess can you help us sort of frame out how you think -- and we talked a lot about this I guess on the call, but I just want to sort of make sure I understand sort of how we think about the growth through the marketplace as we think about 2020. What are sort of the numbers we should be thinking about from a revenue perspective? And then I guess when can we start to see this turn towards sort of income and start to generate a return? I don't know maybe you can trim up what you think your return hurdles are for this investment?

Shelley Simpson

So we continue to have more need from the base part of the platform. And I talked earlier about what we do with the data. That's going to be the most significant driver of what we do from a tech perspective moving into 2020 and beyond. In total, we do expect our revenue to accelerate next year. We still are working on our budget and what our five year book will be in total for all of ICS but also across the enterprise.

Our hurdles really are across every category that I've talked about that we are working towards scaling. So we have too high employee costs currently based on, as a percentage of revenue we have too high as E&P costs. Pretty much across the board that touches the platform, we're investing heavily inside that space. It will take us out I don't maybe 18 months or so to really get through that and develop the scale that we believe we need again to start leveraging into our cost as a percent of revenue.

Chris Weatherby

So we're thinking 18 months from now is the right way to be thinking about that, Shelley?

Shelley Simpson

Sure.

Operator

Our next question comes from the line of [Ren Yang] please repeat your name, company affiliations. Your line is now open.

David Vernon

It's David Vernon from Bernstein. I just wanted to ask you, Dave, question on the balance sheet and sort of the long-term sort of outlook for returns here, so first out of balance sheet. You've got about 75 million bucks worth of cash sitting on the balance sheet, and you're guys used to kind of pretty religiously manage that balance down. Is there a reason why we're holding that much cash or any sort of change in the prioritization of available cash from sort of prior practice?

John Roberts

No, David, no change. There's lot of times when we'll end up with cash inflows faster than outflows in a period of time where I can't do anything in public markets with it. And so I'm just basically putting it on my balance sheet, because I either can't deploy it in the repurchase programs I've a wall of equipment purchases. So it's more time than it is any kind of change in strategy.

David Vernon

And is there a draw on that other than equity repurchase, like is it being held aside or equipment or something?

John Roberts

No. Not in any particular purpose. No.

David Vernon

And then one other question I'd love to get your help in terms of helping investors understand is a little bit of a change in business mix. Obviously, the DCS business the ICF business is growing a little bit faster than the intermodal business, historically. One of the things that's been great about J.B. Hunt is the high level of return. Can you help us understand kind of what the relative return profile of these businesses are just to think about kind of how that shift is going to affect the business long-term?

John Roberts

Well, we haven't broken out the internal ROI piece simply because I don't want to get into a lot of debate with regard to allocation of shared services and allocation of footprint for asset profile, which you end up having to do and then you get comparison issues. We have that debate anyway. What we've said is that we definitely longer term think that the ICS should be the highest returning the asset that we own, or that we -- or segment in the portfolio, because it's the lowest capital intensive in Intermodal at this point in time be next in line. But even today, that probably is going to have a run for its money as we convert to a more asset light model in truck.

So everything is based on the relative asset size. And then -- so Intermodal would be -- I would say the truckload is less asset intensive, so it would be next to Intermodal and then Dedicated. With that being said, how we measure each of those business units is relative to the peer groups. And the peer groups, obviously, ICS would be brokers. Truckload would be asset light truckers. So maybe possibly a land star type model is what we would have to compare ourselves to.

Intermodal is in an business of itself. So that should be pretty easy if we can compare it to those players. And Dedicated, it's kind of a quasi business, because it is not truckload, it is not one way truckload. So while it does compare itself to Werner's and Knight's, which is phenomenal and the rest of the traditional truckers. We kind of hold it to higher standard because it doesn't have the price fluctuation that those typical truckload carriers have to go through. So I would say that you would end up comparing it to higher end truckload carriers, the Knight's, the Heartland's, so things of that nature from an ROIC perspective.

And the way they are performing, ICS is obviously lagging today. Historically, it is not but it is today. Intermodal is lagging on a 12-month basis given what the charges we've taken in the past year. And so it's no pat. Performance is low on a trailing 12 months. Truck is going through some transition. So it's kind of all over the board at this point in time, but improving. And Dedicated is actually performing on a turn basis better than our expectations.

Operator

Your next question comes from the line of Bascome Majors. Bascome, please state your name, company affiliation. Your line is now open.

Bascome Majors

Bascome Majors from Susquehanna. On Dedicated, heading into the after recession that was about a 5,000 truck 1 billion revenue business, you've got twice as many trucks, three times as much revenue in the growth you've generated over the last 10 plus years there. Can you walk us through how the larger dedicated business, how you think that performs in recession scenario? Where are you vulnerable to weaker pricing and volumes that that's going to hit the overall one way truckload market? And where do you get some typical protection from the contract structures you've had there? Thanks.

John Roberts

I would just say, typically, our contracts are about 4.5 years at least on average, some longer, some 7, 9 years. And so we get some protection there. But if you talk about just a downturn in the economy as we've gone through that and seeing that through the years, what we typically see as you may see a bankruptcy of somebody that goes out because of financial conditions. So we may take a hit of 100 trucks or something like that. And then as depends on the industry that's impacted the most in the down cycle, we may see some trucks shrinkage at accounts. And we do that with our customers that's the flexibility that we offer and then we'll take those trucks and place them at new accounts.

But when the economy turn south, that means that CFOs like Dave are really scrutinizing their capital and what they're going to do. And so we take that opportunity to really go talk to them about capital and deploying their capital and where they're going to deploy it and let us do it in a more efficient way and save them money. So we hit up the CFOs was hard during that time and we have a lot of success of selling that way.

Where we have some exposure to the one way market is again depends on the timing of that when that portion of our business, 30% of our business it does not have indexes in it, what portion of that is up for renewal at that given time when the economy is strong, will face some pressure on that. So it's hard to say. But it could be 10% of our business or something like that potentially. But I would just tell you that I turn up the heat on our sales team when the economy goes south, because there's a lot of people that just want to get out of their private fleet. And so the CFOs are more available to us than ever before during that time. And so I would expect us to continue to sell.

Bascome Majors

Thanks, I appreciate the detailed answer there. And Dave, just a follow up for you looks like net CapEx was approaching $600 million year-to-date. Can you give us an updated look at what the full year spend could look like through this year and any preliminary thoughts on next year? Thanks.

David Mee

I don't have preliminary thoughts on this year. The one number I know I missed on my forecast was the amount we're capitalizing on tech. Originally I thought I was going to be somewhere in the $40 million range is probably going to be north of $80 million. So CapEx is probably going to be up somewhere around $680 million by the time the year is out, and it's all due to the accelerated tech spend that's being capitalized.

Brad Delco

And Michelle, this is Brad. We have time for one more question.

Operator

Our next question comes from the line of Scott Group. Scott, please state your name, company affiliation. Your line is now unmuted.

Scott Group

It's Scott Group from Wolfe Bank. Thanks for squeezing in. So Terry, just -- is there any way you can help us think about transcon versus east margins if there's much of a difference there? And then you had a comment earlier about rail PT expense for some of your competitors. And I wasn't sure, were you trying to say that you've got similar cost inflation next year as everybody else, better or worse? I wasn't really sure what your point was.

Terry Matthews

My point on that is that as all providers of intermodal have rail PTE challenges, the likelihood of decreasing rates is less than the likelihood of having to increase rates. Our programs are obviously different than most. So I won't go into that. And your second part of your question was?

Scott Group

Transcon versus east margins if there's much of a difference there?

Terry Matthews

I think in previous calls, we've talked there isn't much of a difference in that. What you'll find is that the profile of the load is different iIn terms of there's more revenue associated to a transcon load. So a margin of ex-transcon load is different for the total op income versus a smaller load with a similar margin. But that load will take much less time to be able to execute.

Scott Group

Just back on PTE for a sec directionally. Do you think you've got more or less PT headwind in '20 versus '19?

Terry Matthews

Less.

Scott Group

And then the lastly real quick. Anyway you can help us just think about fourth quarter volume. I know you said positive. But do you think it's sort of similar to that 3% in September, better or worse? Anything just can -- just help us with the model.

Terry Matthews

Positives better than flat, so I don't have any real guidance on that. We haven't really given guidance on that. So a couple of percentage we should probably be looking at.

Scott Group

Thank you for the time…

John Roberts

Nobody's expecting a spike Scott.

Brad Delco

Okay, Michelle, that concludes our call.

Operator

Thank you for using AT&T event conferencing. You may now disconnect.