FINAL TRANSCRIPT

Thomson StreetEvents℠

CHRW - Q2 2005 C.H. Robinson Worldwide Inc Earnings Conference Call

Event Date/Time: Jul. 27. 2005 / 10:00AM ET
Event Duration: 56 min

OVERVIEW

CHRW did get $0.02 per share boost in its SG&A category from a $2.8m recovery on a settlement that related to a claim from a couple of years ago. 2Q05 exceeded CHRW's long-term growth rate. The Co. had EPS growth of around 50%. Q&A Focus: Acquisitions, trucking business, and hiring.

CORPORATE PARTICIPANTS

Angie Freeman
C.H. Robinson Worldwide Inc - Director of Investor Relations

John Wiehoff
C.H. Robinson Worldwide Inc - CEO

Chad Lindbloom
C.H. Robinson Worldwide Inc - CFO, Vice President

CONFERENCE CALL PARTICIPANTS

Ed Wolfe
Bear Stearns - Analyst

Jon Langenfeld
Robert W. Baird - Analyst

John Barnes
BB&T Capital Markets - Analyst

James Valentine
Morgan Stanley - Analyst

Alex Brand
Stevens - Analyst

Brannon Cook
J.P. Morgan - Analyst

Jordan Alliger
Deutsche Bank - Analyst

Dan Moore
[Scopis] Asset Management - Analyst

David Campbell
Thompson Davis & Company - Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen an welcome to the C.H. Robinson second quarter, 2005 conference call. At this time all participants are in a listen only mode. [Operator Instructions] As a reminder this conference is being recorded Wednesday, July 27, 2005. I would now like to turn the conference over to Ms. Angie Freeman, C.H. Robinson's Director of Investor Relations. Please go ahead Ms. Freeman.

Angie Freeman - *C.H. Robinson Worldwide Inc - Director of Investor Relations*

Good morning everyone. On our call today will be John Wiehoff, CEO; and Chad Lindbloom, Vice President and CFO. John will provide some prepared comments on the highlights if our second quarter performance, and we will follow that with a question and answer session. I would like to remind you that comments made by John, Chad or others representing C.H. Robinson may contain forward looking statements which are subject to risks and uncertainties. Our SEC filings contain additional information about factors that could cause actual results to differ from management's expectations. With that I will turn the call over to John.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Thank you Angie, and thanks to everybody who's taken the time to listen to the call this morning. We're going to stick with our general format that we had tried to put everything meaningful into our press release an so we will keep the prepared comments fairly brief, just emphasizing a few of the things that we want to make sure are highlighted with regards to the quarter.

From an overall standpoint, really there are no new concepts or entirely different things that we haven't talked about and previous quarters an mostly you are going to carry them forward an give you an update as to where we're at and the different pieces of the business. On an overall basis, the highlights clearly are the fact that we continued, during the second quarter to experience favorable conditions in the truck market which led to -- the North American truck market, which led to significant almost 40% net revenue growth in our reported truck line item for transportation services. We also had another quarter of positive experience meeting our expectations of our FoodSource and Epic Roots acquisitions in the sourcing category generating significant sourcing revenue an net revenue growth as well too. When you put those two factors together along with continued success in some of the other business lines and initiatives that we've been talking about for a longer period of time, we ended up with very strong top line and net revenue growth exceeding our long-term growth targets.

What we've talked about in our business model in the past is that while we work very hard to keep the majority of our operating expenses as variable as possible, when we have very high or very low growth rates on either end of the range, or either of the extremes within the range of what we would expect, we do see a little bit of operating leverage or compression with some of the fixed costs. So because we had such strong revenue and net revenue growth during the quarter, we also did experience some personnel leverage where a lot of the personnel increase for the quarter was the variable cost plans that we have in place to provide for additional rewards an compensation when we perform well. But the fixed or infrastructure component of the network only can adjust so quickly and while we did add a fairly significant number of new employees during the quarter, we also did not have total operating expense growth equal to that net revenue growth which really results an some positive EPS growth of around 50%. We mentioned in the earnings release as well, too, for those of you who may not have seen it , that we did get a $0.02 per share boat boost in our SG&A category from a $2.8 million recovery on a settlement that related to a claim from a couple of years ago. So that sort of the overall perspective of the results, the leverage in the model an the feelings on the overall growth of the quarter.

Commenting a little bit more specifically then on the favorable truck market, I think it's relevant to just reiterate a few things that we've talked about in the past recapping 2004 briefly again. As you may recall, during the year 2004 we did see very significant rate increases and very difficult truck capacity environment as the year continued on. We've talked on previous calls how really it was during -- largely during the second quarter of last year when we readjusted with a lot of our longer-term pricing commitments on the truckload business that we interact with, and that resulted in the third and fourth quarter of last year being more favorable to us from a pricing and margin standpoint. But also largely driven by spot market or transactional freight, which was really plentiful given the excess of freight demands versus the truckload supply. So as we came into the first and second quarter of this year, as we talked on our last call, that we do continue to benefit from a higher rate environment in the truckload North American environment. And what we have experienced through the first couple of quarters of 2005, is that the difficulty of sourcing trucks an managing truckload capacity, while it fluctuates monthly for some normal seasonal variances and can vary by region or by lane, in general it has not been as difficult as perhaps many people, or we had anticipated coming into the year and terms of the pricing and the difficulties of finding capacity. We continue to make it a point of emphasis in our business that we're working really hard to sign up new carriers and qualify them and bring new capacity into the network, but we do believe that it is also our experience, as well as the general marketplace that particularly in the second quarter maybe the capacity shortages were not as quite as difficult as people had expected coming into the year.

Our overall opinion through the end of the second quarter is that we would say that both shippers and carriers would view things as having stabilized a little bit relative to the previous year where there were significant rate increases in a lot of expected volatility in the market. While the business is still operating at a higher rate structure that was put and place by pretty much everybody a year ago, that we do not see today a significant push by either side to change the rate structures. And that while things are still relatively shorter term in terms of pricing commitments and capacity commitments and still erring a little more towards that transactional or spot market type environment that it is a little bit more stable from a pricing standpoint. And everybody is generally waiting for the fall peak to see what things are going to be like an hoping that that we don't had experiences like we did a year ago and surviving it with a little bit better planning and balance. So that is our overall assessment and comments on the truck environment.

We normally get asked about experience within the quarter so we do want to share, as well, too, with regards to our North American truck business that as we approached the back half of the year and the more difficult comparisons that we'll have, that during our second quarter of this year, if you look at the month by month trends, we did see some slower growth as the quarter carried on through April, May and June. However, truck net revenue growth in the month of June was still in excess of 30%, so I think for the quarter it was around 38, or 39%. So it started out fairly brisk and then it did slow some during the quarter but still was relatively strong from a growth rate standpoint.

With regards to sourcing, I think we are five or about four and a half or five months into the acquisitions that we talked about in the past. Most of the net revenue growth from the sourcing line item had come from the incremental revenue of the acquisitions. We put in the press release that sourcing net revenues, absent or excluding the FoodSource acquisitions for the quarter, were down about 4%. Year to date they are up about 2%. So I guess the message there is that our sourcing activity continues to fluctuate with product variances and seasonal variances and really our non acquisition sourcing activity continues to be within the long term parameters that we have talked about in the past . And the real news there is are five for six months into successfully integrating what we think will be a very positive acquisition for the sourcing group within Robinson.

Last area of comments is just on people and infrastructure. As you saw the press release, we did add over 300 employees during the quarter as we continue to invest in our network and grow the people resources, which really drives our long-term success an drives our relationships and our future. We did not open any offices during the quarter as that number stayed constant. However, that just really is due to the random timing of when the offices open. We do expect 3 to 5 more new offices between now and year-end and we still are on our normal pace of opening new locations and building out that infrastructure and adding people to the network. When we look forward, we have never and will not still try to predict the market place or what is going to look like but the one element of our business that is in a little bit more for control is that people investment side of it. And it is our expectation that we will continue to add meaningful amounts of people, probably a couple hundred per quarter, for the remainder of '05 as we continue to some degree to catch up to the required infrastructure and people investment that we need to accommodate the growth that we've had, but also to invest in that future an make sure that we're growing our relationships and selling and building for the future, as well, too.

So in summation, we had a very good quarter. We're proud of it. It exceeded our long-term growth rate, but really when you step back and look at it, with all the different pieces of Robinson, as well as the different business metrics that we look at, we really don't see anything that has varied out of the longer term ranges that we've talked about in terms of what drives our business and how we manage things. And despite the fact that the last year -- the last fiscal year has been a high rate of growth for us, it really has not changed our longer-term expectations that we've talked about, which is that we have that long term 15% growth rate and there will be periods of time where we exceed that and periods of time where we struggle to achieve that. But the core model of adding people, and marketing, and growing the network, and taking advantage of opportunistic acquisitions when they come along is really the same thing. So that's what we see out in the future and, while we're happy with the growth of the quarter, we understand that the longer-term picture is really, sort of, the same challenges ahead for us. So that concludes my prepared remarks and at this point we will open it up for questions to the group.

QUESTIONS AND ANSWERS

Operator

Thank you Mr. Wiehoff. Ladies and gentlemen, at this time we will begin the question and answer session. [Operator Instructions] At our first question comes from Ed Wolfe with Bear Stearns. Please go ahead.

Ed Wolfe - *Bear Stearns - Analyst*

Hi, good morning.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Morning Ed.

Ed Wolfe - *Bear Stearns - Analyst*

John, can you talk little bit about -- historically with acquisitions you had been very reserved and conservative in finding the right match culturally in every way and then once you've integrated it really taken your time to get it right. Can you talk a little bit about what you see at sourcing at this point, and also would you consider another tuck in since sourcing is no longer your core business? If your core business saw an acquisition could you do the two at once integration or do you put this on hold for a little while to make sure you get this right before you go to the next one?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Well, the second part of the question is easy. The sourcing acquisition is relatively separate and its really not impacting whatever other opportunities we might be able to explore or integrate within the North American transportation or the international forwarding piece of it. So those opportunities really are looked at separately and we could accommodate whatever other opportunity we might come across separate from that. With regards to the sourcing acquisition integration, I think you did describe our tone and approach pretty accurately in that regardless of what portion of Robinson it is, that we choose to complete an acquisition and our history has been that we really only want successful an reasonably well-run companies. So our general attitude going in is that we do expect some decent continuity out of those existing employees and those existing relationships. And what we're really going to do is, in this particular case, just like we did with American Back Collars and the other meaningful acquisitions that we've done, is to start with the back room an really integrate the systems, integrate the information flow, slowly acclimate the people to our culture and processes, crossbreed some of the customer contacts and opportunities and really assume that we've got a good business and a good model and they've got a good business and a good model and that we are going to work behind the scenes to get to know each other for a period of time and then blend them together more aggressively as time wears on. And that's exactly the mode that we're in with FoodSource and Epic right now is learning more about them an their customers, teaching them a lot about what it is to be a part of Robinson. Relying heavily on their continued practices and relationships to continue the success that they've had and the past an then we'll evolve more together in the future.

Ed Wolfe - *Bear Stearns - Analyst*

And at this point do you see any potential in the future leverage to leverage the sourcing into transportation business or to do other things in sourcing that you hadn't envisioned before?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Well, we've talked about our entire years as a public company that with virtually every part of our sourcing business there is a bolted on transportation piece that shows up within the transportation, principally the trucking piece of the transportation side. So that as customers continue to look for a more integrated supply chain, broader brought process management solutions, our sourcing division is just like the rest of Robinson that it's being driven by transportation supply chain distribution needs, but there's just the added element of where we're taking quality control and title to the product by buying and selling it and making a sourcing margin as well, too. So when we talk about it internally, Ed, we see the sourcing division today as closely aligned and adjoined to the core transportation and logistics services that we're doing as it's ever been.

Ed Wolfe - *Bear Stearns - Analyst*

And should we read anything that the sourcing business, according your release on its own without the acquisition was down? Is there anything that the two businesses together maybe lose a couple customers or is that just completely separate?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Completely separate, its normal seasonal fluctuations that would be well within the boundaries of -- and as we've talked before the real issues around that is that a lot of the products that we source, there was some pretty unusual weather on the west coast during the quarter and so a lot of the products that we buy an sell can fluctuate pretty dramatically in terms of the volumes and sales price and the amount of margin opportunity, and that it was a normal jobs that we had throughout the last eight years just in terms of the product fluctuations.

Ed Wolfe - *Bear Stearns - Analyst*

Okay, and then just one last area. On the cost side, you have been leveraging over time the personnel, the SG&A and the D&A as a percentage of revenue and they just keep getting better and better. Is that something that goes on forever that you grow faster than you grow your expenses? Its hard to find anything wrong, but if anything D&A has gone up a little bit as a percentage can you talk about what's going on on that side?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes. The challenge for us to sort out is that, clearly, we have long-term productivity goals to leverage our people and leverage our resources greater, and there's no question when you look back over a ten year period of time that as we get larger, it generates some margin opportunity at the operating income line and it generates some productivity. But then separate from that, also like I talked about earlier, there's no question that when we have a growth spurt like we did, that we really can't add people fast enough and that the actual growth can get ahead of ourselves a little bit. So as we've continued to had a sustained growth period, there's a component of it that we do think is permanent in terms of perpetual productivity gains and scale and all the rest of that, but then you've got some fluctuations as well, too. Well we have a really high growth quarter like this, there's no doubt that some of that is going to have to be made up with future hiring and future spending. But we are doing a lot with technology and a lot with productivity and then added to that you've got the normal cycle of fluctuations of difficulty levels in sourcing trucks and how hard it is and the head winds and tail winds of doing what we do can switch around too. So when you blur those all together, it's hard to know exactly how much is long term permanent gain and how much of it is just fluctuations.

Chad Lindbloom - *C.H. Robinson Worldwide Inc - CFO, Vice President*

The depreciation and amortization, Ed, is about 800,000 in this quarter related to the FoodSource and Epic Roots acquisitions, and when you compare it to last year also there's 300,000 for the new building in Chicago. So that explains the complete variance there.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes. The biggest chunk of that is the cost component for the purchase price coming with the new FoodSource revenues.

Ed Wolfe - *Bear Stearns - Analyst*

Okay, and so those are ongoing, I'm guessing for some time?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes.

Chad Lindbloom - *C.H. Robinson Worldwide Inc - CFO, Vice President*

Yes.

Ed Wolfe - *Bear Stearns - Analyst*

Thanks a lot guys. Terrific work.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Thanks.

Operator

Thank you. And our next question comes from Jon Langenfeld with Robert W. Baird. Please go ahead.

Jon Langenfeld - *Robert W. Baird - Analyst*

Good morning.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Good morning.

Jon Langenfeld - *Robert W. Baird - Analyst*

On the headcount side, have you guys ever gone through a period where you've had this level of headcount additions? And I guess independent of that answer, what are some of the challenges you're facing in terms of sourcing the employees and then bringing them on board and getting them ramped up? Obviously its that not hurting you on the cost side or the leverage side, but maybe if you could talk a little bit about that?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Sure, I would say that from a percentage standpoint, we have had quarters like this in the past and we've talked in a number of different areas in our and our business like that where, if you look at it on a percentage basis and all the different per load or per person or per office metrics that we've had, this kind of growth really isn't out of the boundaries of what we've experienced in the past in terms of growth spurts and in additions to the network. However, if you put it in raw numbers of 339 people, that's a whole lot more people than -- I don't know if that's the highest but it might be, or its very near the highest. So when we look at raw data of things like the numbers of recruiters, the new employee seminars, the types of training things and stuff, the absolute numbers do become more of a challenge an we have to continually challenge ourselves just like we do with the technology to kind of right size our support infrastructure for the growth. So that does become something that we have to continually look at and make sure that when we're on boarding that number of people that we've got the same high quality approach in terms of recruiting them, selecting them, training them and getting them acclimated into the system. So we do have some dynamics around that just due to size, but I would say separate from that -- I've been with the Company for more than a decade and I feel like from what I've seen in talking to our human resource people that in many ways it's easier today to tell our story and attract people to what Robinson has to offer than it was ten years ago because we're public and because third-party logistics is more understood and because of the Internet. A lot of the recruit's contact us through the Internet we have all of our information out there for them to gain familiarity with. So in some respects we have the same business metrics around our recruiting and hiring process that we do in all the other areas of the business and in some ways that part of it is getting easier. And we really haven't had too many difficulties over the last couple of years of filling what we would call an open position, which means where a branch has determined that they want to hire another person and they just need to find them and get them to come and bring them on board. And our fill rate is as good as -- or that lag time or whatever in filling that is pretty constant with what it's been and in some areas its better because for trying harder. So overall, we know that bringing in the right people and the caliber of those people is going to continue to really be a significant part of what determines our success, but right now we feel pretty confident about how it's going.

Jon Langenfeld - *Robert W. Baird - Analyst*

It doesn't sound like it's a constraint anymore than it has been in the past in terms of a constraint to growth?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

No, and our decentralized approach of having so many locations helps too, because those individual managers are making the hire decisions. We have larger locations and smaller locations, but even when you say 300 people or whatever, it was probably less than that in the North American offices. So then that's two or three per office on average with the bigger offices during more, obviously, but for a lot of offices that means bringing one person on.

Jon Langenfeld - *Robert W. Baird - Analyst*

Okay, an then a couple questions on sourcing just in terms of seasonality of that business with Epic now folded in. Is the second quarter a typical quarter just looking at the gross profit 23 to 24 million, is that kind of a typical level or is there something on seasonality we need to be aware of outside the typical fluctuation of some of the commodity prices?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Jon, if you look back at history you will see that the second quarter tends to be the biggest, or one of the biggest during the year and we don't know of anything that would cause the normal seasonal trends to be different and we would say it was a typical, slightly better than expected quarter, but typical out of FoodSource Epic Roots.

Jon Langenfeld - *Robert W. Baird - Analyst*

Okay. So Epic doesn't disrupt that historical pattern from what you are seeing?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

No.

Jon Langenfeld - *Robert W. Baird - Analyst*

And then finally, as far as the contribution that Epic is making on the transportation side, is it anything different than what the core sourcing business had in terms of contributing to the truck volumes?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Its lower than -- Epic Roots and FoodSource combined have a lower percentage of transportation net revenue than our business as a whole because a lot of the products is growing on the west coast an their core customer base is on the west coast. Transportation is less dollars for them relative to the total business.

Jon Langenfeld - *Robert W. Baird - Analyst*

I see, okay. Thank you.

Operator

Thank you. And our next question comes from John Barnes with BB&T Capital Markets. Please go ahead.

John Barnes - *BB&T Capital Markets - Analyst*

Hey, good morning guys.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Good morning.

John Barnes - *BB&T Capital Markets - Analyst*

Real quick, going back to the head count issue real quick, could you give us an idea of what your turnover is normally?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Sure. We -- depending upon what period of time, if we look over a longer period of time what we have generally experienced is double-digit teens, usually low to midteens type turnover for the first year and the second year, separately that we do have a fairly high turnover rate of new hires in the network for those first couple of years. Because it is a fairly unique job, there is a certain churn in the network that a decent percentage of the people that we bring in choose not to make it a long-term career for them but after that the numbers stabilize pretty well. So when, I think if you take those first --since we are hiring a lot of people, if you blend that all together, for the Company as a whole, ends up being somewhere in the teens in terms of companywide turnover rate. And it will vary quite a bit by new sales, new support and call centers, and different pieces of the business. But in general, when we are adding new people into the network, we are contemplating that there is gong to be fairly meaningful turnover as well too within those core sales and operations jobs.

John Barnes - *BB&T Capital Markets - Analyst*

Okay. I know you're not having a problem telling your story and thanks for the comment about that it's easier to tell it today than it was ten years ago, but is it -- when you looked at the pool of available people to recruit from, are you getting double the number of resumes today that you were to find the right fit to for your Company or is is still that the applicant pool is still in pretty good shape for what you're looking for?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

We had always had -- I don't know exactly what the number is but many, many, many resumes and applicants per person and the challenge has always been to get through the sea of resumes and applications that come to us and get down to the few that we want to offer employment to. I actually went to one of the college job fairs a couple months ago an we were inundated. I mean, there's a lot of people out there and I think what we are all about, like I said is more understood. So the way I think about it, John, is that especially with the Internet now through the exchange of electronically submitting resumes and people can find us on the Internet through their career placement programs because we're hiring mostly off of schools, as well too, that we have always gotten 20, 30 or more resumes per position that we're looking to fill and then it's really more of which ones of those are we going to pursue and try to bring on board and our success rate in the ones that we choose to go after is what we really measure and that stays pretty strong.

John Barnes - *BB&T Capital Markets - Analyst*

Okay. Switching gears a little bit, on the intermodal side of your business, a lot of the railroads are starting to talk about pushing off the asset ownership to the end customer or to the IMCs, is that change in philosophy by the railroads impacting the way you look at intermodal and your growth plans for that business? Because it would certainly suggest that maybe the IMC model is going to get a little bit more asset intensive that has been?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes. We're certainly talking about that an trying to understand it better. And in the discussions that I've had, those philosophies and directions even vary a little bit from one railroad to the the next, so we're still trying to sort out exactly what that all means. There's no question that having a more asset dedicated approach has been advantageous for the last 12 to 18 months in this part of the cycle when capacity was very tight. So the subject of managing assets, management commitment, we've been working on it ourselves for almost a decade in terms of taking publicly available pooled equipment and running it on a more dedicated basis in closed loops and doing what some of the others IMCs have been doing, but as far as we look at, in it's a lot of different fronts. Its understanding exactly how the railroads are going to run their business and what they're going to required to interact with. Its understanding what the customers want in terms of making commitments or not making commitments to assets and then what are our choices to blend those together and bring the right piece to the marketplace? So we're talking about it and it does have the potential to impact how we think or how we approach going forward in the marketplace. But for now, at least, we're still committed that there is enough third-party equipment pools available and a enough capacity available in the marketplace that we can continue to grow our business without having to purchase or make a more committed asset play?

John Barnes - *BB&T Capital Markets - Analyst*

Okay, all right. So there's still -- you think is a place for your model at least in the near term? All right. In terms of your acquisitions and what your looking for, it seems to me like the most aggravating aspect of trying to make acquisitions in a number of areas right now has to be just the number of players bidding on available properties. Would you say that's the most frustrating aspect to why maybe you haven't been as aggressive on the acquisition front as maybe some people would like you to be? Or is it something else? Is that the properties available just aren't meeting all of your criteria?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

All of the above. There has been no shortage of deals in the last few years. There have been a lot of deals that were clearly roll-ups or package deals for later resale, which makes due diligence more challenging because you don't really know if they put a bunch of good things together or a bunch of frustrated things together. So there's a combination of a lot of deals, a lot of them have gone through rapid changes, and then you throw on top of that a very large and aggressive buyer group. Even I would say more an more in the last handful of years with more private money being fairly aggressive and so, yes, there's no question that it's a fairly unusual landscape. Maybe it's going to stay that way, I don't know but our frustration in it from the standpoint of looking at the acquisition growth is we really want to spend our time with the management teams of the companies that we're going to acquire and talk about if there's a fit and really focus in on long-term, and when you get too many sellers, to many buyers, too much process, too many bankers, then it's all about a structured auction process. We usually don't fare well because we're really not able to get at the things that we care about.

John Barnes - *BB&T Capital Markets - Analyst*

Okay, all right. That makes a lot of sense. Last question -- competitive environment, it seems like every time I open up another trade magazine, somebody else is rolling out a brokerage offering Can you talk a little bit to the truck brokerage, competitive environment. I know it has always been competitive, but is it getting more difficult to recruit carriers into your network or do you still believe that the Robinson network provides something that maybe some of these other guys just don't provide?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

I think maybe we're having as much success bringing carriers in as we ever have and we're doing more for them with quick pay programs and electronic choices and better routing and productivity and all the rest of that. So I think we do talk about the fact that there is a lot of competition. Some of it is coming from more visibility to third-party logistics and more understanding of what the opportunity is and what the scale is. Then you also have the kind of normal cycle fluctuations where when freight is plentiful everybody is going to get into it and a lot of people will get back out of it. I know there truck lines out there that have been in and out of truck brokerage many times over the last 20 or 30 years. So you will see some of this competition come and go, but I think if you cleanse it for all of that, there is, above an beyond that, maybe some just added level competition and I like to view that as a positive sign in that more people are understanding of the model. I think we've talked quite a bit about the component of the total truck market that goes through some sort of third-party or broker, we believe is growing, because of people wanting to manage their freight differently and carriers being more understanding of how they can better manage their assets and take advantage of some of the programs that we have by working through us a rather than working direct. So there is some noise and distraction of people coming after our people and all the blur of competitors out there, but I think it's our challenge as a market leader to keep coming up with new ideas and keep growing the scale of the network an stay ahead of everybody. Make sure that it's a great place to work so that we keep retaining our people and attracting the new ones and that whole bucket of competitors has been there and will just sort of be there in one form or another.

John Barnes - *BB&T Capital Markets - Analyst*

Okay, all right. Very good congratulations on the quarter. Thanks for your time.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Thank you.

Operator

Thank you and our next question comes from James Valentine with Morgan Stanley please go ahead.

James Valentine - *Morgan Stanley - Analyst*

Great thanks. You had a fantastic quarter.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Thanks.

James Valentine - *Morgan Stanley - Analyst*

Most of my questions have been answered but I just had two left. First, the California crop, my understanding was that it was later than normal this year. I'm trying to understand how that had an impact in terms of truck or sourcing good or bad. I presume it was probably more good than bad, either way, just what are your thoughts?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

I don't know that I can answer that specifically. I mean, it really gets down to a customer by customer thing as to what they were expecting in terms of the timing of the crops and if things don't deliver, do they come in the next quarter or not, and so I don't -- I know that we have some month by month and quarter by quarter seasonal fluctuations based upon supply levels and shipment levels of crops that are available, but I don't really have any specific insight into what happened this second quarter or what it might mean.

James Valentine - *Morgan Stanley - Analyst*

Okay. Something wasn't material so--

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

No.

James Valentine - *Morgan Stanley - Analyst*

The second question is, and if -- you briefly alluded to this in your prepared remarks, but are you seeing customers more willing to sign a contract and go more contractual are we still up there that 75% of transactional business? I know you don't like to nail down a number there, but I think you guys have used that number in the past, just trying to understand if its staring to -- things are starting to settle down.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes. I think some of the vocabulary changes that I've tried to make to explain it better this year is really where are there long term rates in place versus where is there daily or spot market pricing? And we definitely see today, versus a year ago today, that the expectation is that rates are going to stay more stable and that quoted prices that are in place today will hopefully last throughout the remainder of the year. Whereas a year ago it was kind of call me tomorrow and I'll let you know, more of that environment. So we are seeing as I said, a more stabilized environment where carriers are not as aggressively asking for rate increases and shippers, to date at least, have not pushed back real hard in terms of trying to get back at lower rates. They're trying to make sure they don't have the same frustration of a year ago. So it's a little bit more of a stalemate of accepting the higher rates, and that should provide for more stable pricing throughout the rest of the year. But again, as I said earlier, these things can change quickly. I mean, if rate activity moves one way or the other, and you never really know on an aggregate basis what the collective shipping community is doing in terms of free shipping or not free shipping for the fall season. So over the next couple of coming months the dynamics around this from our pont of view can change rather quickly.

James Valentine - *Morgan Stanley - Analyst*

Okay. Great, thanks guys.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes.

Operator

Thank you. Our next question comes from Alex Brand with Stevens. Please go ahead.

Alex Brand - *Stevens - Analyst*

Thanks, good morning gentlemen. I apologize if you said this. I missed the very beginning of your comments, John, but I'm curious about in your -- particularly in your trucking net revenue price versus volume component, or maybe better stated loads versus profit per load component?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

We did not talk specifically about that an what we have continued to experience is that we don't -- since our business moves around little bit more we don't get real precise mileage adjusters and things like that so we, in general, see low teens price increases versus a year ago, second quarter and that could move a little bit either way if we were better able to really do apples to apples or normalize it. But when we look at the gross revenue increase on the trans side of around 30%, it's kind of low teens pricing, high teens volume type combinations?

Alex Brand - *Stevens - Analyst*

And and your pricing do you have a separate component for a fuel surcharge or when you say low teens is it just one market rated number the way you look at it?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

That's together in some customer relationships we do have a separately carved out and routinely adjusted fuel surcharge. In other business its spot market quotes both ways where whatever the current fuel cost isis included and that daily negotiated rate. So it's hard -- it's impossible for us to nail down exactly what component of that is fuel but it's in there.

Alex Brand - *Stevens - Analyst*

Okay. Now, just if you would briefly on your business in Asia, you're getting some growth but it still seems like you're concentrated in just a handful of customers. Are you getting more broad in your focus there and seeing success and selling the Robinson U.S. network or is that mostly about growing with those existing larger customers?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

We are -- I think we've talked about the past about 10 or 12 customers being a large percentage of the business, and so for us it all comes down to, if we add two or three new large customers that's a pretty good year and I feel like we're having a pretty good year an we do have some key customers that we brought into that forwarding network. And I think we were pretty open about when we did the acquisitions in Asia, that really we were just acquiring a relatively small agent and capturing the other half of the transaction on some of that existing freight. So those Asia offices really after they're fully integrated in, are not really not generating a lot of the growth. It is the U.S. offices and the integration of services and adding those large accounts. So even though we feel like we've achieved our growth targets over the last couple of years and feel fairly good about where the business is at, the dynamics that you just described around relatively short list of larger customers driving the activity, that is true and may remain true for a few more years here until we get enough scale to blend in.

Alex Brand - *Stevens - Analyst*

Okay, great. Thanks a lot guys.

Operator

Thank you. And our next question comes from Brannon Cook, with J.P. Morgan Please go ahead.

Brannon Cook - *J.P. Morgan - Analyst*

Good morning.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Good morning.

Brannon Cook - *J.P. Morgan - Analyst*

I had a question on the yield side of things trucking yields were up nicely again year-over-year despite the acceleration in demand. Could you speak to that a little bit? And obviously the customer shift towards a shorter term or spot rate is helping you there, but could you provide a little more color?

Chad Lindbloom - *C.H. Robinson Worldwide Inc - CFO, Vice President*

Brandon, during the last year's second quarter is when we really started to reprice a lot of freight and started to go transactional so last year's second quarter was relatively low. So part of the increase transportation gross yield, which is the only think that we dispose publicly is total transportation, not just truck, part of the expansion is returning to normal. And I think we talked about as John mentioned in his prepared remarks, that we are kind of in a wait-and-see mode to see what happens in the fall. So pricing has remained relatively stable on both sides of the buy and the sell. And capacity has been available to move what we need to move, so we're kind of in a -- during the second quarter we're in a good balance, which is really what drove the growth and the yield compared to last year's second quarter.

Brannon Cook - *J.P. Morgan - Analyst*

Okay. Last quarter, you mentioned how your LTL business -- the growth is outpacing your truckload business off a smaller base. Are you still seeing good growth trends out of LTL in this quarter and how important is that as you look at your growth longer term?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

It's a very important part of kind of the integrated model because as we work more and more with customers, the definitions and distinctions between when freight becomes LTL versus full load and how we build loads and how we consolidate and route is really important. So it's a very important part, and as we said and the past, because of those definition variances, it's difficult to be precise and that's why we don't disclose a separate LTL number because different people would look at it differently. But estimating it, it's about 10% of that truck net revenue is LTL. And what's happened really over the last five to seven years is the LTL as a percentage, an estimated percentage of those truck numbers has gone from less than five to probably 10% of the mix. So the LTL numbers have been growing faster than the truck numbers over a longer period of time coming off that small base of business. In the last couple of quarters, even though we've had continued 25, 30% growth in most common measurements of LTL freight, some of the quarters of the last year, the truckload numbers have actually grown faster than the LTL numbers just because of the favorable conditions on the truckload piece. So for the last few quarters, both truckload and less than truckload numbers had grown, meaningful in excess of our long-term growth rates. But I think the real important message there is that it's something that in the last ten years we've really woven into what we think is one of our core competencies now and it's a really important part of being able to provide the integrated services.

Brannon Cook - *J.P. Morgan - Analyst*

Okay, I appreciate it. Solid quarter.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Thanks.

Operator

Thank you an our next question comes from Jordan Alliger with Deutsche Bank. Please go ahead.

Jordan Alliger - *Deutsche Bank - Analyst*

Good morning.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Good morning.

Jordan Alliger - *Deutsche Bank - Analyst*

Basically I hear you saying and terms of a bit of all holding pattern in terms of the transactional versus contract, but my question is on the contracts that you have renewed or put into place over the past -- the previous quarter or two, given some stability now in the purchase transportation costs, are you getting a considerably better spread, would you say, on what you had been doing versus, lets say, what the contracts were in place for before, and would that be contributing to the really -- at least somewhat contributing to the rapid growth in the transportation net profit?

Chad Lindbloom - *C.H. Robinson Worldwide Inc - CFO, Vice President*

In some instances, yes. Now again, in our businesses we are so diverse and spread around, there are customer relationships where we were losing money during the quarter and there are other areas where our cost of hire was not what we anticipated it to be. So we are making more margins of most price commitments. So in general what you just said is true, that yes, because of -- our actual margins to a large degree on any pre priced or contractual type arrangement will vary somewhat based upon what everybody expected them to be when it was priced versus what it actually occurred to be. So when the market is a little bit softer like this we can make a little more margin on some of those longer-term pricing commitments.

Jordan Alliger - *Deutsche Bank - Analyst*

Okay, and then I think you had mentioned in general you're seeing low teens price increases. I assume that meant for you to your customer on the spot business or transaction business. I'm just wondering, the underlying purchase transportation cost, how does that look, last year versus this year? Last year, was it 9, 10%, this year its running 5 or 6 %? I know you said its stabilizing I'm just curious if you could give any insight on that?

Chad Lindbloom - *C.H. Robinson Worldwide Inc - CFO, Vice President*

You know, what, you really can look at what it's publicly disclosed and available is our total transportation gross margins and you will see that they did increase compared to last year's second quarter, but last year's second quarter was lower than a typical quarter. So like I said earlier, it's more in balance and it felt like more of a normal supply, demand relationship for our business.

Jordan Alliger - *Deutsche Bank - Analyst*

Okay, very good. Thank you.

Operator

Thank you. And our next question comes from Dan Moore with [Scopis] Asset Management. Please go ahead.

Dan Moore - *[Scopis] Asset Management - Analyst*

Good morning guys.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Good morning.

Dan Moore - *[Scopis] Asset Management - Analyst*

Good quarter, very good quarter. I just wanted to ask a quick question to the with respect to the back half of last year and I know you guys have obviously been good enough to give us a fair amount of insight on where we are currently. If, though, we look to the back half of last year, could you maybe at least refresh our memory on how much of last year's growth 3Q, 4Q how much of that was a function of volume and how much of that was a function of price? I just -- I'm sure I could go through the transcripts, but if you remember that would be helpful to me.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

I don't remember what ever precise mix of numbers we may have thrown out for any individual quarter, but I do know that throughout the second half of last year, more than double digit rate increases were not unheard of. That there were many lanes and many carriers that we're quoting 10, 12% rate increases separate from fuel. And so and the third and fourth quarter of last year, really the overall environment was that virtually every longer-term price contract and price commitment that had been made earlier in the year by almost everybody in the transportation industry had been abandoned and prices were being changed multiple times and those rates were, in fact, much higher. So in the third an fourth quarter of last year I know we were talking about double digit rate increases and double-digit volume increases just because of the fact that there was so much more freight than people had expected and route guides had pretty much fallen apart, and so we were doing all that we could do to move every load that came along. So our challenge going forward, then, is to try to capture some of that transactional or spot market opportunity and convert it into a longer-term relationship.

Dan Moore - *[Scopis] Asset Management - Analyst*

And just as a reminder, how much of your business on the truck side is transactional piece?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

We had always estimated, prior to 2004, we had estimated that when we -- a few years before that that when the year started out, that there was probably about half of our freight that had some kind of rate commitment and the other half of the freight that was going to be priced as the year went on, or as the season evolved. And during the third an fourth quarter of last year, like I said, virtually all of that pricing commitment kind of deteriorated. Now we were still moving a lot of the same freight that we moved in the previous year's on a repetitive basis, but it was more on a month-by-month basis as to what the rates would be and how many of the loads we would get. And so, I had estimated at one point that 75% or more of our business was transactional or spot market, and wasn't necessarily committed to at a price, nor was it committed to be given to us the next day because the relationships had changed to that. So when we talk about it stabilizing or normalizing, we would be talking about going back to an environment where half or more of our freight is pre priced and on some sort of continuous tendering bases with expectations of both us and the shipper that that will continue to occur for a period of time.

Dan Moore - *[Scopis] Asset Management - Analyst*

And last question here John and I will go ahead and turn it over. Could you frame last year in the back half? You talked about double digit rate increases could you frame that relative to what a more typical environment or back half year would look like?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Yes. When you look at 2004 in general, and it was really more, for us, at least, the latter half -- I think for some of the carriers it started earlier, they repriced earlier in 2004, but when you really look back on and you look at the cost drivers in transportation, over a longer period of time with driver wages and the cost of the equipment and the key cost drivers that will, over a long period of time, change on the trucking side, is generally more inflationary, which will be a couple more percent here and there. Some lanes would move up a penny or two a mile and some lanes wouldn't and it would be longer term inflationary type stuff. And what happened is that we went through a fairly long period of time with little or no rate increases and not the right kind of driver increases, wages to attract enough new drivers and all the rest of that, and so there was a great big correction in 2004 of double digits increases. And I think the question for the industry now, is how does that supply and demand shake out, and does that rate increase stick, or does it go up again, or does it correct back a little bit because it just spiked rather sharply near the end of last year.

Dan Moore - *[Scopis] Asset Management - Analyst*

No question. Thanks guys, I appreciate it.

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Thank you.

Operator

Thank you. And our final question comes from David Campbell with Thompson Davis & Company.

David Campbell - *Thompson Davis & Company - Analyst*

Thanks. Most of my questions have been answered, but I did want to ask you about the continental, Europe or domestic European trucking business. Is that growing in 2005? Is that grow faster than your U.S. trucking business? How would you describe that activity?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

The European trucking business is growing faster than our targeted long-term growth rate of 15%, but not as fast as the North American piece this year simply because of the high rate of success that we've had here. So we feel very good about building out the business and growing in Europe. I think the interesting piece about the European truck business, which it's somewhere between 3 and 4% of the consolidated revenues of Robinson at this point, an interesting piece with that is because of the inclusion of incremental countries of Eastern Europe over the last year that have been added to the European Union, the impact that that's had is significant decreases in the cost of trucking prices across Europe where a lot of the lower cost Eastern European carriers are now free to operate across Europe. So one of the things, or the primary dynamic that our European trucking business has been dealing with over the last 12 months is significantly reduced rates in a number of markets where we, in some instances have the opportunity to work with those carriers and bring lower cost capacity into the European Union. In other cases lower cost carriers are going and attacking some of the current freight that we had been working with with more Western European carriers. So it's a good an bad for us, but just like the markets here it's all part of our growth and maturity of learning the fluctuations in pricing and supply and demand cycles, and it was a rather large and unusual event that the eight or ten new countries that came into the European Union had a fairly significant impact on the trucking situation over there. So in terms of current year growth and success, we feel pretty positive about it. There was a rather large market condition even with the new countries coming, but the longer-term premise of signing up carriers, signing up customers, building the network opening new offices, all of that is very much intact and we felt pretty positive about it.

David Campbell - *Thompson Davis & Company - Analyst*

It's quite a difference from the United States isn't it, with lower rates?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

It is interesting its the exact opposite for a part of the cycle for the reasons that I just articulated, but one of the things that we think validates our longer-term growth goal of having the same presence on both continents is to really look at best practices for a routing standpoint in a pricing standpoint and the smarter that we can get about the variations in the markets and the fluctuations of supply and demand and understanding those capacity relationships. We already are doing some sharing of experiences with large customers from North America to Europe and obviously, we're much less mature over there, but even though it is frustrating to take your lumps in learning the landscape over on the Europe continent, it does feel validating in terms of longer term what it is we're trying to build.

David Campbell - *Thompson Davis & Company - Analyst*

So you feel as though that European capacity is helping your -- capturing more business here or is there really not a major factor?

John Wiehoff - *C.H. Robinson Worldwide Inc - CEO*

Understanding how to work with the truck capacity in Europe and understanding how the supply and demand pricing changes and what customers are looking for and how they're changing their supply chains that the intellect that we're learning there and what we're learning here is already being shared back and forth. For instance, there is similar impact when fresh crops become available in Spain as there is in Florida, and so there's different dynamics around truck pricing and different lanes and obviously, we don't had an Eastern European impact of new trucks coming in, but there are other things around shipper needs and learning curves that our national account managers and our salespeople can learn from each other and cross sell, and try to help our customers manage their business better in either location by using the bigger universe of learning.

David Campbell - *Thompson Davis & Company - Analyst*

Okay, thanks very much. I appreciate that comment. I've got another conference call. Thank you very much.

Angie Freeman - *C.H. Robinson Worldwide Inc - Director of Investor Relations*

Thank you for participating in our second quarter 2005 conference call. This call will be available for replay in the Investor Relations section of the C.H. Robinson website at www. C.H. Robinson .com. It will also be available by dialing 800-405-2236 and entering the pass code 11034569-pound. The replay will be available at approximately 2:00 p.m. Eastern Time today. If you have additional questions about our second quarter results, please call me, Angie Freeman at 952-937-7847. Thank you.