Stephens Annual Investment Conference
Werner Enterprises (WERN) November 19, 2024, 1:00pm ET
Werner Enterprises: Nathan Meisgeier, President and CLO, Chris Wikoff, Treasurer and CFO, and Craig Callahan, Chief Commercial Officer
Stephens Analyst: Daniel Imbro

Daniel Imbro
We're at the top of the hour. My name is Daniel Imbro. I'm Transports Analyst here at Stephens. Really pleased to be joined this afternoon by Werner. From the company, we have CFO, Chris Wikoff, Chief Commercial Officer, Craig Callahan. And then President, Nathan Meisgeier. Guys, thanks for joining us here today.

As a reminder, this will be a fireside chat format, so I'll start with Q&A, but please ask questions as you have them. We'd love to have a more interactive discussion here. But Nathan, maybe I want to start at a high level a little bit before we get into Q&A. If you could spend a few minutes, give a bit of an overview of the company and how you changed and kind of adapted through this downturn. It's been a longer one than I think we all thought it would look like, but curious how you've adapted and grown through this and then we can jump into more discussion.

Nathan Meisgeier
Sure, thanks for having us. So, I'll level set a little bit for those in the room that aren't familiar with the Werner story. We're a 68-year-old company, started like a lot of truckers, one man, one truck and have grown to 7,500 trucks, about $1 billion worth of Logistics revenue now. So, to break the portfolio down a little bit, approximately two-thirds of the portfolio is our Truckload Transportation Services, TTS, part of the business and then the other third is Brokerage Logistics.

So, in the two-thirds bucket, again, about two-thirds of that is Dedicated. So hard to serve, complicated long-term, three-to-five-year, sticky contracts with customers and we're able to serve large enterprise customers with our scale there. The other third of the TTS business is One-Way and that's not your typical over the road One-Way freight. It's more highly engineered, it's cross-border Mexico, it's expedited and again it's more unique sort of freight.

And then in the Logistics side of the business, in that part of the portfolio, it's broken down in Truckload Brokerage, which is really the bulk of it. Intermodal resides there and then Dedicated Final Mile. So that's over the threshold, large, bulky, think two men in a truck type delivery services into the home.

And the Logistics side of the business is our fastest growing segment. We're proud that that has continued to grow over the last couple of years and it allows us the opportunity to serve, as I mentioned earlier, large enterprise retailers on the truckload side. But the Logistics side allows us to serve small, medium business as well.

We've got 13,000 associates, approximately 7,500 trucks, as I mentioned earlier, nearly 30,000 trailing assets. So, we have the ability to bring a lot of scale to bear on behalf of our customers and really meet them where they are and serve them on what they need.

So, you asked about what we've been able to do in the downturn and somebody said the phrase, never miss the opportunity to take advantage of a downturn. So, we've done that and we're proud of what we've done.

On the tech side, we've continued to lean in on our tech journey and investing in the tech to make sure that we come out of this without tech deficit or tech debt. I've heard some of our competitors talk about how they've pulled back on that over the downturn and that's not the approach we've taken. We want to make sure that, when we do hit the inflection point and everyone's been asking when is that. But when we hit that inflection point, we're ready to run and we're not having to play any catch up.

With our fleet, we've continued to renew the fleet over the downturn as well. So, we're at a low age of truck, two years average age of our truck, approximately five years average age of a trailer. So fresh, new equipment that has the most up-to-date safety equipment on it, which keeps the motoring public safe, keeps our drivers safe, keeps our drivers happy, and frankly keeps our customers freight moving because our trucks aren't in the shop getting repaired, they're able to be on the road moving our customers' freight.

So, something that maybe is a little counterintuitive, Daniel, to your question of what have we done during the downturn is we've leaned into things that maybe have actually hurt the margin right now, just to make sure that we're not in either a tech deficit or a fleet deficit coming out of the turn.

Daniel Imbro
That all makes sense. And maybe we think about where we are in that cycle. It does feel like you, along with some other carriers have at least noted more normal seasonality. No one's jumping up and down yet at this conference. Tell me if I'm wrong there. But it does feel like we're seeing at least more normal seasonality on the revenue side.

I guess what do you think is driving that improvement? Has just enough capacity come out where we're back into balance? Are we seeing project activity pick up? Just curious why you think we're seeing that seasonality and how you're seeing that peak season progress?

Chris Wikoff
So maybe just to recap on some of what we're seeing in terms of gradual improvement over the last couple of quarters there's been elevated spot, there's been more project freight that we've seen in certain geographies. More recently with some of the supply chain disruptions related to the ILA port strikes, although that was short lived, as well as some of the hurricane impact and the relief effort there. You know, we saw a market response that suggests that the market is getting closer to being more in balance. And capacity, while it's slow, it continues to exit, and we think that's positive.

It's modest, but it was nonetheless shown in our results for the first time in the third quarter in terms of year-over-year, One-Way rate improvement, that's a change in trend that we have not seen in over seven quarters.

So, it’s gradual improvement, but improvement nonetheless. And we’re excited to see how that continues. I think it also is reflective in as peak starts or continues to come more into focus and we believe that that’s going to be positive on a year-over-year basis.

Daniel Imbro
That’s good to hear. It’s been a while since we’ve had to think about that. Maybe from a demand standpoint, I’d love to hear your perspective. I think you’re a little more retail heavy than some others (peers), especially some big kind of dollar store chains and big retailers. So, how’s the health of that end market been? What are you guys seeing in terms of velocity changing or not there? And how has that progressed again heading into peak and ultimately thinking about next year?

Craig Callahan
Arguably we’re overweight retail, we see that as an advantage, and I think it’s been an advantage for us during the downturn. And quite honestly, it’s like anything else. It’s within that retail when you peel that back, who are you doing business with? Who are your business partners within that space? And as you mentioned, our exposure is really three-pronged within retail. It’s discount retail, which is what you might imagine, but it’s necessities, it’s not really discretionary. That business has been strong.

Those client sales have continued to grow, and our business has benefited from that as well. And then in the department store retail for us, our exposure for the most part is really on the opportunistic retailers. The ones that are buying goods that are overruns or surplus and they’re selling those at a discount. Name brand’s high-quality goods in the retail market. And our exposure there is solid, and we’ve benefited, as have they, as an organization. There are several companies in that space that have been really successful.

And then the last component of our retail exposure is on the grocery side, and we’ve benefited from that tremendously over the course of the last couple of years where people still have to buy food and groceries and that’s been a big benefit from our Reed acquisition, the broker that we acquired down in Florida. We sought them out and specifically went after that company because they were exposed, more exposed than we were as an organization to food and beverage and specifically grocery retail within that. And that exposure has been fantastic for us.

So yes, some might say we’re overweight retail. We think that’s a really good thing. Balance is obviously critical, especially in transportation and logistics where things are super cyclical. And so, you’ve really got to be cautious and careful about where your exposure points are. But we think we’ve benefited from it, and I suspect we probably will continue to do so.

Daniel Imbro
Well, I’ll try not to fall back into my old retail analyst habits. But I’m curious, are there any particular pockets of relative weakness or relative strength within that portfolio that you’re looking at? Like you mentioned discount retailers? I guess that’s a relative period of strength. Dollar stores publicly looked like a relative period of weakness. How would you assess that and are they changing? It feels like discount’s been strong for years now and continues to be. But is anything changing in the relative strength and weakness out there in your customers?

Craig Callahan
I mean, it seems to us, and most of those discount retailers are big, well capitalized public companies and they're doing extremely well. And so, we still think there's a lot of upside there. They are also really good clients and they're tough and they're not easy to serve. And so, if you're doing a good job, I think that's really good for business. And so, I think our exposure in the discount retail space, specifically is going to be really good. And then I would just go back to, and I would hearken on the grocery retail.

I think we're just scratching the surface. We're just kind of getting started there and our performance has been really good, both on our contribution from our asset team as well as on our non-asset offering. And so, I think we're going to continue to benefit there.

Nathan Meisgeier
A couple of retailers, not that this is a retail panel, but a couple retailers released in the last 24 hours. And I think there's been some really good news from those retailers. So that provides some promising early returns maybe heading into Q4. And really, we have seen that, our customers, even the ones where their margin is being squeezed a little bit, their top line has stayed strong. And the boss back at Werner likes to say, we don't haul margin, we haul freight. And so, with the freight still strong, that's good for us.

Chris Wikoff
And maybe just adding to that, I mean, the consumer has been selective, trading down for value. I think that's positive in terms of being more concentrated in discount retail. And then exactly what Nathan just said, if you go back to the earnings cycle and discount retail is certainly outperforming kind of discretionary retail in terms of same-store sales, store growth, inventories continuing to be in check. And then even the outlooks continue to be low to mid-single digit, outlooks on year-over-year revenue. So, the discount retail space is hanging in there pretty well.

Daniel Imbro
Great. Here in the 4Q and Chris, you touched on earlier a little bit, you and some peers have talked about project business popping up. I'm curious if you could just expand on that? It feels like it's been a little while since we've really heard of actual project activities. Was that storm related? Is that in the asset or the asset light side? Where are you seeing that demand pop up? And what did that tell you about the health of the market just the fact that we haven't seen it in so long?

Craig Callahan
It's probably all the above. I mean, certainly we saw a bump. Our industry saw a bump with a potential port strike out East that was a real thing and then subsided. And then the hurricane certainly created some chaos and some havoc in the supply chain. And so that lasted for several weeks and then started to flatten out a little bit. And then peak season project work has been good. I mean, across the board, the opportunities have been up, the volumes within those opportunities have been up, and the prices for those opportunities have been up.

There are reasons to be optimistic. We want to stay balanced because again we're talking about a percentage of a percentage. And so, we're just kind of scratching the surface. November will close out, and within the first week of December, we'll kind of see how things are tracking. But within our walls we're encouraged. Volumes are coming in ahead of last year, revenues coming in ahead of last year. But again, that's coming off of a couple of really lousy years, if I'm being honest, relative to peak season. And so, I think we just have to put it in perspective as well.

Daniel Imbro
That all makes a ton of sense. So, thinking about that though, we have a little bit healthier peak season this year. We're seeing rates go up, as you talked about earlier, a little bit stronger rate environment. I know it's early, but how does that inform your thinking about just 2025 bid season? Like how are you thinking that we see next year shape up from a high level? What would a normal increase be? Are there any corollaries historically that this feels like at that point in the cycle? Just trying to think about how we should extrapolate that.

Chris Wikoff
Well, I think we view it as being positive. We haven't issued any guidance, not being too specific on the degree to which there's opportunity there. But I think there's a lot that points to next year being favorable. And we'll approach it that way as we enter into the bid season being methodical, being proactive to influence rate where we can.

We referenced the year-over-year improvement in One-Way in the third quarter – very modest, but a change in trend. We issued guidance for fourth quarter year-over-year, One-Way rate improvement upwards of 3%. And so, we see that continuing and we'll continue to lean into that and influence that as much as possible in the year to come.

Daniel Imbro
And as we think about the typical lag in your business, if One-Way is up three-ish percent, let's call it a little over that in 4Q, how long do we see that stay before that shows up in more contract and actually in the rest of the business? Like how long does that lag typically if you think about showing up in that longer-term Dedicated business?

Would you expect to start showing up in next year's bid season in Dedicated because it's just longer-term contracts? Just curious, the momentum you see.

Chris Wikoff
Well, we'll continue to approach Dedicated and those opportunities, bids or renewals in the same fashion, being disciplined on pricing. Those are multi-year contracts, so it's a long-term decision as we're entering into those contracts. We know the complexity at scale for large enterprise customers that we serve there in Dedicated and what comes along with that and so pricing that appropriately. But we feel good about the position there. The pipeline in Dedicated continues to be strong. It has been more price sensitive this year, but we feel well positioned and we'll continue to be aggressive with that pipeline as we go forward.

Craig Callahan
I would say the first, I mean, the bulk of our business on the contract side renews in the first two-thirds of the year. And we're heavy, I mean we're already heavy into bid season for 2025. And so those conversations are ongoing and extremely active. From a baseline perspective, we're

coming off of a couple of rate resets to the negative. And so, rates are going to have to go up and it's probably going to take a couple of cycles in order to catch back up with where we need to be as an enterprise in order for us to be able to reinvest back in our business. But clearly the start of that process will be now carrying through the first half of next year.

And the same would hold true for Dedicated. To Chris' point, those are multi-year bids and they're multi-year contracts and they do go cycle to cycle. And in general, there's inflation or deflation that's built into those contracts. And certainly, in order to protect some of the business and also to be a good supplier to our clients, in many cases we're running stressed organizations as well, we've had to forego some of those increases like many of our competitors. And so, we've got to begin to claw back some of that rate work and get ourselves well positioned heading into 2025 and 2026.

Daniel Imbro
Well, maybe trying to focus on what you have been able to control. Chris, you made a lot of progress in the cost side the last couple years and I think you took up your cost savings for a while here. Just kind of curious how you feel about the sustainability of some of those savings? And where do we need to reinvest? I mean Craig, just said need to reinvest back in the business when we get through a couple cycles. But where do we need to reinvest first? Like where are we maybe pulling back on investments in the near-term? And how should we think about what that ultimately means for flow through as we start to get rates again? How much of that can drop through versus how much of that has to get reinvested where we haven't this year?

Chris Wikoff
Good question. Maybe just to recap. So, between last year's program and this year's program, which we recently increased to $50 million, so call it, nearly $100 million in targeted savings over a two-year period. And the way that we've gone about that is really focusing, maybe oversimplifying, but really in three areas, one on operational excellence and innovation, secondly in leveraging technology, and third, in terms of M&A integration. So purely based on just how we scope those opportunities and go after those opportunities, by their nature they're more structural, they're more sustainable and we expect to continue to get value out of those initiatives as we go forward.

I would say just given where we are in our technology journey, which is a multi-year journey, a lot of investment of time, energy, money. As we go forward, we would expect more of that savings opportunity to come from the sustainability of those investments and effort on the technology roadmap.

Daniel Imbro
And I feel like a big cost headwind is the theme today and for a while has been just insurance headwinds. That inflationary pressure is not going to abate it feels like. When you put that together with nuclear verdicts and everything else, what's the right level of truckload cost inflation as you think about your business? And said another way, how much rate do we need to start exceeding cost inflation to actually return to margin expansion?

Chris Wikoff
So, I'll maybe address the second half of your question. And Nathan, I don't know if you want to talk a little bit more on the insurance side.

Craig Callahan
Nathan's in charge of insurance.

Nathan Meisgeier
It's going so well. Thanks.

Daniel Imbro
Yes, lucky you.

Nathan Meisgeier
Thanks.

Chris Wikoff
We wouldn't look at it as one silver bullet in terms of margin expansion as we go forward. Certainly, rate is going to be a leading contributor to doing that. Inflation isn't all out going away. It might be moderating. There's still going to be pockets of that that we've got to combat through a series of different efforts, the cost savings program, going after rate improvement, and influencing that where we can and other levers. So early to say exactly how all that's going to shape up for next year, but I think there's more opportunity for sure going into the next year to influence the rate improvement.

Craig Callahan
If I can get one thing in before insurance, I would say that back to Nathan's earlier point, the pressure that our company and many like us have been under for the last couple of years and the ultimate cost savings initiatives that Werner has been under for the last two years and now into 2025 as well, they're structural in nature and it's really set the tone for a very cost conscious, efficiency driven organization. And that's the backdrop we have as we start to begin to implement some of the new technology that we've been journeying for the last several years.

And so, while we need to continue to work the revenue line, we have to stay focused on the cost line and we have to drive our cost to serve down ultimately because that's what our customers expect from us. And so, all of those things, we've got inflationary items, but we have got to continue to focus, be a cost focused organization to be able to keep our cost to serve lower so that we can offset things like some of the inflation items and also just be a better supplier to our clients.

Nathan Meisgeier
Every time he said inflation, he pointed at me. I don't know what that was all about. So, to the insurance line item. It's frustrating, right? So, to take a step back, our safety culture is as strong as it's ever been. We talk all the time about nothing we do is worth getting hurt or hurting others. And that plus the safety technology and the investment in our safety, the tech on the trucks, those

two things combined have driven our safety stats to 20-year records for us. Work comp accidents way down, auto accidents way down. And we're super proud of those statistics.

And yet we get faced with insurance premiums that double in a year. That was a couple years ago. I heard somebody this morning say they pay twice as much for half as much insurance. We experienced that. I see a couple other truckers in the room nodding their heads in agreement. And so, we all know what that pain point felt like. So that's the reality that we're faced with.

And Daniel, to your good question about nuclear verdicts. It's really nuclear verdicts and nuclear settlements that drives the bulk of it. And then the nickel and dime stuff, which it's not nickels and dimes, but a $50,000 case from a couple of years ago is now going for $150,000, $250,000. You multiply that over your book of claims and the numbers get scary in a hurry.

So, what are we doing about it? Well, we're taking on more of the risk ourselves, because we like the idea of betting on ourselves on that. That's one. Two is we're not going to stop investing in the safety tech on the truck. That's the right thing to do and it helps the bottom line, but it's here to stay. And so that's the unfortunate truth. Some of us, myself included, are involved in lawsuit reform around the country and leaning into trying to drive lawsuit reform, legal reform around the United States. And unfortunately, based on the way our country is built, that's a 48 state in the contiguous United States, that's a 48-state battle.

And we're taking that really to the grassroots. A big legal reform bill that passed in Iowa, that was meaningful. A legal reform bill that passed in Florida, that's meaningful. And working in other states where it's a problem. We're passionate about it and trying to get that fixed really structurally, across the country.

Daniel Imbro
Thinking about legal reform maybe dovetails into just a broader topic. Obviously, the election a few weeks ago. I'm curious, we've heard a lot today about maybe easier regulatory backdrop or there's tariffs and who knows what that means for importing and retailers. But just curious, as you guys think about the risks or potential opportunities post elections, what are you guys focused on? What are you looking for clarity on out of Washington? Like, where are you guys spending your time as you think about the potential changes coming?

Nathan Meisgeier
So, I've heard a lot of people talk about tariffs and the question is, when's it coming? What's it going to apply to and how much does it impact us? So, we've talked to our customers to make sure that we're aligned with them. And our customers are saying the same thing, which is we hear the same rumbling. Trump sure has been loud about it, but we don't really know what that means and when it's coming. And if it's going to come, it's not going to be tomorrow. So, any pull forward isn't happening really right now. It might happen eventually.

The tax side, tariff obviously is a type of tax, but the corporate tax rates, Trump's been loud about that too, which seems like it would be a good thing to stimulate both for businesses and for the ultimate consumer. So, if that happens, I think that's a good thing, obviously structurally for the country. The bonus depreciation issue that expires in, I think 2027, and that's something that

Trump's been loud about. I keep saying loud. Maybe I shouldn't characterize our President elect as loud, but that's something that he's been proud about. How about that? And then the deregulation side of things.

So, I think that the deregulation back in his first time through, he had an internal rule of any new regulation had to be offset by retractions of two other regulations. And it seems like that's going to be the environment we find ourselves in again. And for the most part, that benefits our industry and our customers. And yet there are still regulations that we as an industry are trying to push forward. And so, we need to make sure that it doesn't get caught in the backwash of okay, let's make sure that good regulation still is proceeding and then the ones that are stopping common sense business practices, that those can go away.

Daniel Imbro
That's helpful. Want to spend a few minutes just on the Dedicated market broadly getting your perspective and purview over it. I think a lot of the publics have invested in Dedicated over time. I think you all define it a little bit differently, but Dedicated broadly, just how has competition trended through the year?

It's obviously been such a long downturn, rate competition has come to this part of the market. But curious, have you seen that pickup? Have you seen it moderate? How is competition within Dedicated?

Craig Callahan
Competition I think has grown and it's grown the longer this down cycle has continued. And our definition of Dedicated is fairly acute. It's hard to serve, multi-year contracts, typically with driver involvement. That brings about some complexity to the business and is not something that can be easily replaced, quite honestly, even through an RFP process.

Now what we've seen from a competition perspective is, especially if you're the incumbent, in some cases on some of these Dedicated deals, where you know how the business works and you're competing with somebody that's participating in an RFP and all they know is what's in the RFP, they don't really know how the business runs. It's a really difficult place to compete. But we've seen this movie before. Those of us that are old and have been through a few cycles, it's quite natural the longer the cycle has gone for fleets to seek safety in places where there's potentially higher returns or maybe no losses or less losses. And that's what Dedicated has been.

And so, we've certainly seen a flight towards Dedicated. I think in our industry it's made the numbers sometimes in terms of what some business is being won at. It certainly had an impact on our win rate. We're public and so we have fleet size numbers and so it certainly had an impact on our retention rate as well. Yet through it all we were up, Dedicated truck count sequentially Q3 versus Q2. And it's something that we're extremely proud of amid all that competition.

So, it's certainly sharpened us a little bit, I think in terms of making sure that we're showing up every day and that we're performing at an extremely high level and that we're trying to re-win the work every day, day-in and day-out. But there's no doubt that it has made the market a little bit cloudy, and it certainly made it more competitive.

Daniel Imbro
And there continues to be, I think, anecdotes coming out of either industry publications or from private fleets of them growing their own private truck fleets. And I'm curious if you guys are seeing that as maybe a headwind on growth or how that has impacted Werner's ability to grow a Dedicated truck fleet because it feels from the outside would be a headwind. So curious either if you're seeing and how you're going through it?

Craig Callahan
I mean, a couple of points there. Some of our best, most reasonable, rational customers have private fleets. And so, I think it makes for smarter, better, more productive discussions. And so, I don't think it's a headwind. And quite honestly, when you look at our pipeline, specifically our Dedicated pipeline, but that's where our private fleet pipeline rolls through too. I don't think it's having an impact on the business pipeline.

Now again, the win rates continue to be very small, but the pipeline continues to be growing. And much of what we see in the pipeline is in the form of small and medium sized private fleets that are trying to get out. I mean, trucking business. It certainly isn't getting any less complex, it hasn't gotten any less regulatory and it's certainly not getting any less expensive.

And so, I think there's a lot of reasons where private fleets look at it and are rethinking maybe what their future looks like. And maybe they want to keep their private fleet, and they want to build on it through third party capacity, whatever the case may be. But we don't necessarily think it's bad for business at all.

Daniel Imbro
That's helpful. And then maybe, going back to the first question, as more large public companies are trying to compete in Dedicated and going after that, I'm just curious, how does Werner, we can talk about the stock and the company itself, but how do your salespeople go to market? What is the differentiation that they're pitching to customers? Why are you winning business where you're winning it? And conversely like when you're not winning business, what's the feedback you're getting as to why you're not?

Craig Callahan
I mean our number one reason for opportunities lost right now is price and our number two is price, and our number three is price. I mean those are the top three. But I think our message is going to continue to be, I mean, we're two-thirds Dedicated, and our Dedicated journey started a couple decades ago. And so, our passion for Dedicated and really good service has not wavered and it won't continue to waiver.

Again, we've read this book before, and history would indicate many carriers that flee towards Dedicated for the safety of it during a down cycle are very quickly going to be attracted by $3.50 or maybe $4 a mile spot rates, and they'll begin to rethink that strategy as well. And so, our message to our customers, both existing and potential new ones, continues to be one of sustainability in terms of broadly and our ability to be around for the long term, a high passion for service.

Our retention rate is extremely high. It is rare that we lose out on a piece of business for any other reason other than price, quite honestly. And so that's got to continue to be our message. We do need to focus and continue to focus on the more specialized part of Dedicated because there is a little less competition there. You've got to have the capital to be able to fund some of those interesting fleet components and some of the equipment types. But we're well positioned to be able to do that. And those are even more stickier than maybe some of the traditional Dedicated that we've come to know.

Chris Wikoff
And I would just overemphasize, our track record in Dedicated is strong. Not only the customer retention rates that Craig mentioned, but we've grown the Dedicated fleet 14 over the last 16 years. We've grown revenue per truck per week, nine out of the last 10 years. And we've grown Dedicated fleet in every up cycle. So, the track record is strong. It's been more unique over this last year but feel good over the long term.

Daniel Imbro
And then maybe just to follow up on Dedicated, I think investors still have some apprehension just around the sensitivity to an up cycle you mentioned others might go chase really high spot. And I think that that from a stock standpoint, has been an overhang. I wonder, can you talk about maybe the levers you have to pull as the market tightens as to how you can participate in that earnings upcycle and where you see the opportunity or maybe where that investor perception is wrong in your mind around the earnings opportunity in front of you?

Craig Callahan
I mean, I'll dive in and I'm sure these two will have thoughts as well. But I think as freight rates continue to work their way up, it benefits the organization on a number of different levels. One thing is for sure, I mean even our big enterprise Dedicated clients today many of those fleets are down one, two, three trucks at a site level. Just through their organic business being down, that too will begin to claw itself back and it'll generally come back at a higher rate than what's in place today.

Our One-Way business naturally will grow up and that will be through a series of things. Contract rates will go up and that will certainly help and our exposure to the spot market will increase. And today you could argue that exposure to spot market, although it's certainly improved from its bottom, is out of necessity. It's really not out of choice. With maybe a few market exceptions in the country, that's certainly a lever that we have the ability to be able to pull. As the spot market improves and it gets somewhere higher than $1.60 a mile more nationally, then that's certainly something I think we can benefit for, and we can maneuver our fleet accordingly.

And then I think our growing Logistics profile puts us in a really, really nice setup. We're $800 million more or less in Truckload Logistics, aka Brokerage. And sure, you've got a purchase transportation component that you have to buffer as freight rates go up, but being overexposed to the spot market in that line of work also puts us in a position to be able to benefit going forward. So, we think the future is bright and we think as the market improves, we're uniquely positioned.

Dedicated has not proven to be an anchor. It wasn't an anchor in the last upcycle, that's mythical in nature. We've certainly taken on a little more water during this down cycle than we had anticipated. But we don't expect it to be – if it's an anchor, it's an anchor in a good way and it continues to be like a stability and it's the rock from which we continue to build upon. But it should not hold us back at all on earnings.

Chris Wikoff
And just to add to that, I agree with everything Craig said. Just to add to that, wouldn't want to lose sight of the investments we've made during this down cycle. And Nathan kind of alluded to it in some of his opening remarks of operational excellence and innovation that we focused on, like the utility improvement that we've seen for several quarters now on a year-over-year basis in One-Way, getting more miles out of the truck, sweating those assets in a more productive way and some real intentionality and reasons behind that. But that is a benefit that will realize even more so in an upcycle.

And then along the fringe, other things that we've been working on over the last couple of years during this down cycle of investing in technology, our acquisitions. And we're pleased with the cross selling, the integration, the progress of those acquisitions. But the reality is we haven't fully seen the full value of those acquisitions. They've really joined the Werner portfolio largely during this down cycle. And I think we'll continue to optimize even more value in an upcycle.

And then also our school network. It seems counterintuitive, but we've actually added schools to the Roadmaster and the school network during this down cycle in arguably an environment that would be unproductive, but it puts us in a position for those to be more utilized, more productive and to help us to be able to flex and grow in the future. So, a lot of effort during this down cycle in a lot of different ways that we'll continue to benefit from.

Daniel Imbro
And one of those areas you've invested, moving to the Logistics side, has just been technology. You talked a lot about some of the tech you're building out there or investing in. One, I'm curious just if you can expand, what that adds to your capabilities? And then second is like what's becoming table stakes versus I think a lot of people are investing in technology through this down cycle versus where you think you have actually the most differentiation. I'd be kind of curious on that.

Chris Wikoff
I understand your point on table stakes and a lot of people are mentioning technology, investing in technology, but that's kind of a low bar or a bare minimum. What we're doing is way beyond kind of what you would call table stakes. It's transformational. It's multi-year of completely transforming our platform in terms of how we manage freight, how we take in freight from customers, solution that, optimize that, manage the network as well as completely transforming the systems that we use in the back office.

We're more than halfway through, still have a ways to go to fully realize that coming into this year, back to your point, specifically around Logistics, coming into 2024, we had largely transitioned our Truckload Brokerage and Intermodal business to our new EDGE TMS platform. Again, going after a platform that has 100% of our freight on that platform.

But we really started in the Logistics segment, which we feel good about that, we're seeing some benefit. But it's really over the last couple of quarters, as we started to add customers on the One-Way side and add that freight to the platform, where we've really very recently started to see the synergy and the benefit of having visibility in Logistics and as well as our One-Way business across certain key customers and being able to quickly be agile in terms of how we respond to those opportunities and how we optimize that freight. And frankly we've seen in the last couple of quarters where we've been able to capture revenue that we otherwise would not have been able to respond to efficiently.

So that's only going to continue as we add more customers' freight onto the platform. We still have a ways to go on One-Way and then, of course, bringing our Dedicated business onto that platform. So, we're bullish about the end benefits, we're happy with the progress and we'll continue to stay focused.

Craig Callahan
I'd add one thing Daniel, and I've had the advantage of, I grew up in the guts of our business on the operations side and various components of it and the technology that we're embarking upon, it does not exist. And to have one operating platform where all of your freight and all your capacity, regardless of mode, regardless of division, that technology doesn't exist today. And that's our journey and we've got another year or so to get through the primary part of that.

But I think the potential that it offers our organization in terms of unlocking our ability to be able to more efficiently match up freight with capacity as well as unlocking our people to be able to do more with less and to become more efficient as an organization and to continue to push our cost to serve down. We think the future is super bright.

Daniel Imbro
And when I think about that EDGE system you're building there, Chris, I think part of that always is with a third party. You talked about like a tech party you have an ownership in. I'm just curious, how much I want to say moat around that is like as that technology from a third party gets better and better, can others then use it as an off-the-shelf solution and therefore close that gap with you or how do you protect what you're helping build to not then be easily replicated?

Chris Wikoff
Yes and no. It's a fair question. I think there's, so, you're referring to Mastery and the MasterMind platform. There's certainly an element where other shippers, other organizations, carriers can invest and leverage from that platform. But I think it's also given the kind of open architecture of it and bringing that in with how you utilize and embrace that technology with combining it with some proprietary and in-house expertise, innovation, other systems, data and how you leverage that technology and the data for effective decision making. So, it's not simply open the box and it works the same for everybody.

Daniel Imbro
That makes sense. Maybe another side of just kind of the Logistics or asset light side of the industry. Everyone's been growing Power Only for a while here. Kind of curious where you see that taking a role in the industry, it feels like that's something that a lot of asset-based carriers have grown into.

This idea of trailer pools and what are the ways you can differentiate then within that? Again, I feel like a lot of people with assets or with capital can build trailer pools and maybe have this solution. So how do you differentiate yourself within that to actually provide unique solutions?

Craig Callahan
If we think about how power only began, it actually was to enhance a capacity offering when demand exceeded supply by a significant amount. And what we've learned upon our journey is it works on the flip side too. So, it offers an expansion of capacity where you don't have your own labor or your own equipment to be able to bring and solve problems for customers. And that's certainly a benefit.

But on the flip side, quite honestly, we've had to, it's become a bigger part of our One-Way Truckload solution because rate levels are depressed and, in some cases, they're below operating costs. And so, you have to be able to participate in purchase transportation in order to maintain some type of stability on your revenue line. And that's why it's grown significantly with us and is now the largest component of our operations within Truckload Brokerage.

I think the differentiation is in terms of who you partner with and how you partner up with your clients. The advantage is to be able to provide scale and to provide flexibility with that as well. And so, the ability to be able to stand up a fleet when the trailers are already there, and you can go get third party capacity in a part of the country where maybe your assets aren't plentiful. I think that's the benefit that you can bring large companies. I do think that it matters in terms of the type of trailer it is. And certainly, we benefit from the fact that our average age is four years, and the trailers are in great shape. And so that puts us in an advantage in terms of shopping for third party capacity and the trailer equipment they want to pull.

That certainly helps. But I think being exposed to the right clients that really value that service and, and that are highly successful and therefore they have pockets of need relative to capacity. I think that's where we can leverage the most.

Nathan Meisgeier
It ties back to the technology question that was your last question. Where if that freight's on a Werner trailer and if I'm truly mode agnostic through MasterMind, Mastery, then I'm able to pick the right solution for the customer at the right time to give them the lowest cost, but the most efficient solution. And so, all those things tie together.

Daniel Imbro
Makes a lot of sense. We have a couple minutes left. Maybe one higher level one and one near term one. So, on the higher level there's been a lot of changes in the last five, six years. We talked about a lot of them, whether it's cross-border, whether it's the growth in trailer pools.

Curious how you see the industry evolving from here. What do you think the industry's learned from this down cycle? How do you think next up cycle will look different, if at all from the past ones? I feel like it's a sell-side joke at this point. Every cycle we say it's going to be different until it isn't. But I'm curious how you guys see this one shaping up maybe differently from the past ones, given what we've all learned.

Craig Callahan
I mean, I'll take a shot at that guys. I think that the way we'll see the next upcycle or down cycle, I guess the next down cycle will be our lens will be extremely different just because of where we'll be at on technology. And so, I think it's going to provide a buffer for us, in terms of being more nimble and to be able to size the fleet up and size the fleet down more quickly while holding the revenue line. I think that is the component that we're not going to get away from this being a cyclical business. And so, we've got to build a defensive portfolio. And our job, our responsibility is to make sure that at the next down cycle we're more defensive than we were going into this one.

Now this one was more prolonged than any we've had before, at least in my career. And so, the pain found places that historically it wouldn't in our enterprise. But we are going to continue to put ourselves in a position to be overexposed to Dedicated without it being a drag on earnings. That will continue to put ourselves in a position to be defensive at the next down cycle too.

Daniel Imbro
Great. And then my last one, just wrapping up. When you look at the cash generation and the balance sheet, you're in a fine spot now, you've invested in the fleet. It sounds like through this I'm sure there's more investment coming there. I mean, M&A is not easy. So how do you look at deploying cash? I mean, God willing, that when the cycle turns, cash flow hopefully gets better. How do you anticipate deploying that capital as we think about the next couple years?

Chris Wikoff
A couple of things, Daniel, there in the question. I mean first, just from a free cash flow standpoint, year-over-year, it is favorable. Despite some of the compression in operating margins, operating cash flow is down, but so is CapEx. It's trending as a lower percent of revenue just as our business evolves to become more asset light. And so free cash flow on a year-over-year basis is actually up for Q3 and year-to-date.

And in terms of how we've deployed that, we've been very consistent in reinvesting the business. I mean going back even a few years and still today we refer to the 5Ts of investing in trucks, trailers, terminals, technology and talent. And so, we'll continue to prioritize reinvesting in the business. We've also been extremely consistent for more than a couple of decades on returning value to shareholders through our dividends. So, we'll be continuing to do that there.

But to your point, then we toggle over the years, over the longer term on share repurchase, on inorganic growth. From an M&A perspective, we continue to be active, evaluating opportunities that have a strategic and cultural fit while also continuing to optimize value in the four acquisitions in our history and refine our M&A playbook. So that will continue to be a part of our growth strategy. Although we feel very good particularly going into this upcycle, on our ways of growing organically as well.

Daniel Imbro
Great. Well, we are up on time, but I appreciate the time this afternoon and best of luck.

Craig Callahan
Appreciate it.

Daniel Imbro
Thanks guys.