ABACUS RESEARCH

C.H Robinson ($159,CHRW)

- Even without any help from a cyclical recovery, we expect EPS growth for the next three years to average ~19%.
- The new CEO has transformed the company by bringing in a lean / AI, that has helped CHRW to grow earnings despite struggling topline.
- Demand environment highly unlikely to get worse without a severe recession, hence cyclical upside mostly a free option.
- If the market comes to accept that the incremental margins remain high and that CHRW is again a structural share gainer, PE will remain high.

December 17, 2025

Potential Upside: $212 (+32%)
Sensible Downside: $127(-20%)

SUMMARY

- **What is the CHRW bet?**
  - **AI implementation translates into the ability for CHRW to take share.**
  - **This is the crux. We are interested in CHRW only because we believe it can take share and because has shown high operating leverage.**
    - CHRW has entered a stage where any growth comes with very high incremental operating margins.
  - The cyclical bet: when the market inflects higher, CHRW will be able to scale without increasing personnel costs.
    - Personnel costs are ~50% of gross profits.
  - **We think CHRW also has the opportunity to consolidate the industry.**

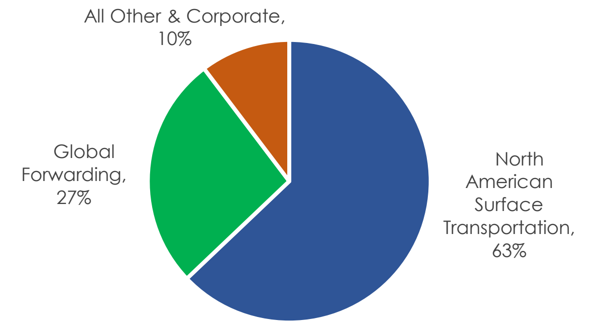
- **Demand environment highly unlikely to get worse without a severe recession.**
  - Cycle recovery timing is uncertain, but demand can only get better at some point in the future.
- General wisdom is that the asset heavy plays are the best place to be, as they will have the most leverage in any up-cycle. We would only be interested in ODFL, as the quality is high enough, the rest = less so.
- **We prefer CHRW, which has a new CEO 2 years ago bringing in a lean / AI transformation focus, and will still benefit in any cyclical upturn.**

- **The key CHRW risk**: Any AI advantage gets rapidly competed away.
  - This is what the majority of analysts seem to believe – and by the end of 2026.
  - However, we think tech disruption will take much longer, as it usually does, the long tail of small brokers in particular will struggle to consistently implement AI agents that can scale.

Description

- **CHRW is a broker, they source loads and have contracted carriers** with broad exposure across the different modalities.
  - #1 LTL broker, top 5 truckload

CHRW: Gros Profit Split (2025)



Source: CHRW

Top Freight Brokerage Firms (2023 data) U.S. Market

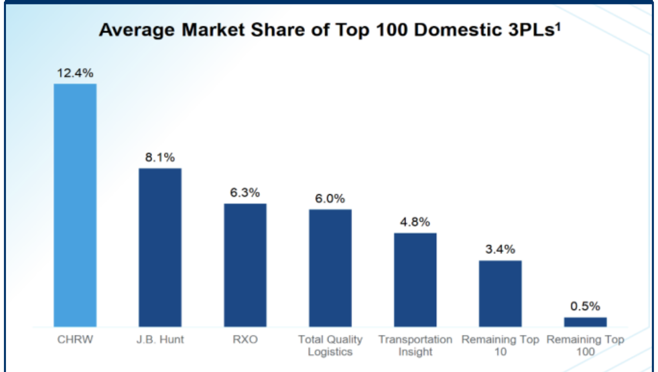
Rank	Company	Gross Revenue ($ Millions)	Net Revenue ($ Millions)	Market share
1	C.H. Robinson Worldwide	$12,471.0	1,594	11%
2	Total Quality Logistics	$6,637.0	-	6%
3	RXO	$6,258.0	500	5%
4	WWEX Group	$4,019.0	867	3%
5	Echo Global Logistics	$3,000.0	470	3%
6	Landstar System	$2,930.0	400	3%
8	Mode Global	$2,302.0	-	2%
9	Schneider	$2,220.0	280	2%
10	Uber Freight	$2,100.0	225	2%
11	J.B. Hunt Transport Services	$1,840.0	250	2%
12	Hub Group	$1,825.0	825	2%
13	Arrive Logistics	$1,800.0	201	2%
14	ArcBest Corp.	$1,530.0	208	1%
15	Ascent Global Logistics	$1,402.0	196	1%

Source: TTNews

CHRW: Gros Profit By Transport Mode

	2024	2023	2022	2021	2020
Truckload	$ 1,072,691	$ 1,039,079	$ 1,561,310	$ 1,280,629	$ 1,071,873
LTL	572,169	550,373	632,116	523,365	457,290
Ocean	519,970	420,883	729,839	711,223	350,094
Air	135,901	123,470	198,166	225,286	151,443
Customs	107,480	97,096	107,691	100,539	87,095
Other Logistics Services	225,599	255,735	251,547	210,958	195,159
Total	$ 2,633,810	$ 2,486,636	$ 3,480,669	$ 3,052,000	$ 2,312,954

CHRW: US Market Share estimates



Source: CHRW, Armstrong and Associates

CHRW MODEL

- ROE and ROIC are both >25%, as it is a capital light model.
- Note that CHRW has a $1.36bn in net debt. Minimal capex.
- Dividend yield is 1.6%.
- EPS ramp below assumes 7% top line growth in 2027, 2028, no change in capital intensity, fading incremental margins, and that excess FCF is used for share buy backs.

CHRW: Key Financials

In Millions of USD	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 E	2026 E	2027 E	2028 E
Revenue	**13,470**	**13,476**	**13,144**	**14,869**	**16,631**	**15,310**	**16,207**	**23,102**	**24,697**	**17,596**	**17,725**	**16,275**	**16,813**		
Rev Growth YoY	5.6%	0.0%	-2.5%	13.1%	11.8%	-7.9%	5.9%	42.5%	6.9%	-28.7%	0.7%	-8.2%	3.3%		
COGS: Purchased transportation and services	11,462	11,208	10,867	12,501	13,926	12,723	13,795	19,950	21,103	14,992	14,960	13,537	13,956		
Gross Profit	**2,008**	**2,268**	**2,278**	**2,368**	**2,705**	**2,586**	**2,412**	**3,152**	**3,593**	**2,605**	**2,765**	**2,738**	**2,858**	**3,063**	**3,284**
Gross Margin	14.9%	16.8%	17.3%	15.9%	16.3%	16.9%	14.9%	13.6%	14.5%	14.8%	15.6%	16.8%	17.0%		
GP Growth	9.3%	13.0%	0.4%	4.0%	14.2%	-4.4%	-6.7%	30.7%	14.0%	-27.5%	6.2%	-1.0%	4.4%	7%	7%
Operating Costs															
Personnel Expenses	939	1,051	1,065	1,180	1,344	1,299	1,243	1,544	1,723	1,466	1,456	1,359	1,347	1,347	
Other Selling, General & Administrative	320	359	375	413	450	498	496	526	603	624	640	573	566	566	
Operating Income	**748**	**858**	**838**	**775**	**912**	**790**	**673**	**1,082**	**1,303**	**553**	**759**	**819**	**945**	**1,151**	**1,328**
Operating Margin (out of GP)	37%	38%	37%	33%	34%	31%	28%	34%	36%	21%	27%	30%	33%	38%	40%
Incremental Margins	**38%**	**42%**	**-230%**	**-69%**	**41%**	**103%**	**67%**	**55%**	**50%**	**76%**	**129%**	**>>100%**	**106%**	**100%**	**80%**
D&A	57	66	75	93	97	100	102	91	93	99	97	102	105	107	102
Interest Expense (net)	25	36	26	47	32	48	45	60	100	105	90	74	67	67	67
Pre Tax Income	723	830	812	728	880	742	628	1,022	1,167	493	669	742	882	977	1,159
income Tax	274	313	299	224	216	165	122	178	226	84	114	141	171	189	223.6
Tax rate	38%	38%	37%	31%	25%	22%	19%	17%	19%	17%	17%	19.1%	19.4%	19.3%	19.3%
Net Income	**450**	**517**	**513**	**505**	**665**	**577**	**506**	**844**	**941**	**409**	**556**	**600**	**711**	**789**	**935**
Diluted Weighted Avg. Shares	148	145	143	141	140	138	136	134	127	120	121	121	119	116	113
Share growth YoY	-6%	-1%	-2%	-1%	-1%	-2%	-1%	-2%	-5%	-6%	1%	0%	-2%	-3%	-3%
EPS	**3.05**	**3.56**	**3.59**	**3.57**	**4.73**	**4.19**	**3.72**	**6.31**	**7.40**	**3.42**	**4.61**	**4.95**	**5.97**	**6.79**	**8.30**
Free Cash Flow	491	690	456	344	748	799	476	61	1,588	702	486	779	762	812	907
FCF Conversion	109%	135%	89%	73%	113%	139%	94%	7%	169%	178%	89%	130%	107%	103%	97%
Capex	-30	-45	-91	-58	-64	-70	-54	-71	-128	-84	-74	-74	-84	-85	-85
Dividends Paid	-215	-236	-245	-258	-265	-278	-210	-277	-285	-292	-295	-305	-314	-330	-346
Cash used For Share repurchase / M&A	-164	-230	-173	-185	-301	-309	-178	-582	-1,460	-64	0	-302	-428	-483	-561

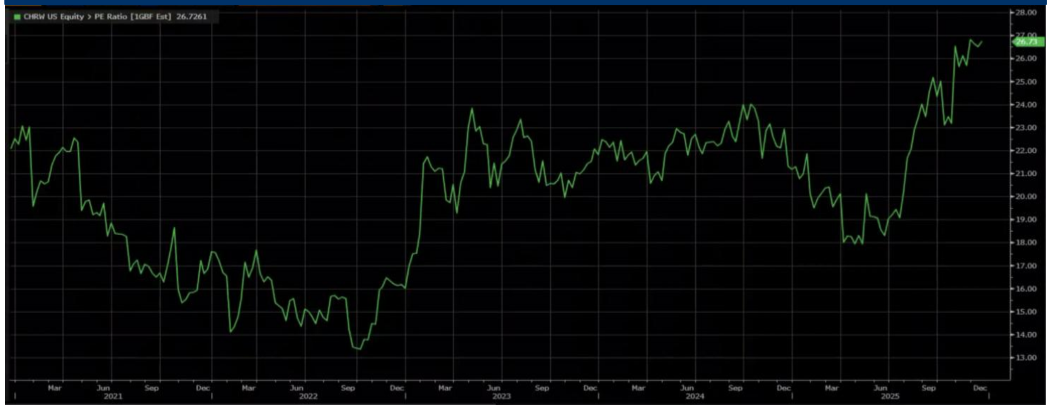
Upside (+32%) / Downside (-20%)

- **EPS growth for the next three years is going to average 19%.**
    - **$4.95 in EPS is going to $8.30 in 2028 in our opinion**. Without any help from a cyclical recovery
        - Thereafter EPS will slow its CAGR to approx. 9-11%

- Downside: We think 18x PE on $8.30 is a conservative downside. Discounted back for 2 years gives a share price target of $127. (-20%)

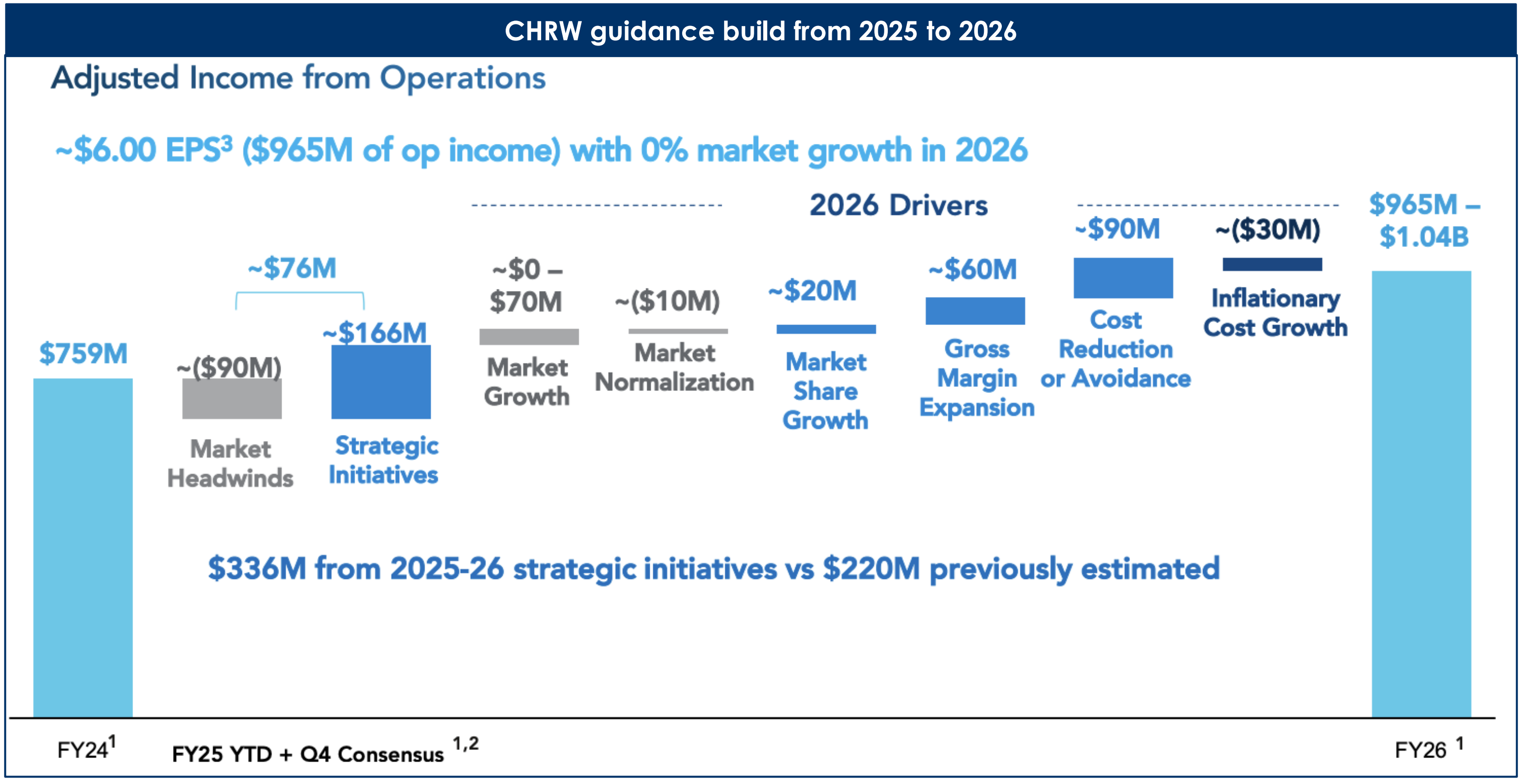
- **Upside:**
    - What is the value in any cyclical recovery? Gross profit growth could be 20% (going by historic cycles) for a period of time.
    - **Assuming 15% top line growth for 2 years and 70% incremental margins, gives $12.50 in EPS as a potential new peak EPS in 2029.**
    - **If the market comes to accept that the incremental margins remain high and that CHRW is again a structural share gainer, we think the PE will also remain high at ~20x peak EPS.**
    - Gives an upside to 20x 12.50 = $250. discounted back 2 years = $212 (32%)
        - Why not use 15x peak (like in 2022)? Because CHRW was losing share in the previous cycle. Also incremental margins were never above 50%. Incr. margins are now ~100% and CHRW is outgrowing the market by at least 5%.

CHRW: Historic P/E (fwd 12m)



EPS Guidance

- **Guidance: $6 EPS in 2026**
  - Assumes no market growth:
    - Market volume growth of 0-5% in 2026
    - NAST AGP/shipment flat to up 2%
    - GF AGP/shipment reset to 2H 2023 (down 10%)
  - *"that pivot into agenetic AI is what allowed us to get confidence to move our productivity assumption in 2026 from single digits to double digits."*



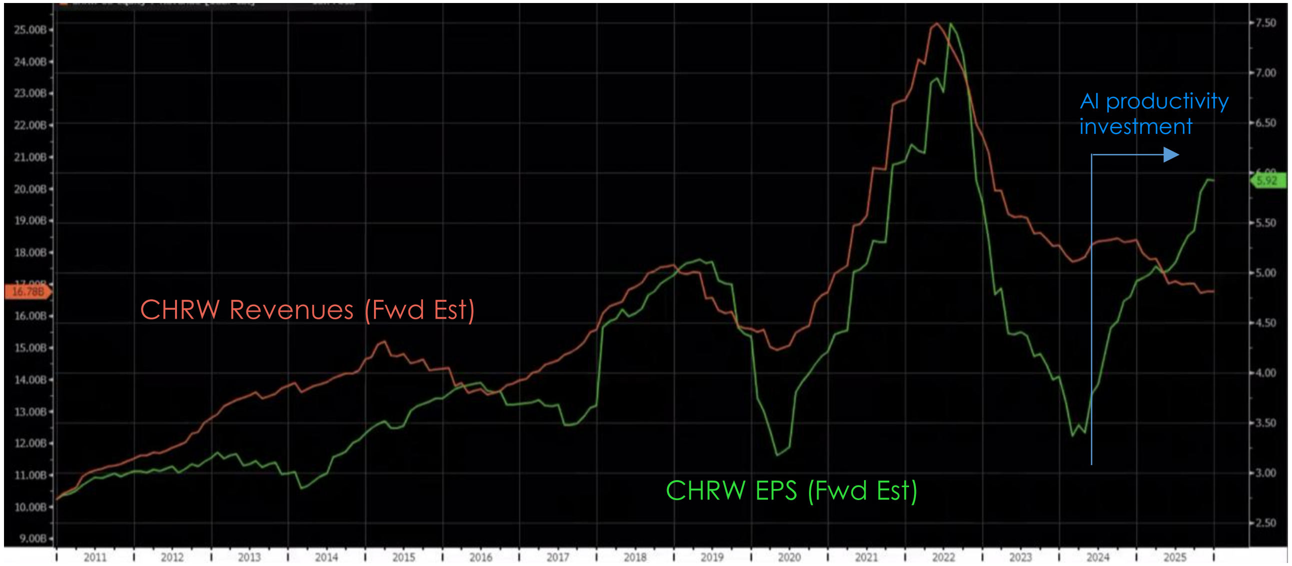
C.H. Robinson (CHRW)

Structural changes happening at CHRW

- C.H. Robinson hired the current CEO in mid 2023.
  - New CEO, Dave Bozeman, comes from a manufacturing background (Harley Davidson, CAT), then worked for Amazon Transport Services.
- The CEO began implementing a new operating model in January 2024 that is rooted in Lean. He mentions this often…
  - **Besides Lean, CHRW has been undergoing a significant 'embrace AI' transformation, which has resulted in significant operational efficiencies.**
    - Management comments on AI: *"It's a game-changer because the order-to-cash process in our industry, and in our company, is fairly manual. This would be quoting and appointments and things that require human interaction to do that."… "This lent itself well to generative AI and going in and automating those processes."*
  - **The Results so far:**
    - ***"40% productivity increase since the end of 2022".*** **(GM increased, Op Mgns expanded ~ 300-600bps on current run rate.)**
    - E.g. Quoting: *"used to take about 15 to 17 minutes on a quote, and now it does that in about 30 seconds."*
  - **The benefit has shown up in the 100% incremental operating margins in 2024 and 2025, while revenues have been ~ stagnant.**

- **Key questions:**
  1. Is this a one off, with only a short term cost benefit?
     - One-off seems to be the overwhelming opinion of the sell side.
  2. **Will it enable CHRW to take share?**
     - **We think the answer here is yes**, it will aid organic share gains as well as enabling CHRW to consolidate the space.
  3. Will the competition all do the same? So there is a negligible benefit long term?
     - Competing companies will obviously copy. However, as we have seen in numerous situations, it is hard to reduce the lead and replicate the culture shift, if indeed you buy into the argument on culture change at CHRW. **Thus, CHRW could have a sustained advantage for a surprisingly long time**. **Long enough to change its market-share dynamic.**

CHRW: Revenues and EPS in Recent cycles



- **2015–2016:** A period of deflation following the 2014 boom. Excess capacity, falling rates.
  - The market softened significantly in 2015 and 2016 due to a crash in oil prices and an industrial slowdown.
- **2017–2018:** The Electronic Logging Device (ELD) mandate artificially constrained capacity, driving up rates and forcing shippers to rely more heavily on brokers.
  - CH. Robinson became the "provider of last resort" and "first choice" simultaneously.
  - Startups like Uber Freight and Convoy used venture capital to subsidize rates, buying their way to market share. *Volume* share at the lower end of the market began to see its first challengers.
  - CH Robinson initiated a massive capital expenditure program, committing $1 billion to technology investments over five years. This period birthed the modern iteration of **Navisphere,** CHRW's technology platform.
- **2020–2022:**
  - A historic anomaly where demand for goods exploded while supply chains fractured.
  - Revenue growth in this period was largely inflationary (rate-driven) rather than volume.
  - CHRW rejected unprofitable volume. Hence, revenue and profit soared due to high rates, but CHRW lost *volume share*.

RECENT CYCLES CONTD..

- **2023–2025:** The unwinding of the pandemic boom
  - Inventory destocking by major retailers led to a collapse in demand.
  - CHRW increased market share due to the collapse of Convoy and the retrenchments of Uber Freight to conserve cash.
    - Convoy: Once a major challenger ceased operations in October 2023. CHRW was the primary beneficiary of this flight to quality.

- **We think that the transport segment is exiting the pandemic phase, and that CHRW is showing the way out.**
  - Volume growth not possible until the cycle / PMI turns
  - Only game is to get efficient via AI, CHRW was the first to get it, partly forced by their weak positioning in terms of in-ability to gain volume share since ~2018.
  - **CHRW is now showing that they can gain share again:**
    - In Q3'25, the Cass Freight Shipments Index **contracted by -7.2%,** while CHRW had volume growth of approximately 3.0%.

- Management comments:
  - "We expect to continue growing market share by reclaiming share in targeted market segments"
    - Regarding AI efficiency: **They are now quoting on 100% of requests vs. ~65% before.**
      - *"100% quoting, 24/7 and about 30 seconds."* (used to take about 15 to 17 minutes on a quote)
    - *"NAST business is probably in the third inning of its technology deployment."*
    - *"global forwarding business is probably in the first inning of its technology deployment"*

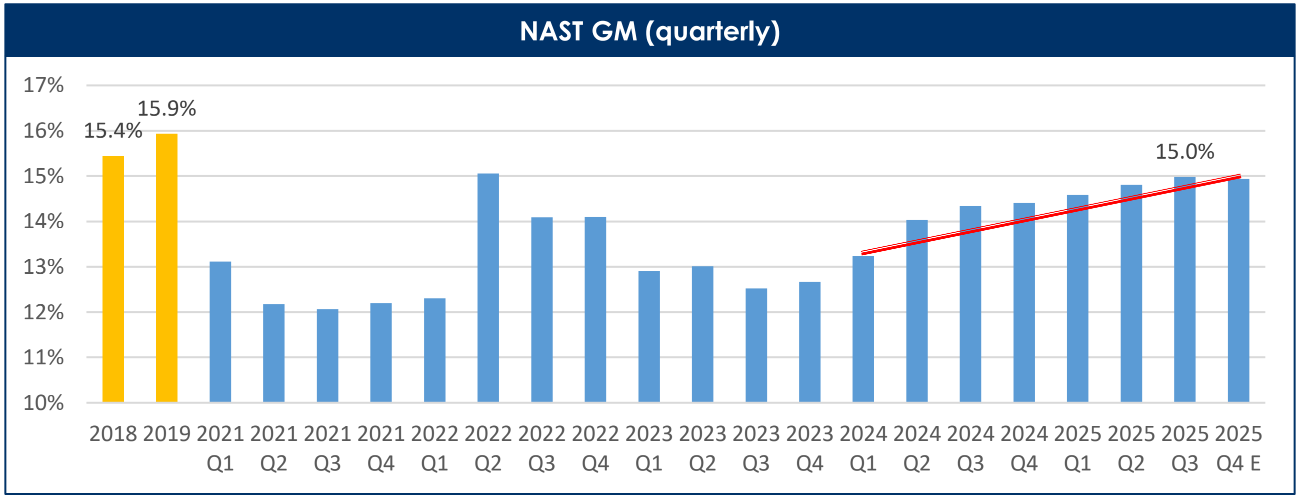
QUANTIFYING THE CHANGES: GROSS PROFIT

- *"Another agent we're very proud of is our revenue management agent. Another kind of urban legend in this industry has been that you can't expand gross margins. They're commoditized, right?"… "We would say that's not correct, right? We'd say we've been doing that now for almost two years."* CHRW management

- **The numbers clearly show an improvement, although it is difficult to back up the claim that this is due to AI.**
  - For example in 2018 and 2019 GM was 15.4% and 15.9% respectively

CHRW	2019	2020	2021	2022	2023	2024	2025 E	2026 E
Segment Revenue ($m)								
North American Surface Transportation (NAST)	11,284	11,313	14,508	15,827	12,471	11,728	11,615	12,055
Global Forwarding (GF)	2,328	3,101	6,730	6,812	2,998	3,805	3,071	3,034
All Other & Corporate	1,698	1,794	1,864	2,057	2,128	2,192	1,584	1,609
NAST Revenue Growth YoY	***-9%***	***0%***	***28%***	***9%***	***-21%***	***-6%***	***-1%***	***4%***
GF Revenue Growth YoY	*-6%*	*33%*	*117%*	*1%*	*-56%*	*27%*	*-19%*	*-1%*
Segment Gross Profit ($m)								
North American Surface Transportation (NAST)	1,797	1,517	1,793	2,197	1,594	1,641	1,723	1,853
Global Forwarding	534	629	1,074	1,083	689	803	734	715
All Other & Corporate	255	266	286	313	321	321	282	276
NAST GP Growth YoY	***-6%***	***-16%***	***18%***	***23%***	***-27%***	***3%***	***5%***	***8%***
GF GP Growth YoY	*-2%*	*18%*	*71%*	*1%*	*-36%*	*16%*	*-9%*	*-3%*
Total Gross Margin	**16.9%**	**14.9%**	**13.6%**	**14.5%**	**14.6%**	**15.6%**	**16.8%**	**17.1%**

Impressive Execution

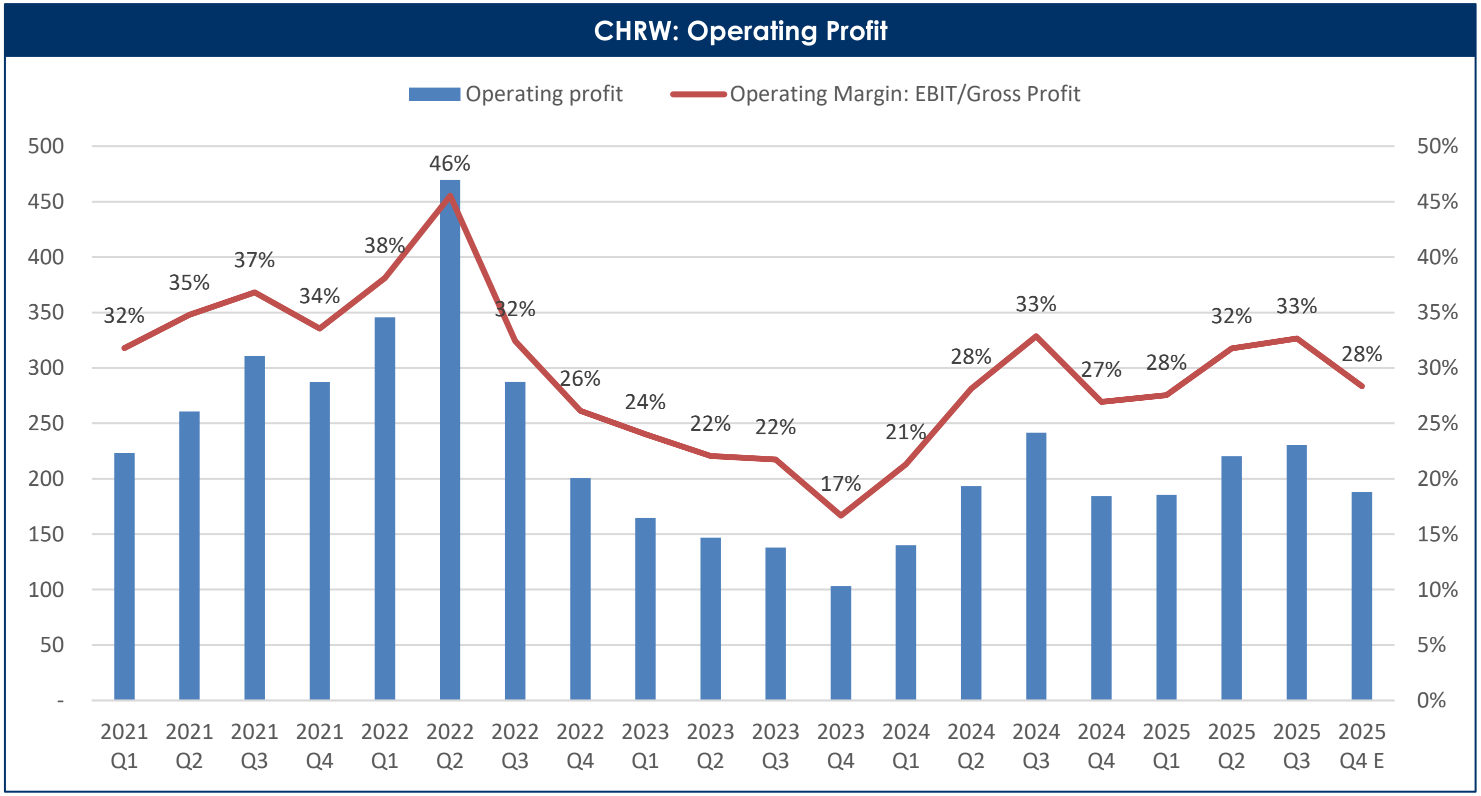


Recovering back to 2018/ 2019 levels?

A non-structural GM decline during the covid era?

Quantifying the changes: Operating leverage

- Gross profit is a good approximation for net revenue.
  - **The below chart shows EBIT conversion from Gross profit. (NOT revenue)**
- The chart shows that **there has been a significant increase in the conversion since Q1 2024**. This is proof that the AI strategy has worked until now.
  - The only significant costs for operating the business are people costs, and SG&A. Personnel costs are 50% of the cost base.
- As shown on p4 **Incremental margins have been >100% in 2024 and 2025**.

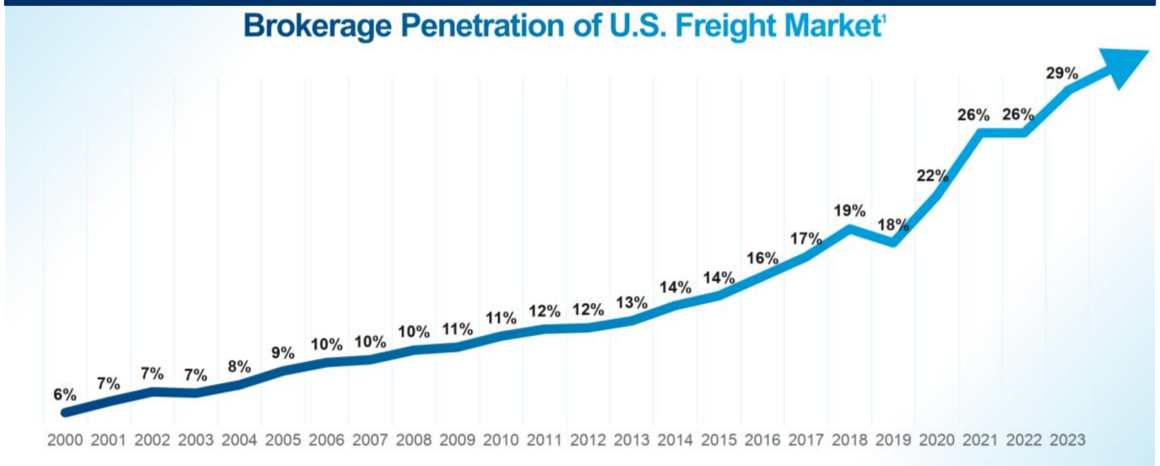


Share gains is the big opportunity for CHRW

- The North American Surface Transportation (NAST) market is highly fragmented.
- The For-Hire Trucking market is approximately $400 billion per year, split as follows:
  1. Brokerage ~$117billion (29%)
  2. Non–Brokerage ~$283 billion (71%)

- **Given the current margin benefit and operating leverage that CHRW has, we think that they should take all their cash flow and put it into gaining share, both organically as well as via consolidation.**
- On capital allocation:
  - *"the last two years, the bar has been extremely high for inorganic because of the return that we've generated on the dollars we've invested in our organic opportunities"*
  - **M&A has been very small**. E.g the last significant deal was in 2020. CHRW acquired Prime Distribution Services (retail consolidation and warehouse services) from RTS for $225m in cash.

Brokerage has been taking market share for a long time



There is an ongoing share shift from asset-based truckers to brokers. Brokerage Penetration of the U.S. Freight Market has increased steadily over time, rising from 6% in 2000 to ~29% in 2023.

Consolidation

- **The transport industry has been suffering, while consolidation is happening very slowly.**
  - RXO's $1.025bn purchase of Coyote Logistics from UPS in June 2024 is the only big deal. It pushed RXO into the top 3.
  - Radiant Logistics (RLGT) acquired Universal Logistics in May 2025. Both are very small.

- **The story in the space has really been a battle between the asset-based truckers vs. brokers.** However, when interest rates collapsed and capital became free this shifted to CHRW fighting for share vs. newer digital disruptors. In 2023 those digital disrupters, such as Uber, were forced to show profits, pushing the industry back to a scale-advantaged market.
  - AI implementation and efficiency/ scale-based competition is just the latest stage of market share competition within the vertical.
- **If CHRW has a sustainable competitive advantage, we would expect them to consolidate the market. Add volume with very low fixed costs, building an increasingly dominant marketplace.**

- The main groups of competitors:
  1. **Asset-Based Carriers (with Logistics Divisions):**
     - Companies that own trucks but also have brokerage divisions such as "Logistics" or "Integrated Capacity Solutions."
     - **E.g. JB Hunt,** differentiated because they can service freight that pure brokers struggle with, specifically high-volume drop-trailer freight.
  2. **Other large brokers:**
     - Same capital light model as C.H. Robinson, primarily act as intermediaries connecting shippers with carriers.
     - **Total Quality Logistics (TQL) and RXO are the main scaled players.**
  3. **Digital freight market-places:**
     - These "tech-first" companies entered the market to automate brokerage using apps and algorithms, pressuring traditional brokers to upgrade their technology.
     - **Uber Freight is the most prominent digital broker**
  4. **Small brokers:**
     - The US domestic market is highly fragmented, with tens of thousands of brokers. These often rely on third-party software.

RXO, TQL: The other large brokers

- RXO and TQL are the most direct competitors in the North American truckload market:
  - **Total Quality Logistics (TQL):**
    - They are known for aggressive sales and rapid growth in the truckload sector.
    - More NA focussed and less extensive service business vs CRHW
    - TQL's model relies heavily on human capital (aggressive sales reps) rather than purely tech-led automation.
  - **RXO:**
    - Formerly the brokerage division of XPO Logistics, bought Coyote Logistics, formerly a subsidiary of UPS. RXO completed the acquisition of Coyote in Sep 2024.
    - XPO and by extension RXO are known for M&A and sector consolidation.
      - **RXO has lost M&A ability versus CRHW**
    - RXO is known for a highly digital proprietary business model as a differentiator, with XPO relationship.
    - RXO market cap: $2.5bn vs CRHW at $18.5bn.
      - likely to remain a competitor in consolidating the industry, although net debt to EBITDA of 4x (2025) put it in a less likely position in the next couple of years.
      - Operating margins are depressed, and RXO needs some revenue growth, or to copy CHRW's investment in AI, to see margins expand.
  - **Echo Global Logistics:**
    - A significant competitor known for its technology and strong presence in the managed transportation and LTL sectors.
  - Small players: The barrier to entry in the broker space is low, but the barrier to scale is high.
    - **The inability of these fragmented players to adopt efficient, proprietary AI technology may drive industry consolidation.**
    - There are an estimated >20k smaller brokers enabling local owner-operator carriers to find loads.

- **CHRW's advantages over TQL and RXO centre on scale, deep carrier network, technology (especially AI and automation) and broader service offerings (multimodal and managed logistics).**
  - CHRW: Net debt to EBITDA of ~1x, and solid FCF after dividend put it in a good position if it decides to do M&A.

Cyclical data

Growth and incremental margins

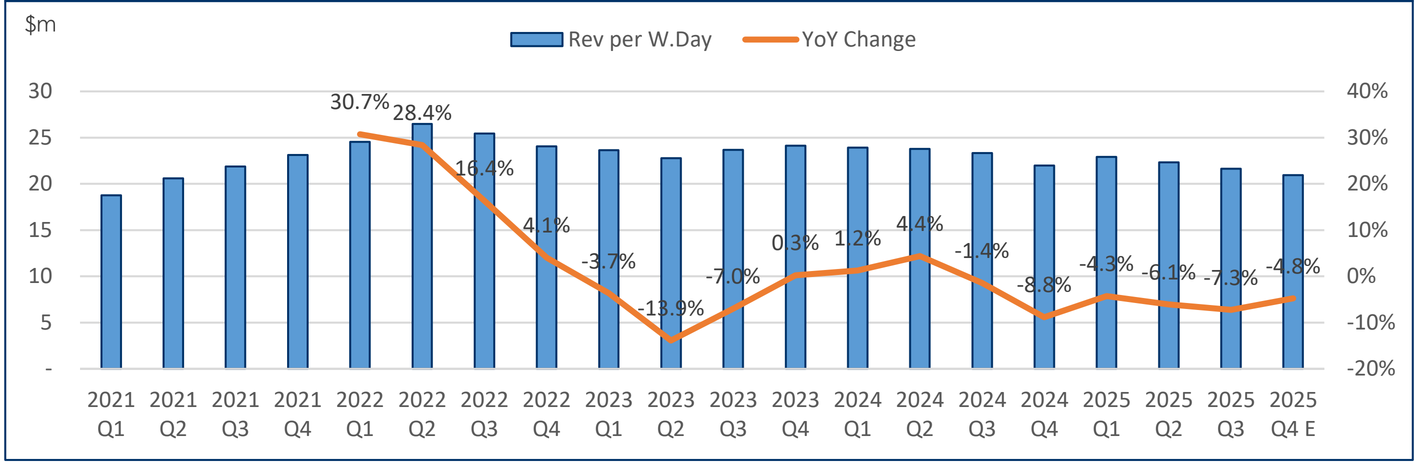
- **Before picking CHRW, we considered ODFL as a potential candidate. ODFL and CHRW are both well run, high return businesses.**
  - CHRW is capital light, whereas ODFL is capital intensive, but ODFL still manages to generate a consistent 20% ROIC.
  - Both generate FCF under any macro scenario
- Both will benefit from high incremental margins and returns under a scenario where freight demand increases.
- **The big difference is that there is a meaningful change happening at CHRW**. We believe it is probably a sustainable change/ advantage, however what it has done is give CHRW high incremental operating margins at a time when growth is scarce. Thus enabling CHRW to benefit even if the market stays tough via share gains, and in any cyclical upturn – should one materialise.

CH Robinson Worldwide Inc																	
In Millions of USD	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 E	2026 E
Gross Profit	1,468	1,633	1,718	1,836	2,008	2,268	2,278	2,368	2,705	2,586	2,412	3,152	3,593	2,605	2,765	2,738	2,858
GP YoY growth		11.2%	5.2%	6.9%	9.3%	13.0%	0.4%	4.0%	14.2%	-4.4%	-6.7%	30.7%	14.0%	-27.5%	6.2%	-1.0%	4.4%
Operating Income	622.86	692.73	675.32	682.65	748.42	858.31	837.53	775.12	912.08	789.98	673.27	1,082.11	1,303.47	552.65	759.35	818.83	944.67
Op margin	42.4%	42.4%	39.3%	37.2%	37.3%	37.8%	36.8%	32.7%	33.7%	30.5%	27.9%	34.3%	36.3%	21.2%	27.5%	29.9%	33.1%
Incr Op Margin	**2.6%**	**42.4%**	**-20.5%**	**6.2%**	**38.3%**	**42.1%**	**-229.7%**	**-68.9%**	**40.6%**	**102.7%**	**67.1%**	**55.3%**	**50.2%**	**75.9%**	**128.9%**	**>>100%**	**105.6%**
Free Cash Flow	327	394	424	307	491	690	456	344	748	799	476	61	1,588	702	486	779	762
FCF Conversion	85%	91%	76%	74%	109%	135%	89%	73%	113%	139%	94%	7%	169%	178%	89%	130%	107%
Capex	-29	-53	-51	-48	-30	-45	-91	-58	-64	-70	-54	-71	-128	-84	-74	-74	-84

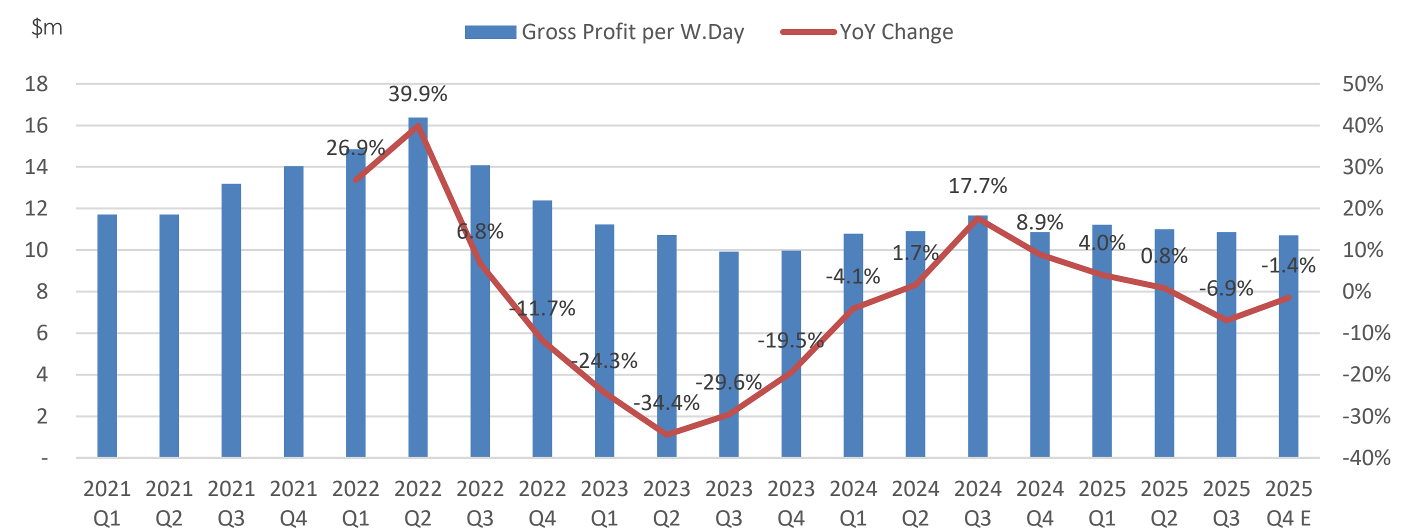
Old Dominion Freight Line																	
In Millions of USD	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 E	2026 E
Revenue	1,481	1,883	2,110	2,338	2,788	2,972	2,992	3,358	4,044	4,109	4,015	5,256	6,260	5,866	5,815	5,491	5,695
Operating Income	138	234	285	338	441	498	484	576	817	819	907	1,392	1,841	1,641	1,544	1,353	1,447
Op margin	9.3%	12.4%	13.4%	14.5%	15.8%	16.8%	16.2%	17.1%	20.2%	19.9%	22.6%	26.5%	29.4%	28.0%	26.6%	24.6%	25.5%
Incr Op Margin		**24.0%**	**22.5%**	**23.4%**	**22.8%**	**30.9%**	**-75.5%**	**25.1%**	**35.2%**	**2.5%**	**-93.8%**	**39.1%**	**44.7%**	**50.8%**	**188.3%**	**58.8%**	**45.7%**
Free Cash Flow	34.73	27.17	-45.14	55.06	23.99	91.82	147.64	154.17	311.82	504.56	707.94	662.53	916.43	811.83	887.97	942.43	965.74
FCF Conversion		19%	-27%	27%	9%	30%	50%	33%	51%	82%	105%	64%	67%	65%	75%	93%	89%
Invested Capital	1,070	1,308	1,487	1,700	1,951	2,181	2,408	2,717	3,189	3,629	3,996	4,357	4,309	4,968	4,951	5,202	5,419
ROIC	8.3%	11.7%	12.2%	12.7%	14.0%	14.2%	12.5%	17.1%	19.0%	17.0%	16.9%	23.8%	32.0%	25.0%	24.0%	19.6%	20.0%
Capex	-106	-250	-373	-296	-368	-462	-418	-382	-588	-479	-225	-550	-775	-757	-771	-454	-504

Cyclicality of the business is not dis-similar

ODFL: Revenue Growth



CHRW: Gross Profit Growth

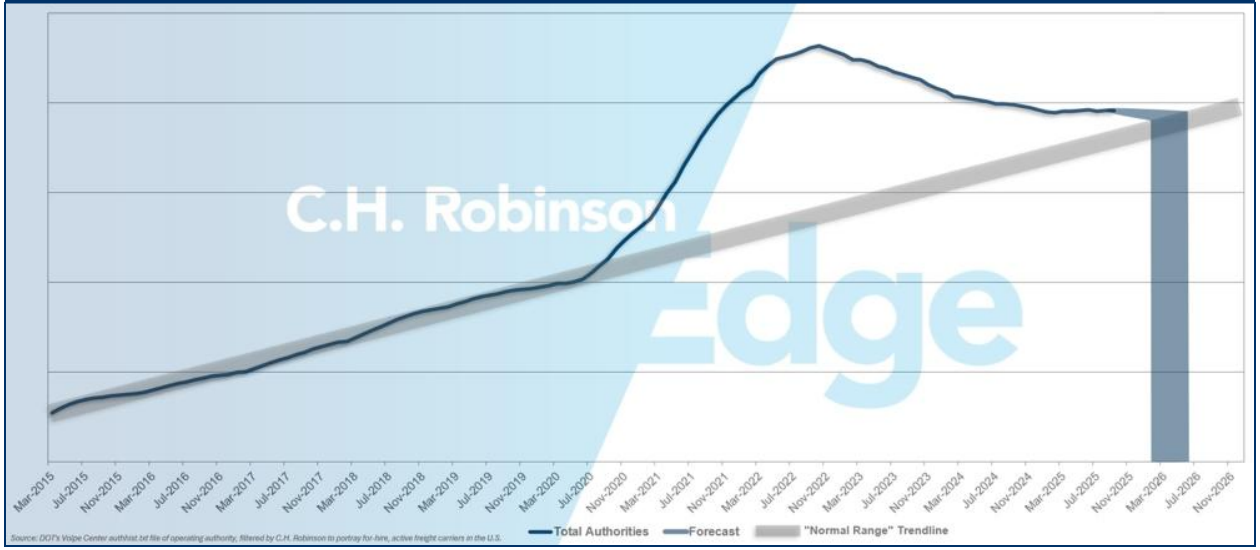


Gross Profit is approx. net revenue for CHRW as it is a broker.

Covid to blame: normalisation takes time

- **We think a critical part of the macro is that the Covid normalisation has taken much longer than anticipated in the sector.**
  - Other sectors managed to normalise faster, some slower.
- Transport and industrial production looks to be one of the slower return to trends.
  - Capacity was built (at high cost) for a brief spike in demand. **The market <u>remains</u> in a state of oversupply, although clearly nearer to equilibrium**

For-hire carrier forecast



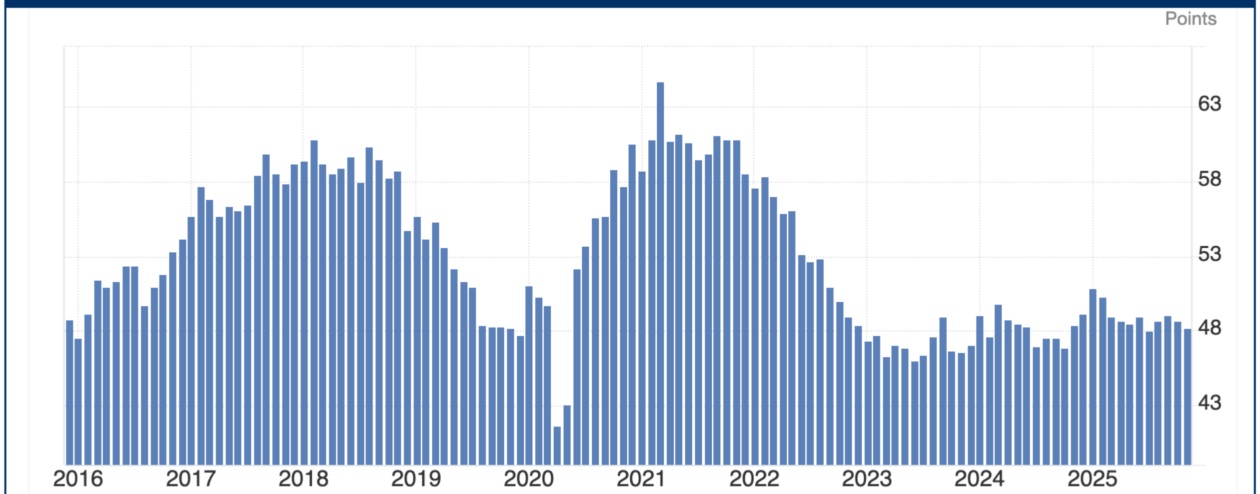
- **Truckload supply is highly cyclical**, with drivers and carriers entering and exiting the market. The recent pace of carrier attrition hasn't changed much.
  - **If the current pace of U.S. carrier attrition continues, supply would return to historical normal levels in 1H 2026.**

Cyclically: not improving, bumping along the bottom?

- The North American freight recession began in the middle of 2022 and has continued through 2025.
  - **Low volumes, excess carrier capacity, suppressed freight rates all weighing on the sector.**
  - **Transport sector needs PMI to recover to see volume growth.**
- Most Analysts seem so focused on calling the bottom. Questions on earnings calls focus on monthly data. Because calling the bottom is about the only differentiation?
- **From our point of view it is less about calling a bottom in PMI:**
  - You want to be in cyclical sectors when they are somewhere around a trough.
  - You will likely never call the inflection point. Hence, **we want to buy a share gainer before a cyclical trend becomes positive.**
  - Until then, a stagflation like environment remains the status quo in PMI related businesses.

- The key risk is that there is a full blown recession. We would argue a low probability for this as there is too much FED support available, but top down is not our forte.
  - RKT was similar thesis- for us. (Waiting for interest rates to get cut, but higher lows in the mean time as it is taking share, upside capped at ~$20/21 until there is a macro/interest rate change).

ISM PMI continues to be below 50, when will it improve?



Cyclical: not improving, bumping along the bottom?

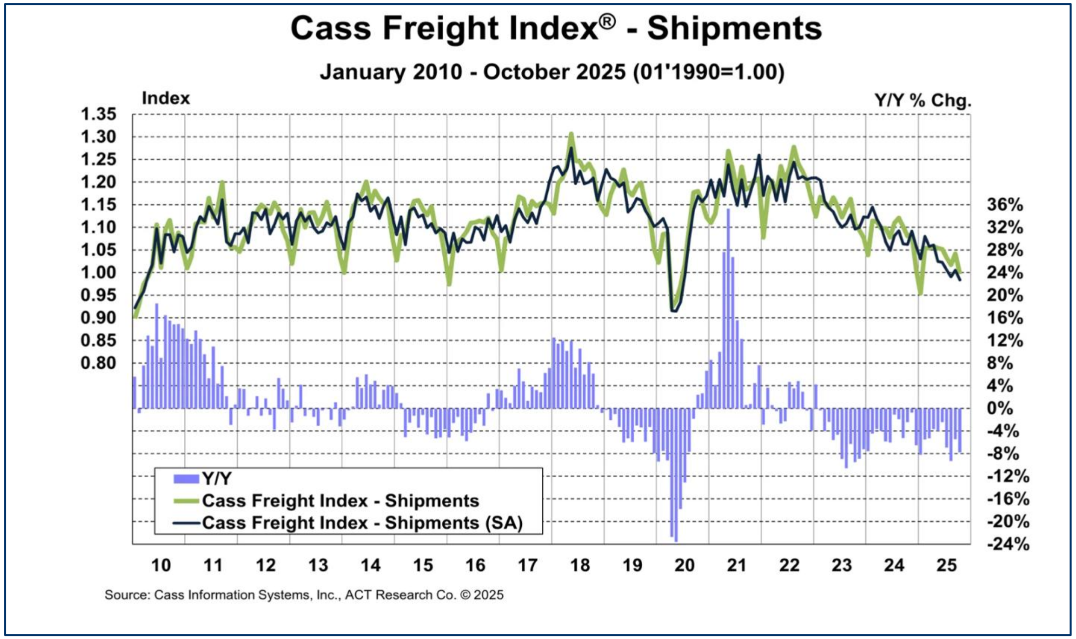
2024:

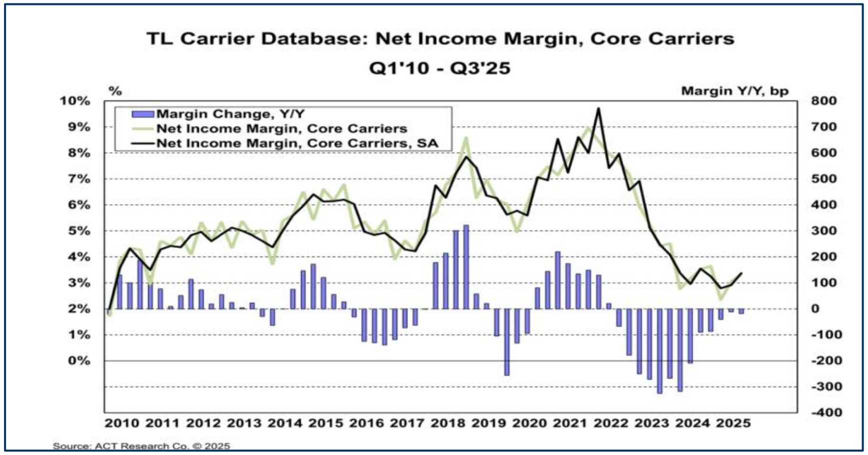
- **The de-stocking cycle ended in mid-2024** and has been bouncing along the bottom with no sustained recovery since then

2025:

- **No help from demand growth**
- **No improvement as tariffs negatively impacted inventory plans**

- Each of the last three upcycles have been initiated by supply constraints but then fueled by demand growth.
- **We have entered a phase of supply constraint**



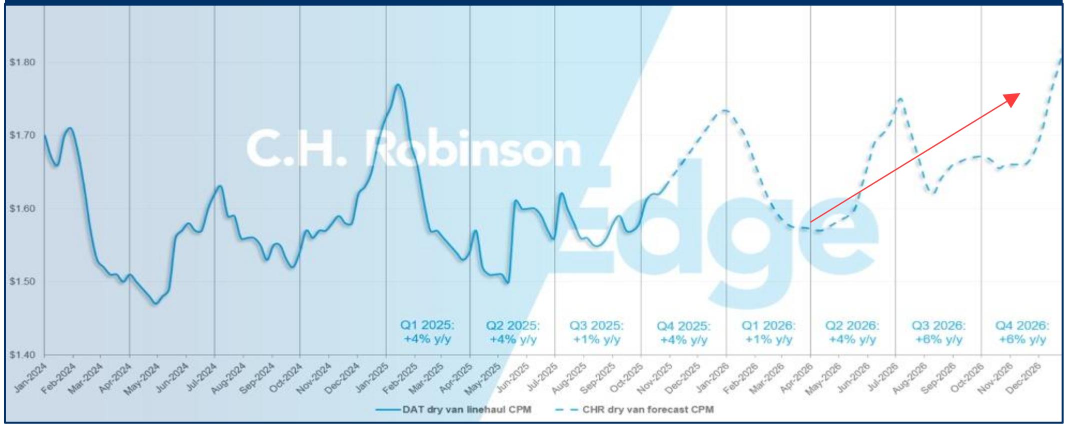


Source: Cass

Spot market could tighten in 2026

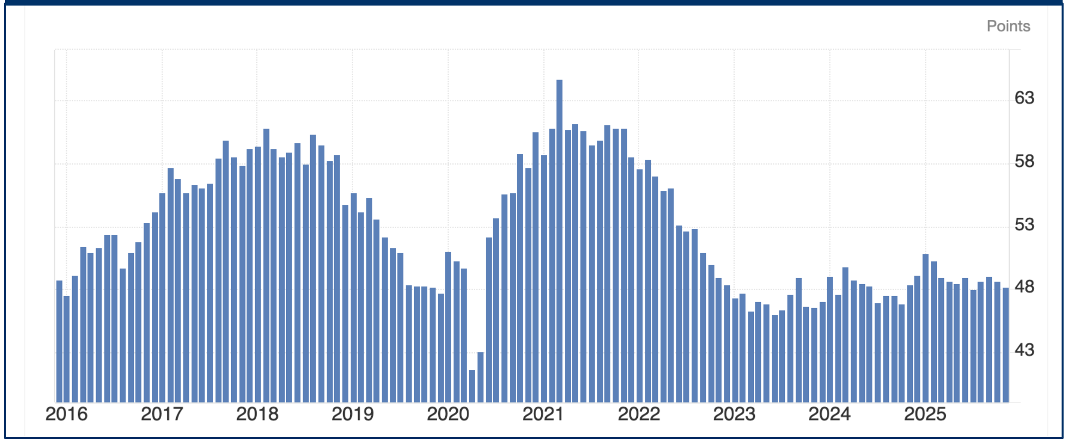
- Many estimates out there, the below is from CHRW.
  - Dry Van Truckload refers to standard enclosed trailers (no refrigeration or flatbed) hauling full loads of non-perishables such as consumer goods, electronics, retail inventory etc. It's the backbone of U.S. freight.
  - **Spot market expected to tighten in 2026. – Time will tell.**

C.H. Robinson spot market dry van truckload forecast



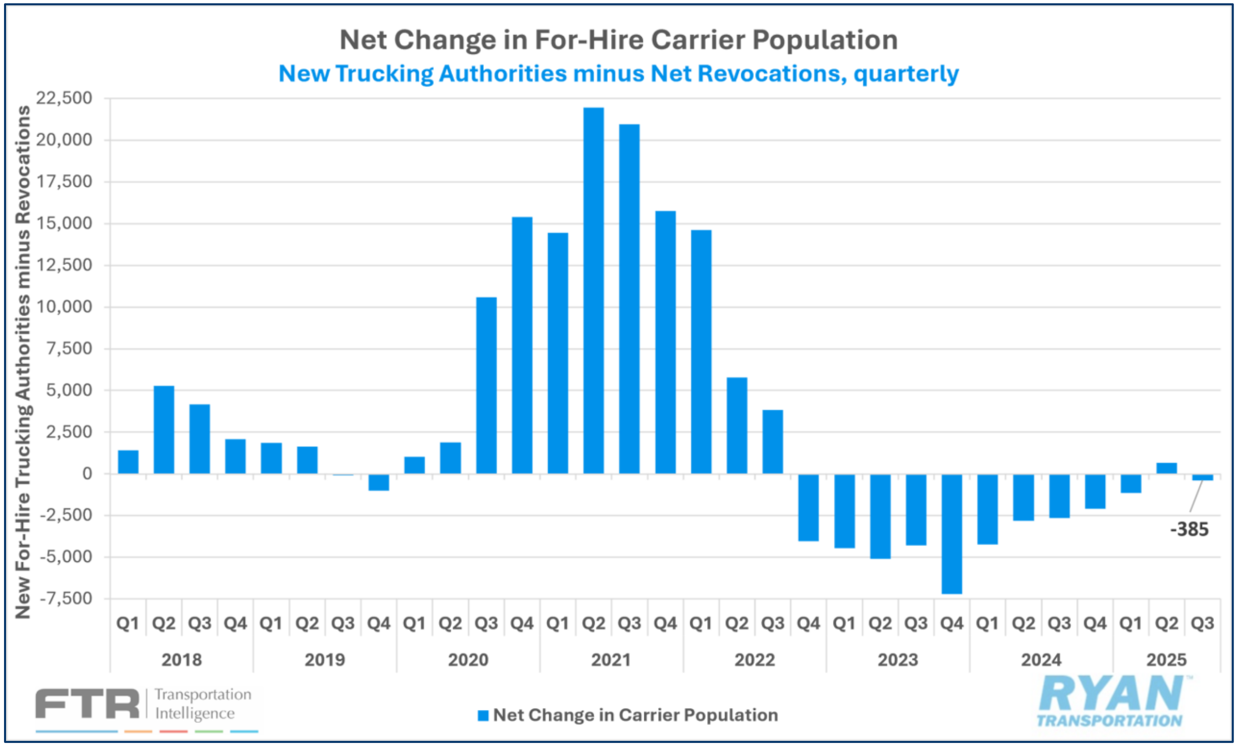
Source: [CHRW]

ISM PMI continues to be below 50, when will it improve?



Supply has been shrinking

- **Financial pressures on smaller carriers (insurance, inflation, fuel) drove elevated bankruptcies in 2024 and continued into 2025**.
  - Supply has been tightening:
    - NB: Owner-operators do not generally show up in employment numbers, hence looking at operating authority activity is another way to estimate changes in the fragmented carrier base.
    - Driver turnover has been historically low as fleets tighten onboarding standards and focus on retention.



Impact from CDL and ELP tests (tightening regulations) not yet in the chart as coming in Q4 2025 onwards.

Supply is now tightening due to driver regulations

- **The industry is seeing continued capacity exits as a result of 2025 increased driver regulations:**

- The catalysts for supply tightness in 2025 have been **new driver eligibility rules, particularly the English-language proficiency tests (ELP) and H1-B CDL restrictions introduced in May, followed by the non-domicile CDL rules in October and the driving school crackdown in December**
  - The Department of Transportation (DOT) rolled out mandatory English-Language Proficiency (ELP) requirements for all CDL applicants and renewals. Starting on June 25th, the Department of Transportation and FMSCA began enforcing this requirement, placing non-compliant drivers out-of-service.
  - Drivers must now pass a standardized oral and written ELP exam (administered by state DMVs) demonstrating fluency in English for road signs, emergency communications, and logbook documentation.
- **By November 2025, 7,249 drivers (mostly non-native speakers from Mexico, India, and Eastern Europe) were sidelined or forced into retraining, by December 10th this number was 9500.** (FMCSA, DoT data).
  - This equates to a 5-7% drop in available cross-border and long-haul capacity.
  - Companies such as J.B. Hunt launched in-house English programs, but these add costs of $2,000-5,000 per driver .

- **Non-Domiciled CDLs (commercial Driver Licences) change makes it significantly harder (or impossible) for many foreign nationals to drive a commercial vehicle in the U.S.**
  - DOT issued final rules on October 8, 2025, severely limiting non-domiciled (non-U.S. resident) CDL issuances and renewals.
  - Non-citizens must now provide proof of legal permanent residency (green card) or a valid work visa with at least 3 years' validity to apply.
  - **Existing non-domicile CDLs (held by ~150,000 drivers, often Mexican or Canadian cross-border operators) face annual federal database cross-checks to verify immigration status.**
    - Border-state exemptions (e.g., for NAFTA-linked hauls) were narrowed, requiring biometric re-verification every 6 months.
- **FMCSA launched a nationwide audit on December 1, 2025, targeting over 7,000 CDL training schools** for compliance with Entry-Level Driver Training (ELDT) standards following whistleblower reports.
  - There had been long-standing concerns over the FMCSA's Training Provider Registry's self-certification model allowing providers to self-attest compliance without any verification, which **created the problem of fraud**.

Appendix

Is there a tech platform advantage?

- **Is Navisphere an edge?**
- CHRW has repeatedly said that having their own software is an edge:
    - *It's evolved to a services-oriented architecture and a microservices architecture.*
    - *"we're not just a freight broker. We're a solutions provider for customers"*
    - *"If you're depending on third-party providers, you're not going to get near the timeline and the pace that C.H. Robinson is able to deliver"*
    - *We have Navisphere now that is our own TMS with our applications now running on top. That is an extreme advantage when it comes to what we can do from a speed perspective*
    - *we build over 95% of our tech*
    - *We've always had the industry-leading best data set. I would argue historically, we couldn't utilize it.*
    - *We didn't have the discipline from the operating model to use it effectively.*

- Some management quotes on their AI:
    - *"We are abstracted from the LLMs, so we can choose whichever LLM fits the purpose"*
    - *"The price-performance ratio that we look at is token costs to get a certain workload done."*
    - *"Our token usage is up 10x year over year. Our cost is down 25%."*
    - *"Our marginal cost of ownership, once an agent is built, is very close to zero."*
    - *"We switch between models all the time: "Frequently, we might actually go back to a different version of the model because we're finding that it's costing us way more than we need, and we don't actually need the latest model"*

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