

2022 Stephens Annual Investment Conference

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Stephens Analyst: Jack Atkins

Werner Enterprises: John Steele, EVP and CFO, Craig Callahan, EVP and CCO, Chris Neil, SVP of Pricing and Strategic Planning

Jack Atkins

Let's go ahead and get started here for our 11:00 o'clock fireside chat session. We've got the management team from Werner Enterprises with us. And for those of you that know Werner, they're one of the highest quality truckload companies out there on the public markets today. Werner has both a mix of Dedicated assets, over 60% of their fleet, and also a highly engineered One-Way fleet as well, that makes the business less cyclical during the peaks and the valleys of the freight cycle. They also have a growing Logistics business as well.

So very pleased that you guys took the time to join us today. Thanks for coming to the conference. Let me introduce the group and I'll turn the floor over for some introductory remarks. So, to my right, we've got John Steele, the company's Chief Financial Officer. To John's right, we've got Chris Neil, SVP of Pricing and Strategic Planning. And then to Chris' right, we've got Craig Callahan, who's Chief Commercial Officer. So hopefully, I got all the titles correct in there, but John, why don't I turn the floor to you for some intro comments, then we'll go into Q&A.

John Steele

Okay. Thank you, Jack, and we really appreciate having the opportunity to present at the Stephens Conference once again this year in Nashville. So, a little overview about Werner. We're one of the five largest truckload carriers in the country with over 5,500 Dedicated trucks and over 3,400 One-Way trucks, including our recent acquisitions in October of Baylor Trucking, a 200-truck carrier based in Milan, Indiana, and also, ReedTMS Logistics, who we bought about a week ago, based in Tampa, a \$370 million logistics company with expertise in the food, produce and refrigerated industries.

We have a growing logistics business in Truckload Brokerage, in Intermodal and in home delivery Final Mile. Our balanced revenue portfolio is able to adapt to changes in the macro economy, and definitely we're going through that period right now. With the recent acquisitions, we've now moved to 70% of our business is now in trucking or \$2.5 billion, and then \$1.1 billion in logistics with the ReedTMS acquisition, for a total of \$3.6 billion of pro forma annual revenues.

We have a durable, resilient business mix. We're pro forma 56% in retail with an emphasis on discount retail with customers like Dollar General, Dollar Tree, Walmart, and others, who are doing relatively well in a more challenging economy. We also have a pretty high percentage, up to 19% in food and beverage. So, three quarters of our business is focused on the consumer, with the more repeatable, consistent business that occurs throughout the year in an all cycles.

We were named Carrier of the Year by four of our top five customers, and also by seven of our top 15. So, everything we do is geared around the highest possible service for on-time pickup and on-time delivery to differentiate ourselves from the competition. We own one of the largest driver training school networks in the industry, if not the largest. We've grown that from 13 a year and a half ago to 22

locations, and that helps us vertically integrate the – one of the most challenging aspects of trucking, and that's sourcing highly qualified and experienced drivers.

So with that, I'll turn it back over to you Jack for questions.

Jack Atkins

Yes. Great. Thank you, John for that overview. And maybe we could start, love to kind of maybe kick us off with a macro question or two. You knew they were coming on the macro side. We've got to start there.

But obviously, the expectations, as we went through third quarter earnings season, were a very muted peak season to play out through the holidays. We're now fairly close to Thanksgiving. Any sort of changes to the thoughts around peak season and how peak season might play out for better or worse? Anything surprising you in peak?

John Steele

Let me start and then maybe I'll let Craig finish, but it's a more subdued, muted peak season compared to a very strong peak season a year ago. So, we had tremendous pricing opportunities to help out our customers in fourth quarter last year, and we're seeing, probably 30% of those opportunities this year compared to what we saw a year ago.

So that certainly impacts volume. We would say a little bit lower than normal volume because our large customers, many of them have been adjusting their inventory levels down. We've already kind of felt the pain of that for the last couple of quarters as they right sized their inventories to adjust to the actions that the Fed has taken to slow down cost inflation. But our overall business model is resilient. We haul the type of products that people need and use in good economies and bad.

We have a retail base that focuses on companies that are seeing benefits from trade down and value. As recent as this morning, Walmart commented that the growth in customers they've seen in the last couple of quarters has come from the over \$100,000 income group. 75% of their growth came from that group trading down to Walmart for value. Dollar General, Dollar Tree, see that same thing. So, we've intentionally structured our customer base and our business around times like these, and it's our time to shine as we move forward.

John Steele

Craig, anything you want to add to that?

Craig Callahan

Well, I mean, I think as expected, Jack, is probably the way to describe it. In terms of, we thought we had a pretty good read heading in the peak. I think one other thing that we just reflect back on a year ago, is not only were we undersupplied relative to inventory and our customers, we were – the consumer was extremely active.

And so hyper consumption was taking place while inventory was low, and it just exacerbated the supply chain issue. And there was all kinds of opportunities and chances to be opportunistic quite honestly. But the reality of it is, as most people know, the bulk of our business is not available for opportunities like that. The bulk of our fleet is in Dedicated and we know what tomorrow is going to look like and the next day is going to look like and everything's pretty well scheduled. So, although it is certainly down, year-over-year, it's not the predominance of what we do for a living.

Jack Atkins

Maybe just sticking to a little bit of that theme. John, you brought up the inventory issue. It's been an over – we went through a period where inventories were way too low, and now, then they very quickly became elevated versus need. So, I guess as you're – you do a great job tracking where your customers are from an inventory perspective. Where do you think we are in this destocking process? Do you think we're sort of in the latter innings of it, towards the middle, where would you peg it?

John Steele

I would say it varies from customer to customer, and we're just beginning to get the inventory data today. So, Walmart and Home Depot reported this morning. Target, Lowe's, T.J. Maxx report tomorrow, Ross Stores on Thursday. You can go down the list. We'll get some more the following week. So, it's very limited data at this point, but both Walmart and Home Depot, both made progress this quarter.

Walmart's inventory per store year-over-year in second quarter was up 25%, and this quarter it's up 13. So, we felt that destocking pain that occurred this quarter, and they feel like they're pretty far along in the process, but the hard part is predicting what the demand environment does and are they catching a falling knife and it's still going farther from here? That's hard to determine, but we feel like we're in a good place and they're actually seeing, in the grocery side of their business, more volume from customers that are trading down for value.

So, almost two-thirds of our trucks are tied toward that more resilient, consistent, year-round volume in Dedicated that demands extremely high service. And so, that insulates us some from the more discretionary side of the economy, where I think the most pain is being felt. The higher dollar purchase items, the furniture, the appliances, the electronics, we have some exposure to that, but intentionally, not a lot of exposure to that.

So, I think we're in the sixth or seventh inning or eighth inning with some customers, and we're probably in the third or fourth with others, depending on how quickly they adapted to the environment. And it's not over, it's probably going to result in a challenging first quarter environment, the first time in three years that we've seen a normal seasonal drop from fourth quarter to first quarter that we typically see.

Last year, first quarter, probably is going to turn out to be the best quarter of 2022 based on our earnings performance and history. So, it's tougher times that we're going through, but we're designed and built to deal with tougher times the way we structured our company.

Craig Callahan

One – I think one additional item on the inventory front is just, we can't lose sight, and sometimes we do when we just read the headlines, we can't lose sight of, most of the inflation on the inventory side is being driven by price, not units. And both Home Depot and Walmart commented on that this morning

where, even though they're still up 13% and whatever 25% respectively, the bulk probably 70%, 80%, is relative to the inflation side of things, not necessarily units.

And when we talk to our customers, I mean, they still have out-of-stocks in certain SKU's, and they're still trying to position inventory where it needs to be. And so, I think if you're doing business with the right companies that have good long-term, thoughtful strategies, then I think we're on – we're well through, I think the worst part of this.

Jack Atkins

That's helpful. Maybe shifting gears a minute, Chris, I'd love to bring you into the conversation given your role from a pricing perspective. But top of mind for investors, just in terms of what they're asking me on a daily basis, is sort of how to think about pricing as we go into 2023. I know Werner has a differentiated model versus a traditional truckload company. So maybe we can kind of bifurcate the pricing discussion between the OTR market, and then within the Dedicated market. How are you thinking about that next year?

Chris Neil

Well, we'll wait to give detailed guidance until probably our next call. But at this point, I think it's important to remember that we have over 60% of the fleet in the Dedicated side. Historically, Dedicated has been much more consistent, much less volatile. If you look at our Dedicated revenue per truck per week over the last eight years, it's grown seven of those eight. And so, we feel pretty good about our opportunity in the Dedicated side to continue to work and partner with our customers to offset inflationary cost increases.

We work very closely with them. We're integrated in their entire supply chain. We've aligned ourselves with customers who view the supply chain as a competitive advantage, versus those that view it more as a cost center. And so, I think our alignment with our customer base will be important as we work through what's going to be a tougher environment.

In terms of One-Way pricing, we're not exposed to the spot market much in our One-Way world. We probably have 10%, give or take a few percentage points, at any given time, in our One-Way side. And again, One-Way is less than, about 33% of what we do out there. So pretty minimal exposure on the spot side. In terms of spot, that's been a volatile market. It's already gone down 40% from peak to trough probably. And our view of spot is that it's – it may decline a little bit more into the seasonally weaker first quarter like you typically would experience.

But given the decline we've already seen, and the fact that we think spot prices already are to a point that's lower than the cost basis for many of those smaller carriers out there operating, I don't see that there's a tremendous further decline in the spot world.

And then on the contract side in One-Way, it's going to be a tougher environment than it's been, but our One-Way fleet is very targeted. We work specifically and target certain areas of that market. We try to stay away from the broader irregular route market where you just kind of go everywhere. And so, we focus more on cross-border Mexico. We're one of the largest providers that cross the border in Mexico everyday both in our Truckload asset side as well as our Logistics side. So we have a really good footprint into Mexico.

We've seen some strength on the border in terms of shipments with some parts, especially in the auto and the truck manufacturing world. As things ease a little bit, we're seeing some good strength there. So, I think that's an area that will help and be a little more stable.

We also are doing some work in the expedited side. We've been an expedited carrier for a while, and a portion of our One-Way is in that world, that's more scheduled, again, less volatile, less subject to dramatic swings in the environment. And then we're focusing on regional and engineered lanes as well.

So, I think, on getting back to the One-Way side, it really depends on what portion of the market that you're in. There's definitely going to be some pressure. But we served our customers very well last year, and the last couple years. We've really tried to uphold our commitments in an environment that was really rough. And so, we feel like that will be reciprocated as we work through this next first half of the year or so.

Jack Atkins

And one of the things that Werner has been trying to do over the course of the strong up market that we were in, in 20, second half of 2020, and all through 2021 is to enter, if I understand it correctly, enter into some longer-term commitments with some of your customers in your One-Way business. Can you talk a bit about that, Chris? And how you think maybe that'll give you a little bit of insulation as well?

Chris Neil

Yes. Thanks, Jack. That's something different for us this time versus the previous weaker cycle. We've created a handful of longer-term arrangements with a handful of strategic customers that puts some guardrails, both on volume and on price. And so, it's – if you look at it on the spectrum and you've got Dedicated over on one side, that's very consistent with not a lot of swing, and then you look at the random One-Way world on the other side, this is more in the middle, maybe inching a little bit more toward the Dedicated side in that it is more constant. It doesn't provide for as much fluctuation, either in volume or in rate.

And again, it's with those really important customers of ours that we've worked with for years and years and years. And so we feel good about that area. It's – again, it's different than what we've had in the past. And I think it will prevent, or at least mitigate some of the larger swings that are just inherent in that One-Way market.

Jack Atkins

Okay. And expanding on that a minute, Craig, I'd love to kind of bring you into this part of the discussion too, but we think about the bid cycle, this annual bid cycle sort of feels like...

Craig Callahan

Love it. Awesome.

Jack Atkins

One side of the coin is always trying to get something over on the other side of the coin depending on where we are. Are you seeing customers a bit more receptive to some of these longer-term kind of commitments on both ends, with their strategic partners to be able to kind of take some of that volatility out? Because I know it has to be highly inefficient for both sides to kind of go through this.

Craig Callahan

Yes. I mean, it can be. So most of those conversations that Chris references happened in 2019, 2020, 2021. And I suspect, because it's got to be, two things that have to be in place when you start that conversation, is you've got to have two companies that are mutually aligned on good long-term strategy.

And then both parties have to feel like they're going to win, like at some point. But they're not going to win every time because we've got to build these things so that they are – they have got to at least survive an up and a down cycle, because there's going to be a winner and there's going to be a loser and then that should be a trade off as the market shifts. And that's the only way financially, that we would take on that conversation, just like our customers.

So – but I suspect now, there probably won't be as much discussion. It's just, given where the market dynamics have shaped. We anticipated that. Certainly, we will be open towards that dialogue because we're going to look at it from a long-term horizon. But I wouldn't anticipate that being a strong strategy for us to be able to execute on as we get into this bid season. Our customers are under a tremendous amount of pressure.

And so, although we are as well, and we've got our own job to do, we do have to be empathetic with what they're going through and what supply chain costs have looked like over the course of the last couple of years. And so, we've got to continue to make sure that we are aligned with each other. We understand what each other – what a long-term mission here looks like. And I would expect that we'll probably be trying to – we'll renew the ones that we're currently using, but I'd be surprised if we added any in this current bid season.

Jack Atkins

Okay. Got you. And if there are questions from the audience, feel free to jump right in. I don't want to hog all the air-time here, but maybe kind of shifting gears to cost. John, I'd love to get your kind of thoughts on inflationary cost pressures going into 2023. It feels like you guys may have been bearing the brunt of that over the course of the last couple years, especially on the driver side. How are you thinking about the puts and takes on inflationary costs in 2023?

John Steele

Yes. I think the cost side is beginning to moderate. We were up 15% on driver pay and rates were up about 15% in second quarter year-over-year. That moderated to 8% and 8% in third quarter. So, we're starting to see some moderation there. The driver market has become a little bit less difficult. So, I think our advertising, recruiting, bounty incentive spend, begins to decline going forward.

On the non-driver side, we're being careful about non-driver hires and we're not having – don't have any plans for layoffs or downsizing, but we're also being very careful for any hires we do, as we go into a tougher economy.

There's ongoing technology enhancements that we're making to improve our efficiency and be more productive. We've been working on the Mastery platform for a year now. And by the end of this year, we'll have our entire Brokerage volume running through that new platform, so that's progress. In 2023 we will start working on the trucking side of the business and getting that on the same single platform.

The truck average age has maintained at about 2.3 the last two quarters, where, prior to that, it was increasing a tenth every quarter. So, as we flatten out and then hopefully begin to lower our fleet age going forward, that will help with our maintenance spend in what's been a really challenging supply chain market.

Fuel idle time with our driver force is, we're beginning to make improvements there. And we have the ability to address driver issues with those that are not performing at the highest safety and service level in the current market. Discretionary costs are definitely on the table, travel, lodging, and related costs. So, we're doing everything and preparing ourselves for an environment that may be more challenging on the rate side to structure our business on the cost side to adapt.

It's unlikely that we can take costs and move them negative on a year over year basis, but we can certainly shrink the positive down significantly to be minimizing the impact on margins in what could be a challenging freight and rate market, at least for the next six months. We're more optimistic the back half of the year will begin to show some signs of improvement, but it's very difficult to predict at this point in time.

Chris Neil

And I'd say, just to add onto that, it's tough for the large carriers of scale right now with all the inflation that John just mentioned. But a smaller carrier who is dealing with a spot market rate that's down 40% from the peak. They're dealing with high driver costs. They're dealing with equipment costs that are significantly higher. Many of them have fleets that have aged. And so, the maintenance line is not a good thing either. You have insurance costs in the industry that have increased. And all that, and then really the – one of the big differences this time around compared to some of the previous cycles, is the cost of diesel. You look back to the previous cycles, diesel prices were much lower, around \$2.30 back in 2016, around \$3.00 in 2019 during those last couple of cycles. Here we are with diesel prices at \$5.30 a gallon.

And so just a tremendously different and challenging operating environment. We've really been in that operating environment now for a couple quarters with diesel prices that accelerated dramatically in March or earlier in the year, whenever that was. So, I think the pressure is significant, it's significant for everybody, but it definitely differs for some of the smaller guys. And I think that's going to lead to, as we've discussed, maybe a little more cleansing, a little sooner than what's occurred in some past cycles when that lower fuel price was really able to insulate and allow some of those folks to continue on a little longer than this time around.

Jack Atkins

Chris, that's a good kind of jumping off point to maybe where we can take the conversation next, in that good companies use economic pullbacks and recessions to their advantage. How is Werner thinking about capitalizing on what's going to be a fairly challenging, at least the next six months, hopefully it's not longer than that.

You've got a very strong balance sheet. You've got a very strong company that's earning returns in excess of your cost to capital, generating a lot of cash flow. Is there a chance to really kind of go on offense here as you're sort of thinking about building Werner for the next three years to five years. Whoever wants to take that?

Craig Callahan

Yes, I'll take that. I mean, I think it presents – I think you're right, Jack, never let a good crisis go to waste. And I think there's an opportunity for us to lean into our strengths here and, as a well-capitalized carrier that specializes in Dedicated, hard to do, on time critical delivery. It's not recession proof, but it certainly isn't exposed to what's going on in the broader market right now.

So, I think that's one component that we'll be able to lean into and have some success. So, the pipeline continues to be extremely strong, both organically with customers that we do a good job for, as well as just other opportunities that come in. And I think, just to take Chris' point a little bit further with some of the smaller carriers that are going through some of the financial strains that they are, just given the cost environment, there's an opportunity for them to join well capitalized, bigger carriers in the format of power only and come on and haul contract freight right for us instead of having to haul spot freight.

We've got to be disciplined and diligent about building long-term agreements with those carriers so that we don't lose them the next time the cycle turns. But I think there's an opportunity to do that. And so, I think you're right. I think there's an – and then the last one would be just – we've added some elements to our portfolio with the four acquisitions we've done in the last 16 months, and they too are less exposed to what's going on in the spot market.

And I'll just highlight one of them, our Final Mile service offering, I think, is going to continue to position us to be successful. It's a big and heavy, it's two men and a truck, it's mostly home delivery. Of course now, in that space, it's a little bit constrained, because many of those purchases are discretionary in nature, but that too won't last very long. And some of the remarks from Home Depot this morning on their earnings release, I think that's a little wind in our sales relative to, not because they're a Final Mile customer of ours, I don't want to imply that, but because of the broader market. I think there's an opportunity for us to continue to lean into it. So of course, we're going to have to button down to John's point and be smart and be disciplined about how we're spending money. But at the same token, I think there's an opportunity for us to continue and take share.

Jack Atkins

Well, I want to come back to the acquisition topic in a moment. But I guess, this next question kind of ties into that. John you and Derek, on the earnings calls have talked about, Werner being in, sort of a much better position headed into this next financial sort of freight storm than we've seen Werner in the past.

But I look back to the last downturn in the freight markets, you guys did a remarkable job, maintaining your earnings power in a cycle trough. How are you thinking about the ability to do that? As we look forward? Are there some puts and takes that may make it more or less difficult? And when you talk about the business being best positioned it's been, what do you mean by that?

John Steele

Well, I think it starts with Dedicated. It's a larger portion of our overall business. We're aligned with winning customers that use the supply chain as a competitive advantage. They value the service level that we bring. That's why we receive the awards that we've achieved. We're not immune to the changes in the economy, but the variance in a good performing economy to a bad performing economy within Dedicated are 100 basis points to 200 basis points, we think. And so that gives us more stability.

The structure of our One-Way network is better than it's ever been with the engineered fleets, the expedited business that we have, the cross-border Mexico that's over time, going to benefit from nearshoring. We think that's in a better place to position us to where there's not as much volatility in earnings as before. So, 300 basis points, maybe 400 basis points of swing from peak to trough.

And so, we gave guidance a little over a year ago of a 12% to 17% operating margin, net of fuel, in TTS. And we don't think we'll hit the bottom of that margin goal in a recession. We think we'll stay above it and hopefully well above it, maybe a 100 basis points above it if times get really difficult.

So, we don't think there's as much volatility in the structure of our business as there has been in the past. And while we're not looking forward to a challenging environment, we think we're better prepared for it than we've ever been.

Jack Atkins

Okay. That's a great answer. Thank you for that, John. So, shifting back to M&A and Craig, you mentioned this a moment ago, but you guys have made four acquisitions since the middle of 2021, acquired four different businesses.

Can you talk about how they fit into the portfolio and then kind of – I'm not asking you to kind of go through each one of them, but sort of how is this – what's the fit into the broader strategy on the M&A front? And what are you trying to build through these transactions?

Craig Callahan

Well, I think, first and foremost, four acquisitions in 16 or 17 months after not doing one, and then our CFO announces his retirement. I can't help, but wonder if those things are somehow aligned, but...

Jack Atkins

Enough's enough.

Craig Callahan

Yes, exactly. Yes, you're looking at the M&A team right here. Well, we start – I mean, so for us, each acquisition – we don't go out looking for a specific company to fill a specific need. As the deals come in, we're evaluating them, and they really have to accomplish three things for us.

Number one, it's got to be a really solid culture fit. That's just something we're not going to compromise on. And we want to integrate companies that have the same mindset we do, and a commitment to safety and service above all else.

And then, the second thing is, they've got to be accretive to earnings, right? We're not looking for a fixer upper, there's – we just think there's too many opportunities, the opportunity cost of that for us, at least where we're at, hasn't been sensible up until now.

And then the third thing is, from a portfolio perspective, it has to allow us to either solve more problems on existing product lines for customers or solve problems for customers that we don't necessarily solve today. So, it's got to either bring us breadth or depth or both to the portfolio.

And that's been our attitude and that's what all four have accomplished. Obviously, you've got to buy them right. And we've been fortunate enough, through our diligence, to do a nice job of making sure that we found, we checked all the three boxes, and we found the right purchase price. And two of the integrations, we're over a year into at this point, and those are going well. And then we've got two that have happened in recent months, and we're still working through those.

Chris Neil

Yes, I just – I would just add, I think if you tie back both the question that you asked John earlier about just kind of, how we're set up heading into this next bit of the economy and tie that into the M&A piece. I mean, you take a step back and we really started to transform our portfolio five years ago, when we started to reinvest in the company, started to improve our truck and trailer age. We enhanced our terminal footprint. We focused on our talent. We dug into technology, and we really created that foundation for our company over the three or four years after Derek became CEO.

After that foundation was built, then we started to accelerate the pace of investment. And some of these acquisitions came after that. But the whole intent and really our design and goal through that whole process and continued goal, it's a journey as we sit here today, is really to differentiate Werner from other peers in the space, and doing that by trying to eliminate some of the volatility that inherently is in part of this One-Way truckload world.

And so, by intentionally increasing our Dedicated footprint as a percentage of our TTS fleet to now 62% as we mentioned. With the ReedTMS transaction that Craig was just talking about, going forward, our Logistics footprint now is 30% of our revenue on a trailing 12-month basis.

So, when you add those two pieces together, you've got a flexible cost structure in Logistics. You've got a more stable piece in Dedicated that's more now, that exceeds 70% of our business moving forward. And so that's really the intent, is to minimize that up and down, and hopefully that will lead to better valuation for our company, better returns for our shareholders in the future.

Jack Atkins

Okay. That's great. We could kind of go back to the power only discussion for a minute, because that, to me, is one of the more exciting pieces of the broader freight market is, looking forward here, it's kind of came out of nowhere, in terms of something we were talking about this year, and last year we haven't really talked about before.

What's driven, Craig, just from your perspective as Chief Commercial Officer, what's driven this increased customer interest in power only capacity? Do you feel like that it is durable in a more challenging freight market? And I guess, how big could that market be?

Craig Callahan

Well, I think the commercial interest is because it's relatively painless, right? And so, we're – our customers, especially, we're doing business with growing, thriving companies and they need access to capacity. And to the extent that they can access that capacity without having to switch trailer pools, I mean, that's just a fantastic option for them both at origin and at destination. And I think that was exacerbated through COVID, with some of the labor issues that our clients were having at both origin and at the distribution center level.

And so being able to manage less trailer pools, but while doing so, increase your access to trucks has been a really good opportunity for them. They don't have to interface with as many carriers. They can consolidate their spend with large well capitalized carriers like Werner and many others that doing it. We're not unique in that regard. So, I think that's been the winning recipe on that side.

In terms of how big it can go. I mean, yes, there'll be some – I think there'll be some cyclicity that's going to come with power only. It's – we're not naïve to sit here and think that everybody, all the carriers that want to run power only today are going to want to run power only when the spot market's at \$4.00 a mile, just like they weren't necessarily doing it a year ago.

But if we build the platform right, and we provide them and we educate them on what a good long-term return on their capital looks like, hauling contract freight for us, driver friendly freight, that they probably wouldn't be able to access otherwise, because they can't get into some of these big accounts, because they're too small, then I think there's some stickiness there.

And so, the size of our fleet, we don't publicize it, but I mean, we grew 50% year-over-year in our power only fleet. We grew almost 20% in the third quarter. And we feel good about those growth prospects going forward. And for us, for the most part, those carriers are hauling One-Way freight. And so, we're able to, without having to invest in trailers or in trucks, which is the most expensive part of the business, we can broaden our footprint and solve more customer problems without having to deal with the expense of the capital.

Jack Atkins

And there aren't a lot of companies that can really offer a power only service, where you have to – I mean, it's sort of a – it's a smaller pool that you're competing against.

Craig Callahan

Yes. I mean, you've got to have a stable baseline so that you can grow incrementally from there, number one. And number two, you really have to understand how to manage equipment, right. And I think there are – there's other third parties that haven't had to manage equipment historically, and now have tried to get into power only where you do have to manage equipment and it's problematic if you're not sure how to do it.

It's no different than trying to do business in Mexico, in another country where your equipment is south of the border, and you've really got to be on your game in order to understand where everything's at and how to drive your utilization. So, I think that's going to continue to provide some buffer and some insulation from it being prolific in the industry. But the big, well capitalized carriers that are well run, well managed with good customers, they can continue to excel there.

Jack Atkins

Well, I guess kind of building on that for a moment, you guys have been investing in your technology platform with Werner EDGE. We don't normally talk a lot about that on public calls. I think most of the questions kind of focus on the Mastery relationship. How do those two things work together to create a platform that allows you to really lean into power only, which I would think you would need a very strong level of technology competency to be able to execute on?

Craig Callahan

Yes, I mean, we're going through, the journey that we're on is no different than, in some cases, what our customers are on, is trying to get aligned on one TMS. And today we've got several. And that's a problem, because it doesn't give us the visibility that we would like in order to – in its simplest form, to share freight across the portfolio. And that was prior to acquisitions.

Now fast forward, we've added four companies and they've brought with them their TMS as well. And so, it creates some challenges there also. So, you can still get through it, and we can API information in, and we can work our way through it, but it is – it's critical, right, that we complete our three-year journey on the EDGE TMS integration.

And as Chris mentioned earlier, we'll be through Truckload Logistics by the end of this year, and then we'll be diving into the asset part of the portfolio in 2023. Those guys are super excited about being able to better share freight across the portfolio and solve customers and just accept more load tenders versus having to reject them, because we don't have visibility where capacity is at in our network. And you're right, it'll – it's going to be – the integration of these acquisitions will be significantly enhanced by transitioning them onto the same platform that the legacy organizations are.

Jack Atkins

Maybe kind of thinking about that a bit further, but when we think about Mastery rolling out across the TTS segment or the asset-based part of the business over 2023, I realize it probably won't be a benefit in 2023, but is that going to drive some material value unlock for you over the next few years, you think, as that's fully, sort of brought online, or is this something that's really sort of more incremental or kind of provides more flexibility down the road? I'm just trying to think about how to frame that up from an investor perspective.

John Steele

It adds efficiency, it adds accuracy, it improves visibility, when everything's on one platform, the sharing of information, the decision-making process becomes much better. And we've tried for other periods of time to get integrated on one platform and we're convinced that Mastery is the best solution for us. And it's an arduous journey. It's taking a few years, but I think by the time we get to the end of 2024, early 2025, and we have everything on one platform, we'll be in much better shape to be a more efficient operator and make better decisions, looking at the complete business unit together on one platform as opposed to trying to do it independently on different platforms.

Craig Callahan

It's tough to put a, and I know we want to monetize it, but it's really tough to put a number on it, Jack. But another, to go one step further, with the ReedTMS acquisition, we're going to be up over, we should be up over \$1 billion in Logistics, non-asset Logistics revenue going forward. And the biggest component of that being Truckload Logistics, otherwise known as Brokerage. And the way to drive efficiency into Brokerage and to lower your operating costs and to lower your friction is to get to a digital platform, where there's a really frictionless transaction that can happen between both freight and capacity. And we can't get to the digital platform until we get our EDGE TMS integrated and implemented. And so that'll be the next step of that journey for us to drive efficiency and to lower cost.

Jack Atkins

Okay. Got it. Maybe kind of going back to – don't mean to jump around too much, but earlier, part of the discussion around Dedicated. We talked about Dedicated pricing, what's the Dedicated pipeline look like for you right now? Is that – I'm sure there's a little bit less urgency today than there was six months ago, but just sort of any color there?

Craig Callahan

Yes, I'd say it's – our Dedicated pipeline continues to be strong. I think that – we're not naïve to the fact that it's going to become more competitive, but it has less impact, what's going on in the broader transportation market right now has less impact, way less impact on the Dedicated pipeline than it does in other parts of the portfolio. Because our definition of Dedicated isn't an escape from One-Way. That's not how we would define it.

We define Dedicated as hard to serve, sometimes driver involvement, things that require 99% on time, maybe there's a high degree of overnight delivery, maybe there's an opportunity or a necessity to be able to slip seat, run equipment on multiple shifts. That's what Dedicated looks like. And so, our organic pipeline is still strong.

Our customer retention in Dedicated is up over 95%. So, it's very, very unlikely that we lose something, and the more likely scenario is that we grow existing fleets, and we add new ones with new customers. So – but I think it'll get – it's going to get more competitive. We've seen this before, right? There's going to be a flight to Dedicated, people are going to be trying to run from One-Way trucking and get into Dedicated and all kinds of carriers are going to be talking about it. So, we would, but that's – that happens, right?

Jack Atkins

And not all Dedicated is created equal, in terms of the way customers – companies talk about Dedicated to the stock market, it's not the same that you do.

John Steele

Our Dedicated is not a Dedicated lane with multiple customers. It's an individual customer, where trucks, trailers, and/or drivers are Dedicated exclusively to that customer for their more year-round consistent volume, not their peak surge for holidays or back to school or spring home improvement.

It's geared towards what they consistently need throughout the year, and they want to make sure the product is on the shelf each time, every time so their end customer is not dissatisfied. So, it's extremely high service with special requirements typically for the drivers. And so, it's what we do best, and that business doesn't go away during a slowing of the economy. We see good growth opportunities with not only existing customers, but new customers that fit the profile of what we're looking for with a high service customer.

Jack Atkins

Okay. That sounds great. So, we're down to the last few minutes here. I'd love to ask you about Final Mile, which is a business that you're getting more into here. You've gotten into it through an acquisition. It's a part of the market that both excites some investors, but scares others.

We've had a large truckload carrier really struggle to make, with their entrance into the Final Mile market, and they got out of it over the last couple years. What do you guys like about the Final Mile market? How are you sort of attacking it and what's your sort of longer-term vision there?

Craig Callahan

So, we're anniversaring the NEHDS acquisition this month. And so, that's, a year ago we acquired NEHDS. And when we had that opportunity, what excited us about the NEHDS acquisition and has – we've already seen that, how we felt is going to be true, is that it's very similar to our Dedicated truckload offering.

So it's not, I mean, yes, we have a national Final Mile component to our overall Final Mile service offering, but the predominance of what we do came with the acquisition. And that is an origin where we sign a contract with 20 or 25 or 30 trucks that are specific to one customer doing 12, 13 stops a day and coming back. And then showing up the next day and doing that same thing all over again. And it's very similar to how we make a living with the 62% of our TTS fleet that does Dedicated.

And so, for us, that's both a point of differentiation, but also something that we're highly comfortable with. And it's also an area where many of our large retail customers, we're heavily retail exposed, and so many of our large retail customers, they purchased that service offering today. They couldn't purchase it from us because we didn't offer it. We didn't have the expertise. We could have certainly developed it, but we found what we thought was one of the best-in-class Final Mile companies that brought us that expertise.

And it's worked great. We've retained the management, we've been able to keep the drivers, we've been able to hold onto the equipment, we've been able to help them get into newer equipment, and we've already expanded in different footprints, both geographically and with customers that we didn't have access to before.

Jack Atkins

Well, that's great. I think that that helps clarify that and we've covered a lot with our conversation today. I think we'll probably leave it there because we're out of time. But really appreciate you guys coming to the conference and thanks for the discussion today and hope the rest of the day goes well.