

Werner Enterprises

Werner Enterprises Business Update 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 day and welcome to the Werner Enterprises Investor Call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions, and then further instructions will be given at that time.

This afternoon the company issued a press release and posted a slide presentation. These materials are available in the investor section of the company's 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 the press 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.

I'd now like to turn the conference over to Mr. Derek Leathers Chairman, President and CEO. Please go ahead sir.

Derek Leathers

Good morning and thank you for joining us on the call. With me today is our CFO, John Steele. Please note that we will not be providing any updates on trends, metrics, guidance or results for second quarter. We will report our second quarter earnings on July 29th. I'll begin by starting with slide three of our presentation.

We're excited to announce we've closed on the acquisition of ECM Transport Group for \$142.4 million, which includes elite regional truckload carriers ECM Transport and Motor Carrier Services of Pennsylvania. The ECM Transport Group, or ECM for short, are two high service truckload fleets serving the Mid Atlantic, Ohio and Northeast U.S. regional markets. ECM has approximately 450 trucks and MCS has approximately 50 trucks.

The closing price includes the purchase of an 80% equity ownership stake in ECM and Werner retains an exclusive option to buy the remaining 20% of ECM after five years from Ed Meier, who founded ECM transport over 30 years ago. Ed shares Werner's passion for superior customer service, safety and profitability. Ed and his talented team of professional drivers and non-driver associates will continue in their current positions.

Ed will continue to lead and grow ECM going forward as he has done for many years, with the full support and strength of Werner. ECM will operate as a standalone business unit within Werner and their financial results will be reported in our One-Way truckload unit within Truckload Transportation Services. ECM has a diversified customer base with emphasis in manufacturing and food and beverage. ECM will stand by their existing customers by continuing to provide them excellent service going forward.

ECM maintains a newer truck fleet with a three-year average age, and a strategically located terminal and drop yard network that are great additions to our existing assets. Their network will allow us to increase our exposure to high velocity, shorter length of haul truckload shipments with high frequency driver home time. While the U.S. economy is experiencing a significant labor shortage, this transaction will enable us to grow our combined fleet size by more than 6%. ECM brings high quality talent with the addition of over 500 highly skilled and tenured drivers, as well

as a total fleet of approximately 500 trucks and nearly 2,000 trailers that are similarly spec'd to the Werner fleet.

Werner strives to be the truckload employer of choice by maintaining one of the most modern truck and trailer fleets in our industry with the latest safety equipment and technology. Werner is one of the largest purchasers of trucks and trailers in the industry and managing equipment procurement and sales is a core Werner competency. We expect to achieve synergies with ECM by utilizing our scale and experience managing the purchase and sale of equipment, fleet maintenance, fuel and other operating expenses.

An additional factor critical to the success of our combination with ECM is that our companies share similar cultures focused on the highest levels of safety performance and on time service. We also share a commitment to continuous investment in technology and IT infrastructure. Our innovation arm, Werner Edge, is a technology platform of advanced solutions that increase productivity, enhance security and help us achieve our common values of delivering best in class performance for our customers. Both Werner and ECM believe deeply that our professional drivers are the backbone of our organizations. And we are excited to welcome the ECM team and begin to work together.

Turning to slide four, you will see how this transaction is aligned with our five Ts plus S strategy and our commitment to remain at the forefront of the truckload industry. Our first two Ts are maintaining a modern truck and trailer fleet. Our average fleet age is just two years for trucks and four years for trailers. All Werner trucks are equipped with advanced collision mitigation safety systems, industry leading emissions and fuel mileage technology, automated manual transmissions, forward facing cameras and an untethered tablet based telematic solution. The ECM fleet is also newer and has many of these same innovative safety and technology features.

Our next T is talent. Werner and ECM have a shared commitment to hiring and retaining the industry's top drivers. Additionally, over the past several quarters, we upgraded and expanded our Werner terminal network as an integral part of our strategy to attract the best drivers and minimize fleet downtime due to maintenance. ECM's network has been designed with comprehensive terminal and drop yard locations that maximize fleet productivity. Both Werner and ECM are committed to a continued investment in technology to further strengthen our customer experience, our driver experience and market leadership. And finally, last October, we formally launched our environmental, social and governance program and added sustainability as a key pillar of our strategy, and ECM will join us on our ESG journey.

On slide five, you will see a map of Werner's terminals and driver training schools with an overlay showing ECM's complimentary terminal network. ECM is concentrated in the Mid-Atlantic, Ohio and Northeast, enabling us to strategically increase our exposure to these key regional markets. ECM adds eight terminals and 18 drop yards to our existing nationwide network of 14 terminals, 36 drop yards and 16 driver training schools. In 2020, ECM generated \$108 million in revenues with a very strong 20% operating margin. ECM also does an excellent job of retaining their top talent, as evidenced by their extremely low driver turnover.

Turning to slide six, here's an overview of our combined pro forma numbers including revenues by segment, industry vertical and customer. This transaction adds 500 trucks and 2,000 trailers to our combined One-Way truckload fleet. ECM and Werner will work together to solve customer truckload capacity needs in a supply constrained market. The customer profile of Werner will not

change significantly. More than three quarters of our revenues will continue to come from Truckload Transportation Services, with the balance primarily coming from Werner Logistics.

The combined companies will retain a consumer-centric freight base with over 70% of revenues coming from retail and food and beverage. Of the additional verticals, 19% are from manufacturing and industrial, and 10% from Logistics and other customers. Werner focuses on serving growing discount retailers that sell more necessity-based products. These customers tend to be less economically sensitive and historically perform well in slower growth or recessionary economic periods.

We will continue to align our sales efforts with what we consider to be winning companies with winning models and management teams. These types of companies tend to be more cycle proof during down cycles or tough times. Just as important, they tend to view their supply chains as a competitive advantage and hold a longer time horizon. Looking at pro forma revenues, about half our revenues come from our top 10 customers and almost 80% from our top 50. These are primarily long-standing customer relationships with growing and successful companies. We remain committed to our strategy of aligning with winning organizations.

On slide seven is a summary of our discipline strategy for capital allocation. The first priority will remain reinvestment in our integrated fleet, with feature rich trucks and trailers that have the latest capabilities for improved safety, driver amenities and fuel efficiency. We are making meaningful progress enhancing Werner Edge, our T initiative, to upgrade and modernize our IT infrastructure and data security, and to improve and simplify the IT experience for drivers, non-driver associates and customers.

Going forward, we will continue to consider bolt-on strategic acquisitions that are both additive and accretive in year one, such as ECM. We are committed to maintaining a strong and flexible financial position. Last year during COVID, we maintained a lower debt level and ended first quarter 2021 at 0.2 times EBITDA. On a pro forma basis, including a new low interest rate term loan to help fund the ECM acquisition, our net debt to EBITDA ratio will increase to 0.4 times.

As we continue to evolve our corporate culture while maintaining our conservative roots, we have an improved comfort level with our business and the overall economy to consider leverage that is higher than historical levels. Our long-term leverage goal is a net debt to annual EBITDA ratio of one half to one turn. It's an exciting time at Werner as we continue our journey towards sustainable, best in class earnings throughout the business cycle. Many of the reasons for our confidence are summarized on slide eight.

We've made structural and durable improvements across the business due to consistent execution of our five Ts plus S strategy. We continue to expect strong freight demand in 2021 and cash flow stability. The addition of ECMs high quality drivers, along with our industry leading driver training school network will support overall fleet growth and customer capacity needs will be augmented by our Werner Logistics segment. Our combined companies have cultures that are committed to continuous improvement in operational performance which includes aligning with leading edge technology partners to enhance safety and supply chain automation, visibility and productivity. We are committed to achieving recently announced environmental, social and governance goals. Watch for more information in our corporate sustainability report, to be issued in the next several weeks.

In summary, we are well positioned to grow earnings and free cash flow while creating long term sustainable shareholder value. Before turning over the call for Q&A, I would like to take this opportunity to welcome the talented team of ECM and MCS associates to Werner. We look forward to working together with you and supporting you as we move our companies forward with similar cultures that are focused on safety, service, and mutual respect. And now, I would like to turn the call over to our operator for a few questions.

Operator

Thank you. We'll now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Today's first question comes from Chris Wetherbee at Citi. Please go ahead.

Chris Wetherbee

Yes. Hey, thanks. Good morning, guys. I was hoping maybe you could give a little bit of color about sort of the development of the ECM fleet, I guess, over the course of the last couple of years. So, you mentioned the two companies combined around 500 trucks. Can you give a sense of what that's grown from over the last couple of years? I guess the question I'm really trying to get at is, is there the opportunity to grow this fleet a little bit more than you have been able to do on your One-Way truckload fleet, maybe the shorter length of haul provide more opportunity to actually be able to grow the fleet in tight markets like we're in right now?

Derek Leathers

Yes, Chris, this is Derek. Thanks for the question. Yes, the short answer is we do believe there's opportunity to grow this fleet. They have had some growth in recent times, recent years and even in the most recent couple of quarters, since the time that we've been kind of deeply involved in conversations with them. They operate in a highly regional market, as you indicated, with essentially daily home time with their driver fleet. That's highly desired right now out in the marketplace.

As a result, they offer a product that's pretty attractive in a scarce driver market. We think that the footprint they have, combined with the very high service levels that they perform at, and the engineered nature of their network, all lend itself to the opportunity for growth, especially when combined with the joint marketing efforts, if you will, of both organizations. So, we bring to bear visibility to a tremendous amount of freight. They have a very known footprint, and they're extremely good inside that footprint. And those two things brought together, along with quality driving jobs that pay at the upper end of the market, we think presents an opportunity for us to grow going forward.

Chris Wetherbee

Okay. That's helpful, I appreciate that. And then just a follow up question. Just thinking about sort of where their pricing sort of has played out over the course of the last several quarters. So you gave us some helpful information about 2020 numbers, but as we think about 2021 and beyond, can you give us a sense of how fully they've participated in some of the pricing dynamics that we've seen more widespread throughout the truckload market?

Derek Leathers

Yes, sure. Another great question. Their pricing and their leadership under Ed Meier is truly that of a premium or premier truckload operator. And that would show through in all of the underlying metrics including price. They have taken price as appropriate, over the last year and a half. They

are at or above market levels as it relates to their ability to get price during this very tight market. And the service and tenure of the customer base they have is really at or above even Werner's level. A lot of these companies that they do business with have been with them for 20 plus years. And I expect our ability to retain that customer base to be high as we go forward based on the long-standing relationships.

Chris Wetherbee

Great. Thanks very much for the time, appreciate it.

Derek Leathers

Yes. Thank you.

Operator

Our next question comes from Amit Mehrotra with Deutsche Bank, please go ahead. Amit, your line is open.

Amit Mehrotra

Yes, sorry, can you hear me now? I apologize. I was on mute. Hi, Derek, hi John, thanks for taking the question. So, Derek, if I just look at the tractor to trailer ratio, it's a bit higher, quite a bit higher, than Werner's. Obviously, trailers can be considered a proxy for capacity. Are there any synergies here with the Logistics business with respect to maybe power only business opportunities, or any other synergies with the Logistics business that obviously comes with pretty high returns on capital? Thanks.

Derek Leathers

Yes, great question. So, I'll start with this. We've done business with ECM for some time in our Logistics group so we know their culture and knew their service levels from that relationship for a while. We believe the higher tractor trailer ratio they have is warranted and appropriate given the much shorter length of haul business that they operate, and the amount of engineered lanes in which they do a lot of swapping of loads to maximize efficiency, but also maximize service. So, we think their current trailer ratio is correct and appropriate. We think we'll continue to invest in that as we go forward.

Obviously, we do believe there's synergies between our Logistics group and ECM as a quality carrier that already does business, but now that relationship is tighter. But clearly, the bigger goal would be to expand upon our joint marketing efforts and the visibility we have to freight across our portfolio, that would be better fit within the ECM network and their ability to operate it at a high level in that congested kind of Mid-Atlantic to Northeast region. So, there's a lot of upside, in our view, on what we can bring to bear for them. But make no mistake, we think very highly of their current leadership and operating capabilities.

Amit Mehrotra

Okay. Thank you. And just as a follow up, you mentioned that Werner's willing to do bolt-on, obviously huge difference in terms of the last many decades. I don't actually think Werner's done an acquisition. I could be wrong on that, historically. But do you have a pipeline of deals or is this kind of like opportunistic as they come on? And John, you talked about EPS accretion; I'm a little bit unsure what the intangible amortization would be, that was getting to like \$0.20, \$0.25 cents in annual EPS, obviously, gross of intangible amortization, any color that would be helpful as well. Thank you.

Derek Leathers

Yes. I'll start on the first part. And I'll have John, answer the EPS portion of that. But, as it relates to the bolt-on nature of this one, we do have a pipeline of deals that we look at all the time. There's a pretty consistent amount of opportunities that flow across the desk, both through the traditional networks, if you will, as well as with the consummation of this deal, I believe it will increase the amount of conversations we have with folks that might be interested sellers that want to find the rightful home for their business and with the right culture. I think Werner's culture is a strong one and one that carries some weight in the marketplace. We know that conversations will and have increased with others beyond ECM.

But make no mistake, our first and foremost goal is to invest back in our business, this joint business now, with both ECM, MCS and Werner. And then secondarily to that, we will have our eyes and ears wide open as it relates to other opportunities that may make a fit. We've looked at deals for many, many years, and this is our first truckload acquisition. But it really had a lot to do with how hand in glove we felt the two cultures were, our philosophy around drivers was essentially identical, the equipment footprint of this fleet, from a vendor perspective, fit perfectly within our OEM relationship wheelhouse.

And really, it filled a need that we felt was a gap in our portfolio, which we've talked openly about on prior calls. We're not acquiring just for acquisition sake, but we're looking to flush out the portfolio and improve upon it, wherever we may see that we have areas of opportunity. And that ultra-short haul regional model is one that we want to improve upon. We think the market is continuing to go further that direction. I think with ecommerce and forward deployment of inventories, it's something that we've got to continue to gain traction in and ECM is the best in class operator in that space today.

John Steele

Yes Amit, this is John. Regarding the EPS accretion question, when you look at ECM's 2020 results, there's about \$0.20 a share that their earnings profile would add to Werner on a combined basis. That doesn't include synergies that we are going to work on here immediately. Potential synergies include our ability to buy and sell equipment based on our buying power, buying parts, fuel, and then best practices sharing of information between our two companies.

As far as the purchase price allocation, that'll be finalized in the next few months. And that will enable us to determine how much goes to fixed assets and intangible assets and goodwill. So, we don't know the amount of intangible assets amortization that we will ultimately incur, but we expect that when that does get finalized, we will report it as a GAAP to non-GAAP item, similar to what our peers do.

Amit Mehrotra

Got it. Okay. Thank you, guys. Have a great Fourth of July. Appreciate it.

Derek Leathers

Yes. Thank you.

John Steele

Thanks Amit.

Operator

And our next question comes from Scott Group at Wolfe Research.

Scott Group

Hey. Thanks, morning guys.

Derek Leathers

Morning Scott.

Scott Group

Can you guys talk about the operating ratio for the business in the first half of the year, and then maybe just talk about the contract versus spot exposure here?

Derek Leathers

Yes, so this business has followed the flow that you've seen in many other businesses that you follow and report on over the first half of the year. Meaning, it's been an improving market, obviously, the market has strengthened over that timeframe. They've continued to both gain share and gain margin. They've had a very successful first half, and we're proud of their results. We'll probably stay out of the weeds on exact ORs and the other things. And we're real excited about our ability to take that core and improving operation momentum, both on the revenue line and the bottom line, the EBIT line, and take it further with the enhancements of some of the synergies John just talked about.

So, from a momentum perspective, I like where the business sits and where it's headed. On contract versus spot, they have a decent mix of both, but it is still predominantly contract business that they do with customers that have been with them for many, many years. To the extent they do spot, it's similar to the Werner model, where it's usually additional capacity adds or additional capacity needs of existing customers so that you both get the opportunity from a pricing perspective. But it's a little less volatile than going out to the true DAT spot board market.

The last thing I'd say on that is, to the extent they work on that DAT or load board world, we do believe that the overflow freight within our existing fleet today, especially in the Mid-Atlantic to Northeast area, presents real good opportunities for us to have visibility to that freight and offer both customers of ECM and Werner a better, stronger solution without having to live in that spot world to be able to fill those same lanes and yet realize at or better return levels than where we're at today.

Scott Group

Okay. Thanks. And then just second question. What do you guys assume for revenue retention here? And then, what are the key metrics you're going to be focused on, Derek, to decide this is working and we're gonna keep doing more of these bolt-on deals?

Derek Leathers

Yes, so on the revenue retention, we're conservatively, internally, coming at it from the perspective that there will be some attrition. But I can tell you after spending a considerable time, even personally out of the ECM headquarters, including yesterday, and the fact that leadership is 100% staying on board, and we're running this as a standalone, we're not changing or altering any major factors of the culture because the alignment was already so strong and so fitted to what Werner's is that we think that is - the opportunity to retain at a much higher level, is actually in front of us, both on the driver front and the customer front. These drivers are very, very tenured

at this fleet. And every one of the people that would matter to them from a leadership perspective is staying on board and tied up.

And so, as we were conversing yesterday, and they were conversing even within their driver ranks, the question drivers care about is, is my equipment specs changing? And the answer is no, other than improvement. Are my drivers or driver leaders changing? The answer is no. And then, what about overall leadership? And is Ed Meier going to be around? And the answer is a resounding yes to that. So, we think there's a tremendous amount of retention capability in this deal. Time will tell. We have to walk before we run. We recognize this is our first truckload acquisition, Scott, so you're right, we're going to be prudently monitoring and watching our success on all of our assumptions.

And I think the best answer I can give you on how this leads to future deals is how well the team performs. Yesterday, there was a message sent out internally to our entire group, that it's not the finish line at closing, it's really the start of the work. And that's the mindset we're taking, that's the same mindset that ECM is taking, and now it's time to go to work.

Scott Group

Makes sense. Thank you, guys. Appreciate it.

Derek Leathers

Thank you, Scott.

Operator

And our next question comes from Ari Rosa with Bank of America. Please go ahead.

Ari Rosa

Hey, good morning, Derek and John. Congratulations on the deal. So, first question. I wanted to talk about the leverage issue, which you kind of started to get into there, Derek. The stock is obviously trading in a pretty depressed multiple relative to history. Maybe you could discuss how you're thinking about the use of capital, given the ability to borrow at such low rates, and maybe how you're thinking about the buyback versus kind of future bolt-on acquisition trade off.

Derek Leathers

Yes, great question and appreciate the congratulations. We are, as we think about it, we're going to always put reinvestment in the existing fleet portfolio, including ECM and MCS, at the very top of the list. We think the opportunity to invest and grow organically in the new organic footprint, which is now 6% larger, is the best use of our time and money. We do believe we're trading at a depressed multiple so we acknowledge that fact. And share repurchase is something that we have indicated a willingness to do and shown a propensity to do.

Obviously, in the quarter, you can now better understand that some of our time and efforts were spent on making sure in getting this across the finish line. But as we look forward, share repurchase certainly is an item on the menu, and we want to be opportunistic, appropriate, and intelligent about it. But we will continue to participate where appropriate in share repurchase.

For future acquisitions, will be looked at and examined with the same very critical eye that we've looked at them for many, many years. But we've learned that there are ones that justify and deserve to get across all of those internal hurdles that we may put on them. This was one of those opportunities.

I've looked at trucking companies for decades and this is a true, best in class type situation. And we thought it was the right one for us to cut our teeth on, and the right one for us to structure in such a way that Ed is clearly committed, and clearly has skin in the game going forward, as he is a minority owner in the business. We think that's exciting and we realize the folks on the call don't know, Ed, but if you think I'm intense, buckle up as it relates to Ed's intensity of how he runs his business. And that's what I love about him.

Ari Rosa

That's terrific color. Thanks for that, Derek. And then, the 20% operating margin is obviously quite good for the industry. I'm just curious, as you were doing your due diligence on ECM, was there anything you felt you learned that you might be able to apply to Werner in terms of getting to that type of operating margin for the business as a whole?

Derek Leathers

Yes, I think the thing that we want to do, we've spent a lot of time in recent weeks talking and I don't want to be too cheeky here, but as we approach this partnership and as we move forward to learn from one another, it's the whole two ears one mouth analogy, where I think if we both listen a lot and have an openness to learning, there's clearly things we've seen in the ECM model that we think are applicable elsewhere. So, when we thought about this acquisition, it wasn't just drivers, or customers or geographic footprint; there was a component of it that we felt as though we could learn and get better and improve and sharpen our skills.

Similarly, I think there's things we bring to the party, and that we worked hard to try to, as we thought through them, to where, how do you take a 20% margin company and basically not get in the way of what's a clear, long track record of high performance? And we feel comfortable that we can do that. In other words, improve upon it further through what we are good at. But yes, the simple answer to your question is, if you think about high density market, short length of haul in a forward deployed inventory environment, there's more places than just the Northeast where that need exists. And I think the ECM model and the leadership team there has a lot to offer Werner Enterprises as it relates to replicating it elsewhere.

Ari Rosa

Thanks for that, Derek. And maybe, if I could squeeze in just one more; in terms of presence in the Pacific Northwest, I noticed from the map there's not as big of a presence there. Is there a reason for that or is that something that you would be kind of interested in over the next couple of years expanding into?

Derek Leathers

Yes, we look at that and we look at opportunities just in the far West, in general, so up and down the coast. And I will admit that we're still the same conservative roots company that we talk about all the time. And there's a lot of legal, regulatory, and other hurdles out there that we find onerous and almost impossible to navigate, even with the best intentions. So, we're going to be pretty hesitant to go out and try to fill a spot on the map just because the spot looks open.

We're going to really pursue it from what we think the return capabilities are, and the risk profile, and to be frank, kind of equally weighted. And in my view, the risk profile on a lot of that stuff that's in the far West, the juice just isn't worth the squeeze. And unless we get some return to normalcy on some of the regulatory fronts and other things, I'm not sure that vision will change.

You also, you'll see a population kind of movement and shift is going on out there. And we're really interested in staying where we think long term population growth is most likely and stable business environments are most likely. And so that Mid-Atlantic and footprint of ECM and MCS, and yes, they go into the North and Northeast, but the density there makes up for the risk profile of being there. And so, I don't know if that fully answers, but I guess a simpler answer would be, it's less likely in the PNW than it would be in the Southern or Southeast portions of the United States or further investment in the Midwest, Mid-Atlantic.

Ari Rosa

Great. Makes a lot of sense. Thanks for the time.

Operator

And our next question today comes from Allison Landry, Credit Suisse. Please go ahead.

Allison Landry

Thanks, good morning. So, maybe just following up, Derek, on part of your answer to the last question. Just want to sort of ask if you could give us maybe a bit more color strategically on the rationale for looking at the lower length of haul fleet. And it sounds like you're talking about certain growth areas, stability, but just any additional information you could give us there, strategically, and if this will be one of the key criteria that you'll focus on in evaluating future M&A opportunities?

Derek Leathers

Yes, thanks, Allison and thanks for the question. So, I want to be careful here. It's not like we went out and said, we're specifically and strategically and only looking to shorter length of haul. What we do though, is every time we get opportunities through the pipeline, and there's many of them circling out there at any given time, we just try to ask the question of, does it fulfill, or does it fill a gap in the portfolio that we think can make us better and provide a better future for our customers, our associates, and our drivers? Shorter length of haul was one of those areas that was clearly on our radar, the high density short length of haul, especially in an engineered environment, with high utilization turns, given how short the length of haul is. That was important to us.

This particular fleet set was one of those ones that happen to check every box and the further we dug, the more boxes it checked. But to be fair, there are opportunities for us to do the same as it relates to filling out pieces of the portfolio and Logistics, and or filling out the pieces of the portfolio, perhaps in Dedicated, but in different verticals, that is not perhaps our core strength. And we'll be open minded to those and look at those, but always with a pretty critical eye and a pretty tough set of hurdles to get through to make sure we're comfortable moving forward.

We'll learn a lot along the way with this acquisition. We've already started learning groups here internally with everyone that was involved in the acquisition, just to try to capture best practices and sharpen the knife and sharpen the iron a little bit, relative to what we could have done during everything from the initial LOI through the due diligence to closing yesterday. The real work begins today, though, and the learnings will really start to compile. Once we feel like that skill sets been honed and we have a higher degree of confidence, then you'll see a higher willingness to participate in other opportunities, but investment will be first and foremost back in the organic fleet and growing and investing in our future.

Allison Landry

Okay, that was helpful. And maybe just one more sort of broader question. Do you think that you'll see more frequent M&A activity just in the broader truckload space as a means to update drivers given the current constraints, and this prolonged cycle, just would be curious to get your thoughts on that. Thank you.

Derek Leathers

Yes, sure Allison. Clearly, the current driver market is as tough as I've seen in any point in my career and that's probably a massive understatement. It is very, very difficult out there. So, to the extent you look at opportunities you look at fleets where you think the cultures are aligned enough that you're not going to suffer from the attrition and dissolution of the company, the acquired company from a workforce perspective, those are going to be more exciting than they would be in a more balanced market. We think the tenured level of these drivers and the commitment they have to the company, and the fact that not only are we not looking to change their work life, we're looking to learn from that work life and actually replicate more of it, provided a unique opportunity for us to bring 500 highly qualified drivers into the fold. And we're gonna work our tails off to retain each and every one of them.

But yes, to answer the question about do I think that is a motivator as it relates to some of the M&A activity that is and will be out there? I absolutely believe it will be. It is hard to find and this is one other way that people would be able to add to the fleet. And it's a way to do it without adding net capacity into the market because our capacity was already out there competing yesterday. As we bring it in, it simply expands our footprint and our capabilities and some synergies and efficiencies that we think are there, will add, if nothing else, increased opportunities for our customers for us to be creative.

Allison Landry

Okay. Thank you, guys.

Derek Leathers

Thank you.

Operator

And our next question today comes from Tom Wadewitz with UBS. Please go ahead.

Tom Wadewitz

Yes, good morning. Derek, I wanted to ask, how much we should kind of interpret what you bought in terms of how that would inform what you might want to buy in the future? I know you said you're open to kind of Logistics acquisitions and Dedicated. But should we take this and say, look, you really like high quality truckload companies, you'll keep separate brands, is that kind of the model? And I know it's hard to say, this is your first deal and it'll take some time. Or are you open to fixer uppers that you would put under the Werner brand that you would really look to do a lot of improvement? So, I guess, how much should we read, in terms of your go forward approach on trucking deals from what you've done right here with ECM?

Derek Leathers

Yes, I'd say Tom, to the extent you're reading into it, I'd write the notes in pencil, not pen, because we're going to evolve like everybody does in this space. But yes, we do have a propensity to want to focus first and foremost on culture. But I also like the idea of bringing highly efficient, well ran businesses, and giving them a better home, finding a place where they can have the support, the

capital, the ability to reinvest and grow that they wouldn't be able to necessarily do on their own. It's a tough time to be a small trucker, smaller trucker out there. And these regional players that are high quality are going to find a much better working environment under an umbrella, in my view, like Werner's. So, there's a lean that direction.

But make no mistake, we've also looked at a few and chose in the end not to pursue them, that would be more in that fixer upper category. And if the line of sight to that fixing is clear and confident, from our perspective, and we believe that it's something we can execute on at a high level, we would be open minded to it. But as a lean, we're looking for high quality companies that really, the obstacle to their future is not being a part of something bigger and stronger with greater visibility to freight and opportunities that once aligned with Werner, we can help solve that problem.

So, the lean would be along these lines, but we are going to continue to examine, and it's part of becoming better, is we'll challenge ourself on some of these other ones as we go forward. And if the right one came along where we think the competent level and the line of sight is clear enough, I just don't want to shock anybody or surprise them if we were to execute something like that someday, because it would be on the table, but with a lesser priority.

Tom Wadewitz

Great, and then for the follow up, it's interesting on the short haul business; how much is that something that you do as kind of a separate focus networking? And you've talked about engineered business, and it looks like they have more terminal intensity to what they're doing than, than to what Werner has overall. So, can you do that kind of business within your existing footprint? Or if you wanted to go after short haul business in the Southeast, is that something you'd have to add more terminals, do something differently, that wouldn't fit so much within the existing footprint?

Derek Leathers

Yes, so that's a great question. The thing that's interesting about our portfolio today is, if you think about prior to the acquisition, 65% of our fleet was in Dedicated. That fleet, which is the preponderance of our fleet, actually operates in an even shorter haul environment than ECM.

So, we do a tremendous amount of ultra-short haul work today. But it's in a Dedicated configuration and it's something we know and do very, very well. The One-Way fleet is in a longer haul, by quite a big margin, environment than where ECM operates today. It's the ability to do true regional One-Way, engineer the routes in such a way that they replicate and look like a Dedicated environment for both the driver, for the service levels, and for ultimately, the sustainability of the returns. That wasn't something that we were as nimble at. This provides us that opportunity immediately in the Mid-Atlantic and Northeast, but it also provides us a blueprint and a recipe, if you, will to go out and replicate.

And one of the things that you pointed out very astutely is, we've quickly learned over the last several months that that replication effort takes a different type of footprint. And so, we'll be cautiously looking at opportunities in other dense regional markets, but then trying to understand, what would that investment take and what that return profile look like? And then now, having the benefit of many, many, many decades of expertise within the ECM leadership team of operating in that environment to help guide us. So, all of the above is true. I mean, your question is a great one because it is filling a niche kind of in the low to middle range of length of haul, whereby, we don't operate a lot today. And if we did, it would take some investment and footprint changes in

our network. And you can best see that on the map, by the simple reality that our, call it 7,800 trucks and 24,000 trailers today, operate in a network in terms of terminal and drop yard count that isn't all that different from what these 500 trucks need to be able to do what they do. So, yes, it would end up ultimately leading to a lot more dots on the map as we expand this profile elsewhere.

Tom Wadewitz

Yes, great. Thank you for the insights. And I know it's got to be exciting to have your first deal under your belt, so congratulations.

Derek Leathers

Thank you. Thank you, it is exciting. We're looking forward to getting to work.

Operator

And our next question today comes from Jeff Kauffman at Vertical Research Partners. Please go ahead.

Jeff Kauffman

Thank you very much. Derek, John, team, congratulations. Big event here.

Derek Leathers

Thanks, Jeff.

Jeff Kauffman

Thank you. John, I wanted to go back to the synergy discussion because a lot of the things you mentioned were more procurement related. And I think that's kind of the quick and obvious. But I know that IT is something that Werner has always prided itself on being kind of leading edge. And Derek, you were speaking about some of the best practices that you may exchange between the companies, but can you tell us kind of where the IT systems are? And what kind of integration might be necessary, say, over the next year or two, and what opportunities are there on that side?

Derek Leathers

Yes, I'm going to take that first part of that, the IT portion of that a little bit, and then John can speak to other synergies. But first off, they have a high-quality IT structure today. It's very much with an eye towards this engineering of repetitive lanes in a regional short haul environment. Yes, we have a tremendous amount of investment going on in IT. And the timing of this deal was important, as we build out our Mastery platform, to think about making sure that we've contemplated all of the need to have issues that will eventually come to bear, both in our network and ECM's as well. They would be the first to say that, although their IT system works incredibly well for them, it's not designed at its core to be the solution for this type of work.

And so what carriers find that work heavily in this space is, there's so much aftermarket customization that has to take place, rather than if you could have built something from the ground up. You can build it faster and cheaper, we believe, with more optimization involved than what is currently available to them. So, we're excited because they're coming in at a time in our Mastery development that they can add great value. And their knowledge can help us build out what's right for their network, as well as our own, as we combine those going forward.

And so, call it intermediate term, we're going to continue with the systems they have in place. We're going to continue to invest and evolve those systems as appropriate, but not over invest in

them because we're building a better tomorrow as we speak. And I think when we come out the other end, one of the beauties of the cloud based Mastery system that we're working on diligently every day, is that we think it will be tremendously more nimble to adapt to both our Dedicated needs, because there aren't great systems other than our homegrown ones that really address the needs of a high quality high service Dedicated carrier. The same is true of short haul, kind of regional with with a high level of engineering.

The last thing I'll say is, when you think about a highly profitable, well ran 500 truck carrier, the amount of that business knowledge that is really retained within the leadership of that organization and their decades of experience, can't be undervalued. And that's why we work so hard to make sure that we've structured the deal in a way that they are with us for the foreseeable future. And we're excited to have them.

John Steele

And Jeff, I would add to that in terms of the sharing of best practices between our two companies. They run a very efficient operation at ECM. But as we look forward, we see some opportunities to share Werner freight opportunities that we may have in Logistics that would help them reduce their empty miles, improve utilization, improve backhaul for them, as well as, they have a small truckload brokerage operation and carrier network and we have a lot of strong carrier relationships in our Logistics business that might help with the sourcing of capacity for both ECM and MCS. So, sharing between the two companies, we think, will help both companies get better.

Jeff Kauffman

That was really helpful. Thank you. And for a follow up; more of a bigger picture thought question for Derek. On the theory of skate to where the puck is going to be, COVID has driven a lot of structural changes in the consumer markets and according changes are kind of echoing through the supply chain and how we're structuring our business. We're seeing some companies develop these trailer pools as a solution to what may be going on out there. We're seeing business models evolve. Can you talk about how this, and you kind of have already, but how this positions you for the new world order to some degree, and maybe some thoughts about different ways that this business might change over the next three to five years?

Derek Leathers

Sure, I'll take a swag at--there's a lot there. But let's start with the obvious. I really believe that we're going to continue to see a growth in the regional marketplace. You're going to continue to see more regional DCs for forward deployed inventory. You're going to continue to see the growth of e-commerce, which means we have to adapt and make sure that we're prepared to support that growth. To do so, that by nature means you start to see a different trailer to tractor ratio over time because when you're pulling shorter length of hauls and having to turn that truck multiple times a day, you need trailers located at each of those origins and destinations to pull it off. As we continue to grow power only in our Logistics group, that's going to take additional trailers.

At the end of the day, what customers want is a trailer pool that's as unified as possible in their yard and a system and communication link with that underlying provider that makes it as frictionless as possible. That's the types of things where our focus is going to be. Whether that truck ultimately gets pulled by Werner or ECM, or one of our broker carriers is of less importance to the customer as long as the service levels are best in class.

And so, yes, I think you're going to see continued investment in the trailer side of the equation. You're going to continue to see more forward deployed trailer pools, both at customers and nearby. You're probably going to see further expansion, as I indicated earlier, of the dots on the

map of drop lots and secured locations that we can operate out of, but not necessarily full blown terminals. There's a lot of work to be done in that area. But that is, to use your analogy, where the puck is headed. And my commitment is when it gets there, we'll be ready.

Jeff Kauffman

Well, that was fantastic. Thank you very much. And again, congratulations.

Derek Leathers

Thank you. Thanks for the call.

Operator

And ladies and gentlemen, this concludes our question and answer session. I'd like to turn the conference back over to the management team for any final remarks.

Derek Leathers

Yes, I just want to thank you all for calling in and taking time out of your day to listen to the call today. This is an exciting time at Werner. I want to make it clear that we are not just celebrating that it's the first acquisition, truckload acquisition, in Werner's history. But rather excited because the work starts today. We will be getting to work putting our nose down and making sure it's not just the first truckload acquisition, but it's a successful one.

We wouldn't have done it if we didn't think we had a line of sight to making that happen. We wouldn't have done it if we didn't believe our two cultures were aligned. And our commitment to excellence above all else was at the forefront. Both ECM, MCS and Werner put safety and service above everything else in our values. And we're going to continue to do that going forward, but we think we can do all of the above while enhancing shareholder return. And that is ultimately one of the drivers of this deal. We think that the future looks bright and we're excited about it, so thanks for joining us today.

Operator

Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.