Morgan Stanley 12th Annual Laguna Conference
Werner Enterprises (WERN) September 12, 2024, 10:30 a.m. PT
Werner Enterprises: Derek Leathers, Chairman and CEO; Chris Wikoff, EVP, Treasurer and CFO
Morgan Stanley Analyst: Ravi Shanker

Ravi Shanker
Great. So, let's keep the trucking content going. And next up, we have Werner and very happy to welcome back to Laguna, CEO, Derek Leathers and CFO, Chris Wikoff. Gentlemen, thanks so much for being here.

Derek Leathers
Thanks for having us.

Ravi Shanker
So maybe we can start with where we started everybody else which is asking kind of what you're seeing out there. Obviously, it's been a bit of an up-and-down year for the trucking space, but I think there was some signs of improved seasonality through 2Q. I think a lot of focus on whether that has continued through 3Q or not. And the data has held up reasonably well, but what are you seeing on the ground?

Derek Leathers
Yes. I mean I think we're seeing a continuation of what I would kind of frame up as normal seasonality. Like it seems like we're finally past all these crazy highs, crazy lows, and we're starting to see normal seasonality return. It's a little early to call it a full inflection. But at the same time, we like what we saw in Q2 post road check. We like the way rates kind of stabilized and have seemingly stayed there and then the opportunity now in front of us with peak season, etc., to really start to see a return to normal seasonality.

Ravi Shanker
Got it. What is peak season looking like? You guys have a pretty decent view of it right now?

Derek Leathers
I wouldn't say we have a decent view just yet. I mean we're having conversations. We have a few things that we've already stood up and supported peak season and in support of some of our retail customers where those dialogues continue as we go forward. I would say the conversations are fairly positive at this point.

But a reminder, the caution really is that, like last year, we had more volume in peak season last year than we did the year prior, but the opportunity for price didn't come along with it. I mean, peak season will happen. We will see upticks in volume. We will see more project opportunity. The question is, what's the competitive nature as that develops and how much price could come along with that.

Ravi Shanker
Just kind of a little bit of an aside here, but we've been hearing for some of the LTLs that there's been a reasonable amount of LTL spill over into TL. I'm not sure if that's something that you guys would be interested in? Or do you feel like there's been some heavy LTL freight moving into the TL market?

Derek Leathers
Yes, I think there's definitely been some of that. I think if you look at LTL and their ability to have taken price over the last few opportunities, whereas TL was still kind of in a capacity over abundance type environment at the time. It only is natural to us to think that there's places and geographies where it makes more sense to convert that to TL away from LTL. I think that opportunity continues as we go forward, but it's around the margins.

Ravi Shanker
Obviously, you guys are very big in Dedicated. Remind us again what Dedicated contract conversations are like at this point in the cycle. Is this the sweet spot where customers are like, hey, I'm potentially looking at an extended period of inflation, so I'm going to try and lock in my capacity for an extended period of time. Does that happen now or is that something that happens in the middle of the cycle? Or kind of what is that looking like right now?

Derek Leathers
Yes. I think it takes a lot of forms. So, I'll start with this. Like we're very disciplined about what we consider to be Dedicated. So, to use the example of the question, as best we can, we would try to avoid situations where the only reason they're looking for Dedicated is to avoid price inflation. We want to find folks that need Dedicated because they actually need Dedicated. So, driver involved, difficult freight, multi-stop, sophisticated kind of needs of the customer and a high service level requirement.

Because if you just insulate customers through Dedicated from price inflation, what you're really doing is a continuous move fleet, and those will go away again at the first opportunity. So, we've never executed perfectly on that, but I would say this cycle, one of the reasons Dedicated stood up as well as it has through the down cycle is it was almost entirely true Dedicated. And so, our pipeline is robust right now. Inside of that pipeline, there's certainly some noise because some of those, as you start to get deeper into the process with the customer, you realize what they're really looking for is a safe haven. They're not necessarily looking for Dedicated and we'll have those conversations as time goes on.

Ravi Shanker
Shifting gears into price. Remind us again when does your 2025 bid season start? Kind of are those conversations happening now into October? Also, what's your opening offer, if you will, kind of I'm pretty sure there's a plus sign not a minus in front of it, but kind of what do you think you can get in the early part of the season?

Derek Leathers
Yes. Very rare opening salvos have happened so far. But there are a few 2025 bids that have opened up, if you will, that are in process. Nothing in that ballpark of like coming to closure, nothing that's settled or been finalized by any stretch. You're correct, those are going to need to be plus conversations. We can't continue to endure the kind of cost inflation that the industry is seeing, the risks that the industry takes every day on behalf of their customers with the nuclear verdicts and other things and not offer or ask for their support relative to reinvestable margins.

So, it is our intent, and it is our belief that rates will need to go up as we go through the 2025 bid season. The question will be how much, and that's really going to be dictated in a large degree by what continues to take place with capacity attrition and the overall economy.

Ravi Shanker
What are those pricing conversations like on the Dedicated side relative to over the road? Kind of are those easier conversations to have? Are those actually bigger numbers because you're locking in capacity for a longer period of time? What's the reception been?

Derek Leathers
Well, they're much more sophisticated conversations. I think I would just start with that because every single Dedicated fleet, it takes a life of its own. And so, you're getting into a much more granular level of detail when you negotiate a Dedicated deal.

Those negotiations have very long-time horizons on them. I mean there are certain times where it could take over a year from the first meeting to the ultimate implementation of a Dedicated opportunity just because we're working with them to engineer that fleet, to design what it needs to look like, etc. So, they're far afield from what a One-Way bid event looks like.

With the exception of that being when you have contracts up for renewal, you already know the business, you know how it operates. You're asking them for support to make it a more reinvestable solution. Those sophisticated customers that really understand the value that we bring, they support that. Others that maybe are looking to try to squeeze a little more blood out of the turnip, that has become a more competitive environment at times in the last 12 months.

And we've seen some attrition in Dedicated as a result because we're going to stay price disciplined. Because for all the talk about sustainability in trucking, there's nothing more important than sustainable pricing. If I can't justify reinvesting in it, I won't have the opportunity to worry about improving your carbon footprint if you put me out of business in the process or at least at the fleet level.

Ravi Shanker
Derek, where is that competition in Dedicated coming from? Because you're not the only entity to say this and your peers are saying this as well. Are these like mom-and-pop players in Dedicated. I didn't think that could be possible, so who's taking that low price?

Derek Leathers
No, I don't think it's mom-and-pop for certain. But I think what's happened is events like this, cause large, well-capitalized carriers to have to talk about what they're doing and doing well. Others listen to it, including competitors, and eventually, they start wandering in. So, these are 500 trucks plus carriers, I would say sort of the minimum threshold because you have to have a certain amount of scale and assets to even attempt to do what we do in Dedicated.

But they generally don't actually have the scale, assets and experience to be able to do it well. But they do have plenty of all of the above to create white noise in the pricing process. So that's one problem. I think that's the bulk of what's happened is One-Way Truckload has become so downtrodden, folks are looking for new alternatives for their assets.

The other problem, frankly, is even us large, well-capitalized carriers that have been doing Dedicated for a long time. I mean I think in each of our cases, all of us have announced sort of new retention rates. We used to say 97% renewals, then it was 95%, started drifting to be 93%. So, it's still very sticky. But it's not 97% like it once was. So, we're all finding homes for some of those fleets that we lose, and we end up competing against each other, at least in this environment, more than we normally would on some of these renewals.

Ravi Shanker
And you mentioned you need to see some capacity start to come out. What are you seeing there? Obviously, capacity exits took a little bit longer than we expected through the downturn. But it does appear kind of just looking at the headlines these days that maybe it is accelerating a little bit. Would you validate that as well?

Derek Leathers
Yes, that would certainly be where my head is at. I mean I think cash accumulation was greater than any of us really probably fully captured in our minds. And so, they existed longer than we would have expected. And I think that's all coming to roost now. So, it's not just the moms and pops that are starting to go out of business at these rate levels, but now you're seeing 500 truck carriers, 1,000 truck carriers. There are people of more significance that are starting to find their way to the sideline.

I think banks have shown more leniency than we would have liked to have seen. But now you're starting to see some major banks with some write-offs and some write-downs on some of their truck paper. All of that leads me to believe the tightening is continuing to happen. I think Roadcheck was probably the best indication of that, where you saw $0.20 to $0.25 pop in spot rates.

That doesn't happen unless you're really close to equilibrium because it's not like one-third of the capacity parks. You're talking 3% to 5% maybe parks on the side of the road for that particular week, and that was enough to inflect pricing pretty significantly. So, we're right their kind of at that equilibrium to maybe even a slightly tightening phase, and that's the phase where what you see with shippers is a gravitation toward large asset players. So, we see it first and then others see it later, but we're seeing it now, and I'm sure some of my large competitors are as well.

Ravi Shanker
Right. Does the fact that you're seeing 500 to 1,000 truck exits mean that this is more of a permanent exit of capacity? Or is there a risk that this is just a temporary deactivation and as soon as the cycle shows up, kind of these guys come back to the market?

Derek Leathers
Well, I think anything in an industry this fragmented, the answer is probably a little of both. But I do think there's some permanent caps or some more permanent caps than we've seen in prior cycles. So, if we assume we're at the very, very early innings of a market turn right now, the historical standard has been that once you get into the middle innings, all of a sudden, the capacity starts flooding in and we become our own worst enemy.

Well, if you play that out on a calendar basis and you look at what's coming at us from an emissions change, regulatory change, cost of equipment and OEM constraints on their ability to build new trucks, I think there's some caps this time that provide sort of structural discipline to the industry that have not been there in prior up cycles. So, if that plays out as I personally expect it will, I think this has the opportunity to be higher for longer or stronger for longer, however you want to phrase it, then maybe some of the prior cycles just like it's been lower for longer than what we've seen in prior cycles, and that's what got us here.

Ravi Shanker
Understood. Just on that point, what do you think happens to the emissions change rule and obviously, there's been some questions, given the Chevron verdict and such? Do you think there's going to be a pre-buy. Is that something that you guys would participate in?

Derek Leathers
I think some people will probably have some pre-buy activity. I think they will also be constrained by OEM constraints. I mean if you listen to the OEM market and you aggregate all of their comments, kind of adds up to something around 290,000 to 295,000 builds. That's not enough builds to really execute a very significant pre-buy of any kind. That's really basically replacement level and maybe less than replacement when you think about the fleet age of many of the players in this space.

They've aged their fleets, we have not. We've actually brought our fleet age down. So, we're in a really good spot. We don't anticipate a large pre-buy. I think we've got an event happening on November 5th that will be very impactful as to which way this thing goes from an emissions perspective. Because I think what's out there right now in terms of the mandates are far, the rhetoric is far out in front of the reality of what can be achieved.

And so, there are mandates out there today that cannot be met that we will not be able to meet specifically in this state, and no matter how much you may want to do so, you simply can't meet some of these mandates. So, something is going to have to give, and I think time will tell. But again, what it does do in the meantime is it creates barriers to entry because nobody would want to be entering in such an uncertain environment, I don't believe, or at least at a minimum, they're going to have more headwinds to getting excited about entering this space.

Ravi Shanker
Maybe switching gears, a little bit and maybe going back to the demand side of things. You're somewhat unique among your peers kind of in your exposure to the dollar stores and kind of on the retail side of things, which gives you pretty good defensiveness kind of in a downturn, but you've also seen some concerns around the low-end consumer. And you've seen that in their results. And so, what are you seeing? What are they telling you in terms of their view of what the consumer's looking like?

Derek Leathers
Sure. So first off, I mean, I want to start with the dollar stores from a volume perspective, from a same-store sales perspective, they're generally holding up pretty darn well. The pressure has really been on the margin side for them, right? But we don't haul margin, we haul freight. So as long as more stuff is moving through those stores, there's freight for us to haul. Our job is to try to be as efficient as we can on their behalf, work with them to try to find solutions to make their network more efficient. And we're doing that. We have confidence that they'll figure this out. They're really well-run companies with very strong leadership and they'll get through this.

The low-end consumer question, does that concern me? Yes. So far, the consumer has held up much better than I think most people would have expected throughout this entire downturn. I'd like to believe that will continue as we go forward. But we're going to have to stay very, very close to it.

I think their focus items right now, and I don't want to speak for them, but it's more about store operations and how they operate inside those walls and how they can get back to where they were from a margin perspective. But throughput and traffic in their stores remains strong. That's good for us, and we'll continue to haul and make sure stuff is on the shelf.

Ravi Shanker
Can you give us an update on kind of one of your customers was looking to potentially kind of in-source some of the trucking capacity, but there's probably room for growth for both kind of the outsourced and the in-source model. So, what's the latest update on that?

Derek Leathers
Yes, that update is exactly how we've said it all along. Like we're up in truck count with that customer throughout their insourcing. We've continued to grow with them. What they have done is went to a really a two-pronged model, which is their insourced opportunity plus Werner. I think it speaks to their confidence in us. It speaks to our commitment to them. And for us, as we indicated several quarters ago, we believe the strategic direction of it was a positive for us. And so far, it has been.

Ravi Shanker
Maybe switching gears and talking about Logistics a little bit. Kind of how do you think about how that business fares kind of as we go through this potential cycle inflection we're seeing right now kind of as spot rates potentially start to pick up? Is there a little bit of a concern there, given your contract exposure or how do you think that evolves?

Derek Leathers
Yes, we're going to have near-term pressure in Logistics. If we're right on where we're at in the cycle and if we're right about this inflection point being kind of at our doorstep, then Logistics will come under some pressure. We know that to be true. That's kind of the first innings of a very good story, though.

Ravi Shanker
It’s a high-quality problem to have.

Derek Leathers
It's a high-quality problem to have. And also, if it's happening in the Logistics, that means trucking is getting better quicker and so I'd take that trade-off any day. You've seen us take some steps in the recent quarters. Volume has been down with some intentionality on our part to make sure that we're positioning ourselves away from the more at-risk freight that's going to face the pressures you're describing quicker. But in the short term, I think you'll see Logistics margins pressured with the normal inflection thereafter that happens to every one of these cycles, and it generally ends up in a much more positive place in the out quarters.

Ravi Shanker
How many quarters do you think it takes to close that gap? Is it a couple of quarters and you can get to the core of bid season next year?

Derek Leathers
I think that's fair. If we're talking about Logistics and Brokerage, I think it's a couple of quarters of where you face some headwinds. And then as you work your way through that, then it gets better from there. And we still remain confident in our guidance relative to what our long-term expectations are, which is kind of that mid-single-digit margin if you take the midpoint in Logistics.

Ravi Shanker
We've heard through 2Q earnings season and even the last day and a half, about a number of pure-play brokers saying that you've seen a shift or starting to see a shift of customers away from pure-play brokers towards the logistics arms of asset-based carriers, which would obviously be really good for you. I mean is that something you're starting to see as well?

Derek Leathers
Absolutely. I mean the fastest-growing portion of our Logistics business has been our power-only offering, I think it's a much better product for customers if I'm just saying it bluntly. I mean if I'm a customer and I have the opportunity to have 13 different trailers in my yard or maybe only two, which one am I going to take? I’m going to take the one that’s more efficient on me.

Our trailers are an asset. They can be leveraged to make our customers' life easier, but yet we can still bring Brokerage to bear in a way that is allowing them to participate in broader-based coverage without us putting our assets at risk in lanes that they're not best equipped to be able to haul.

Ravi Shanker
Is that something that you think can be a structural long-term share shift?

Derek Leathers
I think it's a structural shift. The question is how does, what we would today call a pure-play broker respond to it? I mean, I suspect there'll be some shifts in there.

Ravi Shanker
They start buying trailers as well?

Derek Leathers
Perhaps I don't know. But I think the idea of customers wanting less complexity in their network on their yard and at their locations is not going away.

Ravi Shanker
Maybe I'll take a little bit of a step back and look at a bigger picture here. You've been very active in the M&A space in both segments and particularly in Logistics. What does that mix of revenues look like for you, maybe 5 or even 10 years down the line?

Derek Leathers
Mix as it relates to?

Ravi Shanker
Asset-heavy versus asset-light, Logistics versus trucking.

Derek Leathers
So clearly, we would like to be a little less asset exposed. So, if you think about traditional Werner, we came out 5 years ago and talked about 11% to 13% revenues would be an annual CapEx sort of expectation. We believe that number actually is less than that today. And as we go forward, because Logistics continues to grow, we think Logistics has the opportunity to be an outsized growth engine, both organically and potentially inorganically.

And I think having that mix a little more evenly distributed over time makes a lot more sense for us. We can do more for our customer. We can expose less capital and less risk as it relates to how capital-intensive this business is and yet still have the opportunity to grow alongside our customers as they win in their space.

Ravi Shanker
And how do you think about the long-term margin profile in both segments? What's the opportunity as we go through potentially a next upcycle as well?

Chris Wikoff
Yes, sure. In terms of Logistics, I mean, Derek mentioned just a minute ago, still long term focused on mid-single-digit operating margins in Logistics. Now some of that can shift as the mix within Logistics shifts to more Power Only, Intermodal, other things. I mean, Brokerage will continue to grow, but there are some positive trends and strength within the subsegments in Logistics that also have more favorable margin. And technology can also add to that.

And then on the TTS side, we're still focused on long-term double-digit margins. I think it takes normalization of rate in One-Way, normalization of demand in Dedicated, where we can add to our existing fleet, add more trucks at a higher contribution margin, as well as normalization in the resale market and getting our share of gains on used equipment back to a more normalized level.

So, the compounding effect of that is significant to get us back to double-digit margins. While also continuing to focus on the structural aspects of our business, continuing to lean into technology, M&A integration, operational innovation that really gets to a lot of the cost savings programs that we've focused on over the last couple of years. So, the aggregate of that still gives us confidence in a road map back to double-digit earnings or operating margins. Pace and timing, uncertain just given the backdrop of the market. But in terms of those being key pillars to get back there, we have confidence in that.

Ravi Shanker
Got it. I'm going to come to technology in a second, but maybe sticking with the long-term earnings margin or earnings profile question. In our conversations with investors, especially long-only investors, kind of they really like some of the structural improvements in the trucking space, the fact that regulations have kind of consolidated the industry somewhat. Supply chain is getting shorter, faster and tighter. That's good for trucking.

But they've been somewhat put off by the volatility and the cyclicality of earnings. Is there anything you guys can do? I mean, obviously, you have a big, Dedicated business, which is a more stable business, but is there anything you can do to reduce the volatility of peak versus trough earnings?

Derek Leathers
Yes, we could avoid another global pandemic. That would be helpful. But all kidding aside, if you look at prior cycles, absent of COVID, we had proven the theory that in down cycles, if you go back to '18, '19, we held serve in a down cycle because of our Dedicated portfolio, because of our structural changes and because of our more diversified portfolio with Logistics. But nobody anticipated what happened in COVID and how robust it got, how much capacity flew in and then how that capacity was sort of subsidized so aggressively by the U.S. government.

And so, the downside of that has shown up as if we're now in a more cyclical business than ever before. But in reality, we're in a post-pandemic era that's finally coming to an end. That's honestly what I believe. I think you're going to see our ability to prove the resilience of this portfolio in normal cycles and normal ups and normal downs. And I think that's going to be something that's going to be fun to put on display.

Ravi Shanker
Shifting gears a little bit, never waste a good down cycle and you guys haven't. You've been very focused on the cost side of things and are taking costs out of the equation. Give us a sense of what you have achieved so far? And, A, what might be yet to come? And B, what does that mean for incremental margins and operating leverage in the up cycle?

Chris Wikoff
Yes, good question. We are already focused on next year's program, how we dimension that. I mean how we've gotten there last year and to this point has really been focusing on operational innovation, technology, M&A integration. Those will continue to be the things that we lean into, although the weight in one or the other and the benefit that we're getting out of that might shift as we go forward. I mean we're a couple of years now into a multiyear technology journey where we've invested a lot of time and energy and money. I think as we go forward, there's going to be more synergies there.

As technology road map progresses, then so does more of the M&A integration. We've seen that in the first half of this year integrating Reed of substance that came along with integrating more of the Logistics business into our Edge TMS platform. So, we'll continue to focus in those three kinds of buckets in further improving the cost to serve and our cost base and we're dimensioning that right now.

Derek Leathers
And keeping with the theme of don't waste a down cycle. The other things we've done is, I mentioned it earlier, but I love the position of our fleet right now. So, truck and trailer age are at absolute perfect levels. We don't have any lost sleep to make up for as this thing starts to improve from here. We're in a great position there. We've continued our tech journey, which has been significant in both expense and significant operational headwind as you make this migration.

We didn't blink on that. We just kept moving forward knowing that this too shall end at some point, and we'll get into a better market. We're going to reap those benefits, as Chris indicated, and it really positions us to take the steps that we would have loved to have done sooner on some of this integration but couldn't until our own internal tech journey was further along. So now we can start bringing all of these networks onto one system, one platform, one set of visibility.

Ravi Shanker
So just on that point just give us an example of what some of these tools have done for you and kind of any tangible way to quantify kind of how that's resulted in better productivity or margins or something?

Derek Leathers
Yes. I mean I think one of the best things it's done for us, and it's in the early innings of this right now, but as we have Reed now integrated onto our Edge TMS platform, along with our own Logistics business on the same platform with some early inning visibility into our One-Way network also integrated, we're now seeing much more opportunity to say, yes, where, no, might have been the case prior.

We can take that freight and find the right home for it. We can work with that customer and bring yes as the final solution. That's a big positive. We also find a lot of opportunities where both might have been

saying, yes, but they ought to be hauling different freight. So, some of that Logistics freight ought to be residing within One-Way, some of the One-Way in Logistics. You have those conversations with customers, and they love it because we're only doing it because that is, in fact, where it belongs, being more mode agnostic.

Lastly, it's just the simple productivity at a seat level. So, as you get these tools all in place, you see seat level productivity up in Logistics now by 20%, 30%, in some cases where it's fully implemented, and we think there's more upside from there. And yet that user experience, the actual person in that seat also likes the job they're doing a hell of a lot better because we're using tech to take some of the more mundane tasks and automate them.

Ravi Shanker
Staying with the tech theme, you guys were early to trial EV trucks. You said there's an important event coming November 5th. But kind of depending on how that turns out, it does seem like there's a bunch of money continuing to go into this kind of infrastructure build-out and such. What do you think we need to make EV penetration real?

Derek Leathers
Well, we need a lot. We have EV trucks. We're operating them today. I think the success of those trucks is very suspect at this point. I'll zoom out for a second. My big concern is really big picture. The grid is not able and capable of producing enough electricity to be able to charge these trucks. So, forgetting about whether the truck themselves are able to get to a point where they're a realistic substitute for an ICE engine or not. Even if they do get to that point, we, as a country, are not making the moves necessary to produce more electricity.

And that's before the massive consumption of electricity that comes along with AI. So, AI is now a bigger competitor for that very limited grid than even EVs are. And so, I think the obstacles are significant.

We're a much bigger believer in the sudden and pretty significant increase in renewable diesel, going from 500,000 gallons to the 3-billion-gallon potential. That will grow from there. That is a real opportunity to make a difference for the environment.

And I think EVs in the Class 8 market, it's sort of a square peg, round hole problem. There are so many applications that make more sense. Every refuse truck, every school bus, every return to home, dray-truck, intermodal. There's lots of places where it makes sense and there's way more where it does not. And I don't see a path to it making sense in those other areas anytime soon. But if it did, I'm very concerned about the ability to charge them.

Ravi Shanker
The RD point is a very good one. We have seen on the airline side that a lot of the kind of leading airlines have looked to go in and maybe kind of corner some of the SaaS production market for themselves ahead of time to ensure they have that flow over time. Do you need to do that in the RD space as well, kind of what is the demand supply looking like?

Derek Leathers
Well, we play in that space today. We're consuming as much of the RD that we can. We're trying to work with customers right now on the possibilities of it. Clearly, production needs to be increased and it needs to be increased significantly. And then I think the other thing is we've got to find a way as a country to not do some of the state jurisdictional stuff we're doing.

So, we're taking RD today, renewable diesel today. We're shipping it out to California. Not we, but as a country, shipping it to California, increasing its carbon footprint unnecessarily versus using it where it lies. Like we ought to be able to use it where it lies, figure out a way to have credits and other things, and that is developing as we speak, and I'm excited about that opportunity.

And then the ultimate thing is making sure it doesn't, as it grows in demand, compete with food source. We don't want to raise food prices due to renewable diesel and I think there's lots of pathways where they can do both, where they can do that without having an impact on food.

Ravi Shanker
I'll ask you again on November 6th. We'll see what happens. Any questions in the room?

Unidentified Audience Participant
I think one of the themes post-COVID is just the continued cost inflation in your industry. So, as you think about getting to a more normal, more seasonal market and going through the bid season, what type of price increases do you need just to hold the line flat?

Derek Leathers
Well, I think the industry needs significant more price increases than are probably realistic in the very short term. We have done a better job than the industry average in terms of taking cost out. I think what I would really speak to is that I think the cost curve is starting to bend a little bit. So, take insurance, set that aside because that's an anomaly that's just hard to ever predict. We're at 19 to 20-year lows in DOT preventable accidents and yet the insurance line goes up into the right because of nuclear verdicts and other sort of behavioral issues that are hard to combat.

But trucks, trailers, tires, those are big expense items. Labor is right there in that same magnitude. Those things have stabilized, those things look like we can bend the curve on that as we go forward. Those also, just like everything else that's returning to more normalized levels, those seem to be as well. That will be short term on the truck side because with 2026, those trucks will be significantly more expensive if the regulations stand.

So, our job is to obviously do the best we can, control the controllables. I love our fleet positioning, as I mentioned earlier, because I'm not going to have to go chase irrational pricing if that's what we were seeing out of OEMs. Our fleet is in a great place, and we'll stay there if that's what we need to do.

Unidentified Audience Participant:

Great. Maybe not to belabor the Dedicated point too much. But as you think about sort of the increasing difficulty it is to be a truck carrier kind of paired with Logistics being more of a value-add for shippers themselves. How do you think about the kind of competing dynamics between maybe outsourcing to expertise versus it being so mission-critical, they might want to in-source and what that kind of means for the Dedicated space as a whole?

Derek Leathers

Yes, look, as Dedicated in its purest form, real Dedicated. So very complex, engineered solutions, with driver involved freight. That outsourced model is always going to be the lowest cost model for a shipper if they're willing to fully burden the alternative. Now I say if they're willing to fully burden because often we see massive allocation issues inside of shippers when they want to run a private fleet that isn't allocated any insurance. It isn't allocated any of the overhead. They're not allocated the real estate they're consuming.

If you run it that way, you're going to always feel like you're saving money by insourcing. The best examples that we actually like the most, back to a question earlier today, was when a shipper wants to run a hybrid side by side. We always encourage that because over time, we're very confident we will win.

Like we will show them the value and the solution that we bring. And with that, it gives them even increased confidence for ongoing outsourced, ongoing growth with us as a provider. But those are always going to be competitive spirits that are out there, and there's no perfect answer. It's really customer by customer.

Ravi Shanker

And with that, I think we are over time. Derek, Chris, thanks so much for being here.

Derek Leathers

Thanks for having us. We appreciate it very much.