C.H. Robinson Worldwide, Inc. (CHRW) CEO Robert Biesterfeld on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.07 misses by $-0.07 | Revenue of $3.86B (-10.15% Y/Y) misses by $-63.19M

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C.H. Robinson Worldwide, Inc. (NASDAQ:CHRW) Q3 2019 Earnings Conference Call
October 30, 2019 8:30 AM ET

Company Participants

Robert Houghton - Vice President of Investor Relations and Treasury

Robert Biesterfeld - Chief Executive Officer

Mike Zechmeister - Chief Financial Officer

Conference Call Participants

Operator

Good morning, ladies and gentlemen, and welcome to the C.H. Robinson Third Quarter 2019 Conference Call. At this time, all participants are in a listen-only mode. Following today’s presentation, Bob Houghton will facilitate a review of previously submitted questions. [Operator Instructions] As a reminder, this conference is being recorded, Wednesday, October 30, 2019.

I would now like to turn the conference over to Bob Houghton, Vice President of Investor Relations.

Robert Houghton

Thank you, Donna, and good morning, everyone. On our call today will be Bob Biesterfeld, our Chief Executive Officer; and Mike Zechmeister, our Chief Financial Officer. Mike joined us in September and brings with him three decades of public company finance experience. Prior to joining Robinson, he most recently served as CFO of United Natural Foods. He also spent 25 years at General Mills, where he held a variety of finance leadership roles, including VP of Finance for the Pillsbury division, VP of Finance for U.S. Retail Sales and Treasurer.

Bob and Mike will provide commentary on our 2019 third quarter results. Presentation slides that accompany the remarks can be found in the Investor Relations section of our website at chrobinson.com. We will follow that with responses to the pre-submitted questions we received after our earnings release yesterday.

I’d like to remind you that our remarks today may contain forward-looking statements. Slide 2 in today’s presentation list factors that could cause our actual results to differ from management’s expectations.

And with that, I will turn the call over to Bob.

Robert Biesterfeld

Thanks, Bob, and good morning, everyone. The third quarter provided challenges in both our North American Surface Transportation segment as well as our Global Forwarding operating segment. Our net revenues, our operating incomes and our EPS results finished below our long-term expectations.

We anticipated an aggressive industry pricing environment coming into the second half of the year, driven by excess capacity and softening demand. And we knew that we faced difficult comparisons versus our strong double-digit net revenue growth in the second half of last year.

Our results were negatively impacted by truckload margin compression in North America, as the rate of change in pricing fell faster than that of costs for the first time in 6 quarters. While our contractual truckload volume did increase at low-single-digit rates in the quarter, we did not generate the level of contractual volume growth that we anticipated.

And our growth in contractual volume was not enough to offset the significant declines in the spot market volume in the current environment, resulting in a 4% decline in truckload volume for the quarter. In Global Forwarding, we believe that shippers have largely worked through their elevated inventory levels. However, the global forwarding market continues to experience air and ocean volume declines as tariff concerns and fears of recession are softening demand.

A part of our customer value proposition, particularly in our committed relationships is helping our customers manage through freight cycles and the pricing volatility that occurs as a result of the cyclicality of our industry. Our people did a great job, controlling what we can control, which includes increasing awards in contractual bids with our largest customers in the quarter and continuing to provide excellent service and innovation.

As a result of this market, we are continuing to adjust our pricing strategies in order to optimize our results. The results that we delivered to our shareholders in the third quarter are below our long-term growth targets. But I’m proud of the results that we delivered for our customers and our carriers; which is ultimately what will drive shareholder value creation over the long term.

Our teams across the globe worked hard, and as such, our contractual awards increased. And we were recognized by several customers during the quarter as their provider of the year. We also launched new products such as our Freightquote by C.H. Robinson for small businesses. And carriers continue to choose C.H. Robinson as the 3PL of choice for securing freight and optimizing their networks.

While the addition of thousands of new motor carriers every quarter allows us to bring new capacity solutions to life for our customer. Our long-term plans around transformation of our business are on track and our investments in technology and process improvements are paying dues.

During third quarter, we also returned $136 million to our shareholders and delivered industry-leading operating margins. Our financial results this quarter demonstrate that we're not immune to large cyclical swings in the freight environment. We believe that our continued investments through these down-cycles will drive better alignment between our net revenue growth and our costs and will enable us to generate operating margin expansion through this cycle and over the long term.

With those introductory comments, I'll turn it over to Mike now to review our financial statements. As Bob Houghton mentioned in his intro, Mike comes to Robinson as a seasoned and strategic public-company CFO. He brings tremendous finance experience and is a proven leader that drives growth through strong leadership and effective business partnership.

Mike has been with us for almost two months now and we're very proud to have them on the team at Robinson. With that, I'll turn it over to Mike.

Mike Zechmeister

Thanks, Bob. I appreciate the kind words and couldn't be more excited to be a part of the Robinson team. Living in Minneapolis most of my life, I've known Robinson as a terrific company with a great culture and a strong track record of success in the industry. While Q3 finished below our long-term expectations, I'm energized by our strategy, the engagement of our team and the opportunities ahead.

Now, on to Slide 4 and our financial results for the quarter. Our third quarter total gross revenues decreased 10.2%, driven primarily by lower pricing across most transportation services due to the softening demand and excess capacity that Bob mentioned earlier.

Total company net revenues decreased 8.7% in the quarter, led by margin compression in our truckload service line. Q3 monthly net revenues per business day were down 10% in July, down 4% in August and down 16% in September compared to the same periods last year.

Total operating income was down 18.2% over last year. Operating margin declined 370 basis points versus last year, as personnel and SG&A declines in Q3 did not keep up with the net revenue decline, partially due to the increased spending in technology.

Diluted earnings per share was $1.07 in Q3, down 14.4% from $1.25 per fully diluted share in Q3 last year. Slide 5 covers other highlights impacting net income. Third quarter effective tax rate was 21.8%, an improvement of approximately 470 basis points from the 26.5% rate in Q3 last year. The lower effective tax rate was due primarily to a favorable adjustment to a prior year tax provision related to foreign derived intangible income and resulted in an approximately $2.7 million reduction in taxes in Q3.

We now expect our 2019 full-year effective tax rate to be in the range of 23% to 24%, down 1 percentage point from our previous guidance. During the third quarter, we recognized $5.8 million gain on the sale of our previously occupied Chicago Central Office Building in Chicago, Illinois.

This shows up as a benefit to the SG&A line on the income statement under the All Other and Corporate segment. Third quarter interest and other expense totaled $13.2 million, up from $6.5 million in Q3 last year. Interest and other expense includes the impact of currency revaluation, primarily related to the conversion of working capital and cash balances to the functional currency in each country where those investments reside.

Q3 this year included $1.1 million unfavorable impact from currency revaluation, compared to Q3 last year that included $6.7 million gain from currency revaluation.

Q3 interest expense declined $1.1 million, driven primarily by overall debt reduction. Average diluted shares outstanding was down 1.9% due primarily to $67 million in share repurchases in Q3.

Turning to Slide 6, cash flow from operations totaled $167 million in the third quarter, a 24.1% decline versus Q3 last year, due primarily to decreased earnings and partially offset by improved working capital.

Q3 capital expenditures totaled $19.4 million, which brings our year to date capital expenditures to $50.9 million. We now expect 2019 full year capital expenditures to be between $65 million and $75 million, with increased spending versus last year, primarily dedicated to technology. We remain on track to invest approximately $200 million in total technology spending in 2019.

In Q3, we returned approximately $136 million to shareholders through a combination of share repurchases and dividends, which represents 9.9% decrease versus Q3 last year. Moving forward, we will continue to evaluate how to best deploy capital to optimize long-term value for our shareholders.

Now, on to some balance sheet highlights on Slide 7. Third quarter working capital decreased 9.6% versus the prior year, generally consistent with the declines in gross revenue and purchased transportation costs in the quarter.

Our debt balance at quarter end was $1.25 billion, down approximately $88 million versus the end of Q3 last year. And our weighted average interest rate was 4.1% in the quarter compared to 4.0% in Q3 last year.

I will wrap up my comments with a look out our current trends. While our October truckload volume trends have improved modestly over Q3 levels, the combination of soft demand and excess capacity is keeping, pricing well below year-ago levels. October, total company net revenues per business day is down approximately 15% and NAST truckload volume is approximately flat versus October last year. For reference, in 2018, total company net revenues per day increased 10% in October, increased 11% in November, and increased 13% in December.

Thanks for listening this morning, and I'll turn it back over to Bob to provide some additional context on the business and our segment performance.

Robert Biesterfeld

Thanks, Mike. I'll begin my remarks on our operating segment performance by highlighting the current state of the North American truckload market. On Slide 9, the light and dark blue lines represent the percentage change in NAST truckload rate per million billed to our customers and cost per mile paid to our contract carriers net of fuel cost over the current decade. We continue to see competitive levels of pricing activity in the market, including double-digit declines in both the spot market and contractual pricing versus year-ago pricing, where the industry experienced all-time highs.

Price per mile billed to our customers declined 12.5%, while cost per mile paid to our contract carriers net of fuel costs declined 12%. The rate of cost declined moderated versus that of the second quarter resulting in modest truckload net revenue margin compression in the third quarter. Our third quarter results reflect a shift to contractual volume that is typical for us in a declining price and cost environment, resulting in an approximate mix of 70% contractual and 30% transactional volume in the quarter versus a 60-40 mix in the year-ago period.

As we said before, one of the metrics we use to measure market conditions is the truckload routing guide depth from our Managed Services business, which represents roughly $4 billion in freight under management. Average routing guide depth of tender was 1.2 for the third quarter, representing that on average, the first carrier in a shipper's routing guide was executing the shipment in most cases. This route guide depth remains near the lowest levels we've experienced this decade.

And contractual routing guides are largely operating with first tender acceptance rates in the high-90% range. Our pricing strategies with the NAST continue to reflect current conditions and work to ensure that we're near the top of the routing guide.

Turning to Slide 10 in our North American Surface Transportation business. Third quarter NAST net revenues decreased 13.2% driven primarily by the decline in truckload. Our third quarter combined truckload and LTL volumes outpaced year-over-year changes in the Cass Freight Index for the third consecutive quarter. Truckload net revenues decreased 17.4% in the quarter, driven by margin compression and lower volumes. Third quarter NAST truckload volume decreased 4% versus last year. Our third quarter truckload contractual volume increased at a low-single-digit pace.

Consistent with market trends, our spot market volumes declined at a double-digit rate driving the overall volume decline. During the quarter, we added roughly 4,400 new truckload carriers to our network. This was a 12% decrease over last year's third quarter when we added a record of 5,000 new truckload carriers, and it's down 8% sequentially compared to the second quarter of this year.

LTL net revenues increased 1.3%, led by growth in our temperature controlled business. LTL volume growth increased 4% in the third quarter led by growth in new customers. In our intermodal service line, net revenues decreased 15.9% in the quarter. Intermodal volumes declined 24% as the decline in truckload pricing drove an industry volume shift from intermodal back to truckload. Improved management of in-transit cost drove the net revenue margin expansion in intermodal for the quarter.

Slide 11 outlines our NAST operating income performance. Third quarter operating income decreased 21.3%, while operating margin of 40.6% decreased 420 basis points driven by the net revenue decline partially offset by reduced variable compensation expense in the quarter. NAST headcount was flat in the quarter and average headcount declined 1% sequentially versus the second quarter of 2019.

Regardless of the freight cycle, we will continue to invest in the digital transformation of our NAST business. Our investments are bringing to life new insights and new capabilities for our customers and carriers. The level of automation across our business continues to increase including higher levels of digital order tenders and fully automated shipments in our truckload business. Due in part to this automation, we expect our NAST headcount to be down slightly for the full year.

Slide 12 highlights our performance in Global Forwarding. Third quarter Global Forwarding net revenues increased 1.3%, our acquisition of the Space Cargo Group contributed 3.5 percentage points of net revenue growth in the third quarter. The integration of Space Cargo is going well. We've converted most of the agent business to our network, and we've retained key employees and customers.

In our ocean service line, net revenues were up 4.1% in the quarter driven by 3 percentage points of net revenue growth from the addition of Space Cargo as well as margin expansion. Ocean volumes were flat in the quarter. Third quarter air net revenues decreased 7.2% driven primarily by an 8% decline in shipments. Space Cargo contributed 6 percentage points of net revenue growth.

Third quarter results in ocean and air were negatively impacted by reduced demand due to tariff uncertainty. Air volumes were also impacted by inherently less demand for the expedited and more expensive nature of air shipments in a soft freight market. Customs net revenues increased 1.8% in the third quarter driven primarily by 1.5% increase in customs transactions. Space Cargo contributed 1 percentage point to the net revenue growth in the quarter.

Within Global Forwarding, we continue to be actively engaged with our customers to help them understand and quantify the impacts of the changing tariff landscape. We once again benefitted from our strong presence in Southeast Asia, where net revenues and volumes continue to outperform the total service line results for both ocean and air. We believe that our broad portfolio service offerings, we remain well positioned to help our customers win in an ever changing global trade environment.

Slide 13 outlines our Global Forwarding operating income performance. Third quarter operating income increased 3.5%, operating margin of 18.2% increased 40 basis points versus last year, driven primarily by higher net revenues and lower variable compensation. Average headcount increased 2.3% in the quarter with Space Cargo contributing 3.5 percentage points to the growth in headcount. Even during this uncertain time in the global landscape, we continue to win record levels of new business. We're also managing our headcount and our operating expenses both are down on a year-over-year basis versus last year, excluding the impact of Space Cargo.

Moving forward, we see significant opportunities to drive the scale and geographic reach in our Global Forwarding business. And we expect to deliver operating margin expansion over time through a combination of volume growth that exceeds our headcount growth and investments in technology to drive cost efficiency. And over the long-term, we remain confident that we'll deliver industry leading operating margin performance.

Moving to our All Other and Corporate segment on Slide 14. As a reminder, all other includes Robinson Fresh, Managed Services, Surface Transportation outside of North America, other miscellaneous revenues and unallocated corporate expenses. Third quarter Robinson Fresh net revenues were approximately flat versus last year. Case volumes declined 2.5% due to decisions to exit unprofitable businesses. Robinson Fresh generated 290 basis points of operating margin expansion in the quarter driven by 12% reduction on headcount.

Third quarter Managed Services net revenue increased 7.4% driven by a combination of new customer wins and selling additional services to existing customers. Customers continue to value our transportation management system offering, which allows them to manage their carrier selection process and complex supply chains without the required fixed investment in people or technology.

Managed Services operating margin expanded 100 basis points in the quarter. Other Surface Transportation net revenues increased 13.6% in the quarter with the acquisition of Dema Service adding about 13 percentage points of net revenue growth in the quarter.

On Slide 15, I'm going to wrap up our prepared remarks with a few final comments. As I mentioned in my opening remarks, our overall financial results for the quarter fell short of our long-term goals. However, there were several positive highlights. We delivered operating margin expansion in our Global Forwarding, Robinson Fresh, Managed Services, and our European Surface Transportation. And we reduced our operating expenses 3.5% despite increased investments in technology and the impact of the acquisitions of Space Cargo and Dema Services earlier in the year.

Looking ahead, we expect that North American routing guides will continue to reset at lower prices in response to the following cost environment and decline in spot market freight opportunities. In our truckload business, we expect net revenue dollars per shipment to remain below year-ago levels through the first half of 2020. As we expect pricing to remain relatively flat through the bid season in Q4 and in Q1.

Tariff concerns and fears of recession are weakening shipper demand. And while industry data suggests truckload capacity continues to exit the market, we believe capacity will exceed available shipments for the next few quarters. Regardless of the freight environment and the short-term challenges to our results, we remain committed to executing on our customer promise of providing a global suite of services, delivering technology that's built by and for supply chain experts, leveraging our information advantage drives smarter solutions and having great people that our trading partners can rely on.

We also continue to help our carriers secure freight that best meets their needs and allows them to be successful business owners. I truly believe that our future success will be enabled by technology plus: technology plus our global expertise, technology plus our local knowledge and technology plus outstanding service in industry-leading innovation.

For our investors, our focus areas remain unchanged. We're committed to taking market share. Over time, we've taken market share in each of our largest service lines and we expect to continue to expand market share moving forward.

Second, we'll continue to leverage our investments in technology to automate and to re-engineer our business processes, reducing both our cost to sell and our cost to serve, while continuing to deliver industry-leading quality service to both our customers and our carriers. And finally, we remain committed to operating margin expansion over time.

I'm proud of our team and I want to thank them for the outstanding efforts they demonstrate every day to ensure the continued success of our company and success of the over 200,000 companies that choose to conduct commerce with C.H. Robinson.

That concludes our prepared comments and with that, I'll turn it back to the operator so we can answer the submitted questions.

Question-and-Answer Session

Operator

Mr. Houghton, the floor is yours for the question-and-answer session.

Robert Houghton

Thank you, Donna. First, I would thank the many analysts and investors for taking the time to submit questions after our earnings release yesterday. For today's Q&A session, I will frame up the question and then turn it over to Bob or Mike for a response.

Our first question for Bob comes from several analysts. North America truckload volume was down in the quarter as spot volumes fell, but volume hasn't grown year-over-year in 7 of the last 8 quarters. What can the company do to accelerate market share gains?

Robert Biesterfeld

All right, so good morning again, everyone. I'll start to answer this. But, in 2018, we anticipated that the combination of both strong demand and tight supply, partly due to the implementation of ELDs was going to lead to significant increases in the cost of purchased transportation. We also expected that due to the rising cost environment that that was going to lead to reduction in first tender acceptance rates in 2018.

So our 2018 contractual pricing strategy reflected this higher cost freight environment and resulted in us moving lower in routing guides and receiving less committed freight as such. But at the same time, we drove an 18% increase in our 2018 net revenue dollars for truckload.

In 2019, our awarded freight is outpacing our 2018 awards at an accelerating rate. However, in this current environment, we're also seeing a lower conversion from awarded freight to actual freight than we usually see. Additionally, as we entered the peak bidding season at the end of last year, into the beginning of this year, frankly, we expected a slightly different market than we've experienced this year. And this negatively impacted our awards during that bidding period and it's carried forward through the first 3 quarters of this year.

With many of our customers, our increased awarded contractual freight is just not making up for the loss of the spot market freight that we executed in 2018 when routing guides are failing. So as you've seen in 2019, our volumes are below year ago levels. With that being said, we believe that our strategy is sound and our value proposition is resonating in the marketplace.

We obviously got to get pricing right and aligned to the market conditions and deliver excellent service. But these are really just table stakes. Our volume growth over time is going to be delivered by – delivering differentiated services to our customers and our carriers in line with the customer promise that I just mentioned.

Our customers continue to tell us that they value our ability to deliver global services with local expertise across all modes. They continue to tell us that they benefit from our industry-leading technology. And above all, they continue to tell us that they appreciate having people, experts in the supply chain that they can rely on.

These are the things that our shippers tell us that give us competitive advantage. The things that differentiate us in the market, and ultimately, the things that are going to help us to lead the market share gains and we'll continue to focus on these moving forward.

Robert Houghton

The next question is from Todd Fowler with KeyBanc, Brian Ossenbeck from JPMorgan, and Chris Wetherbee with Citi asked a similar question. Bob, please discuss your ability to reduce costs more in line with the rate of decline in net revenue going forward. How can the business rebuild operating leverage independent of the cycle?

Robert Biesterfeld

Our long-term growth targets that we've communicated over time and that we still believe in are centered on the fact that we expect earnings per share to grow at a rate faster than that of net revenue growth. And we didn't demonstrate that this quarter, but that has been a pillar of our commitment to our shareholders and it remains the core focus.

Our commitment to increasing our investment in technology makes this a little bit more challenging in the short-term. But in the long-term, we wouldn't be making these investments in tech unless we felt that these investments would accelerate our ability to deliver against this over time. For the quarter, our enterprise operating margins were around 31.7%, which is on the low-end of our historical average over the past few years. But we're confident that the investments that we're making are pointed at the right areas that ensure that we can maintain or improve upon these historical operating margins through both beneficial and challenging freight cycles, where net revenue per load will ebb both up and down.

As all of you know our largest lever of expense surrounds personnel. And as we've previously stated, our technology investments are largely targeted at increasing the productivity of our staff, so that we can decouple that linear relationship between headcount, and ultimately, personnel expense and volume and revenue.

Robert Houghton

The next question for Bob comes from several analysts. Can you talk about the competitive landscape, particularly whether competitive intensity from traditional players as well as new entrants is greater this cycle? Weakness in volumes is surprising somewhat, given your cost advantage.

Robert Biesterfeld

So if we think about the cycle first, this cycle really hasn't been much different relative to previous peaks and valleys in freight cycles. As I mentioned before, we got a really good sense of what's driving our results in terms of volume. And that being really the combination of missing out on some opportunities during the peak bidding season last year and how that's played out through the first three quarters of this year, along with the significant drop off in spot market.

In terms of competitive intensity, there are certainly some new competitors that are aggressively pursuing market share in this down market that weren't in play a few years ago. But collectively, they represent a very small percent of the total marketplace. Thinking again about the market, any time that routing guides are operating at near perfection with tender acceptance rates in the high 90% range and the average depth of tender close to 1, you can assume that the market is going to be very competitive on price regardless of competitors, especially coming out of an environment in 2018, where many of our shippers and many shippers in the industry far exceeded their budgets based on the rapid increases in costs.

And right now, they're actively looking at ways of recouping those costs this year. If we think about the bids, our win rates on bids this year have improved throughout the year. But it's been against a smaller base of available freight, as we typically see Q4 and Q1 as the highest volume bidding quarters.

We feel really good about our plan going into Q4 of this year and looking forward into 2020. And in some ways, this is just the nature, the cyclical nature of our business. Contracts as you know typically work in one-year cycles. And if you miss out on a bid, you tend to reflect those results for a year. And if you hit on those bids or win on those bids that freight can be at risk in the next year as well.

So we've remained really disciplined in our pricing. We've chosen not to chase freight that could generate financial losses during this contract cycle, just for the benefit of taking a short-term volume increase.

Robert Houghton

The next question is for Mike and is from Fadi Chamoun with Bank of Montreal. Can you talk about the drivers of the deceleration in net revenue growth from minus 8% in Q3 to minus 15% in October? With comps remaining tough in November and December, should we expect the October trend to continue through the rest of fourth quarter 2019?

Mike Zechmeister

Thanks, Bob. As a reminder, in Q3 this year, we saw total company net revenue per business day down 10% in July, down 4% in August and down 16% in September. October looks similar to September at down 15%. You're right about the challenging comps in November and December. Last year, we saw net revenues per business day up 11% in November and up 13% in December as our truckload net revenue per shipment was at or near all-time highs driven by the combined benefit of locking in contractual pricing in falling cost environment and spot market opportunities in a tight freight environment.

In Q3 this year, our truckload committed and transactional pricing declined throughout the quarter, in response to the competitive pricing environment. While at the same time, carrier costs moderated sequentially. The result was a reduction in truckload net revenue per shipment as we moved through the quarter and this trend continued into October.

While our truckload volume did improve sequentially from Q3 to October, it was not enough to drive an improvement in total company net revenue growth. To sum it up, while capacity is showing some very early signs of tightening, we don't see anything on the horizon that would lead us to believe that the freight environment will be significantly different through the first half of 2020.

Robert Houghton

The next question is from Jack Atkins with Stephens. Bob, as you guys execute on your strategy to transform the C.H. Robinson business model into one where you're leveraging technology to more efficiently execute your customers' needs, how do you think about the timing of investment to build out that capability to make this a reality relative to the timing of market share gains to leverage them?

Asked another way, could we see a period of elevated expenses over the next couple of years, before the revenue for market share gains really kick in?

Robert Biesterfeld

Good morning, Jack. Thanks for the question. So let's talk first about market share gains. And this will be an oversimplification. But as I think of the market, there are really two types of freight in North America surface transportation. Let's call it, complex freight and commodity freight, and that's not meant to oversimplify and say that shippers that largely ship commodity freight don't have some complex challenges.

But in order to increase market share gains, each type of freight requires a different solution, both in terms of technology and execution. So in the commodity freight space, think about regular route freight, high velocity freight that moves largely via routing guides with fairly consistent or seasonal volumes.

In this space, we're investing in technology here to remove friction from both the customer and the carrier in order to maximize yield and efficiency for both parties. So examples of this would be, more accurate algorithmic based pricing, customer-specific rating engines, focused on real-time visibility, digital freight matching and taking manual steps out of the process, which align committed capacity to committed customer relationships, and also moving more towards multi-leg movements, right. So these are all examples of technology and operational investments in the space. Our ability to capitalize on these investments in technology along with our data and operational excellence is what's going to drive market sharing – market share gain in that space.

Within the more complex freight, our technology investments are less about driving efficiency and more around driving innovation to solve some really complex supply chain challenges. This involves everything from inventory movement to PO management to executing global on-demand supply chains from, frankly, from first mile to last. And this is really where that tech-plus mantra comes in as technology alone really can't solve these types of problems.

So beyond the types of freight that we're moving, we're also investing in technology, as you know, internally – both internally developed as well as commercial off-the-shelf software to make our overall business more efficient and our teams more effective. So examples of moving parts of our infrastructure from on-prem to the cloud, so that we can better capitalize on the advancement of data science, implementing a new CRM to help make our sales force even more effective, all these are incremental expenses in technology, where many cases, the expense is going to come before the value that we recognized. So likely there will be some delay between investment and return on that investment.

Robert Houghton

The next question comes from Allison Landry with Credit Suisse. Ben Hartford with Robert W. Baird asked a similar question. Bob, net revenue and EBIT per employee fell dramatically in Q3? Given the softer market, have you considered lowering headcount to better align resources with demand? How do you expect to mitigate decreased productivity looking ahead?

Robert Biesterfeld

All right. So we're being really mindful about headcount across the enterprise, right now, to include our business divisions as well as all of our corporate functions. If we peel back the onion layers, so to speak, this quarter, our average NAST headcount was down 10 basis points. But the variance between our actual headcount beginning of the quarter and the end of the quarter was more pronounced. We would expect that NAST headcount to continue to decline through the fourth quarter.

Robinson Fresh headcount was down 12% for the quarter. Global Forwarding headcount was down for the quarter excluding Space Cargo and across European Surface Trans and Managed Services, our headcount was up, as we've got large customer wins that were in the process of onboarding and implementing, and these businesses frankly have less size and scale, and they required that incremental investment headcount.

Parallel to that, we've increased our headcount in our technology team by over 60% in the past couple of years. And we expect this investment in technology headcount to level out, but there is a run rate effect that will play out to the next couple of quarters. As our business processes become more aligned and automation continues to increase, coupled with further consolidation of task-oriented functions across all areas of our business and shared services. We do expect a continued lift through efficiency on a per head basis.

Now I've said it on multiple occasions that our goal is to decouple that linear relationship between that change in headcount and volume, and it demonstrates our productivity uplift. And a lot of that technology investment as we've talked about is targeted at that goal. So given that personnel, again, as our largest expense, once accomplished we really see significant positive impacts to our operating margins.

Robert Houghton

The next question for Bob is from Chris Wetherbee with Citi. What type of demand environment, do you need to see to return to your longer term net revenue, operating income and net revenue targets?

Robert Biesterfeld

Good morning, Chris. Thanks. In our press release and earlier in this call, I made the comment that I feel really good about our team, and how we're controlling the things that are within our control. And I want to take an opportunity to reiterate that here. Our teams are less focused on the external environmental factors that out of our control then we are on working our plan, staying focused on our customers and driving our long-term strategic plan. That's not to say that we're ignorant of those factors, is just to say, that we feel it's in our best interest to focus on where we can make a direct impact.

So as you've seen in the several years, we've invested heavily into diversifying our portfolio and expanding our Global Forwarding network. We're going to continue to do that both organically and via acquisition as we think, it's the right thing to do for our customers and the right thing for the balance of our portfolio.

We've been in the journey the past few years in our NAST business to evolve from this decentralized model of independent offices to a scaled network that operates as one, that truly leverages our scale, our technology platform and our national reach. We've obviously increased investments in technology to drive value for our customers and our carriers in new ways and to drive efficiency and automation in our business.

We've almost doubled our Managed Services business on the last 5 years, and now managing some of the most complex and global supply chains in the world. We continue to evolve our sales and our go-to-market approach to align our best talent, to our best opportunities, and to drive market share growth. So when I think about the fact that we've got no more than 3% market share in any market that we participate in. I think about the initiatives that we have underway across our business. I really don't think, Chris, that it's going to be the demand environment to drives our result as much as it's going to our ability to successfully executing our plan, that's going to define our success over the next several quarters and several years.

Robert Houghton

The next question is also from Chris Wetherbee for Bob. Can you outline your investments in automation? How much of NAST volume was automated in Q3? And where can this number go on the next or 2, and how would it be reflected in earnings power? Can you also talk, where you see the most opportunity from technology in the next few quarters?

Robert Biesterfeld

All right. Thanks, Chris. Automation has clearly become a broadly used term across our industry, and we're seeing more and more that is being defined in multiple ways by many different parties in the supply chain. So it's difficult to give an absolute answer to the question of how automated is our business. So I'll attempt to just touch on a few different areas of automation and digitalization where we're focused for both our customers and our carriers.

And so the first area of focus around automation and digitalization is around pricing, so pricing in terms of delivering pricing with greater speed, with greater accuracy and enhancing win rates. So examples of that would be the launch of our Freightquote by C.H. Robinson products, which is delivering pricing across multiple modes to that long-tail of small infrequent customers that we work with.

Our transactional pricing engine or our customer specific pricing bots that we've implemented across different TMSs and with specific customers are ways that we're reducing friction and driving more accurate pricing faster for customers, which I would consider to be automation or digitalization. The second area around automation is around freight distribution, so digital freight matching, yield improvement, multi-leg movements, all leading to reduced friction on the carrier side as well as improved quality for our customers.

The next area of investment on automation is around lead generation and sales force optimization really ensuring that we've got the right leads to the right people in order to capitalize in the right opportunity. Kind of this overarching focus on automation or digitalization is around connectivity, right, with over 200,000 companies connected to our Navisphere platform, it's really important for us that we have the most digital and most connected platform there.

So that we can eliminate manual steps, so that we can improve visibility and so we can reduce friction from quote to cash. And as a bunch of back office stuff that we're also focused on from an automation standpoint and everything from how we sign up carriers and making that a more automated process to how we manage our AP, AR.

So we've got specific goals for moving each of these areas forward, and we are making progress in each area. We just haven't really distilled the metrics that we're ready to share publicly on an ongoing basis. If you think about the second part of that question in terms of, we're reporting the technology investment. Our technology investments are largely going towards 3 areas, creation, innovation and maintenance. So about 60% of our tech dollars are going towards creation, which is really around expanding the capabilities of our Navisphere platform. 20% of our technology dollars are going towards innovation, new technologies, new products and platform extensions. And 20% of our technology dollars are going towards maintenance and infrastructure, ensuring that we've got the availability and the integrity of systems that our customers demand.

Robert Houghton

Our next question is for Mike from Ravi Shanker with Morgan Stanley. Scott Schneeberger with Oppenheimer asked a similar question. What was the contract spot mix in Q3? And which way are you headed from here?

Mike Zechmeister

Thanks for the question Ravi and Scott. Our contractual versus spot mix was 70-30 in the quarter in favor of contractual. The general market moves at around 85% contractual during this part of the freight cycle. But due to the fact that we serve so many infrequent shippers in the truckload market that don't generally utilize contractual arrangements, we tend to cap out at around 70% contractual, while we don't have precise optics into our contractual versus spot mix going forward.

We will have – we will likely remain weighted towards contractual volume over the next few quarters. Over an extended freight cycle, we continue to believe that honoring our commitments to our contractual freight, while also securing spot market capacity is the best way to serve our network of customers and carriers, grow our business and maximize shareholder value.

Robert Houghton

The next question is for Bob and comes from Jack Atkins with Stephens. Brian Ossenbeck with JPMorgan asked a similar question. We've heard a number of carriers and shippers talk about pulling bids forward and rebidding existing freight to take advantage of lower market rates? Has this provided C.H. Robinson an opportunity to gain market share? Or has this been more of a net negative as it has put greater than expected pressure on your net revenue per load?

Robert Biesterfeld

So interestingly, we actually haven't seen many shippers pulling bids forward. I think, given most of shippers contractual routing guides are working almost perfectly coupled with the fact that they're seeing already year-over-year cost savings. I'd say that we've seen shippers less likely to actually rebid mid-cycle. One trend that we are seeing here more recently is shippers offering the opportunity to lock-in, what I'd call incumbent volumes for the next bid period at either flat or declining rates in order to keep freight out of upcoming bids and to maintain incumbent volumes.

So given these dynamics and the likelihood of pricing remaining relatively flat in the truckload marketplace in the coming quarter. We do see this as having a potential negative impact on net revenue per load relative to our year-over-year comparisons for the next couple of quarters.

Robert Houghton

Our next question is from Dave Vernon from Bernstein. Bob, what should investors watch for to judge the success of your investments in technology? Is it headcount, margins, growth? And are there any targets for timelines on key metrics that you can share with the market?

Robert Biesterfeld

So my quick answer to that is, yes, right, we're going to make investments, they have to yield either headcount margin or growth. My longer answer is that we're looking at several metrics to measure the proof points on the value of these investments. So ultimately, these investments need to impact either our internal or external stakeholders. And we tend to look at these to the lenders of our employees, our carriers, our customers, and of course, our owners or investors. So internally, we're looking at these investments and how they impact that interplay between headcount and volume, and the efficiency and effectiveness of our employee. So that's really, the answer, yes, headcount is a factor for us there.

Externally these investments have to impact either our customers or carriers in a positive manner that create unique value for them, normally that value is realized as a reduced cost, better insights or improved service for our customers than increase yields or better experience for carriers. So those factors are really tied to fueling growth. So the combination of those benefits is what's going to yield more growth with lower relative personnel expenses to manage that growth, which in turn drives to be improved margins that we and our shareholders are expecting.

So we're continuing to evaluate the right financial and non-financial measures here that we can share broadly and we will do that moving forward.

Robert Houghton

Scott Schneeberger with Oppenheimer asked, Bob, what is your strategic view for balancing price versus volume?

Robert Biesterfeld

So my general belief is that price is directly correlated the value and the markets ultimately going to set price based on the value that's being created. In our industry, regardless of we're talking about NAST, Global Forwarding or any of our operating divisions really, no one party is large enough to drive pricing for entire industry over the long-term. So in the broader freight market of commoditized freight movements that I mentioned earlier, the biggest drivers of price are simply supplying demand, but they are not the only factors that drive price. I also believe that it's ultimately going to be volume that drives long-term growth. But that volume has to be developed and maintained over time by creating that sustained value over time. Not just by providing the lowest price in a short-term.

So volumes are going to come to those companies that create sustained value through cycles. Our customers continue to tell us that service notably on-time and full, is the number 1 factor that drives purchasing decisions and that technology is impacting over 90% of the purchasing decisions with the customers make.

So as I reflect on our customer base, I am proud of the fact that our top 500 customers, which make up about half of our revenues, showed 100% retention rate over the past year. And over 90% of these customers have been our partners for over a decade. I think that speaks to our ability to create mutually beneficial value. And when it comes to guiding and coaching our teams, I'm always going to guide our teams to seek out that longer-term value and relationship that we can build upon over time versus short-term price driven volume.

Robert Houghton

Brandon Oglenski with Barclays and Chris Wetherbee from Citi asked about M&A. Mike, with several public peers also showing reduced margins in their brokerage operations, is the potential price of an acquisition either at the tuck-in or more strategic variety become more attractive? Are there technology assets that could fit well with the platform you've developed that would make C.H. Robinson, even more of a single source platform for customers? And is M&A likely to take a greater role and driving C.H. Robinson's growth moving forward?

Mike Zechmeister

Yeah, good question, Brandon and Chris. As has been our history, we continue to see M&A as a lever to help us expand our geographic presence add/or improve services, build scale and enhanced our technology platform. We preferred strong businesses with compelling strategic benefits, good cultural fit, and proven non-asset based business models. Specific to your question on the near-term margins related to this point in the freight cycle. I am not sure that will have a significant impact on overall valuations or long-term prospects.

Let me also add that with respect to the benefit of building scale, we will be selective in our pursuits as we generally believe that we can build scale at a lower cost than buying it. With our strong balance sheet, significantly cash flow generation and liquidity, we are well positioned to capitalize on investment decisions with the strongest returns on a risk adjusted basis whether they are M&A related, technology or other investments.

Robert Houghton

The next question is for Bob, and comes from Todd Fowler with KeyBanc. Chris Wetherbee asked a similar question. Please discuss the change in customer sell rates falling faster than capacity buy rates during the quarter? This is the first time, since the first quarter of 2018 that buy rates have outpaced sell rates. Does this reflect firming capacity costs or greater than expected price competition? Any additional color on expectations for Q4 2019 would be helpful?

Robert Biesterfeld

Okay. So as you know, we won't go deep into specific trends within the quarter. But in general, based upon the information that we shared about October about truckload volumes being flat and that revenues for the enterprise being down 15% through October, it's a fact that margin compression and truckload in carrying forward in our business so far in Q4. In terms of the competitive nature, I feel like I've addressed that in a couple of other earlier questions. But I want to address the question on Q3 results and the change in rate and cost relative to Q3 of last year. And I think to do that most effectively, it's worth widening the aperture a bit to look at the sequential comparison of really what happened over the past couple of years as we've got this rapid rise and fall of the market.

And Todd, as you pointed out, it was Q1 of 2018 was the last time that we saw this inflection. So if we go back to Q1 of 2018, we saw pricing peaking at a 21% increase year-over-year followed in Q2 by a 20.5% increase followed by a 14% increase on a year-over-year basis in Q3 of 2018, and then 1.5% increase in Q4 of 2018, before customer pricing reflect a negative in Q1 of 2019, where we saw things down 5.5% that accelerated to down 11.5% in Q2 then down 12.5% in Q3. So we've really seeing this rapid rise and fall kind of bookended on either side where price lagged cost.

More recently, if we look at sequentially from Q2 of 2019 to Q3 of 2019, we saw customer pricing drop around 1.5% sequentially, but carrier costs net of fuel actually increased about 1.5% sequentially. So that's what caused the difference between Q2 and Q3. With the inflection of change in cost being less than that change in sell rate this quarter. I'd say, it's hard to say if this is a bottom, as we've seen in past cycles things tend to bounce around a little bit, before a full recovery.

But our data would show that both buy and sell rates are back to about where they were at this point in 2017, so it kind of feels like we've reached back to where we normally would be.

Robert Houghton

Our next question for Bob is from Jack Atkins from Stephens. Would you expect personnel and SG&A expenses to trend lower from 3Q levels? Or is the need to invest in technology going to require additional investments into 2020 that will cause your operating expenses to rise, even if net revenue growth remains under pressure.

Robert Biesterfeld

So I'd anticipate that Q4 will be relatively in line with Q3 as a decline of personnel expense driven by decreased variable compensation and declining headcount will be offset by the run rate of the increase in technology expense.

Robert Houghton

The next question is for Mike from Todd Fowler with KeyBanc, Ken Hoexter with Bank of America Merrill Lynch and Brian Ossenbeck with JPMorgan asked a similar question. Please discuss the modest reduction in CapEx for 2019. What is this in relation to? Also, please provide any initial thoughts on 2020 CapEx, if possible.

Mike Zechmeister

Sure. As a reminder, we reduced our 2019 full-year CapEx guidance to $65 million to $75 million from the $80 million to $90 million that we had previously communicated. The reduction is simply a function of more of our technology spend being classified as operating expense as opposed to capital expense. We remain on track to invest approximately $200 million in 2019 in total technology spending.

We also expect to provide 2020 CapEx guidance as a part of our Q4 earnings call.

Robert Houghton

The next question for Bob comes from Matt Young with Morningstar. Chris Wetherbee with Citi asked a similar question. Last quarter, you talked adjusting pricing to reach the top of shippers' route guides, where much of the freight opportunities reside. Should we expect this strategy to reinvigorate truckload volume trends in the quarters ahead?

Robert Biesterfeld

So we've seen our win rates as I said earlier increase through the year in our contractual bids, but against that smaller base of freight available in the past couple of quarters. Given the insights that we have in the routing guide performance in both our Managed Services business, coupled with the feedback that we get from our customers within NAST, we believe that pricing towards the top of the routing guide is still the most likely means to be awarded freight in this environment for contractual freight.

If we look at Q4, our NAST comparisons on the volume side are a bit lower in Q4 than they were in Q3. But regardless of that, we're continuing to price where we believe the contractual marketplace will level out through the terms of these annual contract commitments. And we're going to balance our focus on volume growth with that of meeting the commitments of our customers that they expect of us.

We are going to maintain discipline to pricing and we're not going to chase what I would call unsustainable paper rates during peak bid season, because we need to put ourselves in a position to honor the commitments over the annual nature of these customers' expectations and not expose ourselves to significant loser loads or negative files just in order to take volume.

Robert Houghton

Our next question for Bob is from Jack Atkins with Stephens. Can you talk about your expectations around peak season in both your domestic markets and your forwarding operations?

Robert Biesterfeld

Yeah, I describe the view of our customers that they're sharing with us around peak is mixed. In general, uncertainty still seems to kind of reign. We are seeing some customers put in place supply chain continuity programs in order to ensure capacity for the peak season. And others are just playing it out somewhat a status quo.

Looking at our own data, one of the data points that we tend to look at in our truckload business is that of aggregate demand, which is really a measure of absolute tenders that we received. Looking at the trend from Q2, of Q3 this year, we saw an increase in aggregate demand versus a drop sequentially over that same time period last year, so a bit of a different trajectory for us on a year-over-year basis. But I'm really unsure if that's reflective of the overall market or is anyway a precursor to a differentiated peak season.

We do have a later Thanksgiving this year. So we've got about a week less between Thanksgiving and the December holidays than we had last year. So that could compress some of the domestic peak movements that could cause some brief supply chain interruption.

Robert Houghton

The next question is for Bob from Scott Schneeberger with Oppenheimer. Given uncertain global trade conditions, please address changes in customer behavior with regard to supply chains.

Robert Biesterfeld

The simple answer is that supply chains have shifted in some cases and we feel really well equipped to help our customers manage that given our global network. We mentioned in the call earlier about our increased results and increased volumes in Southeast Asia. But in general, I think there are still just a lot of unknowns. And customers are still trying to figure it out. There is no clear path forward.

Robert Houghton

The next question is for Bob from Ravi Shanker with Morgan Stanley. Has there been any change in the competitive hiring dynamics following a new entrant's large headquarter opening in Chicago?

Robert Biesterfeld

No. Chicago is a hub for our North American logistics. infrastructure and our talent. So we've been there for over 100 years. I think people know, but Chicago has been our home. And we've got over 2,500 people in the Chicago land area. And we continue to attract, hire and retain what we believe to be the best of the best across our different business units.

If you think about the importance of Chicago to us, we've got our flagship NAST office in Chicago Central and Lincoln Yards. We've got our intermodal headquarters in Chicago. We've got our Global Forwarding headquarters in Chicago. We've got our TMC Managed Services headquarters in Chicago as well as two other really high-performing NAST offices there out in the suburbs.

So, Chicago is super important for us. We've got great talent there and we continue to hold on to that talent and continue to grow and invest in that geography.

Robert Houghton

Our next question for Bob comes from Brian Ossenbeck with JP Morgan. Are we preparing for the impact of autonomous trucking on the business, even if it's only adopted on a small scale?

Robert Biesterfeld

Freight under management or the acronym FUM is something that we think is really important for us. And it's a measure that we talk about and look at a lot in our business. And we think that FUM or freight under management will be even more important for the future. Today, between our Managed Services business and our traditional brokerage business, we've got over $20 billion in freight under management and around 18 million shipments. So once we get to this more autonomous environment whenever that might be, we think this concept of FUM will be even more important.

Our business today is largely built upon optimizing the yield of our motor carriers in Surface Transportation. And part of the reason that carriers choose us today is that flywheel effect within our business that our model provides. We've got more freight. They're able to reduce their empty miles and get greater returns for their assets. But today, there is biases within that model that can make that perfect optimization a little bit more difficult. Customer might have a bias to which underlying carrier that they want to load, based on their experience with the driver. And there's obvious biases toward drivers' need and want to go. And typically, they want to get home.

And so, if we do get to this more autonomous state and some of these biases are removed, we think that we're really best positioned to optimize the yield of those autonomous assets for the same reason that we're best positioned to optimize the yields of the assets with great truck drivers in the cabs. And we've got more truckload freight than anyone else in our industry. We've got more freight under management and we've got the people and the technology and the experience to drive that process.

Robert Houghton

Our final question is also from Brian Ossenbeck. Bob, have new initiatives such as Robinson Routes and the smaller shipper portal from Freightquote contributed materially in 2019?

Robert Biesterfeld

These are two programs that we're really excited about, but materiality hasn't quite emerged with either one of them yet, as they're both early on in the development and deployment. We're learning every day in both cases and we expect both of them to become more of a core part of our service offering. If we think about Robinson Routes, which is our ability to create multi-leg movements for carriers, it's really still on a beta phase. We're using it largely with dedicated fleets and in specific corridors.

With the Freightquote by C.H. Robinson product, even with just the soft launch of the product that we've done in the last quarter, we've already brought close to 200,000 unique users into the product and we're seeing great results in terms of our book to quote ratios, our ability to grow business in that micro/small segment. And the customer feedback that we're getting is great.

As we think about how we most effectively serve that long tail of increased – or infrequent shippers that we have into the future, we really see that Freightquote product is having the opportunity to be just an absolute homerun for us.

Robert Houghton

That concludes the Q&A portion of today's earnings call. A replay of today's call will be available in the Investor Relations section of our website at chrobinson.com at approximately 11:30 AM Eastern Time today. If you have additional questions, I can be reached via phone or e-mail. Thank you again for participating in our third quarter 2019 conference call. Have a good day.

Operator

Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time, and have a wonderful day.