

Werner Enterprises

Q2 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Operator

Good afternoon, and welcome to the Werner Enterprises Second Quarter 2022 Earnings Conference Call. (Operator Instructions) Please note 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

Earlier this afternoon, we issued our earnings release with our second quarter results. The release, along with the slide presentation, are available in the Investors section of 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 our earnings 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.

Additionally, the company reports results using non-GAAP measures, which we believe provides additional information for investors to help facilitate the comparison of past and present performance. A reconciliation to the most directly comparable GAAP measures is included in the tables attached to the earnings release and in the appendix of the slide presentation.

Now, I will turn the conference over to Derek Leathers, our Chairman, President and CEO.

Derek Leathers

Thank you, John, and good afternoon. During the second quarter, I am pleased to report that for the eighth consecutive quarter, we achieved record quarterly adjusted EPS. We had strong performance from both Dedicated and Logistics and effectively steered our way through a moderating freight market in One-Way Truckload.

These record earnings were achieved despite unusually high insurance and claims expense in the quarter that increased over \$20 million year-over-year, or 24 cents per share. The majority of the increase related to recent unexpected and unfortunate legal developments for two prior year accidents that have been settled. Over the prior eight quarters, our insurance and claims expense averaged \$25 million per quarter. This quarter came in at \$41 million, or \$16 million more than the prior eight-quarter average.

Our truck safety record continues to improve, and year-to-date DOT reportable accidents per million miles were the lowest of the last five years, except the first year of COVID when there were significantly fewer motor vehicles on the road. I would like to take this opportunity to sincerely thank the entire Werner team for continuing to deliver on our promises with superior safety and service to our customers.

Now let's move to slide four. During the second quarter, we added 175 trucks in our Truckload Transportation Services segment, ending the quarter with 8,400. Consistent with our plans, most of these additions were in Dedicated. Our fleet mix at quarter-end remains 63% Dedicated and 37% One-way Truckload.

Overall, our consumer-oriented freight base is performing well. Nearly three-quarters of our freight revenues are in retail and food and beverage, and we have a heavier weighting with customers who ship recurring and repeatable consumer staple products. We expect freight volumes related to shipments of consumer staples to remain strong.

Three of our top five customers are discount retailers who thrive in economic markets when consumers place a high priority on value. Our two other top five customers are industry-leading home improvement and beverage companies.

Let's move to slide five for a summary of our financial performance. For the second quarter, revenues increased 29% to \$836 million. Adjusted operating income declined 2% to \$77.6 million and adjusted EPS increased 1% to 87 cents per share. If you normalize our second quarter insurance and claims expense of \$41 million to our last eight-quarter average of \$25 million, adjusted EPS in the second quarter was negatively impacted by 19 cents a share.

Dedicated, our largest business unit, ended the quarter with 5,320 trucks and achieved 6% truck growth year-over-year. Dedicated continues to experience strong demand from the majority of its long-term customers. New Dedicated business opportunities continue to remain strong as shippers search for capacity solutions, high service and better visibility to transportation costs in a volatile freight environment. The driver market has shown some signs of easing but remains very competitive in a tight labor market.

At quarter end, One-Way Truckload had 3,080 trucks, including the addition of 475 trucks year-over-year, which is primarily due to the July 2021 ECM acquisition. Within One-Way, we specialize in Mexico cross-border, short-haul regional, team expedited and engineered fleets. From April to June, One-Way freight volumes moderated from strong to seasonally normal.

Werner Logistics continued to expand its three business units of Truckload Logistics, Intermodal and Final Mile, with another strong quarter of revenue, margin and operating income growth.

Continuing an ongoing trend, it remains difficult to receive the new trucks and trailers that we want to be able to refresh our fleet. We have frequent discussions with our OEMs to coordinate our new truck deliveries based on the very difficult challenges they are dealing with for semiconductor chips, component parts, labor and other issues. The extremely strong pricing in the used truck market began to ease towards the end of the quarter. Our equipment gains in the second quarter were \$7.2 million higher year-over-year, and flat compared to first quarter.

Now, I'd like to turn the call over to John to discuss our financial results in more detail. John?

John Steele

Thank you, Derek. Beginning on slide seven, second quarter revenues increased \$186 million. We increased revenues due to 8% growth in TTS trucks and Dedicated fleet expansion, freight rate increases, higher fuel surcharges and Logistics revenue growth.

Revenue per truck per week increased 5.4%. Adjusted operating income declined \$1.5 million. By segment, a \$9.1 million increase in Logistics was offset by an \$8.2 million decrease in TTS, which included \$15.6 million of higher-than-normal insurance in the TTS segment.

Here on slide eight are the results for TTS. TTS revenues increased 25% due to 8% more trucks, 14% higher rates and \$61 million of increased fuel surcharges, partially offset by 7% lower miles per truck. The miles per truck change was due to a 6% lower length of haul due to ECM and growth in Dedicated and fewer team drivers.

The TTS adjusted operating ratio net of fuel was 86.6%, and would have been 310 basis points lower, excluding the \$15.6 million TTS segment impact of unusually high insurance and claims in the second quarter 2022 compared to our last eight-quarter average.

Now let's move ahead to TTS fleet metrics for Dedicated and One-Way Truckload on slide nine. Dedicated revenues, net of fuel, increased 14%. Average trucks increased 5%. Revenue per truck per week increased 9.1%.

One-Way Truckload revenues, net of fuel, increased 13%. Average trucks increased 14%, entirely due to the ECM acquisition, which we lapped in third quarter. Revenue per truck per week declined nearly 1%, due to a 13.7% increase in rate per mile, offset by a similar decline in miles per truck.

As the One-Way freight market moderated in the second quarter compared to first quarter, we improved our miles per truck by 1% sequentially from first quarter, with better network fluidity. Driver pay per company mile in the second quarter increased 15% year-over-year.

Fuel prices increased during the quarter as the price per gallon rose 18 cents from March to April, 37 cents from April to May, and 33 cents from May to June. For the second quarter, the average fuel price per gallon was \$2.21 higher year-over-year. Our fuel surcharge programs mitigate the higher cost of fuel for loaded miles, but fuel impacts our P&L for empty miles, out of route miles and truck idle time, and idle time is higher in the summer months. Fuel lowered our second quarter earnings by an estimated 9 cents a share compared to second quarter a year ago.

The average age of our trucks and trailers increased year-over-year by three-tenths and six-tenths, respectively, due primarily to the delays in receiving new trucks and trailers. Operating an older fleet than we would like, in an inflationary market has a direct impact on supplies and maintenance costs, which were up 27% year-over-year.

Moving to Werner Logistics on slide ten. In the second quarter, total Logistics revenues in the quarter grew 44% to \$204 million. Truckload Logistics revenues increased 36%, driven by a 17% increase in revenues per shipment and a 16% increase in shipments. Our Power-Only solution continued to gain traction and achieved 68% year-over-year revenue growth, with customers who value the ease of working with our large national trailer pool.

Intermodal revenues grew 18%, supported by a 35% increase in revenues per shipment, offset by a 13% decrease in shipments.

Werner Final Mile revenues increased \$21 million, due to the November Final Mile acquisition of NEHDS and continued growth from our national Final Mile agent network.

Werner Logistics produced adjusted operating income improvement of \$9.1 million, or plus 231%, to \$13.0 million for the quarter, due to strong revenue growth and 360 basis points of adjusted operating margin expansion.

Let's move to slide 11 to discuss our defensive positioning. Over the past few years, we intentionally designed our revenue portfolio to consist primarily of consumer-oriented customers who have very high service requirements, with an emphasis on nondurable goods and essential consumable products that are purchased in good, as well as bad economic conditions. The chart at the left displays our top 50 customer revenue mix or just shy of 80% of our total revenues. Nearly three in four revenue dollars come from successful customers that are winning in the retail and food and beverage verticals. Three of our top five customers are in the discount retail or dollar store verticals.

We took a look back at the retail performance of our customers by reviewing comparable same-store sales trends before and after the 2008-'09 recession, the last period of severe stress for consumers over the past 20 years. We understand the factors impacting the economy today are very different, and we're not predicting a repeat of the Great Recession. However, we believe this information is useful to validate customer freight trends during periods of weaker economic conditions.

We reviewed this retailer data and combined it with the mostly recession-proof consumer staple spending characteristics with many of our food and beverage customers. We determined that during the period immediately preceding and following the 2008-'09 recession, 60% of our customers performed well, 20% performed in line with the market and 20% performed below the market.

The charts on the right show that Dedicated has grown to 59% of TTS revenues, up from 46% in 2015. In Dedicated, we provide trucks, trailers and drivers for a specific customer, typically for a retail distribution center or a beverage facility.

Dedicated customers typically have extremely high service and safety requirements, and our Dedicated contracts are typically three to five years. 58% of our Dedicated revenues come from discount retailers or food and beverage companies. Historically, these customers performed better than the competition in slow growth or recessionary economies, when their customers have less discretionary income to spend, and as consumers trade down for value to get the most for their money.

Dedicated business is more stable and predictable. Because of the high service requirements and relatively consistent freight volumes, our Dedicated revenue per truck has less variability, and this metric has increased seven of the last eight years. Regardless of where the freight market goes from here, the size, strength and customer base of our Dedicated fleet is durable and resilient and places us in a strong competitive position.

On slide 12 is a summary of our cash flow from operations, net capital expenditures and free cash flow over the past five years. Expanded operating margins and less variable net CapEx resulted in higher free cash flow over the past five years compared to the previous five years. Year-to-date, net CapEx is \$153 million.

On Slide 13 is our capital allocation update. Our first priority for capital continues to be reinvesting in our fleet, which has become more challenging to achieve in the current build environment. Based on our expected OEM build schedules and current data, we are optimistic that we will see some improvement in new truck and trailer deliveries in the second half.

During second quarter, we increased our share buybacks and purchased \$66 million of our stock, or 2.5% of diluted shares. We remain committed to maintaining a strong and flexible financial position and ended the quarter with a net debt-to-EBITDA ratio of 0.6x. We remain open to considering bolt-on acquisitions in North America truckload and logistics that are both additive to our business and accretive to our earnings.

That concludes my remarks, and now I will turn it back over to Derek.

Derek Leathers

Thank you, John. Moving to slide 15. For several years, I've shared with you details of our 5 Ts + S strategy to produce superior service for our customers. To significantly upgrade our trucks, trailers, terminals, talent and technology, we've invested nearly \$2 billion in CapEx, and we raised the bar to attract and retain a more talented and highly performing Werner team.

Over the past several months, our superior service has been validated by our customers. Four of our top five and seven of our top 15 customers named Werner for their carrier of the year awards. We are humbled by this recognition, but we are not resting on our laurels.

Our future is in focus. Today, we are formally introducing Werner Drive to the investment community, which is the next evolution of the Werner business strategy.

D is for Durable. It represents our strong financial position, our balanced revenue portfolio, our proactive asset management and our commitment to longer-term strategy centered on high-quality customers who sell resilient products that consumers need.

R is for Results. We are committed to a relentless focus on exceptional service that drives long-term value for all stakeholders. We place a premium on sustainable pricing, operational execution and shareholder returns. Werner is, and will remain, well positioned to grow earnings and free cash flow while exceeding customer expectations.

We leverage our portfolio of One-Way, Dedicated and Logistics solutions to meet customer needs as we face the challenges of an increasingly complex supply chain. Our ability to grow and reinvest with our customers will enable us to produce more stable returns through various economic conditions.

We are committed to innovation to make a better Werner. This starts with investing in our API-driven IT infrastructure. We are advancing Werner EDGE in all areas of our business to continually improve outcomes for our customers, associates, carriers and suppliers. And we are maintaining a modern fleet, while exploring and integrating emerging technologies.

Werner's core values of safety and service are supported by an inclusive culture where all individuals are respected for who they are. We give our time and talent to build stronger communities. We support innovations by cultivating new ideas and bringing them to action.

We empower our leadership to influence others to be their best. And the foundation of our core values is to operate with the highest integrity, and always be honest and accountable.

We are dedicated to being a sustainable company for our people, planet and profitability. We will improve our environmental impact through the expiration of alternative fuels and equipment, executing an aggressive carbon reduction plan and exploring partnerships through WernerBlue.

We support and encourage the diverse voices and perspectives of all of our associates, customers and suppliers through our DEI vision and plan. We uphold transparency, ethics and integrity in our governance practices. And we focus on community support through our Blue Brigade volunteer workforce.

You can see within the wheel that the 5 Ts + S remain essential components of our Werner Drive strategy. These principles of reinvestment are foundational to our view on being good stewards of capital. Simply put, we will always remain true to deploying capital across our business with an eye toward investing in the future.

Those investments will be made based on their ability to increase returns and provide stability to the portfolio, as we align further with winning customers in their respective industries. And as the acronym implies, DRIVE signals motion; progress towards a stronger future and a commitment to growth of both top and bottom-line results.

Now on slide 16, here are the ESG developments for second quarter. We created an advancement and retention plan to increase and elevate women and diverse talent in our management pipeline. We rolled out a volunteer time-off program for our associates. Training hours for human trafficking awareness more than doubled. And we introduced two new associate resource groups for our associates.

We expanded women's representation on our Board with the addition of Michelle Livingstone, an experienced transportation leader in the customer community. And we are pleased to receive recognition for the four highly qualified women that serve on our nine-person Board of Directors.

Now let's move ahead to slide 17 and a review of our performance versus our 2022 guidance metrics.

During second quarter, our TTS fleet increased 1% for the first six months. For the year, our 2% to 5% truck growth guidance remains unchanged, with our growth focused on Dedicated.

Net capital expenditures year-to-date were \$153 million. We increased our guidance range for full year net CapEx by \$25 million to a range of \$275 million to \$325 million. This is the range we previously had at the beginning of the year.

Dedicated revenue per truck per week increased 9.1% in the second quarter, ahead of our full year growth expectations, due to customer rate increases to offset inflationary cost pressures. For the year, we raised our guidance and now expect this metric will grow in the 6% to 8% range.

One-Way Truckload revenues per total mile for the second quarter increased 13.7%, slightly below the bottom end of our second quarter guidance range, due to a moderating freight market. For the third quarter, we expect our One-Way Truckload revenues per total mile to increase in a range of 2% to 5% over the same period last year. This percentage increase is lower than second quarter 2022 due to a moderating freight market, tougher rate comps, lapping the ECM acquisition and declining spot rates.

Our income tax rate in the second quarter was 24.4%. For the full year, we are reaffirming our effective tax rate of 24.5% to 25.5%, and we expect the average age of our truck and trailer fleet at year-end to be 2.2 and 4.8 years respectively.

One-Way Truckload freight demand has moderated from very good levels in April to seasonally normal levels in July, while Dedicated freight demand remained strong and steady. We expect industry supply to remain relatively tight due to a competitive driver market and ongoing OEM challenges for their production of new trucks and trailers.

Also, since the beginning of May, the FMCSA weekly database of carrier registrations and deactivations turned negative for the first time since COVID. We believe the decline is a combination of trucks leaving the market and some owner-operators that are returning to carriers as company drivers.

Over the last few months, concern about the direction of the economy and the truckload freight market has increased. Our current market view for the remainder of the year is as follows.

We expect that industry truckload freight demand continues to moderate, more for discretionary goods and less for consumer staples. Competition for freight begins to increase. And these factors may impact our One-Way Truckload fleet more than Dedicated or Logistics.

Visibility into the peak season market conditions is mixed and not clear at this time.

Pressure on small truckload carriers increases with declining spot rates, inflationary cost increases with older equipment, high fuel prices and rising interest rates.

Pricing for industry used trucks continues to ease, resulting in lower gains per truck. For Werner, we anticipate we will sell slightly more trucks in third quarter than second quarter with a lower gain per truck.

Inflationary cost pressures for labor, equipment and maintenance are likely to continue. Truckload capacity remains constrained as new truck build challenges continue, and the driver market remains competitive. We are confident in our positioning with the stability of our Dedicated and One-Way Truckload freight base and our growing Logistics segment, the proven resilience of our durable business model and the superior value we provide our customers.

Before we move to the Q&A, I would like to cover one more topic. This afternoon, we announced that John has decided to retire after 33 years at Werner, the last 25 serving as our CFO. I am extremely grateful for John's numerous contributions over the years to make Werner a better company.

John has been a true partner, enabling Werner's financial performance and effectively communicating the Werner story to the Street. On behalf of the Werner team, I would like to wish John a prosperous future as he transitions to retirement.

We are launching a formal search process for our next CFO. I sincerely appreciate John's full support of the transition process. To ensure a smooth and seamless transition, John will remain with Werner as long as needed through the full transition of responsibilities to his successor.

With that, I would now like to turn the call over to our operator to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

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

Jack Atkins

Great. And first, John, let me just say congratulations on your retirement, and congratulations on a hugely successful career at Werner. So, I guess, for my first question, I'd love to maybe talk about Dedicated for a moment, if we could.

Obviously, the guidance for the full year, in terms of Dedicated revenue per truck per week, was increased. Could you maybe talk about the drivers behind the higher outlook for the full year in general and sort of the momentum in the second half of the year, and also, the pipeline in Dedicated and how you see that shaping up for the rest of the year?

Derek Leathers

Sure, Jack. I'll take that. Relative to the guidance, it's really tied closely to the pipeline. The reality of Dedicated right now is the pipeline remains very strong. We have significant interest from customers, both organic growth within existing fleets looking to grow and/or expand in new locations, as well as new blood customers that are interested in the products and services that Werner provides. What that allows us to do is, even in these economic conditions, to continue to be selective on what gets through the pipeline and what we ultimately implement. And that gives us the confidence as we think about revenue per truck per week looking forward.

The other reality is, if you recall back to like, I believe it was Q3 of '21, where we talked about fleet mix makes a big difference in Dedicated. And so, there are times where revenue per truck per week is also dictated by what the length of haul and what the productivity assumptions are within a particular fleet, and some fleets are very low productive in nature.

And so, if you happen to have a line of sight to both a strong pipeline, and the modeling assumptions therein, that can lead to a higher revenue per truck per week confidence. And I think all of that combined gives us the confidence to do a couple of things. One, signal that any growth in our truck fleet is going to be aimed at Dedicated as we go to the back half of the year; and two, expand the revenue per truck per week guidance previously issued.

Jack Atkins

Okay. And then, Derek, I mean, maybe taking a step back, I appreciate the comments in terms of how you expect the rest of the year to sort of shake out. I guess, maybe kind of thinking about this, now that we've had several months to think about the market in general since the last time you guys reported numbers, is there a way to maybe kind of get your perspective on the cycle from here as you see it?

We're hearing pretty consistently from carriers that underlying demand trends are still pretty healthy in absolute terms, but obviously moderating versus what we've been seeing for the last couple of years. Do you think that we're headed to a freight recession? Or do you feel like we're just kind of settling out in a more normalized sort of market? Would just kind of be curious to get your perspective now that we've had several months to digest what's been going on here.

Derek Leathers

Yes. Great question. Look, nobody has the perfect crystal ball obviously. And this cycle has certainly been different than any preceding cycle just based on the pandemic. But if you think about where we were for two years and how hyperinflated many of the metrics were, whether it be spot market pricing, overbooked natures of people's networks, and just general volatility in what was being purchased and the quantities that were being consumed.

And you look forward, or you look maybe more recently over the last few months, it is returning to a more normalized setting. Our network is still booked daily. We're still coming in and, what would be by any normal seasonally adjusted outlook, in a good position. And we think that probably holds up.

One of the realities is, looking at FMCSA's net registrations, we talked about it going negative in May for every week, but if you look at it quarterly, it's been negative really each quarter this year, but that growth has grown significantly as of late.

Since the first week of May until the current week, it's a net negative of 31,000-plus trucks. Now, a big chunk of that is all in one week in June where they have to renew insurance, but it's still a signal that they're not willing to do so.

So I think you've got moderating supply on the truck side that's happening, and happening more quickly than prior cycles. You've got some stability with a floor starting to set in on the spot market. And you've got customers, if you're aligned with the right ones, that are still performing well.

The last piece of noise that's tough for all of us, is the inventory issue. There are certain over-inventory situations, and yet there's others that are struggling to get the shelves stocked and filled. And it's just too tough this time, at this moment, to try to generalize on how that plays out.

Peak season visibility is a little less than maybe what we've had in prior cycles. And high service is still being rewarded in the marketplace. And so, we're going to just stick with our knitting and put service above all else, and stick with our commitment to safety and have that be paramount to how we think about new business we bring on. And I'm pretty excited about how that translates into that Dedicated pipeline in particular, and also the Logistics growth in front of us.

John Steele

Jack, this is John. I'd like to add one more comment on to everything that Derek said, which I agree with. The one difference this time around is, the industry supply of trucks has been limited due to the OEM supply chain issues, and a relatively low unemployment rate. We're currently at 3.6%.

So, there's forced discipline for the industry that's going on due to the OEM issues that's highly unusual. Prior strong periods for freight typically led to a spike in new truck production and an oversupply of industry capacity, which caused the supply side of the equation to create a difficult demand supply narrative.

This time around, we have a low unemployment rate, and we haven't had a big increase in truck builds. At the same time, the employment side, a lot of the-over-the-road jobs that have been added have been really local delivery as opposed to long haul. So, I really think the supply side is more constrained than it has been in the past, and it's really the demand side that Derek laid out very well that's the issue that we have got to deal with. So, I'm a little more confident that it won't be a big decline in the overall environment because the supply side is under better relative control.

Jack Atkins

Okay. Well, really appreciate the detailed thoughts there.

Operator

The next question is from Chris Wetherbee with Citigroup.

Chris Wetherbee

Great. Congrats, John, it's been a pleasure working with you. Good luck on everything going forward, and congrats on a great career.

Chris Wetherbee

So I wanted to kind of pick up on where you left off and sort of the supply dynamic within the industry. I think that's kind of an interesting point. So, Derek, you talked a little bit about capacity coming out. I wanted to get a sense of maybe if you could look at the Dedicated market a little bit more specifically and kind of give us some thoughts around what you think capacity looks like within Dedicated.

I think we spent a lot of time focused on One-Way Truckload, but I want to get a sense there. It seems like there's a lot of resiliency in that business and the ability to sort of generate price. So I'm kind of curious what you think about capacity availability in Dedicated.

Derek Leathers

Yes. I mean, Dedicated is truly unique. We talk about it all the time, but I still don't think it's fully understood. It's a market within a market. And so, if you want to have 99% on-time, you want to have driver standards and expectations that are significantly more rigid than those of the One-Way market. There's a handful, maybe two handfuls of competitors out there that really perform in that space. And so, the capacity there is determined by just a few players.

Even within that, we've all kind of, over time, for whatever reason, migrated to certain verticals and certain industries and certain strengths within our own fleets and our own networks. So, arguably they're not all even competitors within Dedicated. We just, simply put, look at our pipeline, look at the interest level, look at the winning customers we're working with that are growing and still predict further growth regardless of economic cycle, and feel real good about where we're sitting from a demand perspective. I know you asked me about capacity, but our ability to grow into that.

The OEM constraints actually are one of the things that's made Dedicated a bit tougher over the last several quarters, because you can't just sign an account up and start up in a month. You might have to phase it in over time, because you've got to wait on the equipment, especially if it's specialty equipment, before you can be able to put it in place.

So, the bottom-line takeaway, like what matters to an investor in my view is, that pipeline is strong, those customers are excited. The Carrier of the Year awards continue to roll in, and we have the financial wherewithal to be able to invest in that fleet and it's sticky long-term business.

We renew those fleets time and time again, north of 95%. They start off with three to five-year type contract settings, and we almost inevitably grow organically within that fleet once we get there, at either other locations, or more trucks within the same location. So, there's a sense of long-term excitement here at Werner about how that portfolio is performing.

Chris Wetherbee

Okay. I appreciate that color. And then, I guess I just wanted to make sure I understood maybe your thoughts on seasonality. This is a very unique year as you guys highlighted with demand questions and capacity maybe being tighter than coming off of peak cycles previously.

So, as we think about the TTS business for the rest of the year from a margin perspective, is it possible that we see less seasonality in quarter-to-quarter margin progression? Any thoughts on sort of how that might play out in the back half of the year would be helpful.

Derek Leathers

Yes. I mean, I think the back half -- the tough part on the back half, and I think we've proven our willingness to be transparent and forthright on these calls, but peak season is clearly not as visible this year as it has been in prior years. It will happen. I mean, Christmas is still coming. There's still going to be projects. There's still going to be peak work to be done. But the clarity by which we know, at this point, what that project volume looks like, isn't what it has been over the last several years. So, I'm hesitant to give you too much of a perfect outlook because we're still working on it.

Now we're in conversations. We're having dialogues with customers. They're still trying to sort through what kind of inventory levels they're at, what do they think are the right buys to make between here and the end of the year, and what it means to us. How much will be import volume versus maybe sourced differently because of COVID supply chain changes that have taken root. And so, we're just not able to give the same level of clarity or confidence on the back half, predominantly dictated by project opportunities more than any other thing.

Chris Wetherbee

Okay. That's very helpful. Appreciate it.

Operator

The next question is from Scott Group with Wolfe Research.

Scott Group

Thanks and congrats, John, you're the best. So you'll be missed. Just following up on that margin question, should we take that -- should we just add back \$20 million for the insurance and sort of start from there and then do our math, or is there any sort of ongoing impact from this insurance? And maybe with that, just any thoughts on gains in the back half?

Derek Leathers

Yes. I think the better way to think about it probably is the eight-quarter average that we talked about. We would -- Q2 of last year was a little lower than the eight-quarter average. So the gap was \$20 million year-over-year, but it's \$16 million compared to the eight-quarter average. And I think that's probably a better, safer way to think about it.

We also recently renewed our liability insurance that will be in effect August 1. The impact of that is about a \$2 million uptick annually, which is lower than what it has been over the last several years. That's reflective of a lot of things, both the market, but also some of our ongoing improvements in safety and implementation of further technologies. So that's where I would start Scott, probably somewhere closer, not \$20 million, but maybe it's \$15 million to \$16 million.

Scott Group

And then, I guess, with that, and then any thoughts on the gains and...

Derek Leathers

Yes, I'm sorry. I forgot the second part of the question, that's on me. Yes, gains are moderating. They moderated through the second quarter. They have somewhat stabilized as of current, so the last several weeks seem to have found a new normal. It's still very elevated by historical standards, but nowhere near what it was, maybe to start off the year.

We do expect that we're going to sell potentially more units in the back half. But honestly that's going to be very, very dependent on what happens with new OEM production. So we've not reintroduced guidance just because we're not out of the woods yet on the OEM production level and receipt of new equipment.

But in general terms, I think there's tons of public data out there about what's happened with gains. And what we've seen is, as of late, it seems to be stabilizing. I think if OEMs find further -- if we end up in a more disrupted OEM manufacturing environment in the back half, you might see some uptick in used gains per unit.

The contrast is also true. If they suddenly get more fluidity in their networks, that could put some additional pressure on trucks, but then, of course, we'd sell higher volumes. So, we're stopping short of giving guidance I realize, but I'm at least trying to paint the picture of what we see; a little higher volume, lower gains per unit and the end game will be determined on what happens with OEM receipt of new equipment.

Operator

The next question is from Ravi Shanker with Morgan Stanley.

Ravi Shanker

John, I'll echo the comments and amazing working with you. I'm going to miss you at Laguna, but we will connect in the future. So, maybe if you can remind us, and thanks for the comments and the detail on how you guys performed in the last downturn.

But can you share a little more color on how Dedicated contracts work relative to One-Way contracts in terms of the stickiness of the terms and the pricing that's built in? And kind of how you expect that to evolve as the market does. And also, if you see any change in customer behavior around Dedicated contracts in the last few months?

Derek Leathers

Sure Ravi. I'll take that to start, and John, please jump in anywhere you want. The reality is, Dedicated is much stickier. I mean, that's the simple answer. It's a much stickier relationship. You are an extension of that customer. And you are, in some cases, in our Dedicated fleets. It's almost a white label type application, where the trucks and trailers look -- in the customers' colors.

They are three to five-year agreements. The renewal rate on them is significantly higher than One-Way renewal rates in terms of renewing for an additional term. The expectation within those fleets of service is significantly higher than in One-Way. And the other sign of the level of stickiness is, if you look at revenue per truck per week, it's increased seven out of the last eight years in Dedicated, which just illuminates how much less volatile it really is.

John Steele

Yes, I don't have anything to add, Ravi. Well stated, Derek.

Ravi Shanker

Great. And maybe for a follow-up, Derek, you're obviously an incredibly respected executive in the industry and kind of your thoughts on the industry carry a lot of weight. So, would love your thoughts on AB5, now that it's the law of the land in California, and potentially 12 other states, may be going Federal at some point. What kind of impact do you think this is going to have on the trucking industry in 2023?

Derek Leathers

Yes. I think it's going to be impactful; I really do. We're still sorting through. So I'll start with Werner first, virtually no impact. That's the answer relative to Werner at this point. We have an extremely small owner-operated footprint nationally, and we have zero in California. But as we know, there's some fast-following states, somewhere in the neighborhood of 12 to 15 different states are already talking about following along the lines of the AB5-type thought process.

I think it's sad for the folks, the men and women out there, that have dreamed for years of being an owner-operator and owning their own business and have went through a lot of trouble to do that. I think it's kind of the unintended consequence of legislation sometimes when people come out with ideas that they think are helping, and actually hurt. You can see that in the reactions of groups like OOIDA, and at the protest level at the ports. I think it's going to be disruptive out there and we'll have a net negative impact on capacity.

Lots of folks think that those men and women are just going to convert to company drivers. Well, there aren't a lot of large company operators in and out of the ports to begin with to convert to. Trying to convert within that small fleet is difficult because they're not capitalized in such a way that they can bring on equipment to put those drivers into.

And so, I think we're going to see disruption. How much disruption is kind of hard to tell at this point. We've certainly seen a net benefit from a driver hiring perspective just as it relates to, not just AB5, but the impact of rising fuel prices, rising insurance costs and lower spot rates means being an owner-operator or being a small fleet operator isn't nearly as attractive as it once was.

And so, safe haven can be found in companies like Werner. But the story is yet to be fully written, but I don't believe on a macro level it's anything other than negative for overall capacity, the overall supply chain and the ability for us to get back to kind of a more normalized flow across customer supply chains. So, it was certainly not well received in our four walls, even though we weren't impacted at all by it just because I think it's bad for the industry.

Ravi Shanker

Do you have any clarity on enforcement at this time?

Derek Leathers

Yes, the only clarity I have so far is that it's very unclear. I know that's not very helpful, but enforcement -- what I've said to our own executive team here is that, if you think about it kind of logically, it was intended to do and help a particular group. I think it was misguided in its application and its the design.

And now, if you were to go to enforce it, you're going to be enforcing it upon the very group that allegedly this law was written to help, which I think puts enforcement officials in a very tough position. So I suspect enforcement will be fairly loose for some period of time, but you can't pass a law and put this much emphasis on it, and then just ignore it once it's on the books, although we do tend to do that, I guess, on other laws, from time to time around this country. So we'll see, but I think enforcement will ramp up over time.

Operator

The next question is from Jeff Kauffman with Vertical Research Partners.

Jeff Kauffman

Thank you very much, and John, it's been a terrific almost 30 years. Looking forward to hearing about your new ventures and whatever you do next. I'm going to go in a different direction, Derek.

You had a slide up on ESG, which I thought was terrific. And I love the addition of Michelle Livingstone to your Board. She is fantastic. I'd love to hear a little bit about what you're learning in some of these new ventures. I know you just announced the project with Aurora. You've been working a little bit with TuSimple and some others.

But looking both, at the autonomous driving, which is still a few years away, we're in the early stages, and maybe some of the new energy products that are out there, what are your thoughts on what Werner is doing in the area of lowering carbon emissions and safety and things like that?

Derek Leathers

Sure, Jeff. Great question. I'll start with probably the most important thing, which is, we are passionately committed to doing everything in our power to lower our carbon footprint as we go forward. I want Werner to lead in this space. I want to make sure that it's clear that we're committed to both the E, S and G as it relates to ESG. And we're going to take the steps necessary to do that. But along the way, what we're not going to do, is to put the portfolio at risk or make financial decisions that are done for optics purposes only.

And so, what that results in is a lot of testing. We've got a lot of lines in the water. Everything from the electric truck tests we've talked about a few different times, to some recently completed work with hydrogen. We're going to continue to have a dual-fuel opportunity coming later in the year as well as some additional electric trucks. ESG was incorporated into the DRIVE strategy as a constant reminder to everybody internally and externally, that it's not going away, and we will lean into it.

As far as the autonomous and some of the specific learnings and strategies, I hope you can understand that we're going to keep some of that a little close to the vest for now as we continue to vet through how we think it plays out.

I think you're right. On the autonomous side, we're still a few years away from even marginal impacts around the edges. But my view on it is, today is the day, and every day as we go forward, is when we need to be preparing for the inevitable reality that things are going to change. And what we'll do is stay connected. We'll keep our Innovation Council active. I personally will stay active in that space, because we've got to guide this ship through what will be a different look as we look out 10 years and further into the future.

Jeff Kauffman

Okay. That's my one.

Operator

The next question is from Ken Hoexter with Bank of America.

Ken Hoexter

Good evening, and again, John, just really appreciate all the help for 20 years. It's really been great working with you, and best of luck. Derek, just thinking about -- you talked about the revenue per truck per week kind of shift on the Dedicated side. Maybe talk about the cost. Is this just balancing out margins as you look forward? Is it still staying ahead of inflation and ability to expand margins, maybe just given your -- maybe just give us some thoughts on your thoughts on revenue versus the cost.

Derek Leathers

Sure, Ken. Dedicated is performing very well. At the same time, in a tight driver market, when you think about the roles I described previously as being more rigid, more requirements and more driver involvement than One-Way, that job is even tougher to fill often than the One-Way jobs. The pay has to keep pace with what we're asking of the driver, and so we're going to have to offset that with increased yield. Mix is a big part, I mentioned it once.

I want to re-mention it again, that you can mix that fleet differently quarter-to-quarter based on what new Dedicated opportunities are in the pipeline and see some revenue per truck per week increases or slow that growth, and yet still be modeling at the exact same OR and still performing at the same OR, or improving it. So it's a little bit of all of the above.

We know, if you think about running a trucking company, you've got trucks, tires, trailers, labor and fuel before you need to worry about really anything else. You better have those things right. And those are all under various levels of inflationary pressure. So, we have to offset it, our customers understand it. And the value we bring is great enough that they are willing to pay for it. They're willing to invest in it with us because they need that truck to continue to be 99.6, 99.5, whatever the number may be. And that is literally where those 5,000-plus trucks operate day in and day out.

Ken Hoexter

And if I can just follow up on that, right? So did you talk about any start-up costs coming on for the expansion or growth that you're focused on Dedicated? And as you go through those slowdowns that John mentioned in each of the prior periods, does the mix matter in Dedicated in terms of what you move into the margin impact? Like if they're moving more food because that's what people buy during downturns, just does that matter? Or it just matters that Werner's moving trucks, so it doesn't matter?

Derek Leathers

Well, the mix matters. And we've certainly had conversations with some of our Dedicated fleets that happen to haul a mixed set of goods. So, in other words, fleets that haul both food and beverage but also consumer staples and that mix is shifting more to food and beverage versus consumer staples, but the fleet size may not change at all and, frankly, may grow, as a result of that mix shift, if that's what you mean.

But overall, as we look across our Dedicated fleets, what isn't in the pipeline, at least not in the imminent quarters, is what you would -- is sort of a start-up hog or somebody that's large enough and complex enough that you've got a major implementation, kind of start-up structure coming at you.

It's really the cleaner stuff that we like the most, when you can get it, which is several smaller fleets, either adding to their existing footprint or adding new locations of business we know how to do and do every day. And so, there's always going to be implementation costs. We offset a lot of that with implementation fees, but some of it is absorbed. But as I look out and think about the next few quarters, our view would be that it's absorbable based on how we've modeled it.

Ken Hoexter

Right. And John, again, good luck.

Operator

The next question is from Ari Rosa with Credit Suisse.

Ari Rosa

Great. Congrats again, John. So, sticking on the Dedicated side of things, Derek, maybe you could just reflect on -- it seems like that's been a pretty consistent message from a number of carriers that demand for Dedicated has been strong. Maybe you could reflect on what's driving that demand and has it accelerated versus past cycles. And then as we think about the runway for future growth and kind of how resilient that might be, I mean, is Dedicated something that can continue to grow kind of on a compounded basis for the next 5, 10 years?

Derek Leathers

Yes. So, I think the message has been consistent, at least here, for many quarters. And I do hear similar messages being echoed around the industry. The reality is, yes, I think it is something that has runway. The entire supply chain, if you think about what's happening across America in the economy, and especially in the spaces we play, retail in particular, e-commerce is a growing reality. Forward deployment is a growing reality. Needing to serve at much higher levels of service is a growing reality. All of those things feed Dedicated.

People talk all the time right now about the spot market, and clearly the spot market has declined significantly this year. None of that freight finds itself into a Dedicated fleet. It wasn't in there before, it's not in there later, that's not really how that works. What's been modeled for Dedicated is customers that are looking either at their own networks or competitors' networks, and seeing them outperform and realizing that supply chain can be turned into a very significant competitive advantage. Part of doing that is aligning yourself with somebody that's strategic and has the capabilities to pull it off.

We see tons of runway, again, with our existing customers, but then replicating that across other customers that are taking that next evolutionary step, and really placing a premium on service and in-stock and having availability ready to be delivered. And then, that dovetails very well with our Final Mile products and some of the things we do in Logistics. And that's why that business unit is of so much importance to us, both Logistics holistically, as well as Final Mile.

And no one's asked yet about this, but if you think about the quarter, Logistics is a big piece of this puzzle. 44% growth in Logistics and a \$9.1 million operating income increase and 360 basis points of operating margin improvement year-over-year. That's a business unit that is really finding its footing.

And when we think about Dedicated being the middle mile and a lot of that work, especially in Final Mile residing in Logistics, it all kind of dovetails together. And this was all part of a longer-term strategy.

And I appreciate those that have stuck with us through multiple quarters as we've made this evolution. And I hope that they'll stick with us as it plays out. We feel good about how we sit today, despite the noise that may have been in the quarter. We think about our business in terms of years, not quarters, and I'm excited about our ability to execute.

Ari Rosa

Got it. That's really helpful. And then, just for my follow-up, it actually really helps your response to that last question because I think it leads into my follow-up. But I wanted to ask about the sustainability of results at Logistics. Obviously, it was a really strong quarter. But do you think that can continue into the second half of the year and into 2023?

Derek Leathers

Yes. I think the revenue growth obviously will moderate some. We're not at all signing up for 44% indefinitely. We know that that's going to moderate. But we're winning business in Logistics. We're getting better at what we do in Logistics. Our cost to serve is coming down as we get the enhancements from some of the productivity tools that we've been building out. Power-only is a real thing. I know it's been asked in prior calls about whether that's only real because of the tight capacity market that we are in. We don't believe so.

We believe the opposite is somewhat true, that it was availed to customers because of the tight market, and they were willing to implement changes in their network that may be in a loose market, they wouldn't have attempted. Once they had a taste and realized how much more efficient that yard can operate with large trailer pools, and both a blue and non-blue component via Power-Only, they've realized the value in it. And so, there's more and more excitement as we talk to customers about Power-Only, even in a market like the one that we're in today that's evolving a little bit from where it was. And so, I think that has a significant runway within our Logistics results as well.

Operator

Your next question is from Jason Seidl with Cowen.

Jason Seidl

Again, John, best wishes in retirement, and it's been a pleasure over the past 25 years. Derek, I wanted to just talk a little bit about the percentage of your businesses now on the Dedicated side of things. You're almost at 60%, used to be under 50%, is there a way to think about sort of the right number?

Derek Leathers

Yes, it's a work in progress. We look at it all the time and model different scenarios. We certainly don't think it's maxed out at this point. There was a concern I had once upon a time, relative to Dedicated potentially getting too large for One-Way to be able to provide the support that it provides.

That support comes in a variety of ways. There are times where the One-Way truck count may ebb and flow a little bit because it's a place for drivers to be brought into Werner and housed within the network, so to speak, as we find opportunities and openings become available within Dedicated. So for certain quarters, you could see some movement in the One-Way number, that even that is dependent on future dedicated pipeline needs.

But what we found is, Dedicated got up to 60% of the truck fleet, and then ultimately now 63%, is we can self-serve within Dedicated some of the surge needs and surge commitments. And that's given us greater confidence in our ability, especially as we generate multi-Dedicated geographic footprint, so, multiple fleets within close proximity,

where we can help serve across fleets. That number now in my mind is certainly 65%, and it could be higher than that, and we'll revisit all the time. And so these are meetings we have on a regular basis to make sure we're not suboptimizing some other part of the portfolio. And right now, we feel like we're in good shape.

Jason Seidl

That's great color. And one more here, I'll squeeze in. If you guys do get the trucks that you want this year with the increased CapEx, how should we think about CapEx for '23?

Derek Leathers

Well, I'd like to get to the back half to be frank, before we start giving guidance on '23, but we do know, not just this fleet, but other fleets, have aged. We don't like that aging. It's not something we did intentionally. Our fleet is still very new by comparative standards, but I'd like to see that fleet a little younger than it is.

So, we've issued guidance, and stuck to that guidance for many years now that -- or at least a couple of years, that 11% to 13% of revenues. I think there could be ebbs and flows where you see us a little closer to the higher end of that guidance because we want to refresh the fleet and get it back where it belongs.

Ideally that number for me is 2.0 or lower, but that doesn't happen overnight and probably doesn't happen in a year. But there's just too much uncertainty on the supply side of that equation relative to OEM production to try to give a number for next year. I think, if I was to give you just a ballpark, I think something like you're seeing this year is a good starting point, with the possibility of it being a little higher if things free up. But that wouldn't be for some unbridled growth, it would be for Dedicated pipeline and refreshment of the current fleet.

Jason Seidl

That actually helps a lot. I appreciate the time as always, gentlemen. And again, John, best of luck.

Operator

The next question is from Tom Wadewitz with UBS.

Michael Triano

It's Mike Triano on for Tom. So, Derek, you mentioned your view on peak season and mix. So just wondering if that's based on what you're hearing from customers? And if anything has changed in terms of how they're thinking about inventory replenishment and the outlook on the consumer?

Derek Leathers

Yes, it's a little bit of all of the above. It isn't that we don't believe that peak is coming, and that we're not going to have a peak season this year. It's that we have, in our network, a combination of everything from customers that are in need of inventory ordering now, having normal firm conversations with us about what our role will be in that process, to customers who have, on paper, the right inventory level or even too much inventory level, but some of it's the wrong inventory and then working through, getting that corrected and pushed out of the network so that they can be replenished with the stuff they need for this fall.

The beauty of the holiday peak season is that it's holiday stuff that needs to be sold. So regardless of your current inventory levels, if it's not the right inventory and if it's not holiday inventory, that stuff still needs to come. The last piece that's probably makes it a little more complex, is not knowing what role China will or will not be able to play in some of their networks. We know there's ongoing disruptions in COVID spikes and zero policy -- zero COVID policy that's playing a role.

So I think everybody is just kind of in a wait-and-see mode a little bit, more than normal. So, our tone is less bullish than maybe prior Q2 calls, but it's mostly just our effort to be transparent and cautionary about it. It's probably too early to assume that peak season will look like it has in the last couple of years. The consumer is still in pretty good shape. I mean, financially, inflation has taken a bite and we realize that, but the starting point before that inflation had that impact was savings rates were higher, overall consumer debt was lower. In general, there are still active participants at the moment in the economy.

Now you let fuel stay where it is for much longer, you let inflation continue to leak and get north -- you live in the double-digits for very long at all, it changes behavior. And we have to be cognizant of that. The good news is, let's say, all that plays out, and it's more negative than we think.

This portfolio is built for that. That's exactly why we have such a defensive position right now, that we think it's the right time to be built out just like we are, and we have Logistics now positioned to play a bigger and better role in the back half and moving forward. So, again, as I look forward, I'm fairly excited about what I see.

Michael Triano

All right. I'll leave it to one. And John, congratulations. We wish you all the best in retirement.

Operator

This concludes our question-and-answer session. I'll now turn the call over to Mr. Derek Leathers, who will provide closing comments. Please go ahead.

Derek Leathers

Yes. Thank you. I just want to first thank everybody for joining us today. I know there's a lot of calls at the moment going on at the same time. And although the quarter had some noise in it, I believe the takeaway is that the story is intact. We're excited about the durability of the portfolio, its defensive nature, the diversity that it represents across multiple different product offerings.

The pipeline is strong in our core offering of Dedicated, and we look forward to being able to execute on that strategy as we go forward. We're going to focus on execution moving forward. And, although I've told the team we're going to hold our heads high relative to the quarter, we're going to hold our expectations higher.

And lastly, although I appreciate many of you, congratulating John for his retirement. I just want to clarify, it's his intention to retire, as we have now started a nationwide executive search for John's replacement. And John has been more than gracious, after 33 years at the organization, to further commit to stay with us through this transition. So he will be a partner in this process, and I'm excited for the opportunity both for John and for Werner to be able to find the right person to be able to replace him.

So with that, those are my closing remarks. I want to thank you once again.

Operator

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