Werner Enterprises

Q1 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers - *Chairman, President and Chief Executive Officer*

John Steele – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good afternoon and welcome to the Werner Enterprises First Quarter 2022 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to John Steele, Werner's CFO. Please go ahead.

John Steele
Earlier this afternoon, we issued our earnings release with our first quarter results. The release, along with the slide presentation, are available in the Investors section of our website at werner.com. Today's webcast is being recorded and will be available for replay beginning later this evening.

Before we begin, please direct your attention to the disclosure statement on slide two of the presentation, as well as the disclaimers in our earnings release related to forward-looking statements. Today's remarks contain forward-looking statements that may involve risks, uncertainties and other factors that could cause actual results to differ materially.

Additionally, the Company reports results using non-GAAP measures, which it believes provide additional information for investors to help facilitate the comparison of past and present performance. A reconciliation to the most directly comparable GAAP measures is included in the tables attached to the earnings release and in the appendix of the slide presentation.

Now I will turn the conference over to Derek Leathers, our Chairman, President and CEO.

Derek Leathers
Thank you, John, and good afternoon. We appreciate you joining our call today. I'm excited to share another quarter of excellent financial results. I'm very proud of our Werner team for achieving strong top and bottom-line growth in the first quarter for both our Truckload and Logistics segments.

First, let's move to slide four to level set our business. Truckload Transportation Services, or TTS, has over 8,200 trucks with a fleet mix of 63% Dedicated and 37% One-Way Truckload. Werner has a consumer-oriented freight base with over three-quarters of our revenues in the retail and food and beverage verticals. Within the nearly 60% of our business that is retail, Werner focuses on discount retailers and home improvement with name brand customers that have extremely high on-time delivery expectations. These winning customers are growing their market share and Werner continues to grow with them.

Three of our top five customers are discount retailers that perform well in economic markets when consumers place even higher priorities for value. The other two customers in our top five are industry-leading home improvement and beverage companies.

Five of our top 11 customers are in discount retail or food and beverage, and they ship consumer nondurable goods, with repeatable freight that is less sensitive to changes in the business cycle compared to durable goods. As validation of our superior service performance, during the last year, Werner was honored to receive Carrier of the Year awards from four of our top five, and seven of our top 15.

Let's move to slide five for a summary of our financial performance. For first quarter, revenues increased 24% to $765 million, adjusted EPS grew 40% to $0.96 a share and adjusted operating income rose 37% to $86.2 million. For the seventh consecutive quarter, we achieved record quarterly adjusted EPS.

Dedicated is our largest business unit within TTS. Dedicated has nearly 5,200 trucks and achieved 5% truck growth year-over-year. Dedicated continues to thrive and grow with strong demand from our long-term core customers. We consistently deliver high service and engineered solutions to meet their complex shipping requirements, and we continue to have a good pipeline of Dedicated bid activity with new and existing customers.

One-Way Truckload has roughly 3,000 trucks and grew its fleet by 7% year-over-year. One-Way Truckload experienced strong freight demand in January and February, which then moderated a bit in March, but still ranks very good relative to our historical March freight trends.

Werner Logistics continues to execute on its strategic plans and produced another strong quarter with significant growth in revenues and operating income. Economic uncertainties are increasing with inflation, interest rate tightening and the effects of the war in Ukraine, including higher fuel prices. Our business model is well positioned to adapt, perform and even prosper in disruptive markets.

During first quarter, procuring new trucks and trailers has been challenging, and we were not able to receive our full allotment. We are having frequent discussions with the OEMs to plan and coordinate our new truck deliveries based on the very difficult challenges they are dealing with for semiconductor chips, component parts, labor and other issues. We are ensuring we get our full allotment of new trucks to minimize the impact on maintenance, production, service and improve driver satisfaction.

In first quarter, the used equipment pricing market remained very strong and our fleet sales team performed well. We sold fewer trucks and trailers than we did a year ago due to the OEM challenges. Equipment gains were $20.5 million in first quarter, compared to $21.2 million in fourth quarter, and $10.5 million in first quarter a year ago.

On the cost side, inflationary pressures are challenging, particularly for driver and nondriver compensation, equipment maintenance and insurance and claims. We are effectively managing these costs without compromising the highest level of safety and service for our customers.

Now I'd like to turn the call over to John to discuss our financial results in more detail.

John?

John Steele
Thank you, Derek, and good afternoon.

Beginning on slide seven, first quarter revenues increased $148 million to $765 million with 6% truck growth, higher freight rates, increased fuel surcharges, and strong Logistics revenue growth. TTS revenues per truck per week increased 8.8%. Adjusted operating income increased 37% to $86.2 million, as a result of 24% revenue growth and 110 basis points of margin expansion. By segment, our adjusted operating income grew 33% in TTS and 158% in Logistics. In first quarter, we grew adjusted EPS by 40%.

Here on slide eight are the results for our TTS segment. TTS revenues increased by 21% due to 15% higher rates and $32 million of increased fuel surcharges, partially offset by 5% lower miles per truck. The miles per truck change was due to a lower length of haul resulting from our ECM regional fleet acquisition in July, higher driver turnover, fewer team drivers and the January impact of Omicron. TTS improved its adjusted operating ratio, net of fuel by 220 basis points to an 83.6%.

Now let's turn to TTS fleet metrics for Dedicated and One-Way Truckload on slide nine. Dedicated revenues, net of fuel increased 13%. Average trucks increased 5%, from growth with existing and new customers. Revenue per truck per week increased 7.3%, due to rate increases to support driver pay and other cost increases.

One-Way Truckload revenues, net of fuel increased 19%. Average trucks increased 7%. Revenue per truck per week rose 11%, due to a 20.8% increase in rate per mile, partially offset by an 8.1% decline in miles per truck for the reasons previously discussed.

Spot freight is a small portion of our One-Way network, as about 90% of our One-Way Truckload freight is committed contract business with our customers. Contract rate increases so far this year are averaging in the low double-digit percentages.

As the One-Way freight market moderated in March from the hugely overbooked to significantly overbooked, our truck mileage productivity began to improve with a less disruptive and smoother flowing network. Driver pay per company mile in the first quarter increased 15% year-over-year, a reduction from the fourth quarter year-over-year increase of 22%.

During the month of March, the price of diesel took a roller coaster ride and ended the month about 80 cents a gallon higher than it started. Our surcharge programs effectively mitigated most of these volatile fuel price trends. During the month of April, diesel increased by another 75 cents.

Moving to slide 10, here is more information to better understand our Dedicated fleet. In Dedicated, we provide trucks, trailers and drivers exclusively for a specific customer, typically for a retail distribution center or a manufacturing plant. Werner is one of the four largest Dedicated fleets in the U.S.

Werner Dedicated serves customers with extremely high service and safety requirements, typically executing shorter length of haul shipments in local and regional markets. The superior consistency and reliability of our Dedicated on-time service, provides our customers with high predictability for their inventory, to help them avoid out-of-stock surprises for their customers.

Our Dedicated drivers have more predictable routes in narrower geographic markets, which increases their satisfaction with a higher frequency of home time. Many of our Dedicated customers require specialized driver training, multistop deliveries and driver assistance with the unloading process. We are generally paid for all miles in Dedicated, with steady and stable revenue streams through weekly adjustments based on truck productivity.

Our Dedicated fleet has steadily grown over the last 13 years, with a customer retention rate of over 95%. Four of our five largest customers have been in the top five every year for the last 10, highlighting the long-term relationship nature of our business. Werner office associates and professional drivers develop strong relationships with our customers and create solutions that become deeply integrated into our customers' transportation and logistics networks, resulting in a supply chain strategy that creates a competitive advantage.

Two-thirds of our Dedicated business is retail distribution center to store, and two-thirds of that business is discount retail. Historically, these discount retailers perform better than the competition in slower growth economies, when their customers have less discretionary income to spend, and as they look to trade down for value for their nondurable goods purchases. Dedicated revenue per truck per week has grown each of the last five years, demonstrating the high stability and durability of our service product and customer base.

As a result of these factors, Werner Dedicated operates with more attractive and less variable operating margins, in all economic conditions. If we experience a moderation of freight market trends, the size, strength and customer base of Werner Dedicated places us in a strong competitive position. Let's compare our superior relative financial performance in the last freight moderation period of 2019 against the strong freight market of 2018. Werner was only one of a few truckload carriers that produced earnings per share growth in 2019 versus 2018.

Moving to slide 11 is a deeper dive for our premium truck and trailer fleet. We spec and buy our trucks with advanced safety and comfort features, to assist our drivers and provide for superior resale value when our experienced fleet sales team remarkets our equipment.

We've been in the business of selling our premium spec used trucks and trailers in the aftermarket for 30 years. We typically sell our trucks at an age of 4 to 4.5 years in an industry with an average truck age of 5.6 years and climbing. Our experienced fleet sales team have a clear understanding of the market and the needs of our customers.

The used truck and trailer market achieved high pricing levels in recent quarters due to record freight demand and limited new equipment availability. Despite selling fewer trucks and trailers than planned in 2021, we realized equipment gains of 19% of adjusted operating income, ahead of our 20-year average of 10%.

Although it is difficult to predict the timing of when the supply and demand for used trucks and trailers moves back into balance, we expect equipment gains per unit will decline from current levels and return to more normalized levels based on our gains history.

When this occurs, we expect to increase the number of trucks and trailers we sell to a more normalized run rate. We expect less pressure on the maintenance expense line; and we anticipate improved driver satisfaction and retention with a newer fleet.

Moving to Werner Logistics on slide 12. In first quarter, total Logistics revenues in the quarter grew 37% to $189 million. Truckload Logistics revenues increased 46%, driven by a 24% increase in revenues per shipment and a 19% increase in shipments. Power only and project business continued to generate strong revenue growth to support our customers in a capacity constrained market, and grew revenues and shipments by 76% and 48%, respectively.

Intermodal revenues grew 29% supported by a 37% increase in revenues per shipment and a 6% decrease in shipments. Werner Final Mile revenues increased $18.1 million, primarily due to our November Final Mile acquisition of NEHDS. Werner Logistics produced $5.6 million, or 158% improvement of adjusted operating income to $9.2 million, resulting from strong revenue growth and 230 basis points of adjusted operating margin expansion.

On slide 13 is a summary of our cash flow from operations, net capital expenditures and free cash flow over the past five years. Expanded operating margins and less variable net CapEx, resulted in higher free cash flow during the last four years. We expect to continue to generate meaningful free cash flow going forward. We reduced our net CapEx guidance for 2022 by $25 million on the top and bottom end of the range due to our expectations for lower new truck deliveries.

On slide 14 is a summary of our disciplined strategy for capital allocation. Our first priority for capital continues to be reinvesting in our fleet with newer trucks and trailers, with the latest safety, driver-friendly and fuel-efficient technologies. During first quarter, we purchased $36.2 million of our stock, or 1.3% of diluted shares.

We remain committed to maintaining a strong and flexible financial position. In March, we expanded our debt capacity with our existing bank group from $600 million to $800 million, to provide us more flexibility when the right capital allocation opportunity presents itself. Our long-term leverage goal is a net debt to annual EBITDA ratio of 0.5x to 1x. We ended the quarter with a net debt-to-EBITDA ratio of 0.5x.

That concludes my remarks and I'll now turn it back over to Derek for his remaining comments.

Derek Leathers

Thank you, John. Moving to slide 16. During first quarter, the age of our newer truck and trailer fleet increased slightly. It continues to be more challenging to receive new trucks and trailers, and we have intentionally reduced the number of trucks and trailers we sell, to enable us to meet our freight commitments with our customers.

Since last quarter, we made good progress expanding our targeted driver school network by three more locations, bringing our total to 22. Our schools continue to perform well and produce highly trained graduates in the competitive driver market. These drivers are then able to further develop their skills with a certified and experienced Werner leader.

Throughout the first quarter, technology enhancements continue to drive better communication processes and results for our drivers, customers, carriers and nondriver associates.

Our Drive Werner Pro app is improving our drivers' experience by providing them with a single portal to view all the information they need to be safe and successful. With the ongoing improvements to our digital load board, Werner EDGE for Carriers, we provide alliance carriers with 24/7 access to freight. And we experienced 380% load growth compared to the same quarter a year ago.

We continued the rollout of our Werner EDGE TMS platform across our Logistics network, and are now live in all Logistics offices in the U.S. and Canada. Looking ahead, investments in emerging cloud technology, including cybersecurity, predictive maintenance, safety and sustainability remain a top priority. Finally, during first quarter, we completed the new Werner EDGE Innovation Center at our Omaha headquarters.

Now moving to slide 17, here are the ESG developments for the quarter. Last month we launched a commercial pilot with autonomous truck company Aurora Innovation, to test their technology in a freight lane between Fort Worth and El Paso. During first quarter, we launched our WernerBlue Task Force with senior leadership, associates and members of our Board to expand our ESG program. We established a pilot program with three large suppliers to use analytics for predictive maintenance and improving our fuel MPG. And we took significant proactive steps to further strengthen our cybersecurity and compliance.

Now let's move to slide 18 and a review of our performance versus our 2022 guidance metrics. During first quarter, our TTS fleet declined by 115 trucks sequentially from year-end, in line with typical fourth quarter to first quarter seasonal patterns. Higher driver turnover and the impact of the Omicron variant in January were also contributing factors. For the year, our 2 to 5% fleet growth guidance remains unchanged.

Net capital expenditures in first quarter were $37 million. We anticipate a full year net CapEx range of $250 to $300 million.

Dedicated revenue per truck per week increased 7.3% in first quarter, ahead of our expectations due to customer rate increases to offset inflationary cost pressures. For the year, we expect this metric will grow in the 4 to 6% range.

One-Way Truckload revenues per total mile for the first quarter increased 20.8%, above our first half guidance due to a strong freight market and customer support to keep up with inflation. For second quarter, we expect our One-way Truckload revenues per total mile to increase in the range of 14% to 17% over the same period last year. In April, freight demand trends in our One-Way Truckload unit were similar to March and are very good based on our historical April freight history.

Our income tax rate in first quarter was 24.1%. For the full year, we are reaffirming our effective tax rate of 24.5% to 25.5% and we expect the average age of our truck and trailer fleet at year-end to be 2.2 and 4.8 years, respectively.

Truckload freight has moderated from extremely high levels to very good levels in the past several weeks within our One-Way Truckload fleet, while Dedicated customer demand remains strong. We expect the supply side to remain tight due to a competitive driver market and ongoing OEM challenges for the production of new trucks and trailers.

Retail inventory levels began to increase in recent months. However, inventory to sales ratios remain at historically low levels. There is a significant amount of retail inventory in transit on ships, or stuck in warehouses due to ongoing supply chain bottlenecks. In addition, we expect the last five weeks of COVID-related shutdowns at the largest shipping port in the world is about to begin to impact freight, with a potential big splash whenever that faucet gets turned back on.

In recent weeks, there are growing concerns about the direction of the economy and the freight market. And while freight demand has begun to moderate from high levels, our freight demand remains strong in Dedicated and is very good in One-Way Truckload. Industry capacity continues to be limited by ongoing new truck production delays and a very competitive driver market.

We are very confident in our positioning with the stability of our Dedicated and One-Way Truckload freight base and our growing Logistics segment; the proven resilience of our durable business model; and the superior value we provide to our customers.

At this time, I'd like to turn the call over to our operator to begin our Q&A.

Operator

(Operator Instructions) Our first question comes from Brian Ossenbeck with JPMorgan.

Brian Ossenbeck
Derek, maybe just sticking with you. You mentioned the impact of China and when the faucet gets turned back on in your words, do you think that actually has a negative impact here in the near future as things just don't arrive in the same cadence that we were seeing? So, I guess in a way it gets -- it perhaps gets a little bit worse before it gets better? What are you expecting as that part of the supply chain still has a bit of a whiplash effect here?

Derek Leathers
I think it's a bit of -- I think the way I would think about it, Brian, is its really part of the story of what we're already seeing in the marketplace today, meaning there's a bit of a bubble that's taken place that explains at least partly some of the slowdown in freight overall. I think though when you look at it and you think about normal seasonality and what's about to take place as we get deeper into Q2, and the uptick in freight that's happened year in and year out, it's going to simply double down on that uptick, especially if these ports were to clear or the restrictions were to clear, and you would start to see these vessels en route.

There's been a lot of conversations about things like ports clearing up and decongesting. I would argue that's much more related to the lack of inbound than it is to any kind of productivity gains that have taken place.

There's been conversations about the West Coast not being as strong as it was earlier in the year and it's hard to be as strong when you've got 500-ish vessels, depending on which data source you look at, that are anchored or offshore in China. At some point, that will move. Our best prediction would be late June arrival on the West Coast, at this point. It could be extended further if the restrictions last longer.

But, in the event that were to take place, that would coincide exactly with the ILWU labor negotiations. And we've seen time and time again that, best case, that translates to a slowdown in work productivity at the port; worst case an actual stoppage. So we just think that as you look out, there's a lot of disruptive material out there to think about, as we try to analyze what Q2 and into Q3 could look like. And I think the takeaway is that we feel very well structured and set up as that plays out to be able to serve our customers and our shareholders alike.

Brian Ossenbeck
Okay. Derek, maybe one follow-up on the capacity side. You mentioned driver turnover is increasing a little bit. Maybe you can maybe elaborate on the reasons for that. And just overall sort of your cost of marginal capacity, especially in the One-Way Trucking side.

And where do you think that is for carriers who are obviously facing higher equipment costs, higher fuel, higher maintenance, all the other things that we've seen. So, I guess where do you think the breakeven point or the tipping point where maybe we start to see some of that capacity exit the market as most of those carriers are more tied to spot?

Derek Leathers
Yes, we did see a slight uptick in Q1. I think Omicron is a part of that and some of the pressures that's created, I think in general there's the ongoing desire for people to continue to search out and find local and lifestyle jobs that are more conducive to the lifestyle they want to lead. We're building those jobs every day as we continue to expand Dedicated.

So, it's not meant to be a call out of an ongoing uptick or concern. We've already actually seen progress on that front, but it certainly impacted a little bit in Q1. When you think about the overall operational cost, I would point more toward the industry as a total that I would get into specifics here. Only in that -- over the last couple of years, we've seen an absolute explosion of single vehicle registrants as new entities, as they chase the spot market opportunities and especially when it was inflated as high as it was.

And what they all have in common is they overpaid for equipment. They paid up to get drivers, or to source -- if they were to have more than one truck, to source the drivers for those additional trucks. They're bearing the brunt of overexposure to a spot market that has seen deflationary pressures over the last 90 days. And in many cases, their all-in rates are with fuel included while fuel was increasing dramatically.

So, I think the washout will be severe. And I think the conversation about whether there is or isn't going to be a blood bath, it's hard to ignore the fact that 90% of the industry is 20 trucks or less, and there's going to be blood in the water at that level.

But that has very little to do, or bearing on what we do for a living. We're a large, well-capitalized fleet with much better cost controls. We didn't go out and buy dramatically more expensive used equipment in a market and chase spot rates with that equipment. We stayed true to who we are. We're more Dedicated today than we were the last time we spoke. We're more contractual today than we were the last time we spoke; we're more defensible.

And so, we think what happens in all of this is that, in the event that spot market continues to erode, you have a faster and deeper cleansing of that small carrier capacity than we've seen in prior cycles. And thus, you find a bottom quicker, and a renewal of the next level of tightness that comes along this cycle.

I've said a couple of calls in a row that I think these cycles are faster, and the bounce back is quicker than they used to be with the advent of all of this new technology and information. We think this one will play out that way very aggressively. But in the meantime, our portfolio sets us up extremely well to perform with strong results in the interim.

Operator
The next question is from Brandon Oglenski with Barclays.

Brandon Oglenski
I guess following up on that, Derek, and this is maybe semantics, but you guys characterized the market as being very good now versus strong previously. I mean, both those sound great to me. So, can you maybe quantify that change in language?

Derek Leathers
Well, yes, I think what gets underappreciated is that at the end of the day, our network is 60% retail. Within that retail network, it's predominantly discount retail. The balance of some of the largest customers that aren't discount retail are home improvement that are doing extremely well. We've recently looked out at our top 20 customers; 16 of them I believe are publicly traded with an average revenue growth year-over-year of 17%. They're doing very well. That population of our customers are winning in their space, and that's why we worked very aggressively develop relationships with them. So, I think the strong demand we have today is actually healthy.

It's hard to really articulate, at least on a call like this, but there is a point by which demand can be so strong that all it really results in is disruption and inefficiencies in your network as you're continuously chasing your tail to cover freight and meet service expectations. Whereby strong demand – consistent, strong demand in a balanced network, allows you to start unlocking advantages in utilization, productivity overall, driver satisfaction. And honestly, just the calm by which we manage the business in a more normalized market that is still strong.

So, I don't deny that there are carriers out there that may be suffering from a lack of demand if they were chasing load boards and spot market, but that's not the world or the pond that we fish in. Where we're at, things still look pretty strong. And our conversations with our customers, especially as it relates to Q2, and things like back-to-school and normalized projects that, frankly, during COVID didn't exist much, that are now coming back online, is encouraging to us.

Brandon Oglenski
I appreciate that. I know you guys were highlighting the more defensive characteristics of your business. I mean can you talk about volatility of Dedicated rates and how that contract cycle works?

Derek Leathers
Yes. So, the contract cycle in our Dedicated contracts ranges traditionally from three to five years with annual rate adjustments or rate mechanisms in place. Those customers, above all else, value service and really place a premium on the need to have a mature provider with complex modeling capabilities and an absolute conviction around on-time service.

So, with that batch of customers, as you work with them and talk to them, rate per mile or revenue per truck per week might be increasing, but we may be coming more efficient with that fleet and we often do year-over-year, quarter-over-quarter, which mitigates the actual cost impact of them, but allows us on a per basis to improve our results.

We're going to continue down that path. We're going to continue to get deeper and deeper embedded with these customers. We think it's in their best interest. So, we actually believe, and we can show metrics that support their financial self-interest in doing so. But at the same time, it allows us to become more efficient with more reps. That's why we commented earlier on four of the five top customers in Dedicated have been in the top five for 10 straight years, because that's how integrated we are in their networks.

Operator
The next question is from Bascome Majors with Susquehanna.

Bascome Majors
As we think about where this is going, some of your competitors have been willing to talk about what the downside looks like in a deep recession, or at least deep freight recession scenario. Can you talk about your modeling maybe, above and beyond just the margin ranges that you've given us historically?

Derek Leathers
It's a great question, Bascome. We have certainly modeled, as we talked about on the last call, a five-year outlook and some more aggressive growth goals. We've modeled for both down markets and up markets. We do assume that you're going to continue to see some degree of slowdown, at least all things being equal, as we look forward. But what we also have done is raised our margin guidance despite that modeling.

And so, when we chose to raise our model -- our guidance on margins for TTS, we did that with an eye towards where we were at in the cycle, and what we believed we would be at in the midpoint as we look forward. Right now, the last -- the trailing 12 months we've averaged a 16.4% margin, which is at the high end of the new range. The low end of that range is 12%. And frankly, we don't have an eye right now toward a 12% in our future, even with the various cases that we've modeled out through the down cycle.

So, I'm not changing the overall range at this point, but we feel pretty confident that we can avoid that worst-case scenario. And that worst case scenario would be, call it, a 25%-ish type decline, and we don't think that's in the cards based on the more defensive nature of the portfolio today.

It's much more durable than it was in any prior cycle. Not just in Dedicated, but even on the One-Way Truckload side, we now have at the right point in the cycle, we now have over one-third of that network under long-term agreements that we've spent many, many quarters to set up and accomplish. And we think they're fair and equitable for both sides, both the customer and us, but they do give us a degree of insulation as we look forward.

Bascome Majors
Derek, can you just clarify the 25%-ish decline you just referenced? Were you talking to earnings there or something else?

John Steele
Yes, I can jump in. That was based on our last 12 months TTS margin running at 16.4%. So, if you took it all the way down to the 12% level, which we don't think it will go that low, that would be a 27% decline in TTS margin from the current level. We think we'll do better than 12% going forward. So that's the estimate of roughly 25% reduction.

Bascome Majors
And just one more, if you'll let me the -- your largest customers talk some about in-sourcing some of their supply chain. Can you talk about getting through this contracting period and where that stands? And any risk to your share of that wallet going forward?

Derek Leathers
Yes. We're heavily involved with those conversations with our customers, especially our largest customers, and honestly, it's a collaborative effort. There are places where it makes more sense for them to in-source pieces and parts of their network, and there's places that we are going to be better served to be positioned. So, these are collaborative discussions. We don't view them as stress at all. As a matter of fact, it's one of the very encouraging outcomes of some of that work has been -- it's easy to talk or tell people it's raining outside, but it's a lot easier for them to understand it when they get wet a little.

So, they have a much greater appreciation for OEM disruptions, driver availability, the overall labor market, when they go and they do some of those efforts. The efforts still makes sense for them in certain applications, but most of those are indications of customers where we have a fairly large-scale exposure to already. They have strong growth goals as do we, but we want to be very strategic on where we grow versus where it might be more beneficial for them to grow.

Operator
The next question is from Scott Group with Wolfe Research.

Scott Group
Derek, are you seeing any impact at all on contractual negotiations at all, and with the moderation in spot? And maybe -- I know you guys have guidance for rate per mile in the second quarter, but any just directional thoughts on how you would maybe anticipate that would look like in the back half of the year.

Derek Leathers
Yes. Sure, Scott. So first, I'll level set by telling you, we've accomplished about 45% of our rate negotiations in Q1. There's roughly 25% of those that are ongoing in Q2, some of which are in the final -- they've either closed already or are imminent to close.

At this point, no, we have not, would be the short answer, seeing really any inflection at all relative to what happens in the spot versus our contractual conversations. I mean 90% of the spot data and the data that people really have their eyes towards is kind of load boards, and that type of freight, that live load, live unload, you call, we haul kind of freight. That's not indicative of the kind of freight that even we haul within that 10% spot that we do participate in.

So, it really is a market within a market. I don't think it's surprising personally, that you've seen the kind of decline in that market, if you have 180,000-plus or whatever the number is of new registrants, all generally speaking, with one or two trucks, chasing an elevated spot market and arriving at the party at the very time that things start to return to more normalized levels, you're going to end up in a situation where both, two things happen.

Shippers have aggressively moved freight out of the spot market into contractual markets with carriers like Werner, so the spot population of freight has decreased right at the time all these new arrivals showed up. So that's a risky game to play, and that's why we don't participate heavily in that market, and specific to the load board market, we don't participate at all.

So, can it enter the conversation later in the year, perhaps. We know that in general, it doesn't at the type of freight we haul for anywhere from three to six months, and then it takes another three to six months to see some level of impact. By the time you get there in our estimation, you will have already seen pretty significant washout from these carriers that have got themselves overexposed on the cost side and overexposed in spot.

And so, we think the bounce back could have much more -- happen much more quickly. And after these two years of extreme volatility, the last thought I'll leave you with is, shippers have, I'd say, more than past cycles, really looked for stability, and they need to count on some anchor stores, so to speak, within their network, that they know will deliver as expected; will be there every day, that will invest back in the fleet. And they might push the envelope around other edges, but we're not seeing that in the types of dialogues we're having at this point.

Scott Group
Okay. And then just a follow-up. Any sort of directional thoughts on margin progression off of that 83.6% in trucking in Q1? And if you're not willing to go on margins, just totally separate, any update on power only?

Derek Leathers
Yes. Well, I'll start on the easier one. Power only is very -- it's something that's a real bright spot in our network right now. We're excited about where that's headed. We talked about power only revenue growth of 76% in the quarter. I think that number will continue to have legs as we go forward.

We're gaining traction and adding amenities to that program and structure to make it more beneficial to be in that power only community at Werner. We're treating those carriers well. And I think we're seeing more and more repeat business in that power-only environment.

And I honestly think the market to add in that environment is really right ahead of us, for all the reasons I previously outlined, as carriers are waking up to the reality that the load board world of dramatically inflated rates is maybe not as sustainable as they thought it was, the opportunity to find a safe haven and inside of a network like Werner's is there. I think customers really appreciate large-scale trailer fleets, and they do not desire to kind of reinvent the rainbow fleets of the past. And so, very encouraged by power only.

As it relates to Q1 to Q2 progression, we're not going to give estimates, but we do generally have progression from Q1 to Q2. I'd expect this year to be no different as it relates to our ability to continue to execute on our plan.

John Steele
And one thing I'd add to that, Scott, as we look at first quarter to second quarter, and clearly, we had an abnormally strong first quarter freight environment. It was nearly as good as fourth quarter was -- and we do have a moderating spot market. We had a mild winter in first quarter and accelerating inflation. So, the progression from first quarter to second quarter may not be as much as normal, but we do think that there will be improvement. The wildcard is what happens with the strength of beverage and produce, and the timing of the China rebound.

Operator
The next question is from Allison Poliniak with Wells Fargo.

Allison Poliniak-Cusic
Just want to ask about Dedicated. You mentioned longer duration of contracts. Is there any color you can give us as to where average duration of those contracts stands today in Dedicated versus prior peak? And then I guess more importantly, as you're renewing contracts today, has the duration of those contracts changed at all? Any color there?

Derek Leathers
Yes. I mean I would say, in general terms, they've always been longer-term agreements, and it's something that we've always aspired for because of the complexity of implementing a true Dedicated fleet. I point you to the reality that we've always worked diligently to avoid

designated fleets, or fleets that were really just looking for safe haven from a spot market, but instead chased fleets that were very complex, high service requirements and with a growing, winning customer.

Around the edges, they're a little longer today than they would have been five years ago because we tend to realize that, with this complexity and the relationship building that's required, we'd like to be in it for longer, and to fulfill the full opportunity for both the customer and for us. So, with greater than 95% retention, most of these linger well beyond the first contract and enter into many, many contracts thereafter. And so, it's something we're proud of. But slightly longer than previous cycles, perhaps, but I wouldn't say that that's a huge movement to point.

Allison Poliniak-Cusic
Got it. And then the 5% reduction in miles per truck. I think, John, you had mentioned ECM as a headwind there. Any way to quantify what that headwind was? Or just trying to understand what's transitory and what sort of an underlying continuation to Q2?

John Steele
Yes. So, as it relates to the 5%, which is TTS in total, which is the 8,200 trucks, ECM is around 500. So, it has less than a percentage point out of that five would be due to ECM. We have a shorter length of haul as we grow our Dedicated mix and as Dedicated gets bigger, that reduces miles per truck. We have more challenging team driver environment this year than last, and a little bit higher turnover. So, all those factors contribute to it.

But as you can tell on the rate side, we achieved outside of the guidance range north of 20%. So, where miles are running a little bit lower due to the nature of the freight and the nature of the business, rates are trending a little bit higher than we anticipated.

Derek Leathers
The other thing I'd add to that is that as you think about and you look at Q4, across all of the large public carriers, and they averaged to about a double-digit decline in miles per truck year-over-year. I think that gets overlooked a lot when we think about capacity.

We tend to focus on truck builds or truck counts and overlook the reality that on a per truck basis, or simply the focus on more driver time at home means less miles. The focus on shorter length of haul, as customers want product closer, I should say, shippers want products closer to the consumer, means lower miles per truck. As Covid has abated, and people return to the roadways, it has negative implications for production.

And so, all of that is really a net positive as it relates to capacity availability overall. And I think that trend is more of a systemic kind of underpinning, in terms of the fact that there is a different marketplace year-over-year as length of haul gets shorter, lifestyle gets more important, and congestion increases. And with the infrastructure bill finally happening, and at some point, actual work and shovels hitting the ground, I think you'll see additional headwinds there that will be at another headwind against capacity growth.

Operator
The next question is from Tom Wadewitz with UBS.

Thomas Wadewitz
I wanted to see if you could talk a little bit about the progression, on a monthly basis in the pre-book number that you talked about, John. That's a helpful kind of read, I guess, on what you're seeing in the market; pre-books in One-Way. And then also, I don't know if you have a full year comment on gain on sale, just ballpark what we might think of for modeling?

Derek Leathers
I'll take the pre-book and John, why don't you jump in on the gain on sale. So, the pre-book thing is interesting because I want to remind everybody, January for us, and as you've heard on many other calls thus far, was heavily impacted by Omicron. And what that really means is trucks off-line. So, the pre-book number in January was heavily inflated. It was at record levels pretty much throughout the entire month. And I mean, at any point in history type record levels. In February, it moderated some, mostly, not -- almost exclusively due to trucks coming back online and drivers being back in the seat. And you saw what I would call a very, very strong market in February.

As we got into March, we saw a little further moderation in the pre-books but still consistently oversold throughout the entire month with no exception. And so, yes, there's moderation, but it's all a relative point of view. From where we started, which was highly disruptive in January, highly oversold, and the headwinds of Omicron, to where we ended up in March, which was an oversold but more balanced and with more fluidity returning into the network, honestly, if you could hold -- if March was representative of a month -- over the next nine months, it would be a very exciting time because that's really when the network performs its best.

Thomas Wadewitz
Sorry, do you have a comment on April, Derek?

Derek Leathers
Yes. Thus far, April has looked very similar to March. And we'll see how we -- how May plays out. And as I previously indicated, we think there's a fairly strong possibility that June ends up returning to pre-COVID Junes, which was an opportunity for an end-of-quarter push, with very strong booking levels that really were muted somewhat in the last two years because every month was so strong. You didn't see the sudden or noticeable uptick in June that used to exist for many, many years. I think you'll see more of that.

I also think the back-to-school and some of the pushes that people have not been participating in as much in the last couple of years, will add some fuel to that fire in June.

John Steele
And to answer your question on gains, Tom, we've had difficulty getting all the new equipment, trucks and trailers that we want. And so, we've reduced how many trucks and trailers we sell in the current market, but the used truck pricing market and trailer pricing market have been extremely strong in first quarter. So far, that trend is pretty much continuing here in second quarter.

As you know, we stopped giving guidance on gain on sales last quarter because of the difficulty of predicting changes in the market and the peaks and valleys of pricing. So, we haven't given guidance this quarter. The current market trends are similar right now to what we saw but predicting out for the rest of the year is really, really difficult. I don't want to put a number out for the rest of the year.

But one thing that sometimes gets overlooked when you think about gains on sales of equipment. Number one, the reason we have it is because we have conservative depreciation policies. And at the same time that the average age of the fleet is increasing a little bit because we're getting fewer new trucks than we would like, that raises costs in other areas.

Our maintenance costs were up 24% year-over-year. It impacts our production with a little bit older fleet, driver satisfaction is not as high when the fleet is a little bit older, and turnover is a little bit higher. So, when gains begin to moderate, as the new truck production builds, and we're able to bring our average age down back to two years from the 2.3 it is currently, that will reduce our gains. But it will put us in a better position to produce in other areas on the cost side as our operations run more smoothly.

Thomas Wadewitz
So, do you think 2Q may be similar to 1Q and then second half, it falls off a bit?

John Steele
Based on what we know now, we're not -- could change here in the next month or two but based on what we've seen thus far in April, it's been a similar trend to first quarter.

Derek Leathers
And I think it's still too early to predict that it falls off later in the year at this point. We obviously are going to keep an eye on it. But it's -- unless the OEMs are able to improve the fluidity in their networks, and you see an introduction of a higher volume of new trucks, I don't see anything on the horizon that causes me to believe you're going to see material changes in the gains number or in the market for used trucks, I should say.

Thomas Wadewitz
Even with lighter spot rates, you still think a used truck is strong in second half?

Derek Leathers
Well, I started by saying I'm not predicting second half. I'm just giving things that I think factor into what ultimately drives the used market south, which is an influx of large scale of new equipment, which is not happening.

Clearly, as carriers come under duress, and I'm talking about the smaller carriers that have overpaid for used equipment, you could see some of those carriers wash out. But in many cases, they started their career in trucking as an independent trucker with a truck that had 500,000 miles on it, and have ran that truck now for a year or two, and so those trucks are really getting close to the end of their useful life. So we'll have to see how it plays out. I think it's a new territory for all of us. We are cautious as it relates to the back half, but I think it's too early to predict the demise of the used truck market.

Operator
The next question is from Ken Hoexter with Bank of America.

Ken Hoexter
John and Derek, just trying to reconcile a little bit of kind of what you threw out here. So the market, Derek, you mentioned is placing a blood bath of some of the smaller capacity, the speed that you kind of mentioned you're seeing it get cleaned out or potentially gets cleaned out, your customers focused on quality access to capacity. So are we already seeing that the ability to seat tractors get easier? With drivers, you mentioned driver pay is up or 15%, which is down sequentially. So are we seeing that washout already occur? Or are we on the cusp of that? Maybe just talk about the timing of that?

Derek Leathers
Yes. I think it's probably too early to say the washout is already happening, but I think the pain is very much present. We have seen an uptick in experienced driver applications, and a pretty consistent one over the last, call it, month to six weeks. I think you're going to see more of that as we go forward. We've seen an uptick in interest in power only and folks that maybe previously didn't want to do that. They'd rather try to chase freight on load boards that now are looking and desiring to become part of a more stable network.

So, we're seeing the early inning signs of some of that from those smaller carriers, as well as an uptick from customers, as I mentioned previously, looking for stability now more than ever, and the ability for them, especially in retail with quality brands, the ability to predict in stock levels going into the Fall. That's something that's going to become increasingly important and carriers like Werner, can kind of uniquely provide that stability for them.

Ken Hoexter
And John, you mentioned the 0.5x leverage. It sounded like you were kind of saving capital for -- I don't know if it was for a rainy day? Or are you focused more on increasing the buyback? Maybe just your thoughts on the finance side?

John Steele
Yes. We purchased shares for the last three quarters, around one million shares a quarter. And those purchases occurred at higher prices than what we're trading at today. So, we will continue to look at opportunities for share repurchase going forward.

We re-upped our bank credit agreements with our two major banks to $800 million from $600 million, just to give us more flexibility in case the OEMs start to step up their production of trucks, in case there are stock repurchase opportunities that we like, and we continue to look at opportunities for truckload acquisitions, logistics acquisitions, that are both accretive and additive to our business. So, all those are on the table.

Ken Hoexter
Does an acquisition become more likely given what Derek’s talking about in terms of some of the smaller carriers? Is that -- is more stuff already hitting your door? Is that -- maybe just talk about that flow?

Derek Leathers
I'd say frequency of opportunities is clearly increasing, but I don't know that I'd go to say that, that alone causes the likelihood to increase. We're going to stick to our knitting on -- I want things that are additive and accretive. I want our portfolio to be enhanced by it.

We're looking for strong track records and companies that do things very well. I think we -- if you look at our, sticking with the theory of the draft that just took place. If you look at our two draft picks last year, we're very excited about both of them. In both cases, we've retained customers, we've retained the associates and we've retained the drivers, and not only retained, but actually have started to grow both those businesses.

And we've got kind of a pattern of how we think about these things. It doesn't mean they'll all be that small, by the way. But it does mean they're always going to have an eye toward those sort of core principles. Culture has got to fit. They've got to be safety focused. It's got to make us better. And we have to believe that we have the ability to take something and grow it from where it's at today, not kind of go buy and dissolve like we've seen within this industry for some time.

So as those opportunities present themselves, and we see the right one, we'll move. And that's no different answer from Werner, but it's one that we have confidence in, and that confidence has only grown over the last year with the success of the two acquisitions that we've done thus far.

Operator
The next question is from Bert Subin with Stifel.

Bert Subin
Derek, would you consider the Dedicated market to be consolidated or fragmented? I asked because markets like Intermodal, LTL, they get the valuation benefit of that consolidation. The Dedicated -- it's a small portion of truckload that's actually quite different from the spot market, but doesn't get treated the same way. So curious what your thoughts are.

Derek Leathers
Yes. I think the Dedicated market is much more consolidated than Truckload overall. If you look out there across the Dedicated arena, there's a few definitional differences probably from fleet to fleet, and we need to be cognizant of that. And -- but what they all have in common is you really can kind of count on about two hands, the high-quality players in that space; people that can really go in and perform and operate the duties, similar to a private fleet, for a customer and actually enhance their supply chain and bring value to their product placement, kind of on time, every time approach to their own businesses.

And so there isn't very many people that can do it. Certainly, size matters in Dedicated a lot. The ability to ramp up and to invest, the ability to absorb the start-up costs and kind of digest those as part of a longer-term agreement. There's a whole lot of things that limit the players, and it is a much more consolidated market.

I'd also point even within the One-Way side of our business. The same thing is true of a very large portion of our One-Way network, which is Mexico. You don't need both hands to count the number of quality providers doing business to and from Mexico. There are others, and we respect them, but it is a much smaller subset of Truckload that does that business and can do it well. And we view ourselves as a leader in that space, and we're going to continue to lean into that as well.

Just like the engineered fleets we've built inside of our One-Way network. Other people could probably haul the A to B part, but they wouldn't -- there's a very small subset that can design, engineer and then implement the type of engineering we're doing within our One-Way network.

So that's all part of this defensibility, the durability of the portfolio we're building, and it's what gives us the confidence as we think forward about being much less cycle driven than historic trends had looked like. And hopefully, someday, the market will choose to reward it and recognize it for what it is.

Bert Subin
So maybe just a follow-up to that. I mean, Derek, you've talked in the past about trying to work with customers that look at their supply chain as an asset. If you had to look across your business, how high would you say your exposure is to that sort of customer? And has that changed significantly from last cycle to this cycle? And does that give you sort of more confidence in your longer-term growth assumptions?

Derek Leathers
Yes. I mean I'll start with the easy part. It's higher than it's ever been. I can irrefutably tell you that it has never been a higher percentage of our overall business than it is as we sit here today.

Now there's always shades of gray on the -- some of those customers are absolutely laser-focused and locked in on supply chain as a competitive advantage. That population is probably -- what certainly north of one-third of our book that's probably closer to a half. If you think of others that are viewed as a competitive advantage, but where they're at in their evolution isn't maybe as evolved as the best-in-class shipper might be. But that would probably get your total up into that 70%, 80% range. I mean it is basically what we do. We very strategically align ourselves with shippers, after lots of due diligence, to decide that we want to grow and expand our presence with them and their ability to win is a big part of that.

Operator
The next question is from Jon Chappell with Evercore ISI.

Jonathan Chappell
Derek, you mentioned earlier in one of your answers about, as it related to capacity, the miles per tractor declining across the industry and getting worse in this post-COVID phase.

If we look at back at your numbers, we're in a multiyear trend here of declines. Does that continue to edge down? Is there a plateau at some point or given some of those bigger secular issues in the sector, is it kind of a gradual annual decline from here, both in One Way and Dedicated?

Derek Leathers
Yes. I can't predict at this point, that I wouldn't want people to model or assume that it just sort of declines forever. But I think there are certain headwinds out there that are just real. They play to our strengths, by the way.

But the reality that more forward deployed inventory is only going to continue to grow, that's going to continue as we look forward. The reality that we have to continue to build more and more lifestyle jobs, which means more time at home, which means more time that the truck may not be as productive as it used to be in the past, is going to be a continued pressure.

The fact that we are engaging more and more in Dedicated where often the miles per truck are simply dramatically lower, because the activity that that truck does for that customer goes well beyond just delivering long-haul truckload commoditized freight. Our drivers in many of those fleets are engaged well beyond the truck. And they understand that when they sign up for that job, and it's a trade-off worth making because of the lifestyle enhancements and time at home that comes with it.

So, I think you'll see it moderate. You can only go so short on length of haul at some point, there's diminishing returns. And so, I think you'll see that decline moderate. But our model, and how we think about profitability is not built on utilization alone. There was a time where if you were a Truckload player, utilization was the only metric, or at least it was at the very top of the pecking order. And that -- we think about the world more relative to how much revenue per truck per day, which leads to revenue per truck per week, which ultimately leads to our ability to be profitable. And so, we're not going to let that one metric define what customers we bring on, who we grow with, because it's only one of the dials on the dashboard.

Jonathan Chappell
And then just a quick follow-up, not to bring up old stuff. But in the third quarter, you highlighted a bunch of issues you had with parts, maintenance, et cetera. I think the update in February was, there been some improvements there, but not quite where you want to be. How do you stand with some of those carry-forwards from the late part of last year. Do you feel like you're in the right place as it relates to parts, equipment, maintenance, availability? Or is there still some work to do?

John Steele
Yes. I mean there are still parts shortages issues in the supply chain that are challenging. We've definitely made progress internally on how we acquire and make available those parts to minimize the downtime. So, we've made good progress there, but there's still challenges. On the -- some of the driver cost issues that were a challenge in third quarter for hiring incentives and minimum pay and layover, we've made significant progress from third to fourth and now in the first quarter. So, we're in a much better place there as it relates to those cost items.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Derek Leathers for any closing remarks.

Derek Leathers
Well, thank you. I just want to thank everybody again for spending time with us this afternoon. We appreciate your interest in the Werner story and we're proud of the record results in the quarter. But I'm more excited about the strategic positioning of our portfolio as we get deeper into the cycle. The portfolio continues to improve in service, safety and capabilities while achieving improved financial results.

We've improved our weighting of Dedicated and Logistics sequentially, and are further prepared for a variety of economic conditions that may materialize in the coming quarters. And as we move into 2022 and beyond, we are focused on building upon the great brand we have today and growing both our top and bottom-line results for all of our stakeholders. And I feel that Q1 is a great kick-off, a way to kick the year off. While we may never change the outsized perception of this being a cyclical industry, here at Werner, we have built an incredibly durable portfolio that I'm proud of.

The combination of COVID shutdowns across China, high-cost structures of many of the new entrants into the marketplace and the pending ILWU contract negotiations, lead me to have further conviction that supply chains will face ongoing disruptions as the year progresses, and we will be ready and able to provide needed support to our customers and attractive returns to our shareholders as that story plays out.

And lastly, as always, I just want to thank all of the Werner associates for their ongoing achievements, once again during these ever-changing times.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.