C.H. Robinson Worldwide, Inc.
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Company Conference Presentation

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Presentation

Jack Lawrence Atkins
Stephens Inc., Research Division

Okay. Good morning, everyone. I want to thank you all for joining us. For those of you that do not know me, my name is Jack Atkins, and I'm a transportation analyst here at Stephens. And we're very pleased this morning to have C.H. Robinson with us. And I think everyone in this room is familiar with C.H. Robinson, but for those that are not headquartered in Eden Prairie, Minnesota, with offices and in footprint globally, C.H. Robinson is a global non-asset-based provider of logistics services. TL and LTL brokerage operation is multiples larger than its next biggest -- next biggest competitor. And C.H. Robinson has the best and most sophisticated technology in the industry, in my opinion.

We're fortunate to have C.H. here at the conference with us today. And joining us from the company, we've got C.H. CEO, Bob Biesterfeld; and Vice President of Investor Relations, Bob Houghton; and Director of Investor Relations, Adrienne Brausen.

Bob Biesterfeld, let me turn the floor over to you to kind of go over some of introductory remarks, and then we'll move into Q&A from there.

Robert C. Biesterfeld
CEO & Director

Great. Good morning, everyone. Great to be here with you in Nashville. I think everyone's familiar with Robinson. But just at a high level, if you think about who we really are, we're a global third-party logistics company. We've been in the industry since around 1905. Today, we serve over 125,000 different customers on a global basis. From the largest, most complex global shippers to small businesses, mom-and-pop businesses run out of garages. So we run our core services of truckload, less than truckload, Northern -- in North America. On a global basis, we are a leading NVOCC or non-vessel [operating] common carrier common carrier, largest from China to the U.S., second largest from Asia to the U.S. We also have operations in Europe, both surface transportation and global forwarding. So when we talk about our business, we talk about putting the customers at the center of everything that we do. Our top 500 customers make up about half of our revenue. We find that our largest, most integrated customers will often look to us to provide integrated services. So many of those customers will purchase truckload, LTL, ocean, air freight, et cetera, for us in kind of a bundled manner.

Our company has always been focused on technology, probably no more so than now. We really think about the future of Robinson being more technology oriented, more technology led. Jack mentioned our proprietary technology we call Navisphere. We've invested about $1 billion in that Navisphere platform over the course of the last decade, and we've committed to doubling that investment over the course of the next 5 years. So we'll have some conversations today about where those areas of investment are going and how we see those humming to life.

We have been an industry leader in the past. We are undergoing some interesting transformations within our business that we'll talk about today, both in our core surface transportation business as well as just how the logistics industry works on a global basis, and we're committed to the continued position of industry leadership there.

We've always said kind of the cornerstones of our business, our people, process and technology. And we believe that tech will lead a more central part in that in the future. But supply chain is a people-oriented business, and we're committed to having the strongest teams on a global basis that can help our customers solve really, really complex supply chain problems that they turn to us to solve.
So we really see it as tech plus, right. Tech plus, our global network, tech plus our industry-leading people and tech plus a commitment to really great service for the customers that we serve. So I'll leave it at that.

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Question and Answer

Jack Lawrence Atkins
Stephens Inc., Research Division

Great. Well, Bob, thank you. Let me start off with a question here, and then we'll, hopefully, have very good participation from the audience as well. So let me just kind of -- [what] my first question, touch on your comment there about the industry going through some changes. And obviously, technology is at the top of mind for everyone when they think about the transportation industry and most particularly, within the non-asset-based side of transportation within brokerage. And you mentioned your increased investment in technology as you look out over the next 5 years. Bob, how is the industry changing I guess from a high-level view? And as you look out over the next 3 to 5 years, what -- is the industry more consolidated than it is now? What's going to drive that consolidation? And I guess the ultimate question, underneath -- underpinning all of this is, what does C.H. Robinson look like 5 years from now?

Robert C. Biesterfeld
CEO & Director

We could probably take the next 30 minutes on that one question. Thanks, Jack.

Jack Lawrence Atkins
Stephens Inc., Research Division

That's fine. That's fine with me.

Robert C. Biesterfeld
CEO & Director

So the only -- I've been with Robinson for 20 years, have been in this industry for about 20 years. The only constant thing that's been in that 20 years has been change, right. And so if you look back 20 years ago and if you were to put a list of the top 10 3PL providers at that point and then look at the list 10 years later and look at the 10 -- maybe 5 years into the future, there are 10 different companies every single time with the exception of one, and that's been C.H. Robinson as part of the top 10 industry leaders. The change has been really interesting and amazing to watch over the course of the last couple, 3, 5 years, though, because there's been no time in the past where there's been greater investment into our industry. And I think people are realizing the importance of third-party logistics to the overall economy. That's why we've seen the 3PL industry, both from a base of 5% of a kind of the take rate of the industry 20 years ago to north of 20% today and on a pretty strong trajectory to go to 30% over the course of the next decade. And so 3PL is becoming much more common.

The investment of private equity, the investment of companies like ours that are making into the infrastructure, into the technology has changed the way that business is fundamentally done. Transparency has changed a lot in this industry as well. I remember starting at Robinson, where there really wasn't transparency to do things like pricing. There wasn't transparency to availability of capacity, and there wasn't really a lot of supply chain collaboration. Today, that transparency is much more white-bread. You can sign up for any one of -- number of services to understand what market-based pricing looks like, you can sign up for any number of services that will allow you to get real-time supply chain visibility and so on and so forth. Each of these small pieces and parts have changed. And so it hasn't been any one change, but just the small steps of so many different technological and operational changes. Underpinning this is, obviously, the advancements that have happened around artificial intelligence and data science and the advent of the public cloud, right. And the much lower cost of compute and storage that has allowed us to think differently about supply chain planning. It's allowed us to think differently about supply chain optimization. So all these things coalesce into a much different business model. I think 5 years, 10 years down the road than what the past has looked like. But the things that are constant or consistent are, again, you need talent to drive that; scale matters, probably more in the future than even in the past; and the companies that can stay ahead and create value that is unique outside of some of those things that I mentioned that are kind of neat buzzwords today like transparency and visibility and

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supply and demand, digital freight matching, those things are really table stakes in the future. And so the companies that win the future are going to continue to differentiate differently, and we think we take a unique perspective there in our ability to bring together global services, and our ability to have software developed by supply chain experts for -- supply chain experts that some of the biggest companies in the world use to manage their businesses on a daily basis.

And the other thing that I would say in the future, Jack, is that it's not going to be just about one company solving all these problems. There's going to be a lot greater collaboration that happens not just among supply chain companies, but across different types of companies. I think about our partnership with companies like Intel, around IoT and sensors. I think about our relationships with companies like Microsoft and how we deliver supply chain visibility. The companies that are in different adjacencies that are all working to contribute to supply chain problems, I think will become more and more prevalent.

Jack Lawrence Atkins
Stephens Inc., Research Division

Great. Bob, let me just follow-up on that and just kind of think about sort of playing that forward for a moment. And I know you've talked about C.H. being a much larger company over the next -- yes, you haven't given an exact time line over the next several years, next 3 to 5 years or whatever it is. But obviously, I think how you get there is a little bit different than how you got to where you are now. And it's going to have to see share gains and efficiency is going to have to be a core part of that. So I guess -- how are you thinking? And how are you positioning the organization to be much leaner, but also be much larger at the same time?

Robert C. Biesterfeld
CEO & Director

It's no secret that our history of growth was really all about opening offices and adding people, right. And that was our growth strategy post the time that we IPO-ed really through the '90s through the early 2000s, even up till, say, 2008, '09 or '10. And it worked, right. Purchasing was done on a decentralized mirror. People wanted a local presence with the local office, and that's still important. But the idea of just opening offices and hiring people to drive growth, I think that time has passed, and we're committed to having an office network. We do think it's a competitive advantage for us. Over the course of the last, I guess 5 years or 3 or 5 years, we've probably closed or merged 30 or 40 of our domestic offices as well as some of our global offices in order to get to scale in order to get to greater efficiency.

As I look forward in terms of the things that will drive our growth, I mentioned the growth in 3PL and the 3PL market space, right. So we're in a growing industry. In no part of our services do we have more than 3% of the overall market. So there's a huge addressable market that exists outside of where we currently play today. That growth has -- it's got to come through volume, right. I mean volume is ultimately the only sustainable way, in which we're going to be able to grow the organization. And in order to obtain that volume, to your point, we're going to have to continue to challenge ourselves to lower our cost to sell, our cost to serve to ensure that we have -- continue to have the lowest unit level economics in the industry. And so we are investing a lot of these technology dollars to really focused at removing all friction that we can from the supply chain, from quote to cash, order to cash, from pickup to drop off. We are absolutely attacking with fervor every single point in that supply chain, where we can remove human interaction, drive greater automation, drive greater information transparency so that we can redeploy our people to stop being focused on task work in some cases to be more focused on knowledge work, and that's going to continue to transform our workforce. It's going to continue to upscale our workforce and challenge them to think differently about solving problems versus doing stuff. If you will, and I think really that the future growth is going to be a combination of organic share growth across our core services. It will be inorganic and continue to focus on the consolidation of our industry and continue to do inorganic acquisitions where we can either add service, we can add scale or we can add density to our network footprint.

A lot of what we do on the global forwarding side is around consolidation. So if we can bring greater tonnage into our network, if we can bring greater volume into our network, that helps our economics in our returns there. So we'll continue to look and to do some of those things.

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There was a press release that went out early today, that I think is a great example of some of how we're rethinking our go-to-market, which will drive a lot of this growth, and it's about our Freightquote by C.H. Robinson product, which was a product that we've had in beta test for a few quarters now that's solely focused on small businesses. And the example of what this -- we acquired Freightquote in 2015. That was kind of our first step into bringing a more efficient solution to life for small businesses, and we've built upon that to launch this new product, which is a fully digital end-to-end truckload, less than truckload, soon-to-be-parcel solution where small senses can go online and literally not even need a sign in, but can search for rates, can auto book an LTL or truckload shipment, can swipe a credit card and the whole process is end-to-end. We serve hundreds of thousands of these small business companies every year. But literally, the addressable market is the number of companies is in the millions, right. And we're serving the hundreds of thousands. So there's a huge upside that we can bring to market in a very low-cost to operate with a huge -- with a large total addressable market that can drive share.

Jack Lawrence Atkins
Stephens Inc., Research Division

Let me ask one more, and then I'll turn it over to the floor. But I guess, as we sort of think through the investments on the technology side, there's obviously a cost associated with that. And then we think through the leverage that you hope to gain from those investments, that will come down the road. As you sort of think about the next couple of years, when do you think we're going to start seeing the benefits of these investments really show up and be noticeable in the P&L, whether it's -- and tell us what the KPIs are going to be? Is it volume growth that should materialize? Is it revenue or net revenue per employee? How should we be tracking that? But I guess the biggest question I get from investors is, when are we going to start seeing the benefit from this as we sort of look out, we try to model it out?

Robert C. Biesterfeld
CEO & Director

Great question, very fair question. If any time that you stand up on stage and say you invest $1 billion technology, you should have some answers as to why. So we'll take a couple of minutes and address that. So first, I think it's important to point out 5 years and say, where do we see C.H. Robinson in 5 years. And the things that we talk about internally, there's a few key points. And the first is that C.H. Robinson is a platform connected company, right. We don't see this as a winner-take-all business, but we do think Robinson as a platform is a really, really important piece for us, 5 years out. And that includes freight under management, that enables us to deal with things like autonomy differently.

The second thing that we talk about 5 years out is that we are -- we're digitally enabled and technology led, right. So technology taking an even more forefront part of our business, and that digital is the preferred mechanism, it means for driving business through our model.

The third thing is that we're customer-centric, right. Putting the customers at the center of everything we do, but having a really defined customer go-to-market, depending on the way customers want to interact with us.

The fourth thing is that we're talent enabled, right. And we have the the most robust and skilled staff in the supply chain industry. And then the last 2 things was tied directly into this, is that we're volume-driven and efficiency-oriented, right. And so it's about taking share, and it's about doing that in an even more efficient manner. So our technology investments today, about 80% of them are going towards innovation and new product development. About 20% of them are going towards infrastructure, scalability and stability.

There isn't -- I wish that there was a big bang that there was going to be a big reveal of this one big thing that we were spending this money on that was going to change the economics of the organization, but there's not. There are several steps that are underway in part in -- within this technology development that are going to return incremental steps over the next couple of years. An example that I talked in one of the one-on-ones earlier was our move to go to a CRM, right. And it seems like a simple thing. But if you've got a sales force of several thousand people across the world that are outselling every day, and they don't have a way to manage their customer pipeline, they don't have defined sales territories, they

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don't have automated lead generations, you can imagine that there's a fair amount of waste in that model. And so our implementation of the Microsoft dynamic CRM, coupled with our increase in marketing spend, coupled with driving automated lead generations to make a sales force more effective and more efficient will have an impact to the size of the sales force that we need and also the effectiveness of the sales force.

When we think about our investments in digital freight matching and the fact that we think that we can get probably 30% to 40% of our truckload freight being booked in a fully automated manner over the course of the next couple of years, that has a significant impact to the efficiency and the effectiveness of the roughly 1,500 people that are managing carrier relationships every day. And so there are several things like that, Jack, that are underway that will deliver over the course of the next quarters, the next years, but it's not going to be an overnight delivery as many of these things. So in terms of the things that I think about that we should be looking at, I would want you guys to be looking at the same things we look at in terms of the proof points and the measurements of what effectiveness looks like. And the first is around share, right. We need to do these things to more effectively take market share, and we'll get that proof point by ensuring that we're investing in the things that are most important to our customers. So looking at that market share growth, looking at market share growth, taking share, also looking at volume growth, that's it -- which can be different things, right, growing with the market versus taking market share. And then looking at the relationship between headcount growth and volume growth. That old model that I described of how we used to grow of hire a person, get some dollars of revenue was a very linear relationship. And we expect that to not be a linear relationship in the future and have the rate of volume growth exceed that of the rate of headcount growth. And that's not just a North American surface transportation content, but more of a global way that we think about our business. So by decoupling that, we get the measure of net revenue per person, right. We expect net revenue on a per person basis to go up and not down. And over time, not that we're going to step back technology investments, but technology investments as a percentage of net revenue, I would expect to start leveling out and decreasing over time as well. So there's -- we'll go deeper into a longer list of real proof points as we continue to build the narrative out, Jack. And I would expect us to be more forward-leaning on those things in the next few quarters.

Jack Lawrence Atkins
Stephens Inc., Research Division

Great. Bob, let me turn it over to the floor for questions. Yes, sir.

Unknown Analyst

[indiscernible] sort of a 2-part question. Talking about the truckload, domestic truckload market, there seems to be this back and forth with shippers that when capacity is tight, they want to [indiscernible] the asset-based providers to the end capacity. It's not like, they want to go with the 3PLs who seem to deliver an ever ending stream of lower rates. Looking at the last quarter, it would almost seem that your expectation to deliver, would it be able to continue to get lower trucking costs kind of hit the floor? And that there is basically a point if [indiscernible] finally said, forget it, I'm going home. So I'll ask you sort of view on that, and then what does that mean long-term to supply of truckers here in this country?

Robert C. Biesterfeld
CEO & Director

Okay. So I'm going to paraphrase and repeat your question just for webcast so that people heard it. And the first question I took as the behavior of shippers, depending on market conditions and whether they tend to lean towards asset versus non-asset-based companies. And the second part of the question being the pricing in the marketplace and have we hit the floor where the carriers have essentially said, I'm not taking freight for a lesser rate than what it is. And is that the trough of the cycle is kind of the -- I think the read-through on your question.

So I can only share what our experience is with the shipper behavior. And I think that we're unique in the brokerage space. There's 18,000 truckload brokers in the U.S., of which we're, as we said, the largest, and I think that our portfolio probably leans more towards the contractual marketplace than does -- than do many of our competitors. And so we have not experienced, I would say that, that behavior shift from our

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shippers where they're leaning more heavy asset or more heavy non asset. And I think that's because of the way that we behave for those shippers through cycle. We put a lot of focus on honoring commitment to the commitments that we make in terms of pricing. And we do that sometimes to the detriment of our short-term results, right. When we think about the times of rapid price increase that we went through, it was more important for us to largely stand by the commitments that we made for those shippers so that we could retain those relationships over time versus jumping ship and going and saying hey, I need a 30% price increase or I'm not picking up your next load. Some 3PLs do that. Some brokers do that, that tend to skew more towards the spot market. So we didn't have any instances in my experience where we had shippers that said, hey, you're a contractual provider for me last year, but based on how you behave in an up cycle, we're not -- you're not invited back. We retained 100% of our top 500 customers last year, which makes up 50% of our revenue, and we've had those relationships on -- we've had 90% of those relationships for over 10 years. So I think that speaks volumes to how we behave in changing marketplaces.

The second piece around the carrier rates and did we hit a floor based on the kind of the inflection in our results in third quarter, there was some -- we've seen unprecedented run-up in pricing in '17 and '18. And equally unprecedented rundown, so to speak. If I look at our internal data, and I look at carrier cost on a sequential basis over the course of the last decade, we see about a 2.5% to 3% compounded annual growth rate -- average change on a year-on-year basis. Where we are today, takes us kind of back to where we were in 2017. So if I think about an average 3% increase, you might say that our pricing is below where you would expect it to be on average, which could suggest an inflection upwards from there in terms of the base. Now there's mix things that cloud that. The thing that I think is often overlooked is the average length of haul, the average length of a load from point A to point B has come down significantly across our industry as e-commerce and fulfillment centers have changed. For us, that's gone from north of 800 miles a load a few years ago to less than 600 miles per load today and shorter length of haul tends to have the higher net -- or a higher rate per mile than do longer. So like I said, there's noise in there. It's not exact, but I do tend to think that we're -- we've kind of retreated to a more normal place in terms of pricing.

Unknown Analyst

And do [you] think there'll be plenty of drivers?

Robert C. Biesterfeld
CEO & Director

We intentionally stay out of the asset ownership and the driver hiring space. We saw in the run-up for pricing last year, plenty of people that entered the marketplace. The report that I read from [Act], I think, showed a 7% increase in overall capacity on a year-on-year basis. Those drivers came from somewhere whether they came from construction, whether they came from other industries, I'll defer to the asset owners in terms of the driver recruitment. Those that I talk to say, they're spending half of what they did at this time last year, and they're getting twice as many applicants. And so I'll defer to them.

Unknown Analyst

Talk about how you touched on [indiscernible] other digital freight marketplace development versus peers is most traditional brokers that give a transition as well.

Robert C. Biesterfeld
CEO & Director

So the question is, how can I benchmark our digital freight marketplace compared to that of the startups or our traditional peers?

Unknown Analyst

[indiscernible]

Robert C. Biesterfeld
CEO & Director

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Yes. Well, I guess I'd start -- we tend to evaluate success by operating margins. So if I were to start there and compare that across that entire landscape, I'd say we win. But the advancements that we've seen in the digital freight matching and the digital freight market space, I think everyone's in a race there. I think the ELDs have had a big piece in this, right. And so the implementation of ELDs, for the first time, has given us broad-based visibility to where trucks are and where they're going to be in. So that's had a bit of a game changer.

The second piece has been the broad adoption of smartphones and mobile by the truck driver community. And I can think back 5, 6 years ago, the slant was there were still more, I guess traditional flip phones than there were smartphones in that space. And so those 2 things converging provide the ability to do more digital freight matching. There hasn't been a lot new that's come to the market that we haven't either had in market or on the road map. I was in a meeting this morning, and somebody was asking about this evolving ability to do multi-leg routes as if this was something new, right, to be able to book a load from point A to point B, point B to point C and then back to A. When we bought American Backhaulers in 1999, they brought over their system called Express, which is, in some parts, evolved into our Navisphere platform. That was a feature that we had in 1999, was the ability to book a trucker on multi-legs and send them that shipment. So, as I say, I don't think that the changes have been all that transformational in this digital freight matching environment. It's just the technology is enabling us to do business differently. So I don't have great comparative points in terms of where we're at in our journey compared to some of our publicly traded partners or the emerging companies, I think everyone has slightly different definitions today about what automation looks like. I think people have different definitions of what digital looks like. All I can be focused on is ensuring that the investments that we're making in technology are aligned with what our carriers tell us is most important to them. What our customers tell us is most important to them, and that generate the greatest returns for our shareholders. And so that's where we're putting our focus versus trying to benchmark against others.

Jack Lawrence Atkins
Stephens Inc., Research Division

Let me ask another question about the capacity to your -- to the gentleman's earlier point about capacity next year and the availability of drivers. There's a lot that's changing on the regulatory front in 2020, still a lot of unknowns there with the drug and alcohol clearinghouse and potentially hair follicle testing, and then you have hours of service changes that could take effect late next year. Bob, with 70% of your truckload capacity under contract currently, and I know you're going through bid season next year, so we'll see how that shakes out 12 months from now. But the setup for next year is one that could be very volatile. It's an election year. There's a lot of different moving pieces into 2020. How are you guys sort of thinking and planning about 2020, given that you're going to be asked to make pricing commitments? And effectively, you don't have those price commitments from your capacity. So how do you sort of think through that? What's your thought about capacity next year? I'm just trying to get a feel for someone that's got to make a big bet on the market for next year. But what's your take on it?

Robert C. Biesterfeld
CEO & Director

Yes. Excuse me. So again, historically, our model's been all about sell long buy short, essentially, right. And on 70% of our business, we make year-long commitments, and then we go buy capacity short in the marketplace to cover those commitments. I think part of our evolution, Jack, has been on the capacity procurement strategy, right. And so that idea of buying 100% of your capacity short against the long-term commitment, introduces just frankly, far too much volatility in the model. And we've experienced in the past in our past results. Today, that number has ratched up pretty significantly. We've introduced a lot of different strategic procurement exercises where we're doing if not customer level commitments with capacity tied to bids, we're doing lane level commitments. And so a lot of our freight in high density, high-volume lanes, think Dallas to Houston, Houston to Dallas, LA to Tracy, et cetera, some of the highest volume lanes are moving through what we call these corridor auto [sensors], right. We have committed capacity with fixed pricing in the highest volume lanes that just continues to run on an automated basis. That's a big change for us, right. So that allows us to kind of hit play, so to speak, and just let those high-

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volume lanes run without a lot of rate or margin volatility so that we can continue to pursue spot market if and when that comes.

The other thing that we've introduced is a lot more drop trailer into our model, which allows kind of the drop and hook and the efficiencies associated with that. North of 10% of all of our truckload volume runs on drop trailer programs today, whether that's agreements with carriers to lease freight box trailers, our power plus program or what we would call rainbow fleets of carriers sharing and creating agreements to share trailer pools, et cetera. So that's really helped to procure capacity in a different way. And again, I think some of just -- one of the things that I think is maybe a misnomer is that this -- people assume that brokerage is all freight that's booked on the day of shipment. We booked less than 10% of our freight today, on the day that load is tendered and shipped. So the vast majority of our freight that we share with carriers is preplanned, right. More than 72 hours out before pickup. And when you do that, you start to get some regularity to the capacity. So a lot of focus put on procuring capacity differently, managing those carrier relationships differently and ensuring that we can eliminate some of the volatility. Now we're not going to get all the noise out of it, but that's an important piece.

In terms of the pricing and how we're thinking about making the commitments, boy, we've got a graph that shows the change in rate and cost on a year-on-year basis, that many of you have probably seen. And if we were standing here 12 months ago, I wouldn't have told you where -- I wouldn't have said this is where we were going to be. And so I try not to put my crystal ball hat on too much. But the thing that I know about our industry is, we have to price based on what we know today, right. And if you try to forecast too much what's going on in the future, you're probably going to miss opportunities on one end or are you going to introduce too much risk on the other. And so as we think about our truckload pricing in North America for 2020, we know that we've got -- we assume that we're going to have a fairly stable economy, right, kind of with the GDP rate similar to where it is today. We're unsure on tariffs. We don't know what's going to happen nor do I think any of us know what's going to happen there. We know that we've got an election cycle in the back end of the year that could introduce some challenges or some changes. But we really can't factor in fourth quarter of next year too much when we're trying to price right with the market today. So we're taking the approach generally of kind of sequentially flattish type pricing in terms of we expect kind of how we've been pricing business in the third quarter to be how we price business in the fourth quarter. And don't see a lot of catalysts in terms of changes that would -- we would make -- that would make us think that, that's not the right approach.

Jack Lawrence Atkins
Stephens Inc., Research Division

One quick follow-up on that, Bob. The -- just on the capacity procurement side. What portion of your capacity there, if you include the drop trailer, would you say is under more of a more of a fixed pricing commitments from your capacity providers, roughly?

Robert C. Biesterfeld
CEO & Director

So this is going to be rough. If I think about drop trailer being 10% to 12% of the total capacity, we've got some dedicated programs that live within there as well where we work some of the largest trucking companies in the U.S. that dedicate trailer pools of a couple of hundred and 300, 400 trailers to us to manage. And then you think about our customer specific or our corridor specific contracts that we have. If it's in the 15% to 20% range, I think 20% would be an aggressive guess, but 15% would probably be more accurate.

Jack Lawrence Atkins
Stephens Inc., Research Division

Okay. Got you.

Robert C. Biesterfeld
CEO & Director

That's directional.

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Jack Lawrence Atkins
Stephens Inc., Research Division

So 15% is under the -- in the lanes?

Robert C. Biesterfeld
CEO & Director

Yes.

Jack Lawrence Atkins
Stephens Inc., Research Division

Okay. Got you. Great. Any other questions from the floor I think. Yes, I can keep going. Well, let me shift gears here and ask about capital allocation. You have a new CFO on board, and I know that could typically bring sort of a reset in terms of how you think about capital allocation, and I know you're -- while you've been [indiscernible] number of years, you're relatively new to the CEO role. And so I know that, that kind of brings up a reset as well. But I recently was posed this question by an investor, I think it's a good one. So I will include it in my list of questions today. But when you look at your business, even in tough times, there's really not -- I guess my -- there's a lot of stability in your business, even in more difficult parts of the cycle. And you don't run with a lot of leverage on your balance sheet, you generate a heck of a lot of free cash flow. Would it make sense to put some more leverage on the model in an effort to more aggressively buy back stock? How do you think through that? And I'm not saying good lever up to 3x or more. But I mean, adding half a turn of leverage, could really move the needle from a share repurchase perspective.

Robert C. Biesterfeld
CEO & Director

Yes. So a couple of things that -- so yes, we've got a new CFO and Mike Zechmeister, came over from United Natural Foods, 4 years or 5 -- I think 4 years as the CFO there, 25 years at General Mills prior to that. The thing the I get excited about our leadership team is that we don't not only have a new CEO and a new CFO, but we also have a new President of NAST. We have a new Chief Technology Officer in the last year, we'll be announcing a new President of the Robinson Fresh division, and we've got a ton of new talent at multiple levels of the organization. So I mean, when I think about our senior leadership team, there's a lot of energy to drive forward over the course of the next 10 years. I mean our industry respects legacy, but expects results, right. And so we can sit here and say that we're -- you've been here since 1905, and none of that's relevant, unless we're delivering the results on an innovative front for our customers and carriers and our returns that our shareholders expect. So the specific question about how do we think about buybacks? How do we think about dividends, how do we think about capital structure? So we've been on this road of delivering 90% back to our shareholders, about half through dividends, half through buybacks. And I'm not saying that we're going to change that directionally, right. But what I will say is that we need to be thinking about what creates the greatest return for those shareholders. And so I don't want us to be so married to absolutely 90% versus value creation for the shareholders. So if we think about share buybacks is the weighted average cost of capital. If it makes the most sense, we can't think of something better to do to deploy that capital to create value, then yes, we should continue to do buybacks and more share buybacks. Whether we would lever up specifically, candidly, Mike and I haven't gotten that far into our conversation here over the course of the last couple of weeks. I wouldn't say that's off the table. But we're going to look at the best way to return value to our shareholders. And that's I mean, I think kind of the compass or the lens that we'll continue to look through that, right.

Jack Lawrence Atkins
Stephens Inc., Research Division

Great. Any questions from the floor. Again, I can keep going. I just don't want to hog all the time here. All right. Let's -- if we could just go back because that -- it's a major topic. When we think about these new entrants into the marketplace, these tech-enabled entrants, I think is the way I kind of call them. I guess as we look back at your history over the last 2 to 3 decades, it seems like every cycle, there are new entrants that come into the brokerage market. And every cycle, there's a concern, is this going to be

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the disruption of this intermediation, the C.H. Robinson business model. It hasn't proven to be the case so far. So I guess are you guys -- these folks, the Ubers, the convoys, the transfixes of the world that have kind of come in over the last 3 to 5 years. Is there anything different about what they're doing that makes you more or less concerned about the potential for disruption to your model longer term?

Robert C. Biesterfeld
CEO & Director

Yes. So again, looking back and then look forward to your point, the last 20 years, there have been kind of these 5-year increments. We've got this slide and I think in our investment deck still. But if I think about the early 2000s kind of the advent of the Internet was going to be the end of the broker, right. It was going to be information transparency and load boards were going to take over the world and 3PLs were going to go away. And with that technology investment and innovation that came along with that, it forced us to be one of the first 3PLs to have CHRW online is what we called it at the time. And then that drove our carrier online environment. And that challenge made us better. And then fast forward to '05 to '10 and you had Coyote come on, you had Echo, some of these really good competitors that came on in the marketplace that when aggressive after our market share, they caused us to be more nimble. Ted cause us to be -- they forced us to be better. They forced us to be better account managers and to continue to focus on providing a better service because there were other companies of scale. You go to the kind of the next 5 years, where it was -- there were a number of companies that started consolidating and gaining scale. On the top 10 of the freight brokerage industry was made up of completely different players than were there 10 years ago, and we had more players of scale in the market, and that caused us to be better. And it caused us to make sure that we were evolving differently. It's really, in some ways would trigger our investment into Global Forwarding, and the $1 billion that we put into acquisitions there to ensure that we had a differentiated global profile of services that we could bring to life for our customers.

And so today, we get into this environment of tech-first entrance as they've been called and the -- literally, billions of dollars of private market dollars that have flowed into freight tech over the past few years. And it's not just convoy Uber transfix. Those are the 3 that get talked about. But think about companies like project44 that have brought new ways to think about connectivity. You think about some of the ELD companies. You think about the companies like FourKites and Descartes MacroPoint, that have brought new ways to think about visibility. The convergence of all of these things have caused us to continue to react, to continue to stay nimble and to continue to stay committed to staying on the forefront of leading our industry. And so what has anyone brought different this cycle, if anything, I'd say, a willingness to lose money, would probably be the thing that I've seen that's truly different in this cycle. I mean we've seen competitors come in that have been attempted to take market share by being more aggressive, but that was really about maybe working at a slightly lower margin for some period of time. We haven't seen the willingness of companies to just large-scale come in and may promise that someday they'll be profitable and then just throw money, sell dollars for $0.50. So that's a different challenge, right.

But I think if the public markets -- some of the recent things we've seen there or any indication, this too shall pass. And I think 5 years from now or 3 years from now, frankly, I think we're going to be having a conversation about the digital brokers and the traditional brokers. I think that there's going to be a convergence, and there will be -- there will continue to be consolidation. The top 10 brokers are going to look different 5 years from now than they did 5 years ago. There'll continue to be consolidation. Technology will continue to be more important. But those companies that can differentiate, are going to continue to take share and continue to win. And I believe that we will and are one of those companies that will stay in the forefront of that.

Jack Lawrence Atkins
Stephens Inc., Research Division

Well, great. Well, Bob, Bob, Adrienne, thank you very much for your time. Really appreciate you taking another big year.

Robert C. Biesterfeld
CEO & Director
Yes. Thanks, Jack.

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