

Werner Enterprises

Werner Enterprises Acquisition of NEHDS
Logistics LLC

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Operator

Good afternoon, and welcome to the Werner Enterprises business update call. (Operator Instructions) Please note that this event is being recorded. I would now like to turn the conference over to John Steele, Werner's CFO. Please go ahead.

John Steele

Good afternoon. About an hour ago, we issued a press release and posted a slide presentation announcing our acquisition of NEHDS Logistics, LLC. These materials are available at our website at werner.com. Today's webcast is being recorded and will be available for replay beginning later this evening.

Before we begin, please direct your attention to the disclosure statement on slide two of the presentation as well as the disclaimers in 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 our Chairman, President and CEO, Derek Leathers. Derek, please go ahead.

Derek Leathers

Thank you, John. Good afternoon and thank you for joining us on the call. I'll begin by starting with slide three of our presentation. I'm excited to announce we have closed on the acquisition of leading Final Mile carrier, NEHDS Logistics, LLC, or NEHDS for short.

NEHDS is based in Connecticut and services the over \$13 billion rapidly growing residential and commercial delivery market for big and bulky products such as home furniture and appliances, for winning customers with two-person teams in the Northeast and Midwest U.S.

NEHDS has a total of over 400 driver teams that currently work out of 19 company and customer locations. NEHDS and our existing Werner Final Mile national network will be combined to significantly expand our service capabilities for our customers with high service expectations for best-in-class performance. NEHDS' founder and President, Gerry Burdo, and his leadership team will remain in place, along with the talented NEHDS team of drivers, contractors and non-driver associates.

The purchase price for 100% of the equity of NEHDS is \$64 million, with \$60 million in cash at closing and a \$4 million earn-out. Closing occurred on November 22, and we expect NEHDS to be accretive to our earnings per share in 2022.

NEHDS will become part of our Werner Logistics segment. We intend to rebrand and market NEHDS as Werner Final Mile. NEHDS will stand by their existing customers by continuing to provide them excellent service going forward with the full support, capital and commitment of Werner.

An additional feature critical to the success of our combination with NEHDS is that both companies share similar cultures focused on attracting and retaining the best drivers, contractors and office staff, making safety the foundation of our businesses and delivering premium service to our customers. Both Werner and NEHDS serve winning customers in the retail and consumer goods verticals.

Turning to slide four, here's an overview of NEHDS. Since its founding 15 years ago, NEHDS is focused on operational excellence with industry-leading service and becoming an integral part of their customers' overall strategy through thought leadership and value-added solutions. NEHDS uses an expanding network of 12 managed facilities and 7 customer facilities to service the growing Final Mile home delivery market with such customers as Bob's Discount Furniture and Macy's. By providing premium, on-time, damage-free service to its customers, NEHDS generated over \$71 million of revenues in the last 12 months, with an average annual revenue growth rate of 27% in the last three years.

On slide five, you see the combined geographic network of NEHDS and Werner Final Mile, which provides same-day or next-day transit to 95% of the U.S. population. Our current Werner Final Mile services include room-of-choice, white glove, threshold, porch or curbside delivery options with live customer support and real-time shipment tracking. New service offerings with the addition of NEHDS' network include product setup and installation, including appliance installs, inventory management, order fulfillment, cross-docking and the capability to deploy assets to meet growing customer demand for the big and bulky products home delivery market.

We are excited to welcome the entire NEHDS team and its growing Final Mile business with winning customers to Werner.

Operator, at this time, please open up the phone lines, and we will take a few questions.

Operator

(Operator Instructions) Our first question will come from Jack Atkins with Stephens.

Jack Atkins

Good afternoon guys and thanks for taking my question. Congratulations on the transaction.

Derek Leathers

Thank you, Jack. Thanks for calling in.

Jack Atkins

So I guess, Derek, I mean, or John, whoever wants to take this, I know there's some questions. I just want to make sure we can kind of talk about it if you guys are willing to share the details around purchase price and sort of is there a way to kind of think about the margin profile of NEHDS, whether it's on sort of an LTM basis or how you guys are thinking about it moving forward?

Derek Leathers

Yes. Sure, Jack. I'll start. So as it relates to purchase price, look, we've got a lot of data, and there's been plenty of transactions in this space over the last couple of years. NEHDS is solidly profitable. We're very comfortable with both the top and bottom line results they've been putting up over the last several years. But for us, it was more of a strategic play as we look forward within our existing customer network, what their needs were and how we could best meet them.

We feel as though the purchase price is properly reflective of the market today, and we're excited

about the opportunity looking forward to grow it, both by combining it with our middle-mile expertise and Dedicated, as well as our existing customers and their needs that we, today, felt like this gave us a better solution when combined with our existing Werner Final Mile network.

Jack Atkins

Got it. So this is more like a platform transaction almost? Is that kind of the way to think about it? And would the multiple that you pay kind of be comparable to that?

Derek Leathers

Yes. I mean the multiple is market. We feel like we got an attractive price for what they're doing from an earnings perspective. I'm not trying to be evasive, but the decision was more driven by the specific capabilities and the team that Gerry has built, the technology that they have in place today and that they utilize and how we felt it fit, kind of hand in glove, with the work we're doing in Final Mile, but really augmented our capability set in a direct way that our customers have been clamoring for. We also believe they have good organic opportunities ahead of them with their customer base, and that runway looks solid as we think about 2022 and beyond.

Jack Atkins

Okay. All right. And then I guess, as we sort of think about the new services that you're getting with this transaction, is the plan to sort of leverage that and leverage those new services across your existing Final Mile footprint? What's sort of the timeline to make that happen? Or do you need to....I guess is that how easy or challenging is that to do as you sort of think about your existing customer base there?

Derek Leathers

Yes. Sure, so let's start with this. I mean their current footprint and where their strength is, is obviously in a very dense portion of the United States, and it's where a great deal of the U.S. population currently already resides. They had already started their expansion into the Mid-Atlantic and the Southeast. And we have a more national footprint on a predominantly one man in a truck model that we've built out. There's two men in a truck with install included, and some of the inventory management and fulfillment services that they provide, augments what we were already doing, but does so starting in the more-dense area of the United States, and then we'll expand from there.

This will be methodical and conservative and careful as we expand that to make sure we retain the service levels, the financial performance and the safety performance that they've been able to do, that they've been able to manage to this point. But both NEHDS and Werner, as we had these discussions over several months, are convinced that this is an exciting time for us to be expanding geographically with both Werner customers and NEHDS' existing customer base.

Jack Atkins

Okay, that's helpful. And then I guess last question, I'll turn it over. The \$71.4 million of LTM revenues ending in September, how does that compare to the existing Werner Final Mile related revenues? Can you kind of maybe help us frame that up?

John Steele

Yes, Jack. This is John. If you combine the two companies, we expect 2022 revenues to be over \$100 million as we move forward.

Operator

Our next question will come from Chris Wetherbee with Citigroup.

Christian Wetherbee

Good afternoon guys. Could I just ask just to make sure I understand the business model of NEHDS; is it company-owned assets, or is it contractor assets or a hybrid of the two?

Derek Leathers

Yes, it's a hybrid of the two. They operate both company trucks with employees as well as contractors. As we look forward, we will keep a hybrid model between both Werner's existing final mile and the NEHDS acquisition. We will obviously be able to bring more capital into play than maybe they would have been constrained by previously. And where appropriate and where density permits and where we believe it's the right solution, we'll grow with company assets. But in many cases, it will remain hybrid, even within a specific geography based on what that operating model and requirements look like.

Christian Wetherbee

Okay. That's helpful. And John, thanks for the help on the revenue of the combined entity. Can you give us a sense from a margin perspective how we should be thinking about this? Is this the kind of business that can operate at a double-digit EBIT margin or EBITDA margin?

John Steele

Yes, we're not going to go with percentage of EBITDA margin, but I will say that NEHDS is solidly profitable and has been growing at a pretty rapid rate with 27% growth in the last three years. So we see significant opportunity to integrate our two customer bases and continue to grow at a significant rate going forward based on NEHDS' capabilities and their talented team of drivers, contractors and non-driver associates. We will retain that group, and the management team will continue in place. So we're excited about the opportunities to grow together.

Christian Wetherbee

Okay. That's helpful. And last question. Just in terms of M&A going forward. Obviously, this has been a more active year for you. Derek, as you think about the opportunity set ahead of you, I'm guessing this does not preclude future transactions. But what would be the focus of those transactions?

Derek Leathers

Yes, it certainly does not preclude future transactions. I also don't want people to start to believe that Werner is suddenly becoming a serial acquirer and that you're going to see multiple acquisitions happening every year. What we're looking for is stuff that's additive and accretive very early on, if not immediately. We want to make sure it's portfolio-enhancing, that it's actually bringing some incremental value to the portfolio and the offerings that we give our customers.

We want to make sure that they've got management teams in place that we think fit our culture and that we think can add value beyond just the acquired company, but potentially help us expand our footprint or expand the geographies of the acquired company into a larger scale. If they meet those types of criteria, we're going to be open-minded. We still love the ECM acquisition we did earlier in the year, and that has continued to flourish.

And this one obviously took quite a bit....it looks quite a bit different from that in that it's in the Final

Mile space. It resides within our logistics business. And, but I guess the point there of the takeaway is, it's a more a philosophical approach to acquisitions than it is to try to be overly prescriptive. We're going to look at lots of them, and we have a pretty robust pipeline, but we will be very selective on what gets across the finish line. We think this one hit on all of the points we talked about. And the leadership team, in particular, is both young and motivated and has a desire to grow. And that was important to us in this Final Mile space.

Operator

Our next question will come from Ken Hoexter with Bank of America.

Kenneth Hoexter

Good afternoon Derek and John. Congrats on the deal. John, just to clarify, I think you said, what, \$100 million of the \$600 million Logistics is now Final Mile? Is that -- and then you add the \$71 million to that? I just want to make sure I got the numbers right there.

John Steele

Well, I mean, we were over \$150 million in revenues for logistics in third quarter, so that would imply a \$600 million-plus run rate. This will add an additional over \$100 million to that number, putting us over \$700 million going forward.

Derek Leathers

Ken, I want to be careful here. The combined number between Werner Final Mile and NEHDS would be over \$100 million, just as we enter in, essentially to 2022. And then obviously, we'll be looking to grow that footprint from there. So the incremental...

Kenneth Hoexter

So the final mile within the -- the final mile within the \$700 million is the \$100 million total? I'm sorry within the -- sorry.

Derek Leathers

Yes.

Kenneth Hoexter

Yes. All right. And then, Derek, just to clarify your answer before. The margin of the base in that Final Mile business versus what you're acquiring....I just want to understand what you're trying to say in terms of your platform or debate with Jack. Is there a, is it similar to what you're acquiring? Or are you looking at this different because of the expansion and growth capability in terms of the profitability of this versus your final mile base?

Derek Leathers

Yes. Our existing Final Mile business is profitable and growing. Because it's smaller than the NEHDS business in total, its growth rate was higher and its profitability was similar. We think the combined entities can experience growth as we expand the geographies of both, as well as maintaining margins that we went into it with.

There's also, in our view, a lot of synergies. I want to be careful about....I'm not talking as much financial savings synergies, but synergies between our strong Dedicated middle-mile footprint and what is being asked by our customers as it relates to extending that into the home. So, we think this is probably most importantly an additive positioning to our portfolio with our customers, with a strong and vocal desire to participate in this space on their behalf and the right fit to be able to do

so more aggressively and with a faster time line.

Kenneth Hoexter

Great, and then just my last one. Just to understand their mix, right, looking at their website, you mentioned Macy's, they've got GE Appliances, Bob's Discount, Bloomingdale's. Is there a general kind of mix in terms of retail, manufacturing? Is it any different than kind of your traditional mix? Does it bring you new business? Maybe just talk about the product a bit.

Derek Leathers

Yes, it certainly brings in some new customers into our mix. The makeup of their portfolio is similar to ours as it relates to heavy retail focus, a lot of consumer goods focus. So we do similar types of work with similar types of companies. They have a few of their larger customers that are new to Werner, and we think there's opportunity to cross-sell there into the rest of our portfolio as well as our existing customers, as I've mentioned a couple of times, have strong desires to participate in the kind of work that NEHDS does. So, really both ways; we think the cross-selling opportunities here are fairly robust, and the existing overlap is fairly minimal. And we view that as a positive.

Operator

Our next question will come from Brandon Oglenski with Barclays.

Brandon Oglenski

Good afternoon Derek and John and thanks for taking my question. So Derek, if I look at the slides here, it looks like Werner Final Mile has a lot more geographic scale than the business you're acquiring, but it looks like maybe they have a lot more throughput at their existing locations. So how can you think about your existing Werner Final Mile business going forward? And what can you learn from this acquisition?

Derek Leathers

Yes, so your observation is correct. I mean, and so we have done most of our final mile business to date with the one man and one truck model. We have a more widespread footprint and more geographic capabilities but limited in scope to what the services that we were offering within that footprint. This adds the rest of those services into the mix and does so in the most densely populated region in the United States. And so, what you can read into it is, we want to flush the rest of those services out and have the full comprehensive portfolio to offer to our customers. And then we want to utilize our network and our knowledge and customer base to expand it geographically on a more widespread basis than where NEHDS has operated traditionally.

Brandon Oglenski

Okay. I appreciate that. And I guess the last one for me, when you think higher level, where do you want to see the share of logistics revenue and earnings for Werner in the future? Is this like a specific drive to get a little bit diversified out of the core Truckload and Dedicated business?

Derek Leathers

Well, I think the way I'd answer it is this; our expectation for growth in Logistics is more aggressive from a revenue perspective while we continue to stabilize and enhance margins. And so, the end result is, as you look out three, five years, Logistics will be a larger percentage of the pie. We think it does offer diversity to returns within the business. It's a bit countercyclical in many respects to the traditional asset-based truckload portion.

And at the same time, as we do more work in Logistics, both in our Power-Only work that we're

doing today as well as in this Final Mile space, both of those dovetail very nicely with our existing asset-based footprint in Dedicated and One-Way. So we're excited about what that looks like for our customers. We know they'll be excited about this based on conversations we've been having over the last several months in anticipation of this day. And we're looking forward to hitting the ground running with further conversations that are happening as we speak right now.

Operator

Our next question will come from Bert Subin with Stifel.

Bert Subin

Good afternoon, thanks for taking my question. So one of your peers entered and then subsequently exited Final Mile back in 2019. How do you plan to manage this business within the context of just being sort of a Dedicated carrier....Dedicated first carrier? Like how do you not get distracted when you have sort of several businesses under one roof?

Derek Leathers

Yes. Great question, Bert. I mean a few things come to mind. I mean I'll start with this; we have strong internal leadership as we launched our own Final Mile. And one of the things we wanted to do was we wanted to build out and learn and really build repetitions and sort of in-house knowledge of the difficult nature of the business. We wanted to prove out profitability and scalability of the business on an organic basis. We've been doing that, and we've experienced extremely high growth rates over the last 12 months while expanding margins organically. That set the stage for us to then feel more comfortable that we knew what we were doing and buying, and we knew what we were looking for, I guess, more specifically. NEHDS met those criteria and came with a seasoned, experienced leadership team that we think creates a lot of value for us in this Final Mile space.

As it relates to the distraction, I mean, part of what I'm a big believer in is you got to put people in the right roles, give them the right tools and then trust them to do their job, but obviously while holding them accountable for results. That team will be focused in this space, the combined NEHDS-Werner Final Mile team. There will be no distraction. This will be their focus.

As it relates to the portfolio, however, our sales team, our commercial team will be actively engaged in cross-selling and looking for opportunities across a pretty-robust customer base between NEHDS and Werner's existing customers. And then you couple that with our exposure in Dedicated, which really is a middle-mile business. It has high service expectations, it operates in repeatable, Dedicated type of formats. A lot of the Final Mile business, if not all of the Final Mile business, that NEHDS does today looks extremely similar to that. They are essentially a Dedicated provider in that Final Mile space with a very robust set of services that they provide their customers with high degree of stickiness as it relates to the renewals on those contracts and then growth into new buildings and new opportunities with those customers.

So culturally, there was a strong fit there with the way they think about their business and not trying to be all things to all people or just a general Final Mile-type provider, but rather, a very integrated Final Mile provider with a select group of customers where they're offering a robust set of services that are more defensible than the ad hoc market might be in that space. As to our competitor and what they did and didn't do, I'll stay clear of all of the above. We just believe this, for us, fits and it's the right time and the right company for our portfolio.

Bert Subin

That's very helpful. Thanks Derek. Just as a follow-up, would you say the Final Mile opportunity is greater than the opportunity you have in Power-Only? Or is Power-Only, just the ability to grow there, sort of constrained by trailers and so it just falls into a different category?

Derek Leathers

Yes. I mean it's a different category, but we're very bullish on Power-Only. I mean make no mistake, we're excited about the future of Power-Only. We've set ourselves up from a trailer perspective. And what I mean by that is our trailer age is new enough that we can, as we acquire more trailers and grow our trailer fleet, we have no urgency around having to sell trailers on a one-to-one basis or anything close to that. We can expand our trailer fleet and support our Power-Only expectations. And at the same time, lean into this Final Mile footprint that we know is one of the fastest-growing portions of supply chain and a really underserved area as well. So, you put those two things together, and we think it's a solution set that works for our customers, works for us and works for our shareholders.

Operator

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

Derek Leathers

Yes. Thank you. First off, I want to thank everybody for joining us on such short notice. We appreciate the interest in Werner, as always. We are excited about this acquisition. Although the revenues may not be large in their current format, we think the future is very bright. NEHDS' model is more a Dedicated version of Final Mile than many others out there. We think it fits hand in glove with our focus on Dedicated long-term, stickier relationships.

Our customers have been clamoring for more of this type of service, and we think we can bring them one now that suits their needs and allows us to grow with them in their futures. It's underserved and a hyper-growing sector within the supply chain. We think this fits the need that's out there, and we're excited about that as well. We've been in conversations with several of our top customers and didn't go into this blindly. This is not hang a shingle and hope the customers will come. It's really listening to our customers and responding to their needs. And then lastly, like us, they lead with service and safety, and that's paramount to us.

And we think the cultural fit of the NEHDS' team, the leadership, the experience that they've developed is additive to Werner, not just within the confines of the NEHDS footprint, but across our Final Mile solutions and ultimately across our Logistics future as well. So we're excited about the future. We thank you for joining us and look forward to seeing you all, hopefully someday in person in the near future.

Operator

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