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Werner Enterprises (WERN), December 1, 2021 11:00 a.m. CST
Stephens Analyst: Jack Atkins
Werner Enterprises: Derek Leathers, Chairman, President and CEO. John Steele, EVP and CFO. Chris Neil, SVP Pricing and Strategic Planning.

Jack Atkins:

Once again, good morning, and thank you so much for joining us for our 11:00 fireside chat session here at the 2021 Stephens Investment Conference, coming to you live and in-person in Nashville. I'm Jack Atkins and I cover Airfreight and Surface Transportation here at Stephens. And it's a real honor to have the management team from Werner Enterprises here with us this morning to discuss their business and the industry, sort of what they're seeing out there.

For those of you that don't know, I'm sure most of you do, but if you don't, Werner is one of the largest Truckload carriers in the country, headquartered in Omaha, Nebraska. These guys are not just a Truckload carrier though, they're really an engineered Truckload company with a significant Logistics business as well. Just recently made an interesting acquisition of the Final Mile space. So, a lot going on here, which we'll discuss over the course of the next 45 minutes.

We're real pleased this morning to be joined by Derek Leathers, Werner's Chairman and CEO; Chris Neil, Senior Vice President of Pricing and Strategy; and then we've got John Steele, CFO. So, Derek, why don't I turn the floor over to you for some introductory comments and we'll go right into Q&A.

Derek J. Leathers:

All right. Sounds great. First of all, thanks for joining us. We appreciate you taking time to spend with us today. As far as opening remarks, I guess a little background on Werner. I mean, we view ourself more as a portfolio company than a truckload carrier. If you think about our business, we're predominantly Dedicated on the Truckload side so long-term contracts, stickier than normal, more level returns through the cycle, much more defensive portfolio than what traditional truckload would look like.

Inside of One-Way, which is a smaller portion of that fleet, that fleet is predominantly now either engineered, Mexico cross border or team expedited, so less and less of the you haul, we haul, kind of random nature fleet. That part has been more volatile, and we know that ride will continue someday to be volatile. And so, we've somewhat minimized that portion, which doesn't mean that we don't provide to our customers One-Way Truckload solutions; we just do so on a longer-term basis with more stability, more engineered nature, and more repetitive work for our drivers so, we can attract and retain better drivers, keep them longer-term.

And then on the Logistics side, I think one of the more underappreciated parts of our company is, we're on about a $600 million current run rate Logistics organization. That's prior to the acquisition of NEHDS, which we announced this past Monday. NEHDS will be rebranded as Werner Final Mile. That adds another $71 million of Final Mile business into our network. That's been growing at a 27% CAGR over the last three years. And so, our organic growth in Logistics over the last year was 50%, was north of 50%, x the sale of WGL. So, if you take out our WGL sale as we concentrate our efforts, as we go forward on North American Truckload Logistics. So, we thought that was the right move to remove WGL from our portfolio and add in its place, something like NEHDS, and be able to augment our opportunity for Final Mile over the threshold, two men white glove type service or two driver white glove type service. That puts that Logistics run rate going

into the next year, starting a year at $700 million plus. And we expect that to continue to be outsized growth in that portion of the portfolio.

So, as you look forward, Werner becomes even more defensive. Logistics offers counter cyclical play to what happens on One-Way Truckload. Dedicated is sort of the steady Eddie in the middle that, that performs well in both good and bad markets. And as we have grown that Dedicated fleet, we believe that we occupy today, especially in the retail space, so for retail customers, the preeminent position in Dedicated transport services in America.

Our customers seem to agree with that. We've won multiple carrier of the year awards throughout the pandemic. So, at a time when rates were going up and there was more friction at times within relationships, because we had a lot of inflationary costs, the one thing we wanted to double down on was our commitment to service. I believe over the long haul; customers will reward those that do what they say they're going to do. And so, service has got to become ingrained in a culture. It's got to be something that you never waiver from. And I think we've done that very well throughout the pandemic and we'll stay committed to that going forward.

Jack Atkins:

Okay, Great. Well, Derek, thank you for that introduction there. I guess maybe for my first question and I'll love to have a lot of audience participation as well. So, if you guys have questions, just tee them up when you're ready. Let's kind of think about the next five years. You've been CEO of Werner for over five years now at this point, you're now Chairman of the company as well. You talked about the portfolio of businesses as they stand today.

What does Werner look like in five years? Is it more Dedicated levered? Is it more engineered route levered? Is it – do you see the potential for other modes to be in the mix? How – what does the business look like five years kind of hypothetically can you help us think about that?

Derek J. Leathers:

Yes. I think a few things. One is, first of all, we're not going to stray completely from our roots at any point. We were founded by CL Werner. He is one of the legends in this industry and he's ingrained in all of us a culture that will last for a long, long time. And so that will always be that conservative credible company that's focused on service and safety that commits to its drivers at the highest most level; that's going to stay.

Slight differences though on my beliefs and my vision around growth. We have to be intentional about growing, both to create opportunities internally for our associates, to create careers for our drivers and to help and enhance our customer experience as they grow. I'm very committed and have been for the last five years and I will stay firmly committed going forward.

We will align this organization with winning models. So, customers that have winning models with winning management teams with leadership vision is who we will lean into, and those that we think are struggling in their space, we don't believe fits well with what we want to accomplish and what we're going to do. It may sound harsh, but honestly, in order to support winners, we've got to be intentional about that to grow with them, to be part of where they go.

We're going to continue to diversify and focus on this free cash flow through the cycle, kind of approach and expectation of excellence and everything we do. So, if we're in a space like WGL or Werner Global Logistics, where we were doing

international freight forwarding, where we didn't have an eye towards becoming a preeminent player, then we're going to exit. And we did. The spaces, the places that we play today, Intermodal, Brokerage, Power-Only, Dedicated, cross border Mexico, One-Way Truckload, where we do believe we can be a best-in-class performer, we will grow that portion of the portfolio.
So, as you look out five years, I think you see a more consistent growth rate from Werner across the portfolio, you see a focus on service and excellence, you see alignment with winners and winning models and you see free cash flow through the cycle with the most defensive portfolio in trucking. In my view, everything we've done has been toward, with an eye towards smoothing out the ride but making sure the ride continues to go up and to the right. So, both on the revenue line and the bottom line, we're going to be committed to that.

Jack Atkins:

Okay. All right. That's great. Well, maybe kind of shifting gears here for a moment to some more macro questions. We'll get back into some Werner specific questions here later on. We're now through Thanksgiving. Peak season is fully here upon us. Can you talk about what you're seeing in the market today? How is business and how's peak going?

Derek J. Leathers:

So, demand, I'll start with the obvious, demand is strong. It's remains strong. We don't anticipate any waning of that demand anytime soon. It feels different because we've been in peak really for the entirety of the pandemic, almost certainly by Q2 of this year, it was full blown peak in terms of how oversold we were on a daily basis. And so, the big concern coming into peak was, how do you ratchet up to absorb your customer's expectation around increased capacity during peak.

And this was certainly a more difficult year to set the stage for a successful peak season. We had no choice, but to do some yield work over the summer, and we yielded off, out of the network, if you will, certain freight lanes, certain customers, certain mix that didn't fit our long-term objectives. But it was also so that we could do what we said for our core customers that are winning. We had to be able to ramp up. We're doing that now.

Peak is shaping up very well. It started earlier this year than in prior years. And I think one concern we had was, would that mean that it would wane earlier if they were all just starting earlier? And at this point, we've seen anything but that, so it looks as robust right now as it did a year ago, even though peak actually started a good three weeks early in earnest, but really four or five weeks, you started seeing increased volumes across multiple core customers in our network.

And I think a lot of that has to do with the folks that we've decided to really align with are very good at what they do. Their visibility is better than less successful companies. Their same-store sales are way better than less successful companies and I think we've aligned with the right folks to position us well going forward.

Jack Atkins:

Okay, great. It's great to hear. So, I guess maybe my next question is how do you think about the sustainability of what we're seeing out there? It doesn't feel like there's going to be a solution on the capacity side any time soon. Customers' inventories are in a better place, and John, I know you keep track of this very closely, so we'd love your input on this, but still a lot of work to do to get inventories back in balance and inventories could be different on the other side of this pandemic than they were going in.

So, can you maybe kind of help us think about the sustainability of these current market trends? Everyone in my seat, and investors, are trying to understand when's the freight cycle going to hit that cliff moment? This has been anything but a normal freight cycle.

Derek J. Leathers:

Yes, that's certainly an understatement. It's been quite a bit different. Honestly, Jack, I'd hearken back to a year ago. At this conference a year ago, even though it was virtual, that almost exact same question was asked. At that time, I said that we felt very confident it would extend through 2021. We gave a lot of reasons as to why we thought that was the case, that the driver market was going to continue to become more difficult, that the equipment market was going to be disrupted by supply chain problems, that OEMs would find increased difficulty in production of trucks, not decreased difficulty. And, as a result of all of the above, that we thought 2020 would extend through 2021 solidly through all of 2021. If I replayed the exact same answer, almost word from word, from last year's conference, that's where I still stand.

As I look out into 2022, you've got structural constraints that we've not seen in prior cycles. You've got trailer orders that are, trailer back orders that are greater than the full 2022 production schedule would be able to fulfill. You've got tractor orders that are far in excess of what the OEMs are capable of making. You've got max capacity across OEMs on both the truck and trailer side that are below replacement level into, through 2022. And we've just come out of a year where we were able to purchase, as an industry, less than replacement level trucks and trailers.

So, the U.S. fleet has aged. The U.S. fleet has shrunk. And I think you see continued contraction and/or best-case, stabilization in 2022, but with an older fleet out there in the U.S. We were fortunate. We had the foresight early on, several years ago starting in 2016, very aggressively, potentially too aggressively for those that were along for that ride, to renovate our fleet. And so, as we went into the pandemic, we had an average truck age of 1.8. We had an average trailer age that was below four or at four at going into the pandemic.

And that positioned us well to withstand some of these disruptions better than most, but we're not immune. Our truck age has extended out a little bit. It's a little bit inflated because of the ECM acquisition and those trucks were older. But that just was really on the margin. But we would like to return our truck fleet to its natural age at the first possible moment, but there's no line of sight to when that moment is, and it's certainly not in 2023, I think, or 2022, I should say.

I think if you look out in 2022 at the OEM level, the best-case scenario is you may see some return to normalcy by third quarter 2022, and that's way too late to have any impact on the year in terms of additional capacity. So, I think we have a structural cap that's different than anything we've seen historically. And we will fight like hell to get more than our fair share of those trucks and trailers. But we will not get what we want on either side I'm sure.

Jack Atkins:

Okay. And that makes a lot of sense. And John, I just kind of, following up on the inventory side. I don't mean, really anyone that we speak to, does a better job looking at inventories than the work you do. So just be curious if you could maybe tell us what you're seeing in terms of your customers, restocking and sort of where that stands? I remember we had a meeting in Omaha last year during the, I was driving through during the depths of the pandemic and we all thought it would be a couple of quarters before inventories got back in balance. And here we are a year and a half later so.

John J. Steele:

And customers have made progress on inventory. I mean we're big in retail, so that's what we track the most closely and they've made progress, but they don't have what they want in the right shape, style, model, size, of inventory products. So, and there's a lot of inventory, probably more than we've ever seen, that's not yet in the store. Maybe it's on its way to the D.C., it may be in a ship that's waiting to get through the port. And they have ownership of that inventory once it leaves overseas. So, there's still a lot of inventory that's backed up in the system that isn't in the store ready to sell. And we think that the inventory problems are going to be with us for quite some time.

Jack Atkins:

Yes, yes.

Derek J. Leathers:

The only thing I would add to that is, I think we also, even for those that have made progress, and the best-in-class folks have; they're sitting in a better position irrefutably than they were a year ago. But we haven't had the holiday season yet. I mean we haven't seen, there's a lot of dry powder in savings accounts all over America. And my guess is, despite the inflationary pressures at the register, that, they're going to participate, I mean, Christmas is still coming. There's still going to be stuff under the tree. It may not be what you wanted, but it's going to be something, and people are going to buy a lot of it. And so, I think you really got to kind of figure out where you stand on inventory, is once we get through that holiday season. And my guess is we're quarters and quarters away from getting it back to normal levels, because of these same disruptions we, John and others have talked about.

Jack Atkins:

I've been telling people to buy their presents for Christmas early for the better part of this year and yet I have done none of that. So, I'm behind the ball on my Christmas shopping.

John J. Steele:

Well, you'll be getting gift cards and then you'll help first quarter.

Jack Atkins:

That's right, exactly, exactly. I want to be helping freight demand in the first half.

Derek J. Leathers:

All I know is at my house, my dog's getting chubbier by the day, because every time the Amazon guy shows up, he shows with a, or the UPS guy, with a bone, little biscuit. So, we got way too much stuff showing up at our place.

Jack Atkins:

I got you. I got you. Okay. Maybe a question on drivers. Are you seeing some improvement? Again, I know it's still a very difficult driver market out there, but are you seeing any improvement just at the margin in terms of your ability to recruit and retain? I know you guys have done quite a bit in terms of your own in-house driver schools to sort of help this problem along. But are you seeing things ease up a bit at the margin from a driver perspective, your ability to hire them?

Derek J. Leathers:

Yes. I mean, I think easing up a bit at the margin would, maybe, be the right way to think about it. But you got to kind of start with, where's the margin and where are you at? And it's the most difficult driver market I've ever seen. And has it stabilized at very difficult? That seems to be the case. So, it's staying very difficult, but it doesn't seem to be worsening. But it's incredibly hard. Now, we've made progress. We've grown organically this year, one of very, very few fleets in America that have. In addition to that, we added ECM, which brought us another 500 trucks into the fleet. But that's done with self-help and we went from 13 driver academies around the country to 17 by the end of the last quarter. And we'll be at 22 by the end of the first quarter.

So, we're out investing and spending lots of money to be able to bring these drivers on. In Q3, we had a lot of transitory type costs, because we made a decision that we had to ramp up and prepare for our customers. If you're going to sell folks stuff and it's going to be more expensive, and rates are up where they are, it's my belief that you better do, you better deliver on time and you better meet those expectations. And so, we've been heavily focused on doing that. And we spent a lot of money in the third quarter, and at the exact time we finally made some progress on the driver front, we inherited our fair share, not greater than that probably, but our fair share of equipment pain. And so, we saw driver dwells in hotels go up, very short term, that has been corrected, and it was very expensive. Because once you hire one of these folks, the last thing you do is let them out of your company. And so if you want to eat, we're going to be paying for three square meals and a hotel and about anything else you might want just to make sure you stay happy until we can get that truck. And so, we had some transitory costs in third quarter that have now regulated, and we feel better about it.

The other issue on the driver front was we had a large Dedicated account that started the first day of the fourth quarter. And so, all of the ramp up, all of the cost of acquisition, advertising, training and development was in Q3 and $0 of the revenue. And so that is obviously going to be a help as we look forward.

Jack Atkins:

Makes sense. And again, if there are questions from the audience, please don't hesitate to jump right in. Derek, in your introductory comments you talked about, and this has been your strategy for quite some time, aligning Werner with winners on the customer side and the shipper side. It's been an awfully challenging 18 to 24 months for shippers. Do you feel like there is an increased desire on the part of the shippers to align themselves with winners like Werner so that they can, in some ways, insulate their supply chain from some of these shocks that they, whatever the next supply chain shock might be, whenever it might come? Do you feel like there's some changes in customer attitudes in terms of how they procure capacity that would benefit a high-quality carrier like Werner?

Derek J. Leathers:

Yes, I certainly do. I mean, one of the reasons that we're so committed to aligning with winners is, if you were to do like word searches across earnings releases of the best retailers in America, one of the consistent themes that you see is they view the supply chain as a competitive advantage. They view it as part of what makes it possible to win. By contrast, you

look at struggling retailers or people that are having difficulties really finding their way in this e-commerce world or otherwise, and they continuously talk about supply chain as a cost center.

And so, we want to look for those things and monitor and watch out for those that view their supply chain as a competitive advantage. Because if they think that they have high service expectations, they have high visibility expectations, they have high expectations for capacity growth that grows with them.

And so those are the folks we want to hitch the wagons too, so to speak. Because we think that wins for them, but it also wins for us. And so, then we got to go deliver. And that's why, and again, I'll go back to Q2. It was a record quarter, by the way and our third quarter, it was a record third quarter in our company's history, and yet clearly, missed our expectations. But what was important was you don't run the business based on a quarter, you run the business based on decades of relationships and people that are going to be around and have long memories.

And so we spent what we needed to spend in the quarter to do what we said we were going to do. And most importantly, to set ourself up for an even stronger forward looking, forward facing relationship with those customers. And I think it's paying dividends. So, we're excited about the folks that we're with. We want to stay and grow with them and we want to support them with their plans to win.

Jack Atkins:

Absolutely. Okay. That that makes sense. Kind of thinking about 2022 for a moment, there's obviously quite a bit of rate momentum in the marketplace. There's – there are also a lot of inflationary cost pressures of the marketplace. It feels like every carrier we talk to is expecting a fairly robust year next year from a rate perspective. Our question is, is that going to be enough to hold serve or perhaps maybe even expand margins a bit, given the inflationary cost pressures in your business? I know that's kind of a question for, it could be for either – for all three of you, so I'll let whoever wants to take and take it, but I would be curious to kind get your take on if a margin expansion in your trucking – in trucking business is that a realistic possibility in 2022? And can you just kind talk about some of the puts and takes between price and inflation.

John J. Steele:

Might start with inflation is real. We're seeing it and driver pay, it's up double digits industry wide and that includes Werner. Maintenance costs are higher, OEM costs are higher through depreciation, insurance and claims has been an issue for a couple years now as there's less insurance providers in the market covering, coverage for those catastrophic claims. So, we are managing that as effectively as we can. I think there's opportunity for margin improvement next year based on the service level we're providing and the value that we're providing to our customer base. It's an environment with higher costs and higher rates. It's not a layup by any stretch, but we think there's opportunity to improve next year if we execute and perform the way we think we're capable of.

Jack Atkins:

Does productivity, asset productivity play into that? I mean, I know there's some puts and takes with a lot of different parts of the business going into next year as there would be in any year, but productivity has been a big challenge, right. And you probably didn't make as much money as you could have made this year, because your customers weren't turning your assets as quickly as possible, or you had a higher unseated tractor count. To what degree does productivity play a role in margin expansion?

Derek J. Leathers:

Yes, I'll take that one. So, productivity has been a challenge, and I think some of those challenges are going to remain and be more durable. Congestion continues to get worse. As much as we like the infrastructure bill and it's passing, that's going make it worse before it gets better, because you're going to see increased construction on the roads and so that's going to eat away at productivity. Length of haul is going to continue to shrink. People are going to continue to do more forward-deployed DCs as e-commerce grows. And with length of haul shrinkage, you have ongoing productivity obstacles and headwinds. So that's real and structural kind of change. As it relates to some things that customers can do the most self-help on that, I think at any point in our history, it's on asset turns.

I mean, we've seen a noticeable significant decline in asset turns at customer locations network wide. We measure it, we inform on it, we explain it. And that's a place where we would like to believe, as they get their labor forces more in line, as they hire more people and staff up, and as they use technology to become more efficient, we'll get back to pre-pandemic levels of asset terms, which frankly, aren't all that efficient. But it's much better than where we sit today.

And so, I think customers, back to this winning model and this alignment with winners is, those customers that take that seriously and really lean into it are going to find carriers like Werner further leaning into them. And they do benefit from that because we look at pricing on a net basis. So, it's not a rate per mile thing for us, it's rate per mile minus, X claims, X equipment turns, X detention, X transit and X rigidity on windows. And when you take all of those things into account, that rate that looks really attractive to start can come out the other end, looking really terrible. By contrast a rate that looks fairly lean to start, if it's a very efficient operator, can look very attractive on a net basis. And so, we spend a lot of time focusing on that.

Jack Atkins:

Okay. Maybe kind of shifting gears a bit, one of the big themes I think coming out of this pandemic will be nearshoring. I don't think I'm alone in that thought. I can't think of really another company that's better positioned to benefit from manufacturing coming back to North America from other places, because of your presence at the border. Can you maybe talk about that? I don't think that's fully appreciated with the Werner story and as we look forward that could be a huge competitive advantage for you.

Derek J. Leathers:

Yes, we certainly believe so. I mean, we believe, based on trailer crossings per day, or total trailer crossings per year that we're the largest cross border participant in the truckload space. In addition to that, we have a very large-scale cross-border transload operation and we're continuing to add to that, and we've actually built out a new transload facility within our terminal at Laredo over the last couple of years.

We've added land and terminal space at locations across the border. We've been doing business in Mexico from the entirety of my 23 years at Werner, because that's what I came to Werner to start. I lived and worked in Mexico City for many years and ran a Mexican carrier for multiple years. So, our ability to go down to Mexico and to engage with customers in Mexico, in their native language and work on their needs and understand and meet them where they're at culturally and otherwise I think, is greater than many of our competitors.

So, we like nearshoring, I'd like to see more of it. It does take time to play out. It doesn't happen overnight. But, as we talk to multiple customers that we do business with, there's nobody that's not looking to try to bring more, either back into the U.S. or Mexico, and in either case, that that plays well into what our network looks like. So, we're excited about it as we go forward.

The other thing I'll tell you is that Mexico, in particular, was more damaged by the pandemic, cross border Mexico business, than the overall was, because we just had so many different fits and starts between our governments about what was essential business and on one side of the border, not matching up to what it was on the other side. And so that's actually been a headwind through the pandemic for us, how big our Mexico franchise is. Because it not only hasn't been able to grow as much, it's actually shrank some. We see that freight coming back now and we're really excited about that as that continues to ramp, because we're well positioned.

Jack Atkins:

Okay, great. So, when I think about cross border, and then when I think about Dedicated, those are two of the fastest growing markets within the transportation sector, potentially as we look forward. And you guys are levered to both of them in a big way. When folks think about Werner, they don't necessarily think about growth in a growth company. They should, but they don't. And so, could you just talk about that growth message? I mean, because it feels like to me, as we look forward, you guys should be in a position to grow and add assets and we don't really see that a lot in the trans, in the trucking sector in particular.

Derek J. Leathers:

Yes. I mean, I'm committed to it. So, I just am a firm believer that you have to grow your organization year in and year out and you have to have some commitment to doing so, if you're going to create the kind of opportunities that attract the type of people that I want to work here. And it starts with that, because if you don't have the right people, then your product and everything else suffers and the rest is kind of, the rest of your story is written for you versus you being able to be the author.

So, we're going to grow because we think it gives people, those kind of looks. It amazes me every day, one of the reasons we're being so vocal about growing internally inside our walls and externally to investors is, as you go out in a tight labor market and you're looking to attract the best and brightest coming out of America's colleges, they're often attracted to these startups, and the potential to be part of $1 billion startup in the next 10 years. And yet seldom do they really give consideration to the fact that 95 out of 100 of those won't even exist in 10 years and aren't going to make it. And so maybe you're lucky and maybe you find your way into the 5% that actually make it and get to $1 billion. Well, guess what, we're going to add a $1 billion in that same timeframe. So why are we, if not a lot more, and so why are we not pushing the envelope and being vocal about the fact that that's our expectation?

The difference here is there's a 99% chance that we're not only going to do that, but we're going to do it in a, with a robust balance sheet that your check is going to cash every other Friday and you can be a part of creating something special. So, we, I do want people to look at us and expect us to grow, and we're going to live up to that expectation, because it starts for me with, as much as I say, we're doing it for the customers and we do, or the investors, because they may want it; we're doing it to get the best people in the building to help guide this company well beyond me someday. And you've got to do that with a growth story. Now, make no mistake, that does not deviate from a bottom-line focus. So, when in doubt we will be bottom line first, top line second, but top line is going to be in every conversation as we go forward.

Jack Atkins:

Well, I guess that gets to my kind of bigger picture question that I wanted to ask you here is, Werner was one of the, it may have been only one of two trucking companies, and I know you don't think of yourself as a trucking company, but a truckload levered company, right in the truckload group, so to speak, that did not have down earnings in 2019. You've got a very defensive minded business that's levered upside in some growth markets, you have a growth, a mindset as you look forward.

And yet your stock doesn't benefit from any of that from a multiple perspective. So, you hear the questions that I ask, that other analysts ask, investors ask you, what don't people get about Werner, and maybe it's the growth element, but I would love for you to maybe expand on that for a moment. What don't people get about Werner, you think in terms of what they're viewing from the outside versus what you see developing on the inside?

Derek J. Leathers:

Yes, I think what they don't get, and it's our job, so, first off, it's not on them, it's incumbent upon us to continue to message and to be consistent and then most importantly, deliver on what we message. But what they don't get is, that we were one of one, in my recollection in 2019, that increased EPS coming out of 2018 into the 2019 freight recession. But that was one performance point. And so, I get it, people want to be shown more than once, they want to see it happen a couple of times. Well, none of us want to, wish for a recession for our ability to prove that to you.

But what I can tell you is we're committed to doing it and we're committed to making sure that as we build out our portfolio and when you look at how defensive it is, I mean, 60% plus of all the trucks are in Dedicated. These are multi-year agreements that have that 97%, 98% renewal rates, that have been in place in many cases for 10, 20 years plus, that have grown in truck count from the original 30 trucks to, in some cases, 600, 700 trucks with a single customer, because we are as embedded in their business and know, frankly as much about their supply chain as they do, because that's how entrenched we are.

And yet we don't take that for granted. So, we live up to and deliver on the service and try to further separate ourself from the competition. But as you look at Werner and you think about it, what they want to do is cast a wide net and say trucking is trucking, and it's simply not. We're not in the, if you take out Dedicated and then you take out the engineered portion of our One-Way business that is a 100% engineered, repeatable business that drivers go home every single night, what you're left with is a really small fleet that's in One-Way Truckload. If you look at our spot exposure against total miles, even in this time where that is a robust place to be, you're talking about less than 5% of our miles are in the spot market.

And so, yes, we could make more money by increasing what was in the spot market, but it would come with the detriment of our customer whose part of what got us to this margin expectation, the margin point we're at. And they're part of what enables us to raise our margin expectation as we look forward, but do it fairly. And it's not all through price. It's through being more efficient, utilizing these assets better, not just charging more, but finding ways creatively with them to build a better mousetrap. And you can only do that if you're working with winners that have a long term view.

If you're looking at people that think of their supply chain as a place to cut cost, then they're going to do that and it's going to come ultimately at their own detriment, but we won't be around for that to happen, because we're going to find folks that have winning models with a winning leadership team.

Jack Atkins:

Okay. Now that makes sense. And I think, again where people probably miss it, if they don't understand the growth, the growth element.

Derek J. Leathers:

And I do think, that is part of it. And to be fair, we haven't been as vocal about it. So, the time has come where we're coming out of the closet, so to speak. And I want people to be abundantly clear on the fact that we are going to grow and we're going to have a commitment to it. And for all the reasons I've already said, so I won't repeat them, but there is no excuse for just sitting by stagnantly and trying to just increase margins and not grow because that's a one sided relationship at that point. A mutually beneficial one is where it may cost you more, but I'm going to A, do what I said and B, grow with you. And if I can do those two things, I think you build longer-term relationships with folks that know that you mean what you say.

Jack Atkins:

And that's why your driver school investments, it's not just around this one part of the cycle and needing to get drivers, this is for long-term sustainable driver recruiting, to be able to sustainably grow your fleet through cycle.

Derek J. Leathers:

Absolutely, and it's about producing a better driver. Like when we run driving schools, and I say we collectively, meaning there are some of our competitors that do it as well, there's a fundamental different motivation. We're running driving schools to produce quality drivers. We're not running driving schools to produce CDL holders. And there's a fundamental difference in those two. So, I'm not doing it to make profits in driving schools. I don't care if we're profitable or, we pay very close attention to the P&L, or to the cost, but we're trying to produce long-term drivers. And we know it works because they are safer, their maintenance costs are lower, their productivity is better, and their retention is higher.

So, we're going to continue to do that, because we think if you have an eye toward producing somebody that will be successful in the industry, it does even more than just fill a truck. It starts to change the image of the high turnover, transient workforce of trucking, and builds careers instead. If you look at our Dedicated division, 50% of the jobs in our Dedicated division start at $75,000 or greater in year one. That's real money for folks that are 21 years old coming into an industry with no debt and able to make that kind of money. I mean, let's be frank, that's more than college graduates can start at, in most cases, when they come out of school. And by the way, it's because they're more valuable and they have a more unique skill than many of these folks coming out of the school. So, we have to be selective.

Jack Atkins:

Definitely more than a history major coming out of college. I can tell you that much. No doubt about that. Okay. Let's shift gears a bit and talk about Logistics because that's an area where we're seeing your growth really accelerate. I'm talking

here about the Logistics ex- Final Mile, which I want to talk, touch on here in a moment, but your Logistics business on an organic basis is really starting to accelerate here. I know that's been an area of significant investment. Can you talk about the vision there? And how does drop and hook and perhaps leveraging your trailer pool in your Logistics business does, can that play a role for Werner like it has for some of your competitors?

Derek J. Leathers:

Well, the short answer to the last part is yes, and it is playing the major role in our growth. If you look under the covers of the growth we're seeing in Logistics, the Power-Only portion of that growth and the ability to leverage our trailer pool and give our customer a seamless experience. Because Brokerage where it's got to be live load and live unload is very difficult on the customer, but if they can just lean into a trailer pool that's already there and tell us that the expectation is, whatever it is, but the truck that pulls it can vary. It provides better flexibility for us and ultimately better costing for them over time, because it's more efficient use of the assets.

So, we're going to continue to grow Logistics with the organic growth that you're seeing today is reflective of our ability, first thing we had to do is fix it. So, we had some issues in Logistics in full transparency, and we weren't best-in-class at our execution. We weren't best-in-class at our margins. And so, before we grew it, we wanted to fix it and prove it out and know that the productivity gains from the tech investments we were making were coming through as expected.

Once we saw that, then you put your foot on the gas and right now we're in that phase. And so, we're going to be looking to grow it. We're going to continue to see more productivity gains out of the systems that we're putting in place with Mastery. We're excited about where that rollout is at right now. It's got a long way to go before it's fully implemented but there's upside there. And we believe that the customer experience of large trailer pools that gives them more seamless operations to load and unload without regard necessarily to the power that may pull it and just trusting in us to own the service levels has huge upside. And we've seen a lot of it already, but I think we're in the early innings. The problem is getting trailers.

Jack Atkins:

Right, it's going to be a couple years before you get more trailers. So, let's kind of, let me ask you a Final Mile question here, because of the acquisition you made earlier this week. How does Final Mile play into the portfolio strategy at Werner? Can you maybe talk about that for a moment?

Derek J. Leathers:

Yes. So, we know, well first off, to reiterate, we're a retail centric carrier or transportation provider. Retailers increasingly need to solve the big and bulky problem and it is a problem for them. It's also a problem for many of their underlying providers, LTL companies, and otherwise that are struggling to solve for this big and bulky issue. And so, we believe that we needed to go out and build out first, the Final Mile network organically, which we did. Second, turn that to profitability which we did, to know that we had enough expertise to know what we were looking at when it came time to acquire. And as soon as those things happened, we went out and started looking. And when we found NEHDS, it fit a lot of the things that we were lacking in that portion of the portfolio.

I mean, they do two men, white glove, into the home, including appliance and install. They're very good at what they do and what they lack is capital to grow and the ability to have access, in many cases, to the shippers that most need and demand

the service. By becoming Werner Final Mile and becoming part of our culture and our family, we can provide those connective, those connecting points to those shippers. We can expand and put capital into it and grow it as it needs to grow and give a solution that dovetails perfectly within our Dedicated environment.

What we want to do in that space is what they do already, which is, it's a more Dedicated model. So, it's actually an extension of our Dedicated strategy. It's not you call, we haul, Final Mile. It's 100% single-source ownership of buildings on behalf of a retailer and accountability down to the inventory level. And so, we just think it's a perfect fit for our future as we expand into a space, but it doesn't deviate from our core business, which is Dedicated solutions with winning customers in the retail space.

Jack Atkins:

Do you see the need to make additional acquisitions there to build that out nationally? I know you already have a footprint with Werner Final Mile, but it's relatively small in terms of revenue, not in geography. Or do you think that now that you have NEHDS, you can really leverage that across the country that service expertise?

Derek J. Leathers:

Well, the NEHDS leadership team is very strong, and they are staying on board and excited to do so. They have been expanding already before the acquisition and had future expansion with customers associated to it already on the books that we will lean into. We think we can do a lot of it now organically through the acquisition, but organically now going forward, but we will absolutely be open minded to best-in-class performers in other regions where, if we think that's a quicker path to final implementation.

Jack Atkins:

All right. Well, I've been dominating some questions if there are any from the audience, I want to make sure that we can get those in here. We have time for maybe a couple more.

[Question Inaudible]

Derek J. Leathers:

Yes. So first off, I agree with you. I think that, in all of that list of things you said, there's only one that I would give any credence to or desire to look at more closely, and that's the 18-year-old driver, because the, all of the first four or five you mentioned, so increase hours of service. We already ask these men and women to work way too many hours. And we ask way too much of them by comparison to almost any other line of work. We should not, they should not bear on their backs our inefficiencies. And the reason that we can't get more out of the supply chain today isn't because we need more hours for them to drive, it's, we need to make them sit less hours at shippers and consignees around America. We need to address that issue in free uptime they already have available to them to do productive work versus unproductive work.

So, I am not in favor of extending hours of service nor am I in favor of increasing vehicle weights at a time when our nation's infrastructure's already crumbling. And it's a decade, at least, before you see any meaningful change through the recent Infrastructure Act. It'll take a long time to repair a crumbling infrastructure and it's the wrong time to throw 8,000 pounds or 10,000 more pounds on it. Now, the exception to that would be, I think we need to make some exceptions for electrification.

If the electric battery set is going to be 5,000 pounds heavier, we're going to have to make some trade-offs, because I can't tell shippers that, while trying to go green, they can load less cargo, put more trucks on the road net and not end up making an environmental impact. So, there'll be some exceptions around the edges.

18 to 21 where, I mean I am very strongly in favor, but what's not understood by the motoring public, or people in general, is that that is one of, the proposal that's currently written would be, I think, one of the largest advancements for safety that we've seen in a long time, because these are true apprenticeships. This is not, you're 18 years old and here's the keys to a truck and good luck. These are multiple, multiple months of mentoring and guidance and ride-alongs with other people, with curfews, with safety, with all of the required safety technology.

But what it really does is allows the industry to go into high schools and get and recruit from the front of the class. Out of those individuals that don't want to pursue a college degree, we should be able to recruit, side-by-side, with plumbers and electricians and other trades. And we're prohibited from doing so today. So, what do you get at age 21? If you wait to 21, because you think there's something magical about the numbers, you get the people that were unsuccessful as an electrician, a plumber, a roofer, or whatever trade or welder, versus going to the front of the class and getting the best and brightest and putting them in a multi month apprenticeship.

So, we think that one makes sense. All of the other ones, I think you, I struggle with personally, and I really dislike the idea that we're going to solve the supply chain issues, for instance, at the port today, on the back of the American truck driver, by saying we're going to extend your hours and make you drive more just because we're making you wait longer than ever before. That is not fair, not appropriate, not something I support. I want to see it unclogged, but not that way. There's got to be a better way to do it.

Jack Atkins:

All right. Well, I think we may have time for one more quick question from the audience. If not, we'll let these guys move on with their day. Okay. We'll leave it there. Derek, John, Chris, thanks so much. Really appreciate the time.

Derek J. Leathers:

Thank you all.