

Stephens Fall Investment Conference (Virtual)

November 18, 2020 11:00 EST

Werner Enterprises (WERN)

Stephens analyst: Jack Atkins

Werner Enterprises: Derek Leathers, President and CEO. John Steele, EVP and CFO.

Jack Atkins: Okay. Good morning, once again, everyone. My name is Jack Atkins with Stephens. I'm the air-freight and surface transportation analyst here, and it's my pleasure to introduce the management team from Werner, who will be joining us here for the 11:00 Eastern fireside chat session. So, I think most folks should be very familiar with Werner, but for those of you that aren't, these guys are headquartered Omaha, Nebraska. They're one of the largest trucking companies in the United States. About 60% of their trucking fleet serve Dedicated-related customers, but they also have a large One-Way trucking operation, a very large brokerage operation as well.

So, very pleased to have these guys with us this morning, and looking forward to hearing their view on the market and also what's going on specifically within Werner. It's been a very interesting story in the last couple of years. Joining us straight from the company, we're got Derek Leathers, Werner's Chief Executive Officer. And John Steele, Werner's CFO. John, why don't I turn the floor over to you for some introductory remarks, and then we'll go from there into Q and A if that's all right.

John Steele: Okay. Thank you, Jack. Thanks for inviting us to the conference. It's another great conference this year. Werner is about two and a half billion in revenues. We're a top-five truckload carrier and a growing logistics provider. About 20% of our revenues are in logistics, the other 80% in what we call Truckload Transportation Services. That's 4,700 trucks in dedicated, or 61% of our total truck fleet. And then about 3,000 trucks in our One-Way Truckload fleet, which is 39% of the total. We have a focus on the consumer. 51% of our revenue base is with retail companies, primarily brick-and-mortar retailers, who are some of the winners who are doing quite well in this post-COVID environment.

We are also... 64% of revenues in the first nine months of the year are essential-products revenues, so discount retail, home improvement retail, food and beverage, and consumer packaged goods, they're all what we do. And so, one of the unique factors about Werner is we have our own driving school network. So, we're, in some sense, vertically integrated with our driving school network that helps us with the sourcing of drivers in this economy. And the driver supply issue is a significant challenge. So, we're very happy to have that as part of our stable at Werner. So, that's kind of a high-level overview. I'll turn it back to you, Jack.

Jack Atkins: Great, well, thank you for that, John. I really appreciate it. So, maybe, could you just kind of dive right in, Derek? I'd love to get your take on sort of what you're seeing out there right now around peak season. It feels like we've been at peak since July or August. So, I don't know if we're going to see more of the traditional seasonal peak this year and just things staying strong into the end of the year. But what are you seeing out there? Have we started to see a ramp into peak season? Just love to get your take on the market you guys are seeing today.

Derek Leathers: Sure, Jack. First of all, echoing John's sentiments, thanks for having us at the conference. It's a great conference. And we appreciate being here. Yes, peak is what we expected to see. We started talking about it in Q2 and into Q3, the build-up and strengthening of the market. We've seen demand be strong in the summer and into the fall. We commented at the end of Q3 that early signs into the fourth quarter were strong, and those have remained true as we've moved forward.

It's a little different peak because we came into it with a lot higher volume level, so the base was set higher before you saw the increase in peak. It's also different because a little more smoothing has taken place this peak season than what we've traditionally seen. I think that's caused by a few things. One, inventories were greatly diminished going into peak, and so people were pulling forward everything they could get their hands on, so it really ramped and built earlier than maybe normal.

Secondly, due to COVID, most are shying away from a big-bang Black Friday kind of a moment, and instead, having multiple sales and very aggressively marketing multiple sort of Black Fridays through the entire fall. That seemingly has smoothed things out a little bit, but it's smoothed it out at a very high-demand level. So, demand is still tight. It's shaping up very nicely. One thing we try to remind investors of, and even customers of, is being highly oversold in very specific geographies is not nearly as good an operating environment in terms of being able to operate efficiently, as it is when you're strong everywhere, and you've got better balance.

And this seems to be one that's, because of the smoothing effect, it's a little more strong everywhere, better balanced maybe than normal peak. A little less chaotic maybe than normal peak, but demand very high. And it's coming in as projected, so the other nice thing I'd point out is customer's predictions, or projects, have really been a lot more accurate this year. And I actually think that's more a factor of supply constraints from the manufacturing world that they buy from, and the stuff they're bringing in. They knew they were going to take everything they would get. They're getting everything they could get. It's very close to what the projections were. And there's not necessarily some big upside moment to it in terms of those projections.

But there's very little risk, if any, to the downside, from what we've seen so far.

Jack Atkins: It's interesting. It's almost... If I go back and we had a chance to sit down... It's almost such a rarity to have an in-person meeting this year. You and John and I sat down together in August when I was driving through Omaha, and that was exactly what you were thinking would happen. We'd have a very strong peak, but those limitations on the inventory side, it would kind of take away the potential for just this blow-out upside number. But very, very high-level base level that we're seeing.

Derek Leathers: Yes, and I would only say, Jack, the whole blow-out, upside number, may be a blow-out. Upside number as it relates to volume in a particular region, but it doesn't mean that the quarter isn't shaping up financially to be able to perform well.

Jack Atkins: Right, right.

Derek Leathers: Back to that balance.

Jack Atkins: No, that's right.

Derek Leathers: But I understand... Yes.

Jack Atkins: Yes, absolutely. Maybe sticking with the inventory theme for a moment. John, to bring you back into the conversation here for a second, I know you do a ton of work tracking very closely to the inventory levels of your customers. We do some of that as well, but you guys are much more integrated with the Company. Would love to get your take on where you're seeing this inventory-restocking trend going as we look into 2021. I think that's a big sort of potential demand driver, especially in the first half of the year. What do you hear from your customers about the need to restock their inventory levels just to get back to normal?

John Steele: Well, we've talked about on our earnings calls that we think it will take multiple quarters for our large retail customers to get their inventory levels back to normal. Five out of our top 10 largest retailers have now reported within the last couple of days. We got Home Depot and Walmart on Monday. Target and Lowe's this morning. And some others reported previously to that, that are on a calendar quarter reporting basis. But the overall theme is they're killing it on the sales side. Four out of the five that are reported recently have north of 20% same-store sales. This is compared to an environment, typically in the past, which would've been three, four, five, six, seven percent same-store sales increases.

What's even more pronounced is their digital growth. They're basically doubling their digital e-commerce revenues year over year. So, going from six, seven, eight percent

of their revenue base being digital, to 13, 14, 15%. And, when you're getting more digital sales at a large brick-and-mortar retailer, that means you probably need more inventory than normal, to forward deploy that inventory close to where the customer is going to make their purchase, so you can get it delivered within a one or two-day period.

So, where they're at on the inventory level is, it kind of bottomed out at the end of second quarter. They were having trouble getting product. And now that half of them reported at the end of October, inventory levels, they've made progress on inventory from where they were the end of second to third, but they're still at least a couple of quarters away, based on the math, from getting back to where they need to be. In part, due to their sales being so strong, and also, in part, due to the impact of COVID.

And, if we go to a second wave throughout this country where there are more outbreaks, and the virus impacts the manufacturing operations or the companies that produce merchandise for them, we could still see a delay in them getting the inventory they need in a strong-demand environment. So, I think the inventory restocking will still take a few more quarters to get resolved.

Jack Atkins: And that's just getting back to normal. That's not overstocking. That doesn't create an overhang. That's just kind of getting back to where we need to be.

John Steele: Right.

Jack Atkins: Okay.

Derek Leathers: That's right. And where we need to be, arguably, is a little higher than where we've traditionally ran because e-commerce is here to stay, and is only going to grow from here. So, you end up with that forward deployed inventory set, that in all likelihood requires slightly higher inventory levels to be able to support.

Jack Atkins: Just sticking with an e-commerce theme for a moment, Derek, I mean... And John, too, if you'd like to chime in on it. But I mean, when you think about the capacity on the truckload side, the middle-mile capacity that e-commerce is consuming this year, not just because of additional inventory, but do you feel like it's... Is it content to be at least initially pretty inefficient in terms of how it moves around the supply chain? Do you feel like that's been a factor? Driving additional truckload demand this year? And what would have... I think we would have all thought it would've been a much more challenging backdrop if we were sitting here the middle of or late-March. Just this e-commerce penetration across the US retail industry, has that driven more truckload activity just because of the inefficient nature of how it moves?

Derek Leathers: Yes. I mean, I think e-commerce definitely generates more truckload activity. It generates, specifically, high, high, service level truckload activity. And it's very favorable to middle-mile dedicated type fleets and operations. It has a lot more projections.

forward-deployed inventory involved in the supply chain to be able to make sure and support next-day deliveries, and people's appetite for wanting to be able to click and receive within 24 hours.

Jack Atkins: Right.

Derek Leathers: As far as inefficiency of it, it will obviously mature over time. But I don't want to paint the picture that it's being distributed really poorly right now. It's more a matter of infrastructure catching up to where e-commerce has went, because COVID clearly accelerated e-commerce.

Jack Atkins: Yes.

Derek Leathers: But if you were to ask us in end of last year or even January, we had all along believed the market would tighten by June or July. That was kind of our mindset going into the year, pre-COVID. We thought the indicators and everything that laid out there seemed to set the stage for exactly that to happen. When COVID happened, we actually thought, okay, well, now, it could be a big step backward. And we underestimated, obviously, consumer staples, and everybody's need to go out, and in some cases, over purchase for some of those household items. But e-commerce, it also just absolutely accelerated. I mean, you had two to three years' worth of growth of e-commerce in really two quarters because of everybody being sheltered in-place and purchasing that way.

And the other factor, obviously is, product as a percent of wallet share is higher right now because services are so diminished. No one's going to concerts or ballgames or any of that type of stuff. And yet, they're generally going to steady spend. So, they're spending more on products. So that's something we're watching, but we still believe as the economy opens further back up, as this vaccine stuff gets approved, as people go back to normal, that it's not that the product purchasing amount in aggregate goes down. It just maybe doesn't have the same rapid growth that we saw over the last few months, as services take a little bit bigger piece of that wallet share.

But over time, all of this is really good for us in our view, because as e-commerce goes further, we will continue to lean into very high service, dedicated engineered fleets on our one-way team, expedited on our one-way. And, frankly, our Mexico across border franchise only benefits as people think about more and more nearshoring over time.

Jack Atkins: Absolutely. Absolutely. Maybe one more macro question, and then we'll dig into some more specific items. There's a lot going on with you guys specifically that I think differentiates your story. But Derek, one of the biggest pushbacks I get from investors around thinking about owning a truckload stock or owning Werner specifically, relates to sustainability of current market trends. Right? We've had this significant sort of improvement in trends over the course of late- spring, summer, and fall.

Everyone, fresh in their mind, remembers what happened in 2018 and '19, really '19 coming off the strength in '17 and '18. What's your view around the ability for the truckload industry to sort of hold on to these gains that they're making right now? Whether it's from a pricing perspective or from a volume perspective, to have more of a sustainable improvement in trends that lasts not just into the first couple of quarters of 2021 but really can take us beyond 2021.

Derek Leathers:

Yes, great question. The first thing I would say is, as they think about '18 and '19, and that cycle, and what happened as we came out of '17 into '18. I would challenge everybody to look at how we actually did perform. Don't look at how the industry performed, but how did we perform? Because it is a new Werner, we have a new set of expectations around our building. We have a new definition of success, if you will. And we hold ourselves accountable to it.

And so, coming out of '17 into '18, the thought on Werner was that they'd never be able to operate at an elite level during a very strong market. I think we proved that to be untrue. You got hit from '18 into '19; we held a lot of those gains, a lot of the pricing gains. Yes, price was under pressure, but we still didn't... We held serve better than we ever have in prior cycles, or at least recent cycles. We said we'd do that; and we did.

Our Dedicated portfolio didn't hold us back in '18, but supported us greatly in '19. You get into '20, COVID hits. We're in the middle of a pandemic. We're in the middle of all kinds of uncertainty. There's all the social unrest issues and more than a normal amount of political noise in an election year. Werner goes out and posts its highest third quarter EPS in the company's history during that... in that backdrop.

So, as I look out, what I would ask people to think about is just how structurally different we are from prior cycles. How we look a lot more like '18, '19, and that cycle only further advanced now, and further evolved as it relates to the Dedicated One-Way mix. We're at 61/39. We've commented it. We're willing in '21... in calendar year '21 to have that Dedicated percentage to go a little higher.

We had an underperforming Logistics unit in the third quarter, so we have opportunity for improvement in the overall result by simply making sure and executing like we know we can in Logistics. And we've already given guidance to the fact that we'll be returning to profitability in the fourth quarter, after a rough third quarter, and then expand margins from there.

So, I think the setup is really strong. What I don't think is the same as '17 going into '18 this time around, is you had a bunch of carriers that had a really strong peak season in '17. Then you had a Tax Reform Act passed that made it very lucrative and very advantageous to go out and buy a bunch of equipment. You had ELD mandates going into effect that sort of gave this over-exuberance and over-confidence about just how constrained capacity was going to be, and people went out and over-bought.

This year, by contrast, you had a steady, slow build that's been going on throughout the year. It's only getting better as we grow. You have a tighter driver market than we've seen any time in our history. You have a hardening insurance market that makes it very cost-prohibitive to try to go. You've got truck OEMs that have had supply challenges on getting new equipment into fleets, and so now people are playing catch up and trying to order trucks into next year to try to refresh their fleets, but not necessarily for growth purposes, but for more fleet age purposes.

And all of that set up is structurally, I think, going to create more capacity headwinds as we go forward, than even what we've seen up until now. But demand looks to be solid, and it's pretty consistently solid across the variety of metrics. And going into '21, if in fact, this vaccine progress continues as we think it will, if in fact, you start to see the economy open up more fully, sometime mid-year next year, there's really an opportunity for a really extended cycle in my view because the capacity constraints and obstacles are going to be there, and they're very real.

100,000 less CDLs orders, or issued in the first six months. Nearly 50,000 now drivers in the Drug and Alcohol Clearinghouse, with 90% of them not even really starting any material return to work process at all. School networks out there producing maybe 60 to 70% total graduates as what they did previously. And, as COVID continues to linger, you still see retirements in more of the older population of drivers, which there are quite a few out there just managing their risks.

They feel like, "Okay, I answered the country's call. I stepped up. I worked through COVID all the way for six months, but I didn't sign up to do it for a year and a half." So, I think you'll see pressure on the backend, too, with some of those more experienced drivers across the industry that are up in age, call it 65 and older. And so, there'll be some retirement pressure that's a little extra, a little more than normal. So those are a lot of thoughts, but it was a pretty broad question. That's kind of where I would stand on a lot of those.

Jack Atkins:

Well, I mean, I think to your point, folks are underestimating the real constraints that the driver, the bottlenecks to adding driver capacity, is going to have to growing trucking fleets in 2021. I mean, I just, people are going back and running these playbooks from 2018. I think your point on the tax benefits adding to their fleets, it's a very good one. I just don't know how we're going to make up for all the drivers we're losing.

Even if these driver's schools open back up, they're still going to be running...we're going to be running at a deficit for the rest of the cycle on new drivers coming into the market.

Derek Leathers:

Yes, I think that's absolutely true. And you don't make up for lost sleep. When it comes to having 100,000 lost CDLs issued in the first six months, it's not like we suddenly have a more efficient CDL issuance process at the United States

government, at state and local levels. It's not like these SDLAs suddenly are able to get the backlog, if there is backlogs in the local or regional area caught up. It's not like carriers are going to be as risk-taking as it relates to hiring drivers that are questionable in an insurance market that's absolutely brutal right now.

And so, there's often this conversation around how many total CDLs are out there floating around in the United States. But the real driver shortage is in the qualified-to-hire driver with CDL category. There's many drivers out there... or many people out there that have CDLs, but they can't come into the industry, and especially not in this insurance market. Carriers are not going to be looking to hire those types of folks. So that's a real and sustainable obstacle.

And then the social distancing reality of the school is... Let's just say vaccines get... continue to be fast-tracked. It's incredible how fast they were able to produce one. Let's just say it's incredible in how fast they're able to distribute it, and it's incredible in the uptake. But all of that would have to take place. And you'd still be looking at middle of next year before any kind of widespread distribution and long-term impact of the vaccine.

So, said differently, the schools are going to produce 60 to 70% of what they used to through the predominance of '21 best case. Worst case, it stays below 100% for longer than that. So, there's some constraints that are fundamentally different than any cycle I've seen because they're all structural, and you can't pay your way through them.

There's this belief out there that, "Well, why don't you just raise wages, and a whole bunch of people will flock into the industry?" Well, if the throughput of schools is 70%, there's only so many new pop-up schools or new schools you can put out there. And, frankly, I just think people are underestimating the headwind of trying to hire into an industry where the number one part of the job is 100% travel during a pandemic. I mean, you can't pay your way through that. You'd got to kind of grind it out every day, retain the drivers you had, take care of those drivers, make sure they feel safe and secure, and they're supplied with all the equipment they need to do their job.

But if you do all that, you can really make some ground up on the turnover front, and we've seen really remarkable turnover results in our fleet. And we hope to continue to improve those going forward. But on the actual new entrants into the industry, we know certain... with absolute certainty, between drug and alcohol and 100,000 less CDLs, that there's 140-ish thousand that are just not here that aren't coming here anytime soon. And that number will grow from here.

Jack Atkins:

You know, the last thing on the drivers... I think it's such an interesting topic. But typically, when you see the oil and gas industry, oil and gas investment down, there's less of a driver shortage in the truckload industry because those are some folks that can come in that can drive class-8 trucks for you guys, or for one of your competitors. And so, to the degree that energy spending, no one's really talking about that. If that

comes back anytime in the next year and a half, that's going to be a major consumer of, we say, potential driver candidates, same thing with construction, too.

Derek Leathers: Same with infrastructure. I mean, construction... I mean, infrastructure is one of those interesting double-edged swords. We need it desperately as a country.

We are hugely in favor of it at Werner and at the ATA. I think truckers across America know that it needs to take place. But if, in fact, an infrastructure bill gets done, there'll be a fairly significant material sucking sound of drivers into infrastructure-related jobs as they go out and start trying to build and invest in all these roads, bridges, and projects because those are at-home-nightly jobs.

And that's why we're working so aggressively to create more engineered routes in our One-Way division, to grow Dedicated further. Because we want as many of our drivers to get home at least weekly, if not nightly, as we possibly can, to mitigate the risk of losing drivers to those alternate type of... alternative industries.

Jack Atkins: Okay. Makes sense. Well, let's shift here and talk about Werner more specifically over the second half of our conversation. Derek, as you sort of step back and think about the three to five-year plus plan, you've done a lot over the last several years, but as you look forward over the next three to five years, how are you thinking about top-line growth, fleet-count growth? What's going to really be driving that for Werner as we look out?

Historically, it's been tough for truckload carriers, once they reach a certain level, to continue to grow. And there's some... This economy is a scale there. How are you thinking about maybe overcoming that using technology to maybe overcome that? So, a lot of different pieces to that question, but I think sort of the longer-term revenue growth story would be interesting for folks to kind of dig into for Werner.

Derek Leathers: Yes, so if I was going to talk about a three to five-year horizon, what I would really talk about... and I'll stay away from the specific guidance, but just give kind of macro view and philosophy that we are engaged in here at Werner. First, let's start with our recently issued margin targets.

Jack Atkins: Right.

Derek Leathers: We think we can perform through the cycle at a better rate than we have over the last decade or two. We feel the confidence in that, or we wouldn't have issued that guidance. We've been looking at it for a variety of ways and kind of stress testing it through a variety of scenarios. And we think that moving that 11% margin target to 13%... We're ready and prepared to do it, and signed up for it. We're prepared to do better than that in better parts of the cycle and obviously a little worse in tougher moments.

But really, the theme there is to take some of the cyclical out of a cyclical business. And that's why we're as heavily Dedicated, entrenched as we are. That's why we're engineering more and more of a One-Way like we are. We believe Logistics gives us sort of a counterbalance because it's usually counter- cyclical to the asset ups and downs. And, although we paid the price for that in the third quarter, that's someone expected as it related to when it's a really robust TL market. When the assets are doing really well, Logistics are going to be a little more pressured.

So, as we think out three or five years, Dedicated is probably a little higher percentage than it is today, not dramatically so. We're at 61 today, or somewhere in the 65 range, give or take three points, is where we think we'll end up in Dedicated versus the One-Way. One-Way is a little more engineered than it is today. We've still got opportunities to find more engineered routes. More routes that are repeatable that are lower-cost to serve, that we can really gain efficiencies on and do very, very well and repeatably for our customers through the cycle.

We think nearshoring will happen. I don't think it'll be dramatic, but there will be a shift toward incremental dollars invested in nearshoring. We think our Mexico franchise sets us up well for that, and you'll see that portion of that One- Way network, which will be at its current size, maybe slightly larger or slightly smaller. But the portion of that consumed by Mexico will be larger. And then Team Expedited.

No matter what we do and what happens out there in the world, there's always a need for stuff to be expedited at times. And we want to be the premier player in that space. So, we'll continue to grow that out. Along the way, with tech, we think we can continue to enhance our logistics offering, take some of the friction and some of the people portions of the process and automate them.

Make it so that we are able to successfully earn a living, if you will, at gross margins that maybe don't need to be at that 14, 15% over time. But maybe closer to 12, 13, and we can still have effective margins and contribution at a gross margin that's a little lower than where it is today.

Through the advent of better tech, we're spending heavily in the tech space, not just in Logistics, but also on an integrated kind of approach to our core TMS so that we can sweat assets better, use our assets better across divisions, do more integration to both solve our customer's problems, but keep, for instance, Dedicated fleet's backhaul percentage growing over time. Keep One-Way assets utilizing both our freight, but with visibility to what Logistics needs and what our customers are asking for, for additional coverage.

So, there's a lot of things we can do. What all of it, though, has an eye towards is we do need to get to a revenue-growth model where it's not all truck count.

We're not trying to grow into cycles at the wrong time or trying to bet on future demand that we don't have line-of-sight to. But incremental truck routes, small, incremental truck routes, with an eye towards sustainable fleets and Dedicated

engineered fleets in One-Way, Logistics growth, through the advent and introduction of increasingly a competitive tech, and being able to grow that on a more regular basis to be able to deliver two things.

But one is revenue growth through the cycle. I'm not talking about some huge growth story where we're going to do anything crazy. Discipline will still be first. Consistency will be right there with it. But over time, an eye toward the need to grow. And then, the other thing all that does is we've been stress testing and looking at this very closely, but we think we can be cashflow positive. John's got data he can talk about there.

But we can be cashflow positive through the cycle because we've now gotten through the equipment and the five T knothole, as it relates to all the terminal investment, the technology investment, the truck and trailer investment we needed to modernize our fleet. And we will have this 11 to 13% of revenue kind of goalpost out there for CapEx. And we believe we can supersede that in terms of cashflow from operations through the cycle. That's new. That's a new part of Werner.

We haven't been able, to traditionally been able to have that confidence because we tended to buy huge amounts of equipment in certain years and let fleet age in others. And we've learned some lessons from all that, and it's just not something I believe in. We signed up with our drivers to give them a certain kind of piece of equipment, and that's what they're going to get. And we're going to make good on that CapEx approach.

Jack Atkins:

Okay, well, that's a great lead. John, I wanted to talk to you about cashflow for a moment. I mean, I think when... I think this is a good kind of point to do that.

When you think about the longer-term guidance that you guys laid out a couple weeks ago on your earnings call, when we think about low double digits to mid-teens margins for the assets-based business, that's... I would think that's very powerful from a cashflow perspective.

Derek's comments about being positive at every point, from a cashflow perspective and every point of the cycle, I mean, I don't think people think about you guys like that. They obviously should. Can you just talk about what your long-term guidance would imply from a cash generation perspective?

John Steele:

Okay, to put it in perspective, in '18, we had a cashflow of \$418 million from operations. In '19, \$427 million. This year, we're on track for probably somewhere between \$425 to \$450 million of cashflow from operations. Our CapEx guidance this year is a range of \$275 to \$300, net. And we're in an environment now where our CapEx should be more predictable in that 11 to 13% range. At \$280, for this year, that would put us in the lower end of that 11 to 13% of revenue range for net CapEx spend. So, we expect to generate free cash flow of \$100 million in a 13% margin environment.

And, in a margin environment that's a little lower than that, it's probably a little bit lower than \$100 million. And, in a margin environment that's higher than that, it's free cash flow of higher than \$100 million. And we expect to put that free cash flow to good use for our shareholders to maximize their returns.

Jack Atkins: Yes, and you prioritize your returns with obviously the dividend, repurchases. M&A, really, that's not top of the list for you.

Derek Leathers: Well, it certainly hasn't traditionally been top of the list, and it's not necessarily going to just rocket to the top of the list right now. We're still going to stay true to our roots and focus on organic as a first choice, focus on investing in our own business as a priority. But we're more open-minded to it than we have been traditionally.

But, you know, in terms of priority, I don't want to be as specific as one, two, three, four. But dividends are clearly something we believe in. and I'm talking more about the quarterly dividends that we paid every quarter since going public. And we've increased it over time, and we'll continue to look when the timing is right to view that further.

Share repurchase is something we'll always have an eye toward. We took a break during COVID when we were still trying to understand just how severe it might get, but we're below our debt to EBITDA ratio right now that we've guided to. And we think we can better use our balance sheet than we have traditionally. And so, as we think about what that means, certainly share repurchase, certainly some eye toward M&A when it's the right thing to do. We're going to look at them fairly carefully.

And I've jokingly said on other calls, but it's not that... it's real. I doubt that Werner's first M&A activity is going to be done via Zoom. We're going to want to touch and feel, and kick the tires, and meet the teams. And it's just a tough place if it's not in your culture, and you haven't done a ton of M&A, to look to do one in this type of world in this pandemic format. But we do, and are going to continue to look at opportunities as they come along.

Jack Atkins: Yeah, okay. Well, so I guess that leads me a little bit into a bigger-picture question for Werner. But to me, it seems like you've got several companies who, whether they say it directly or not, their actions would indicate that they're trying to become more of a platform business within the logistics of transportation sectors. And I certainly feel like Werner is in a great position to do that as well. And you've got a brand recognition. You've got a great set of assets. You've got a growing, emerging logistics platform. Is that how you're, Derek, thinking longer-term about Werner as, truly, as a platform business?

When we think about the revenue growth story for Werner over the next... I don't want to pin you down to a year, but I'm talking about long term. It's about creating a platform, not so much about growing truck count.

Derek Leathers: Yes, I think that's accurate. I mean, so we want to look at this as a portfolio business. We want our customers... We want to be able to have our customers spend across their wallet across multiple portions of our company. We want to make sure our solutions are viable and best-in-class across all of those different components of their wallet share, and we're working to do that. We've got work to do in Logistics. I've commented on that. We know that. We've got good visibility to where those improvements come from, and we've got a team working on it as we speak. But if you were to look forward three to five years, yes, I do suspect our goal is that Logistics will be a bigger portion of the overall portfolio. Revenues would certainly be larger than they are today, and we're going to try to aggressively look at opportunities where they make sense to lean into that logistics growth.

And that's where I think if I was going to point somebody toward where might Werner look to be more open-minded on M&A, or look to make an acquisition like we thought it was brand-enhancing, accretive in the short term, and we thought that there was opportunities to have synergies across both our Logistics portfolio, but perhaps even with our assets, those are the types of things that are intriguing to us.

But certainly, if we were doing this call three years from now, my expectation would be: we're still Dedicated first as relates to percent of assets and fleet mix, and all of that. One-Way is hyper-engineered at that point and very little or minimized exposure to the "you call, we haul" environment. And Logistics is a larger portion of the total pie with better and more consistent performance. Just like we've been able to put our house in order on the assets side, and now, continuing to make iterative improvements, we need to get the same thing accomplished in Logistics. And there's a lot of focus on that right now.

Jack Atkins: Derek, within the One-Way portion of your trucking business, how much of that would you say is already highly engineered... a highly engineered solution. How much more progress would you expect to make over the next couple years?

Maybe just kind of talk about the benefits that can provide your organization from a margin perspective. And, I'm assuming, it would also significantly reduce the cyclicity that those assets would see as well.

Derek Leathers: I mean, I think one of the things that's most exciting about the coming bid season isn't the traditional question that we get asked hundreds of times, which is what's the rate going to be? It's really the opportunity to have visibility to a whole lot of freight that's going to be up for grabs, that's going to be... find a home because of capacity constraints, and us being able to pluck out of that pile those pieces that help us build and engineer out from our network even further. Today, Mexico and Team Expedited represent for a rough number, 50%. It's a little less than 50 right now because Mexico was challenged more by COVID than our traditional domestic business was. But that's just a reality of the fact you got two different countries, and two different sets of essential business designations, and certain impacts at the border that slowed things down. But call it, roughly speaking, 50%.

And then, so out of that remaining 50%, the goal would be to get at least half of that engineered over the next several years. We've already got a decent chunk of that, call it over a third, but less than half, in some form of engineered type environment. And we have more progress to make. And we kind of know where the bodies are buried. We know how we're going to go get there. We know the kind of freight we need to get there. And the thing about it is when you go through a bid cycle with rates that are going to be under a lot of pressure in this bid cycle, it makes the opportunity to get the exact freight you want better than it otherwise would be.

And that's why I would only caution that it's not all about the rate. I mean, this isn't all about how high can you press the rate and take lanes that look great in the short term, but long term, you do not make progress on your long-term strategy. Versus, press the rate on the bid overall.

And, obviously, we need to do that to be able to reinvest in our fleet. But then, when it comes to accepting the awards, be very selective in what you accept and make sure that those things you accept further your journey. And, if they don't, we're going to try to hold discipline very strong versus growing into something that we think is more transient in nature. We're going to make sure and further cycle proof, if you will, this portfolio as we go through this next four or five-month cycle.

Jack Atkins:

Yeah, I think that's absolutely right, and that's really exciting. We have this much freight up for grabs that provides you with a lot of opportunity to pursue your strategic goals as an organization. That's great.

Okay. Maybe on our last five to seven minutes here, we can pivot. One of the questions I've got for you that I'd love to hear you talk about is sustainability. You guys have really talked a lot more about that in the last couple of months, laying out some longer-term sustainability goal. I mean, the issue is becoming a bigger topic for investors. Under a Biden administration, it's probably going to become much more front and center.

So, you've added the S to the five T's if you will. So, could you talk about Werner's sustainability journey here as we sort of look forward to the next, really, the next decade?

Derek Leathers:

Sure, I mean, so first off, I'll start with this. I think we were doing really, really strong work in this area for some time. But typical to Werner, we're not as vocal as some. We're not as out there. We haven't been clapping the cymbals quite as loud as some others about the work that was being done. And we realized we owed our investors a more clear path, more transparency, better communication, where we're going, and why.

With that, I'll say that I think the sustainability journey is not mutually exclusive to the margin enhancements and improved results that we have already signed up for. We actually think through our absolute laser focus on improving our carbon footprint, improving and getting to that 55% reduction goal that we've placed out there by 2035, along the way, we can do that while improving our overall profitability and enhancing that shareholder experience. So, we're excited on the environmental side of what we think we can do, the type of technologies we're already beta testing the results of those tests, as well as the stuff that's more commercially viable and already implemented that we're going to continue to improve upon.

On the social side, we've leaned into diversity and inclusion for some time. But frankly, we lack some of the formality that we really owe to our internal people first and foremost, but obviously, to all stakeholders, including those that invest with us. And so, we've really built some framework around that. We're going to put a lot more structure around how we think about that sort of social responsibility.

I'm already... I think we're at the forefront of what we already have been doing in terms of social responsibility in the communities in which we work. We have a massive volunteer organization called the Blue Brigade that does thousands of hours of volunteering every year. And we're going to continue to push that out into the communities where we're at. But we're excited about it. And, on the governance side, look, you know Werner, we are a pretty tightly governed organization. We have tons of governance controls.

But even at the board level, we are excited about bringing on more diversity of thought, more diversity across a variety of both skillsets, as well as gender, as well as race. And I think over time, you'll see our board continue to evolve. I'm proud of the board we have today. I'm proud of the contributions they've made. And they're excited about helping us on this journey as we continue to evolve that board to look more like an organization where we're headed. And so, you'll see further changes there as well.

Jack Atkins:

Okay. That's great. That's great. Maybe last question here as we sort of wrap up the conversation. Derek, when we step back, Werner still trades a highly cyclical stock. And a lot of the conversation that we've had here over the last 40 minutes has been about the steps that you've taken and the steps that you plan to take to reduce the cyclicity. Werner today is totally different than Werner in the last cycle, and a lot of that is due to the leadership of you and John and your broader leadership team.

What do you think folks are really missing about your story? Because when I look at the multiple tier, your company trades like a regular, cyclical truckload business. It's not that anymore. What would you say to folks as we sort of part to help them understand the difference today, and just sort of final thoughts as you sort of step back and think about it?

Derek Leathers:

Yes, when I think of final thoughts, I would ask people to give serious consideration to is... I became CEO back in 2016. We were very transparent with the body of work that needed to be done. CL Werner was involved and engaged with me on, look, if we're going to have to do all this stuff and revamp this organization, let's do it now and pay the piper kind of in the short term. And '16, clearly, was that year.

But from that point forward, we've shown in up-cycles and down-cycles, that we can perform and take the cyclical out. John just talked about free cashflow improving three consecutive years in a row despite highly different markets in each of those years. That's because of the work that's underway here at Werner, and the portfolio approach that we're taking, and the eye towards excellence in everything we do.

As you look forward, what I'd ask... And I try to remind because we do get frustrated. Everybody gets frustrated when they feel as though that work's not rewarded. But I said, look, we've done it for a couple of cycles. Now those cycles have been hyper-compressed and short in nature from '17 into '18, and then we saw what happened in '19. That's not normal. Normally, those cycles have longer legs, and this one we think absolutely does. But we need to do it for a couple of cycles. We understand that. We will do that. We will show and post those better results and less in the cyclical.

And I hope people just take the time to notice and compare us to who we are. And who we are and have been in recent history, and not just kind of point to old tape and think that that's a fair assessment, because I just don't think it's reflective of the Werner of today. We've signed up for some big goals. We've launched earnings calls. We've taken all-comers as it relates to questions. We don't duck anybody's concerns.

But I think the world, and the dashboard of that world or the window into that world, is bigger than spot rates and truck orders. And I think we have a lot of people that seem to have two gauges on their decision-making desk, and there's a whole lot of other gauges out there that matter: this driver shortage, the hardening insurance market, the instability, and the truck supply world at the OEM level as long as the pandemic exists.

There's a lot of things that are keeping caps and lids on capacity for a while here that I think are going to benefit trucking and see ongoing consolidation in other items that benefit well-capitalized, cashflow producing, through-the-cycle fleets that are willing and able to invest in technology and have a management team that can lead them through that. And I'm really proud of the team we have here. It's the team effort, and I think they've done some darn good work, and it's time to be rewarded for it.

Jack Atkins:

Absolutely. Well, guys, we'll wrap up the conversation there. Derek, thank you so much for your time. John, thank you, again, both of you, for being with us today. It's been an exciting story to watch over the last several years. And I know it'll be just as exciting to look forward over the next several. So, thanks again for the time. I hope

you guys have a great holiday, and we'll talk soon. Thanks very much.

Derek Leathers: Thank you, Jack. Take care.

John Steele: Thank you, Jack.