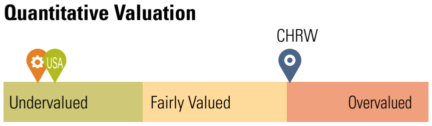
C.H. Robinson Worldwide Inc CHRW (XNAS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 28 Jan 2020 22:50, UTC	77.88 USD 28 Jan 2020	80.00 USD 29 Jan 2020 22:00, UTC	0.97	2.58 28 Jan 2020	2.62 28 Jan 2020	10.53 28 Jan 2020	Integrated Freight & Logistics	Exemplary

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Wide	Wide
Valuation	★★★	Overvalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.06	1.06	0.80	0.83
Price/Earnings	16.3	20.8	16.8	20.1
Forward P/E	17.7	—	13.9	13.9
Price/Cash Flow	12.2	19.1	11.2	13.1
Price/Free Cash Flow	13.1	21.6	18.4	19.5
Trailing Dividend Yield%	2.58	2.35	2.30	2.35

Source: Morningstar

Bulls Say

- C.H. Robinson enjoys a long history of impressive execution throughout the freight cycle, and the firm has thwarted a host of competitive threats over the years.
- We estimate C.H. Robinson has gradually increased its share of the truck brokerage industry to roughly 20% compared with 13% in 2004.
- Robinson's non-asset-based operating model has generated average returns on capital near 30% during the past decade--well above returns generated by most traditional asset-intensive carriers.

Bears Say

- A fragmented marketplace and the potential for high capital returns are attracting competition to the truck brokerage space, including startups, brokerage operations of asset-based carriers, and (more recently) digital freight matching entities.
- Small brokerage operations once limited in scope are becoming more efficient (and more of a competitive threat) as they are acquired by larger, more capable 3PLs.
- C.H. Robinson's midcycle gross profit margins on truck brokerage business will likely shake out below the firm's historical average.

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Truck Brokerage Hangover a Major Challenge in 2019, but C.H. Robinson Is Well Positioned

Business Strategy and Outlook

Matthew Young, CFA, Eq. Analyst, 29 January 2020

C.H. Robinson dominates the $80 billion-plus U.S. highway brokerage market, and we think its immense network of shippers and asset-based truckers supports a wide economic moat. Although the company isn't immune to cyclical downturns, its variable-cost model helps shield profitability during periods of lackluster freight demand, as evidenced by a long history of above-average operating profitability. The firm does not own transportation equipment, and we estimate that around 70% of operating expenses are tied to performance-based variable compensation, which tends to move in line with net revenue growth over the long run. We think the firm remains well positioned to capitalize on domestic third-party logistics consolidation (including market share gains) despite intensifying competition.

Over and above underlying shipment demand trends, market share gains will probably remain the key growth driver for Robinson. For perspective, we estimate Robinson's stake of the domestic freight brokerage industry approximated 20% in 2017, up from 13% in 2004, based on market data from Armstrong & Associates. The truck brokerage business is still vastly fragmented, and smaller, less sophisticated providers are finding it increasingly difficult to keep up with rising demand for efficient truckload capacity access and informational know-how. Robinson's industry-leading network of asset-based truckload carriers (most small) will likely remain valuable to shippers in the years ahead. This is particularly because truckload capacity will see growth constraints over the medium term due to the constrained driver pool.

Robinson has also positioned its international air and ocean forwarding operations to contribute to growth. In this segment, it competes with other top-shelf providers like Expeditors International. In late 2012, it purchased Phoenix International, which more than doubled Robinson's scale in this business. More recently, the firm acquired Australian global forwarder APC Logistics (September 2016) and Canadian forwarder Milgram (late 2017). Buying scale is important in order to secure adequate capacity for shippers, particularly during the peak season.

Analyst Note

Matthew Young, CFA, Eq. Analyst, 29 January 2020

Wide-moat logistics specialist C.H. Robinson enjoyed exceptional growth in 2018 thanks to robust demand and the unprecedented truckload capacity crunch, which bolstered the firm's pricing power and spot opportunities. 2019 ushered in an entirely different narrative, as demand has softened and the capacity crunch has dissipated. C.H. Robinson's North American Surface Transportation (NAST) segment is now grappling with tough comparisons, excess industry supply (plummeting spot and contract sell-rates), and anemic spot activity. Along those lines, fourth-quarter gross revenue fell 8% year over year, though it largely met our forecast as we've been baking in a tough backdrop. That said, net revenue declined significantly more than we anticipated because of greater-than-expected gross margin (net revenue/gross revenue) compression in the flagship truckload brokerage unit. Due to the net revenue shortfall, operating margins (calculated off net revenue) also missed our forecast as well as consensus expectations.

While we were encouraged to see truckload volume trends improve sequentially, heavy gross margin pressure will persist into the first half, and we are thus reducing our net revenue and margin estimates for 2020, and to a lesser degree 2021. Although our midcycle operating-performance expectations remain mostly intact, we expect this adjustment to reduce our $81 fair value estimate slightly by 1%-2%. Following the recent sell-off, we don't think C.H. Robinson is a value play, but the shares are now more reasonably valued relative to our longer-term expectations for top-line, profitability, and free cash flow growth.

As we've noted over the past few quarters, the first half of 2020 will continue C.H. Robinson's painful hangover phase. That said, assuming no recession arises, pricing conditions should stabilize by the second half as truckload capacity achieves a better state of balance, and we look for the company to rekindle volume growth as it recalibrates.

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Expeditors International of Washington Inc EXPD	USD	12,577	8,366	9.60	20.41
JB Hunt Transport Services Inc JBHT	USD	11,987	9,033	7.21	23.75
XPO Logistics Inc XPO	USD	8,270	16,901	4.41	27.55
Landstar System Inc LSTR	USD	4,423	4,272	7.34	18.28

Economic Moat

Matthew Young, Eq. Analyst, 29 January 2020

C.H. Robinson maintains a wide economic moat thanks to the network effect. Its industry-leading network of shippers and carriers reinforces a compelling value proposition, and duplication by small providers with fewer resources would be a formidable task.

In its core North American Surface Transportation segment (64% of net revenue), which largely reflects highway brokerage operations, C.H. Robinson's substantial customer base of more than 40,000 shippers affords significant buying power. As a result, the company can procure capacity at lower rates than shippers could generally obtain directly with carriers, thereby providing customers with opportunities for material cost savings. Shippers also enjoy the added benefit of converting fixed transportation costs (such as a large traffic management department) into variable costs when outsourcing logistics management functions.

Furthermore, C.H. Robinson's vast network of more than 60,000 asset-based carriers (most small) across most transportation modes acts as a valuable source of capacity for shippers. As in past tightening cycles, the company's unmatched truckload capacity access has proved quite valuable over the past year given unusually tight capacity rooted in widespread ELD adoption (ELDs have tempered small truckers' productivity). Further, the constrained driver pool has prevented most truckers from offsetting lost miles (from ELDs) with fleet growth. Additionally, C.H. Robinson's relationships with air, ocean, and rail carriers support multimodal capabilities that optimize shippers' use of truckload, less-than-truckload, and rail intermodal on the domestic front and air and ocean freight for overseas shipping. We believe demand for multimodal solutions is rising, driven in part by improving service levels from the rails and shippers' focus on supply-chain efficiency. This dynamic should play well into the hands of 3PL providers such as Robinson because asset-based truckers must focus on maximizing tractor utilization.

From the perspective of carriers (including truckload and LTL), C.H. Robinson is a highly attractive source of freight opportunities, given its ability to aggregate fragmented demand across a broad customer base of shippers. In this way, truckers can minimize empty miles and supplement sales efforts.

While competitors with sufficient capital can replicate technology, C.H. Robinson's robust proprietary IT platforms provide differentiation from smaller providers with fewer resources. We expect the company to garner additional market share from less capable 3PL competitors as supply chains continue to increase in complexity, requiring sophisticated informational expertise and broad, vetted capacity relationships. C.H. Robinson's strong technology infrastructure, coupled with a vast reservoir of market data, also enhances internal pricing decisions and improves customer connectivity and reporting.

Fair Value & Profit Drivers

Matthew Young, Eq. Analyst, 29 January 2020

Following C.H. Robinson's fourth-quarter results, we reduced our fair value estimate slightly to $80 from $81. We were encouraged to see truckload volume trends improve sequentially, but heavier-than-anticipated gross margin pressure will persist into the first half, thus we tempered our medium-term net revenue and margin forecasts. C.H. Robinson's net revenue grew a robust 14% in 2018 on historically tight truckload-market capacity rooted in solid freight demand and widespread electronic logging device adoption among truckers. Asset-light highway brokers perform best during periods of disruption. Tight supply/demand kept Robinson's value proposition strong, providing a major boost to pricing.

The truckload capacity crunch dissipated by year-end 2018 due to softening demand and small carriers adjusting to ELD-related disruption. As a result, historically high spot rates have retreated from record levels and contract rates have been repricing lower during the late-2019/early-2020 bidding season. The global air and ocean forwarding business also saw pressure stemming from sluggish global trade. Consequently, C.H. Robinson's total net revenue fell 4% in 2019.

The hangover will persist into the first half of 2020 before comps become easier and the trucking supply/demand balance finds its footing. The firm's truckload volume should rise 3%-4%, but we think competitive pricing

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conditions for contractual business will keep sell-rates down for the year. We also expect 120 basis points of gross-margin compression in the flagship NAST truck brokerage unit (to 14.8%). We expect total net revenue to contract 6% in 2020. For 2020, we anticipate EBIT margin (calculated off net revenue) to fall 130 basis points to 29.2%, mainly due to the pullback in operating conditions and heavy IT infrastructure investments aimed at transaction automation. Otherwise, C.H. Robinson remains among the most profitable providers in the industry, and we expect that to persist.

Looking further out, we think the firm can expand organic net revenue around 6% on average on a normalized basis. Longer-term growth should stem from low-single-digit underlying freight-demand, market share gains from small brokers, and modest increases in average sell rates. The truck brokerage industry remains vastly fragmented, and the network effect bestows powerful advantages for providers with scale. We think the firm can generate a consolidated midcycle operating margin (calculated off net revenue) near 33.0%.

Risk & Uncertainty

Matthew Young, Eq. Analyst, 29 January 2020

Although C.H. Robinson's variable-cost model provides a partial of buffer for profitability (relative to asset-intensive providers), the company is not immune to cyclical downturns in freight demand--when economic conditions deteriorate, gross revenue trends will reflect declining shipment volume and challenging pricing on both transactional and contractual accounts.

During periods of accelerating freight demand, truckload capacity typically firms and carrier rates rise. Historically, this dynamic has driven gross profit margin (net revenue over gross revenue) compression because the firm passes through higher carrier rates to customers on a time lag. Along these lines, Robinson's migration to large, price-committed customers over the past five years is a double-edge sword--these shippers provide a greater degree of sticky, scheduled freight, but they also boost gross margin risk.

Despite currently loose capacity, broader trucking industry issues such as driver availability will probably drive intermittent capacity constraints in the years ahead, assuming modest freight demand growth. While C.H. Robinson's value proposition tends to strengthen in such an environment because of its deep capacity access, gross margins usually get squeezed in the short run as carrier rates spike. This is because it takes time to pass through rising capacity rates to shippers, especially on contractual business.

In Robinson's core truck brokerage operations, fuel costs (paid to asset-based carriers) are largely a pass-through to shippers. That said, declining fuel prices artificially boost the firm's gross profit margin percentage because lower fuel surcharges will reduce gross revenue with little impact on net revenue. The opposite occurs when fuel prices spike.

Stewardship

Matthew Young, Eq. Analyst, 29 January 2020

Our stewardship rating for C.H. Robinson is Exemplary. The company's senior leadership teams has performed admirably managing its asset-light freight brokerage model, which includes truckload and less-than-truckload brokerage, intermodal, and global air and ocean forwarding. Despite a few management changes over the years (none disruptive), strong leadership principles appear well entrenched. In our view, C.H. Robinson's highly performance-based entrepreneurial sales culture, decentralized structure, and unmatched salesforce tenure (versus the competition) have contributed meaningfully to its success. Employees are compensated based on the profitability of their local branch, and the company sustains its culture in part by promoting from within its ranks. A history of positive cash flow from operations, industry-leading profitability (including gross and operating margins), and impressive returns on invested capital (mid-20% range) over the past five years) is evidence of above-average execution in a shifting and competitive marketplace. We note the firm pays a quarterly dividend, which has increased annually over the past decade, and has a long history of share repurchases.

C.H. Robinson is not a serial acquirer, but opportunistic acquisitions have become a bigger part of its strategy. In 2012, it acquired top-shelf global air and ocean forwarder Phoenix International, which materially lifted C.H. Robinson's scale in that market. In early 2015, it acquired less-than-truckload brokerage specialist Freightquote, which expanded its base of small and midsize shippers. Freightquote also broadened C.H. Robinson's LTL carrier network and boosted its LTL business by 30%--brokered LTL freight is on the rise, in part because carriers are

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looking to supplement revenue sources. The company has closed a few other tuck-in deals in recent years, including Milgram and APC logistics. These additions have helped incrementally bolster the scale of its global forwarding operations.

In February 2019, the company's board selected chief operating officer Bob Biesterfeld to take the reins on May 9, following longtime CEO John Wiehoff's retirement. We note Wiehoff has been CEO for roughly 17 years, overseeing C.H. Robinson's long stretch of industry-leading execution in the North American asset-light highway brokerage industry. Wiehoff will remain chairman of the board. The decision stems from a leadership succession plan that we believe the board mulled over for quite some time. Our initial take is this is a good decision and we expect no material disruption from this change in the executive team.

We consider Biesterfeld a solid choice to lead the company. For one, having joined in 1999, his tenure spans two-decades. He took on the COO role early last year and was previously president of the firm's core North American Surface Transportation (NAST) division--which houses the flagship truck brokerage operations--a position he held since early 2014. Thus, Biesterfeld is deeply familiar with the firm's unique entrepreneurial sales culture and best-in-class operational know-how. In our view, this is a vital qualification for someone looking to advance C.H. Robinson's long history of market-leading profitability (throughout the freight cycle) and successfully thwarting ubiquitous competitive threats. The firm has done an admirable job defending and expanding its market share over the years, despite gradually increasing competition.

Additionally, the domestic freight brokerage landscape will continue to face significant change/evolution from a technological standpoint (the proliferation of low-cost digital freight apps, for example). Thus, we think C.H. Robinson needs a leader capable of balancing steadfast investment in IT infrastructure and operating margins. Along those lines, we like that Biesterfeld has already been spearheading NAST's aggressive "digital transformation" initiatives for several years, and thus far, the firm has been on the right track in terms of capitalizing on opportunities to improve its data analytics and drive greater automation of back office and carrier-sourcing functions—factors that impact efficiency, productivity, and sales execution.

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Analyst Notes Archive

C.H. Robinson Grapples With Challenging Third-Quarter Highway Brokerage Backdrop

Matthew Young, Eq. Analyst, 30 October 2019

Wide-moat logistics specialist C.H. Robinson's third-quarter gross revenue fell 10%. Similar to what we've seen with other large asset-light highway brokers like Echo and Landstar, the firm's gross revenue came in shy of our expectations as its North American Surface Transportation (NAST) truckload business posted greater-than-expected incremental pricing and volume deterioration. The industry is emerging from the unprecedented truckload capacity crunch seen last year, which supported unusually robust pricing; thus, we've been expecting a continued pull back on tough comps and as conditions normalize. However, we think incremental deterioration in freight demand (partly linked to softening industrial end markets) and absence of spot opportunities are pushing brokers to take sell-rates down significantly to get to the top of shippers' routing guides, where most freight opportunities currently reside. Thus, competition in contract renewals has intensified. C.H. Robinson's profitability also fell modestly short of our forecast due to lost leverage from falling net revenue, coupled with noise from IT investments.

As we've noted over the past few quarters, 2019 (and to a lesser degree 2020) will be a painful hangover phase for C.H. Robinson and its brokerage peers. That said, assuming no recession arises, pricing conditions should stabilize by the second half of 2020 as truckload market capacity achieves more balance, and we expect the firm to rekindle volume growth as it re-calibrates. C.H. Robinson has a long history of impressive execution in tough markets. Our midcycle growth assumptions remain intact, but we expect to lower our $83 DCF-derived fair value estimate by about 2%-3% due to tempering our near-term net revenue and margin forecasts. The shares fell sharply following today's conference call, but we think the stock is now more reasonably valued relative to our long-term expectations for top-line, profitability, and free cash flow growth.

Truck Brokerage Hangover Still a Challenge in C.H. Robinson's Q4, but It Remains Well Positioned

Matthew Young, Eq. Analyst, 29 January 2020

Wide-moat logistics specialist C.H. Robinson enjoyed exceptional growth in 2018 thanks to robust demand and the unprecedented truckload capacity crunch, which bolstered the firm's pricing power and spot opportunities. 2019 ushered in an entirely different narrative, as demand has softened and the capacity crunch has dissipated. C.H. Robinson's North American Surface Transportation (NAST) segment is now grappling with tough comparisons, excess industry supply (plummeting spot and contract sell-rates), and anemic spot activity. Along those lines, fourth-quarter gross revenue fell 8% year over year, though it largely met our forecast as we've been baking in a tough backdrop. That said, net revenue declined significantly more than we anticipated because of greater-than-expected gross margin (net revenue/gross revenue) compression in the flagship truckload brokerage unit. Due to the net revenue shortfall, operating margins (calculated off net revenue) also missed our forecast as well as consensus expectations.

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Quantitative Equity Report | Release: 29 Jan 2020, 16:04, GMT-06:00 | Reporting Currency: USD | Trading Currency: USD | Exchange:XNAS Page 6 of 13

C.H. Robinson Worldwide Inc CHRW ★★Q 29 Jan 2020 02:00 UTC

Last Close	Fair Value^Q	Market Cap	Sector	Industry	Country of Domicile
28 Jan 2020	29 Jan 2020 02:00 UTC	28 Jan 2020			
77.88	73.56	10,533.3 Mil	Industrials	Integrated Freight & Logistics	USA United States

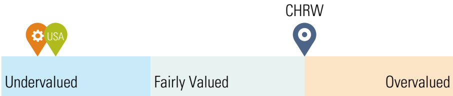
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

C.H. Robinson is a top-tier non-asset-based third-party logistics provider with a significant focus on domestic freight brokerage (66% of net revenue), which reflects mostly truck brokerage but also rail intermodal. It also operates a growing air and ocean forwarding unit (20%) and a legacy produce-sourcing operation (9%). The remainder of net revenue reflects transportation management services and the firm's European truck brokerage operations.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Wide	100	100	99
Valuation	Overvalued	9	9	13
Quantitative Uncertainty	Medium	99	99	98
Financial Health	Moderate	80	61	80



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.06	1.06	0.80	0.83
Price/Earnings	16.3	20.8	16.8	20.1
Forward P/E	17.7	—	13.9	13.9
Price/Cash Flow	12.2	19.1	11.2	13.1
Price/Free Cash Flow	13.1	21.6	18.4	19.5
Trailing Dividend Yield %	2.58	2.35	2.30	2.35
Price/Book	6.3	8.2	1.6	2.4
Price/Sales	0.7	0.8	0.9	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	41.1	43.2	11.5	12.9
Return on Assets %	14.6	14.8	4.8	5.2
Revenue/Employee (Mil)	1.0	1.0	0.5	0.3

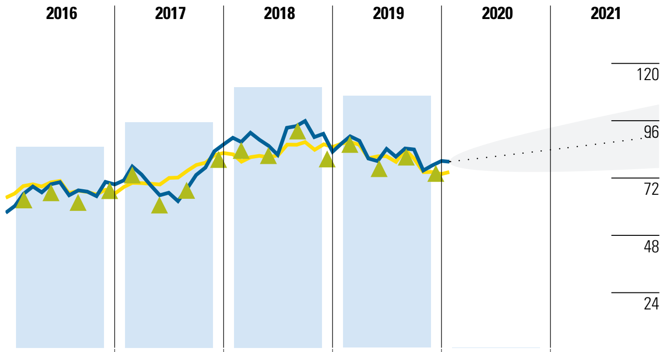
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.7	0.7	0.6	0.5
Solvency Score	302.1	—	484.2	552.4
Assets/Equity	2.8	2.9	1.8	1.7
Long-Term Debt/Equity	0.8	0.5	0.2	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	11.9	7.3	5.5	6.8
Operating Income %	17.7	2.1	6.0	4.8
Earnings %	32.5	10.5	12.3	8.6
Dividends %	3.9	6.2	6.1	7.6
Book Value %	13.7	13.2	13.2	5.9
Stock Total Return %	-7.9	2.5	3.6	5.1

Price vs. Quantitative Fair Value



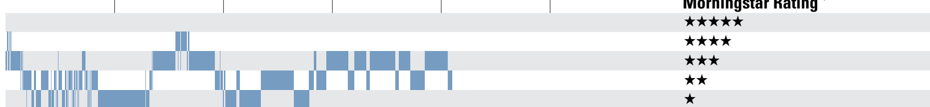
Quantitative Fair Value Estimate
Total Return
Sales/Share
Forecast Range
Forcasted Price
Dividend
Split

Momentum:	Negative
Standard Deviation:	18.84
Liquidity:	High

74.12 52-Wk 92.72
59.71 5-Yr 101.20

2016	2017	2018	2019	2020	2021	
20.9	24.1	-3.5	-4.6	-0.4		Total Return %
8.5	2.6	1.5	-35.8	-2.0		+/– Market (Morningstar US Index)
2.38	2.03	2.24	2.57	2.58		Trailing Dividend Yield %
2.46	2.07	2.38	2.61	2.62		Forward Dividend Yield %
20.3	26.6	18.8	16.3	16.3		Price/Earnings
0.8	0.9	0.7	0.7	0.7		Price/Revenue

Morningstar Rating^Q

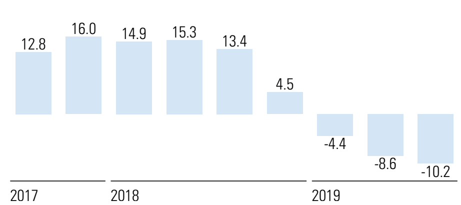


2014	2015	2016	2017	2018	TTM	Financials (Fiscal Year in Mil)
13,470	13,476	13,144	14,869	16,631	15,654	Revenue
5.6	0.0	-2.5	13.1	11.8	-5.9	% Change
748	858	838	775	912	909	Operating Income
9.6	14.7	-2.4	-7.5	17.7	-0.4	% Change
450	510	513	505	665	665	Net Income
513	718	529	384	793	888	Operating Cash Flow
-30	-45	-91	-58	-64	-65	Capital Spending
484	674	438	326	729	823	Free Cash Flow
3.6	5.0	3.3	2.2	4.4	5.3	% Sales
3.05	3.51	3.59	3.57	4.73	4.79	EPS
15.1	15.1	2.3	-0.6	32.5	1.3	% Change
2.90	4.36	3.82	2.15	4.50	5.93	Free Cash Flow/Share
1.43	1.57	1.74	1.81	1.88	2.00	Dividends/Share
6.96	7.89	8.99	9.71	11.41	12.37	Book Value/Share
143,455	141,258	139,542	137,284	135,250	135,250	Shares Outstanding (K)
						Profitability
45.3	46.4	42.6	37.6	44.0	41.1	Return on Equity %
15.0	15.9	14.9	12.7	15.3	14.6	Return on Assets %
3.3	3.8	3.9	3.4	4.0	4.3	Net Margin %
4.48	4.21	3.83	3.75	3.84	3.43	Asset Turnover
3.1	2.8	2.9	3.0	2.8	2.8	Financial Leverage
7.9	9.0	9.2	8.0	8.2	8.8	Gross Margin %
5.6	6.4	6.4	5.2	5.5	5.8	Operating Margin %
500	500	500	750	1,341	1,253	Long-Term Debt
1,047	1,150	1,258	1,426	1,595	1,673	Total Equity
86.0	78.5	62.0	64.2	72.5	44.4	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2019	3,751.2	3,908.8	3,856.1	—	—
2018	3,925.3	4,276.0	4,291.9	4,137.9	16,631.2
2017	3,415.1	3,710.0	3,784.5	3,959.8	14,869.4
2016	3,073.9	3,299.7	3,355.8	3,415.0	13,144.4
Earnings Per Share ()					
2019	1.16	1.22	1.07	—	—
2018	1.01	1.13	1.25	1.34	4.73
2017	0.86	0.78	0.85	1.08	3.57
2016	0.83	1.00	0.90	0.86	3.59

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

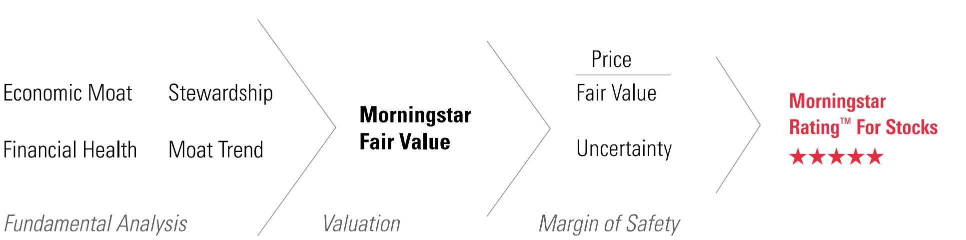
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

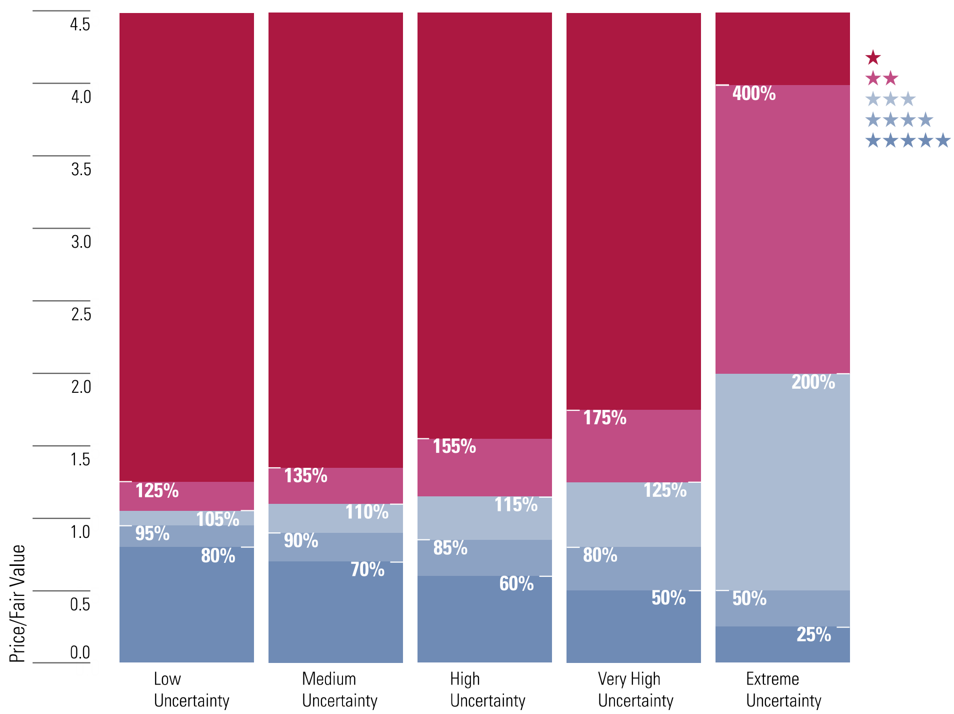
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ► Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ► Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ► None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- ► Low: the interquartile range for possible fair values is less than 10%.
- ► Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- ► High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- ► Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- ► Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- ► Weak: assigned when Quantitative Financial Health <0.2
- ► Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- ► Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

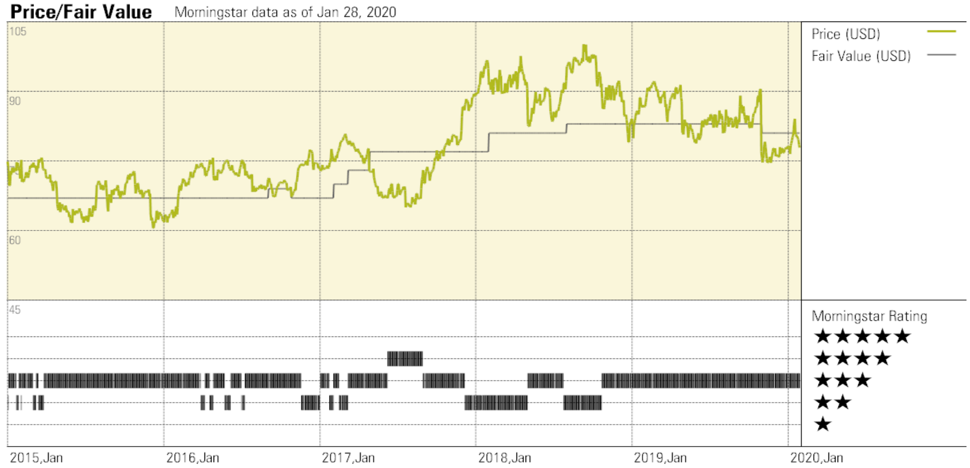
A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

C.H. Robinson Worldwide Inc CHRW (XNAS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	77.88 USD	80.00 USD	0.97	2.58	2.62	10.53	Integrated Freight & Logistics	Exemplary
28 Jan 2020 22:50, UTC	28 Jan 2020	29 Jan 2020 22:00, UTC		28 Jan 2020	28 Jan 2020	28 Jan 2020		

Price/Fair Value Morningstar data as of Jan 28, 2020



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C.H. Robinson Worldwide Inc CHRW (XNAS)

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