C.H. Robinson stock blasts higher after strong first-quarter numbers

Post-earnings action suggests heavy short covering; key numbers sequentially were significantly improved

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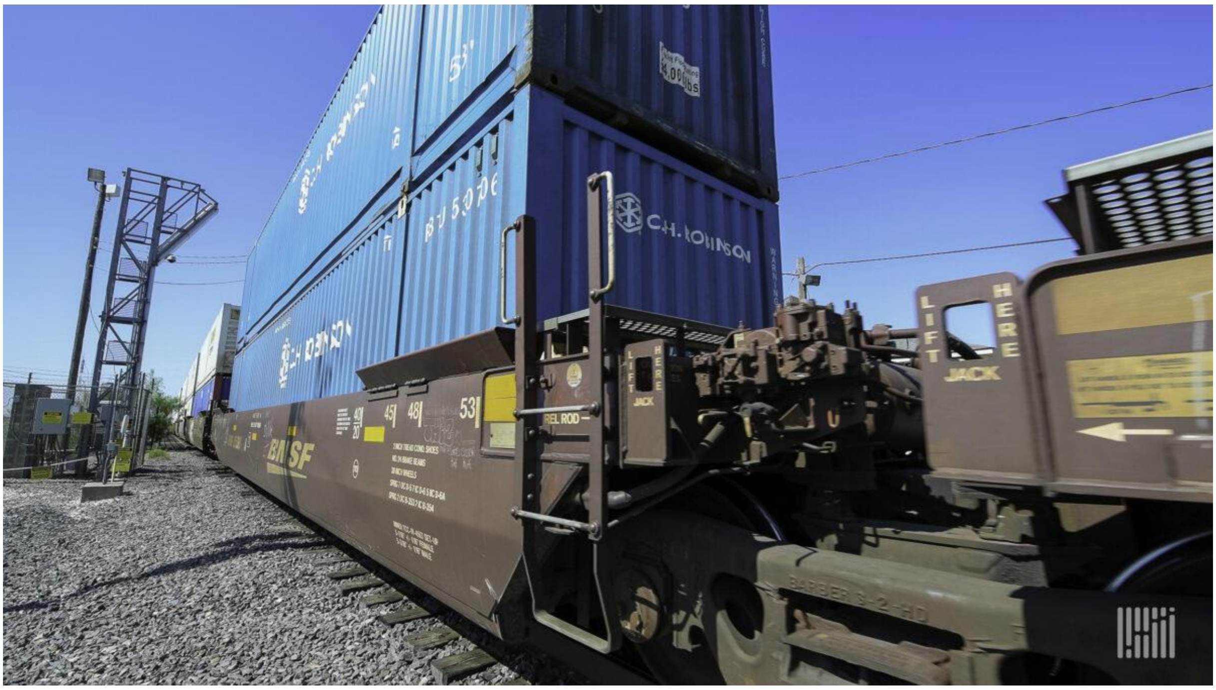

C.H. Robinson touted its sequential earnings comparison in its first quarter report. (Photo: Jim Allen/FreightWaves)

Against tough-as-expected year-to-year comparisons, C.H. Robinson's first-quarter earnings report chose to highlight how the 3PL did sequentially, where signs of improvement were not hard to find.

The numbers overall were strong enough to lead analyst Jeff Kauffman of Vertical Partners to say on the company's earnings call something that hasn't been heard much in earlier post-earnings discussions at C.H. Robinson: "Congratulations, to see numbers like this."

And in a broader round of applause for the earnings, post-earnings trade in C.H. Robinson (NASDAQ: CHRW) stock soared. C.H. Robinson has been reported as one of the most heavily shorted shares in the market, which always has the potential to lead to a sharp upward move should the fortunes of a battered company change and traders rush to cover their short positions.

It appears a lot of traders holding short positions in C.H. Robinson stock swung into action Tuesday afternoon.

Trading in the stock closed the day at $72.09, up from the $65 52-week low recorded April 17 but well down from the 52-week low of $106.14, recorded almost the full 52 weeks ago, on May 3, 2023.

But at one point within 90 minutes of the market's close, C.H. Robinson's stock price was up more than 13%. Just before 7 p.m. EDT, it was up about 11.2%.

The company's earnings for the first quarter beat Wall Street consensus projections. C.H. Robinson's non-GAAP earnings per share of 86 cents was better than consensus forecasts by 23 cents, according to SeekingAlpha. Revenue of $4.41 billion was $130 million more than consensus.

Key sequential comparisons were solidly positive. Total revenues in the core brokerage business, North American Surface Transportation (NAST) were largely unchanged at $3 billion from the fourth quarter of 2023 to the first quarter of 2024.

But gross profits in NAST rose to $397.1 million from $380.2 million, and income from operations rose sequentially to $109 million from $96 million.

Individual transportation types also were improved sequentially. Truckload adjusted gross profits rose to $257.4 million from $243.8 million; LTL profits climbed to $141.1 million from $136.6 million; and ocean transportation was $112.9 million, up from $99 million. Adding in other transportation types led to adjusted gross profits for the various transportation service lines of $657.7 million in the first quarter, compared to $618.6 million in the fourth quarter of 2023.

The adjusted gross margin for all transportation activities in the quarter was 15.4%. That is better than three of 2023's four quarters — topped only by 15.5% in the second quarter — and topped all the quarters of 2021. The most recent quarter when it topped 16% was the 17.5% from the second quarter of 2020.

To reflect how the past several years have been tough at C.H. Robinson, a chart on the adjusted gross margin for all transportation activities showed annual margins of 16.6% to 18.4% for 2015 through 2019.

The adjusted operating margin for the company as a whole was 19.3%. While that is down 420 basis points from a year ago, it was a 190-bps improvement from the 17.4% in the fourth quarter of 2023.

What's in the model?

With CEO Dave Bozeman repeatedly invoking the "model" as the reason for the improvements, that not surprisingly led to a question from analyst Scott Group of Wolfe Research: What's in the model?

Bozeman said he was "pretty serious about the model." It is based on Lean Principles, which has five basic points: Specify value, identify steps in the value stream, create flow, establish pull and seek perfection.

“I’ve done it in other places and I know it works,” Bozeman said. And one of the basics of the model, Bozeman said, has been focusing on “inputs versus outputs.”

That sort of focus looks at the steps that are being undertaken to get a task completed and not just the outcome of a process. And that involves “the need to drive better discipline, accountability and responsibility.”

“We’re driving our enterprise strategy with maps and scorecards, and we’re looking at it ourselves from inputs,” Bozeman said. “We took the time to put all the inputs in instead of being an output-based company.”

Bozeman and the company’s presentation released in conjunction with the earnings focused on several other metrics that he said were reflective of improvements in process at C.H. Robinson. For example, one chart showed two quarters of sequential improvement in the company’s truckload average gross profit per shipment, having bottomed out in the third quarter.

Other benchmarks improved

CFO Mike Zechmeister noted that C.H. Robinson’s truckload costs in the first quarter, defined as cost per mile, increased in the first quarter relative to the fourth. “So we had a sequential increase there, but we were still able to deliver margin expansion,” he said.

Zechmeister also said C.H. Robinson is putting internal emphasis on the measurement of shipments per person per day, “because that’s really the measure of how productive our folks have been.”

Technology is expected to play a key role in that effort, he added. “What we’ve tried to do with our technology is figure out how to reduce manual tasks, manual touches and really target those areas so that our people can focus on what they do best in their relationships and solving problems for our customers," Zechmeister said.

Bozeman said truckload volumes in the quarter reflect C.H. Robinson's conclusion that it has grown market share, and it "outpaced" other unspecified market indices for the third consecutive quarter.

Comparisons to a year ago were weak, as expected, as they have been throughout trucking this quarter. But based on the questions from analysts and the reaction after the close in the stock market, that's not where the focus is in sizing up C.H. Robinson.

Gross profits were down 4.5% from a year ago. Income from operations fell 21.1%. The adjusted operating margin, a non-GAAP measure, was down 420 basis points to 19.3%. Adjusted EPS was down 14% from a year ago to 86 cents but was up 72% sequentially.