

**Werner Enterprises**

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Amit Mehrotra: All right, I think we're going to get started. Very happy to introduce Werner Enterprises, CFO John Steele. It's interesting, when I first started covering this sector one of my biggest resources for information was John. He's been in the industry for 30 years now and just been really generous with those insights on the industry, perspective on how current trends compare to history. It's really a pleasure for me to have a conversation at this very timely time in the trucking industry in terms of supply, demand and shifts and things seem to be moving pretty fast.

So, John, thanks so much for being here; really appreciate it and I think you have about ten minutes of prepared remarks and we can get into Q&A.

John Steele: Right. Thank you. Thank you, Amit. So, this presentation will include forward-looking statements. Please refer to our 2018 Form 10-K for more information regarding forward-looking statements. So, Werner is a top five truckload transportation and logistics company. We have about 8,000 trucks and over \$500 million of logistics revenues. In 2018, we generated \$2.5 billion of revenues and \$168 million of earnings. We have a balanced and defensive truckload fleet mix with 57% dedicated, which is about 4,600 trucks, and 43% one-way truckload which is about 3,400 trucks. By design, we have a heavy consumer emphasis with a focus on customers that have hard-to-meet service requirements which separates us from many competitors. We're 52% retail, 18% food and beverage, 18% manufacturing/industrial and 12% logistics and other.

By customer, our top ten customers are less than 50% of our revenues and our top 50 customers are just shy of three-quarters of our revenues. We avoid outside exposure to any one customer, industry, vertical or seasonal revenue streams.

Here you see our customer focus solutions mix; it's diversified revenues. Solutions-based, high service capacity solutions to exceed our customers expectations. One-way truckload is point-to-point freight with multiple customers and over half of our one-way business is in the less commoditized and more service sensitive Mexico cross-border and team expedited fleets. One-way is producing the highest on-time service levels that we produced in the last ten years.

In dedicated, we have over 150 fleets for specific customers that consistently produce over 99% on-time pickup and delivery service performance. Our dedicated customers are primarily in retail and the food and beverage verticals. Over time, dedicated has more stable and predictable margins than one-way truckload.

We talked about this a lot on our earnings calls and in previous investor presentations. Starting in mid-2015 we implemented our five T's Strategy to raise the bar on quality. Quality equipment, quality drivers, quality service; leads to quality financial performance and we're striving to be best in class. We invested heavily in capex in 2015, 2016 and 2018 which lowered our fleet age, upgraded our terminal network and rebuilt our IT infrastructure.

We're beginning to see the payoffs from our five T's investment and our 2018 financial performance demonstrated that. Our capex is moderating in 2019, it should be \$50 million to \$75 million lower than 2018; back to normal fleet age replacement levels.

Here you see the fleet side of our business which is modern and driver preferred. We're ahead of the industry curve on automatic manual transmissions and collision mitigation systems in our trucks which are both in 100% of our fleet. This has improved safety, fuel economy and resale value. We are installing forward-facing cameras that accurately video capture truck events. Forward-facing cameras pay for themselves multiple times over with undeniable proof of what really happened on the road. We have a new and modern trailer fleet with GPS trailer tracking. All of our trailers have trailer skirts for fuel economy and we have tire inflation systems that help lower tire costs and improve fuel economy. And we have an industry leading fleet sale strategy that maximizes resale value with late-model premium equipped trucks.

Here's our driver strategy and this is where we think really Werner has shined a great deal in the last couple of years. We've had an all-hands on deck policy to succeed with driver recruiting and retention in this tight labor market. First of all, we have a very new fleet. Second, we've implemented pay increases over the last few years that put our driver pay package in the top tier relative to our competition. Nearly 60% of our driver preferred jobs in dedicated have a closer geography, more frequent home time and better quality of life for our drivers. We own and manage the largest driver training school network based on graduates and nearly 40% of these driver school graduates eventually join Werner.

We have a strong former military hiring program, we won the Freedom Award from the Department of Defense in the fall of 2018. We're the only transport company that won that award. We have double the industry average percentage of female drivers in our fleet. Finally, we were the first company to implement ELD's over 20 years ago and over 18 billion miles ago. Werner has far more experience operating with ELD's than any other truckload competitor. And despite a 50-year low unemployment rate nationally, we have the second lowest driver turnover rate in the last 20 years. We're definitely succeeding on the driver front.

Everything we do is about getting better and improving our operational execution. For example, in the first quarter 2019 we had colder and more intense winter weather which, at the same time, we were able to lower our insurance and maintenance costs by \$1.7 million by taking proactive steps to avoid our trucks and drivers being in the wrong place at the wrong time.

With the government staffing changes that occurred in March and April that lengthened Mexico cross-border times, we took actions to minimize downtime and avoid driver layovers. And finally, in logistics in the first quarter, it was a more challenging market with a softer freight environment and we saw normal seasonality this year where we didn't see that last year. We used our proprietary technology tools that we've been developing to obtain better revenue shipments and manage the cost of our capacity more effectively to expand our gross margins in the first quarter 2019.

Here are some of our financial results. In the first quarter, our revenues were up 6%, our adjusted earnings were up 37%; that's higher than first quarter 2018 which was the previous highest ever earnings first quarter. We effectively managed to the challenges of weather and a less attractive freight market in the first quarter of 2019.

Truckload transportation services consists of our dedicated and one-way truckload fleets. Our revenue is up 7% due to 6% more trucks, 3% more revenue per truck, offset by lower fuel surcharge revenues due to lower fuel prices. We improved our adjusted operating margin 180 basis points and we've achieved eight consecutive quarters of year-over-year operating margin improvement in TTS.

On the metric side you can see dedicated grew revenue 17% due to 13% more trucks, 4% more revenue per truck. One-way truckload revenues grew 1% due to a 2% truck decline and 3% higher revenue per truck. The logistics revenue was flat due to the softer freight market; however, we were able to buy capacity more effectively and did more with less and grew our operating income by 71%.

Moving to our truckload transportation services adjusted operating margin; these percentages are inclusive of fuel on both the top line and the expense line. We grew our adjusted TTS operating margin to 11.3% in 2018 and our goal is to continue operational improvements and execution which will enable us to achieve an 11% truckload transportation services operating margin over the long-term.

From a return standpoint, return on equity grew to 13.7% and return on assets grew to 8.7%. We talked a lot about capex over the last few years. We have a pretty lumpy slide when it comes to capex over the five-year period ending in 2018. That's due to the heavier investment that we made to get our average truck age and average trailer age down, but it's now here in 2019 where we want it to be.

So, the big spend is behind us; normalized capex is \$50 million to \$75 million lower this year in 2019 and we expect to generate free cash flow of \$100 million or more in 2019.

From a capital allocation standpoint; number one, our first priority is to reinvest in our truck and trailer fleet across the cycle. After extensive research, thought and analysis, in mid-May we announced our new capital allocation plan. First, we announced the special dividend of \$3.75 per share, or \$262 million which will be paid on Friday this week.

Second, we announced a new \$5 million share repurchase authorization. Over the last four quarters, we purchased 2.7 million shares for an average of about 1% of shares outstanding each quarter. Third, we expanded our credit facilities with our existing bank group with attractive terms and covenants. Going forward, we expect to maintain a debt

level that is a modest level, instead of virtually no debt, and our targeted debt level going forward is between a half turn and one turn of EBITDA. And as a reminder, EBITDA for the last 12 months for Werner is \$475 million.

So, to wrap up, the capex heavy lifting is behind us. Our fleet is new, our driver pay is attractive and our driver turnover is low. Our on-time service levels are high and we are providing superior value to our customers. We expect the Werner of the future to operate with a higher margin and return profile compared to the Werner of the past decade. Based on the defensive positioning of our dedicated fleet and our logistics business; we're very well structured, regardless of where the freight economy takes us.

So, with that, I would be happy to answer your questions.

Amit Mehrotra: Let me kick things off and -- people in the audience can have some questions. Thanks, John, for that presentation. Last year was obviously kind of a super cycle for the trucking market. It seemed like every month was the best month in the company's history from an operating perspective. Things have slowed down pretty significantly, at least based on the external metrics, spot pricing has now gone negative, truck tonnage has been, you know, declining even though we had that weird blip in April, but it's been negative.

Industrial production, ISM, has been coming down. So, it's a short-cycle business, low visibility, April, the last update was the third best April in the last decade. It seems like maybe May and so far in June things are a little bit weaker but maybe you can give us a little bit of a flavor or some color on the update in terms of what you're seeing on the ground today?

John Steele: Sure, and we're measuring this based on our one-way truckload business which is 43% of our truck fleet. Demand has slightly improved as we've moved from April to May to June, but it hasn't improved as much as it normally does so, on a year-over-year basis it's been less than our expectations; in particular, as we move through May and to the first part of June.

We think that the China tariff situation may be contributing to some degree to this, based on our heavy retail exposure and reading and listening to our large retail customers. It appears that several grew their inventories in that February to March time period that may have caused some destocking to be occurring in April and May. I'm not saying that's the reason for the slowdown, but I think with our revenue base that's a factor that may be impacting volume. So, we're hopeful that we're getting towards the tail end of that as we've finally seen springtime arrive here throughout the country and that their commentary indicated that their same-stores sales improved as they went from February to March to April, and so hopefully that will translate into better freight volumes for our retail customer base going forward.

Amit Mehrotra: Yes, and the first quarter's a little bit tricky, right, because January/February seasonally weak. March is the most important month in the first quarter. April is the least important month in the second quarter and then we always expect this [beverage] season to kick in and you talk about how you look out the window if there's green, things start moving. And in Omaha it was pretty inclement weather during January and February. So, things are opening up now. Are you seeing that seasonal pull? You said better from April to May but I guess sequentially worse than seasonality would suggest historically if you can

give us some color and further on that.

- John Steele: Yes, we really haven't seen it yet and now that we're into the first week of June that is concerning. It hasn't been the freight market yet that we had hoped for. As we speak right now, today, we're right in the middle of the three-day road check period where the government is inspecting vehicles. So, Tuesday, Wednesday, Thursday of this week are really good and every year it gets really good and then comes back. Traditionally, it starts from a little lower base than where it ends. So, road check is a reminder to our customer base that things can tighten up and that the spot market challenges they faced in 2018 could be revisited again in the future. But, all and all, it hasn't been the freight market that we would have hoped it would have been up to this point in the second quarter.
- Amit Mehrotra: But you're not ready at this point, based on your conversation with customers --
- John Steele: No.
- Amit Mehrotra: -- to say that, listen, this is a real slowdown because we did get massive pull in terms of port inventory growth, port import growth in December. There's a lot of inventory arguably sitting in distribution centers and warehouses that may get worked down. So, you're still maybe holding on to some cautious optimistic --
- John Steele: Yes, we're -- I'd say we're holding onto cautious optimism but yes, we would agree that the tariff situation in China and the most recent announcements potentially with Mexico are disruptive and cause some shipper behavior that likely resulted in a build-up of inventories. And the end effect of that is that that causes a slowdown in shipping volumes once the inventories are built off and they need to be bled off.
- Amit Mehrotra: How much of the Mexico exposure -- I know Derek Leathers started his career, really, in Mexico or spent a lot of time down there.
- John Steele: Right.
- Amit Mehrotra: It's a big percentage of the over-the-road business with -- it's expedited and Mexico cross-border in Mexico.
- John Steele: Yes, expedited and Mexico combined are a little bit north of 50% of our one-way truckload revenue.
- Amit Mehrotra: A little over 20% of the business.
- John Steele: And so it's -- and so for the total business, consolidated including logistics; Mexico is around 15%. So, we believe we're the largest carrier serving the Mexico market based on cross-border shipment volumes.
- Amit Mehrotra: So how does this, I guess, sluggish volume environment, hopefully temporarily, kind of manifest itself? Because you're in the pricing -- because you're -- I mean, we're sitting in June so you're mostly through, I would imagine, [bid] season or the heart of [bid] season. You did adjust down your contract pricing growth expectations; four to eight, maybe lower end of that now. Is it safe to say that maybe that's even a little bit too bullish of an

outlook given what the volume environment has done in the month of May and maybe early June?

John Steele: Well, the last few weeks have been less attractive than what we expected. When we commented on the lower end of the range, that was based on April 25, when we reported earnings. So, yes, it's been a little less than what we expected since that time. We've had success in getting contract rate increases as recently as the last several weeks. But I would say the contract rate increase is a bit on the low single digit range lately. Year-to-date, they're in the upper end of the low single digit to mid-single digit range when you go from January all the way through today. And if you remember, last year contract rates stepped up throughout the year. So, we're comping up against the bigger number the further we progress into 2019.

Amit Mehrotra: Yes, you would have expected, you know, you had double-digit yield growth in the first quarter or close to that, I forget exactly --

John Steele: Well, we were up 6.5% in rate per mile in the first quarter.

Amit Mehrotra: In the first -- and that's on a -- that's a --

John Steele: Rate for total mile over the road. Yes.

Amit Mehrotra: Got it. And so then would you expect yield or rate per total mile to continue being [comped positively] in the back half of the year? Because I felt like that was the expectation kind of going into this year, but every quarter would be less so but still positive. It seems like now, rate per total mile could dip negative in the back half of the year.

John Steele: Yes, we definitely expect contract rates to remain positive as the year goes on. I think part of that is our profile with 57% dedicated vs. one way. And so we're looking at our total business mix, but we expect contract rates in one way since this is a smaller share of our fleet to remain positive.

Now, the absolute rate per total mile is a little harder to define because last year we had a lot of special projects, surge business, pop-up fleets that are not nearly as prevalent this year, that added to the rate last year and makes for a tougher comp. So, I'm a little less confident in making the comment on rate per total mile; the absolute number, than I am on bid contract rates. I don't believe bid contract rates for Werner will go negative in the back half.

Amit Mehrotra: Utilization for the assets continue to go down as you pivot more towards lower length of haul dedicated type business. Is the -- is the miles per truck per week -- I know you don't disclose it like that anymore as you change, but is that something that continues to be under pressure?

John Steele: Well, that's been happening for the last few years as we do more dedicated. Our total length of haul is around 460 and our one-way, you can see from our reported information is north of 800 so clearly dedicated is a lot lower than that; you know, closer to 300 miles per truck; 300 miles per load.

So, length of haul has been coming down as we do more dedicated. Dedicated is narrower geography, shorter trips, very service intensive, gets the drivers home more frequently.

Amit Mehrotra: And it seems like Werner has historically always been considered more resilient given that mix of contract dedicated type business and now that you guys are actually reporting differently in terms of dedicated and over-the-road, can you talk about higher dedicated businesses structured from resiliency perspective; because it seems like it's a little bit different than a company like J.B. Hunt but you know, investing a significant amount in startup costs per contractor or dedicated-type business. But any thoughts there on the stickiness of that dedicated business?

John Steele: Well it's -- it's very sticky and we work very hard to align ourselves with the customers who are committed to [dedicated] for the long-term and that traditionally is the customer that demands 99%-plus on-time service. When you think about our dedicated customer-base, it's 70% retail and the brick and mortar retailers who our customers are trying to compete with Amazon, and which just threw down the gauntlet and said two-day Prime is eventually going to be one-day Prime, and they've got to deliver faster, quicker and they need reliable carriers like Werner that produce that with a meaningful amount of capacity.

So, we think that fits right in our wheelhouse. Our dedicated contracts are traditionally three-year contracts with annual pricing renewals and 90-day out-clauses if we can't agree on pricing. But it's not like our competition is thousands of fragmented little carriers. You know, it's 30 trucks here, 70 trucks there, 99%-plus on-time service. A lot of the retail business is multiple stops; some of it is driver assist unloading. It's complicated, it's hard to service. We like that business because it's harder for other companies to compete with us.

Amit Mehrotra: And are you seeing a lot of opportunities for like private fleet conversions into dedicated type business because of that on-time in flow requirement that's being mandated by, you know, ecommerce growth?

John Steele: Well, not a lot of the retailers have their own private fleets today. I would say, Walmart is the largest exception to that. They've got about an 8,000-truck fleet. But most of the retailers focus on their core business and rely on third-party private fleets to manage their business. So, I would say we're not seeing in retail a lot.

Amit Mehrotra: So where is the growth opportunities from dedicated coming from?

John Steele: Growing with the companies who are growing in retail. So, we're focused on the winners; the ones with same-store sales growth, store growth, margins that are attractive in the business who are effectively competing in an increasing online world and demand high service to be able to compete.

Amit Mehrotra: And do you still have the challenges associated with -- I assume that more of the drivers are getting home more often in your dedicated line of business.

John Steele: Right.

- Amit Mehrotra: So, you don't have as much of a turnover issue as you may do on the OTR piece. And so can you just talk about maybe the economics of the dedicated business from a returns perspective relative to maybe having more over-the-road business?
- John Steele: Well, the dedicated business since we're committing assets; trucks and/or trailers, in some cases the customers have the trailers and in other cases we provide the trailers, but we're exclusive to that customer for let's say, 50 trucks at a location. It's priced on an all-miles basis. It's traditionally adjust the pricing on miles per week. So, if they're not able to provide as much freight to us that week to keep our 50 trucks busy, our rate per mile that week will be higher. So, there's some protection that we have in the pricing because we're exclusive to that customer that dedicated gives us. If we are able to generate back-haul revenue, let's say it's DC to one store, then to the next store and then back to the DC if we can fill that back lane with backhaul, we share in a small portion of the revenue which incents us to find the backhaul, but since we're being paid on an all miles basis, most of that revenue goes to the customer.
- Amit Mehrotra: Interesting, I got it.
- John Steele: There are features about dedicated that make it more stable, predictable. It's a very high service, hard for others to replicate, business. We've been in it since 1992, growing to 4,600 trucks over a 27-year period of time. So, we -- we've learned our lessons in the business and we think we've become a pretty successful provider with a high service product.
- Amit Mehrotra: And if you look at the truckload business, I mean theoretically it's a pretty high variable cost business in the sense that each truckload is its own kind of economy. But you don't really see that play out in numbers in a down-cycle. You see the detrimental margins as being pretty high; probably because you still have the capital costs associated with the truck and then driver pay is probably stickier than rates to customers are the downside.
- So, first of all, is that correct? I mean, if rates and yield come down are you able to then pivot on the over-the-road side and actually pay drivers less?
- John Steele: Well, I think that's -- if you think about it, let's say two-thirds of the costs are variable and one-third are fixed, so it's 33% of your cost structure. But we're in a business where the average companies are at a 5% margin and better than average companies are at ten. And so if your productivity is impacted negatively or your rates are impacted negatively, you can quickly move from ten to five and you just can't -- it's hard to cut costs fast enough on the fixed cost side to make up the difference.
- We have taken a more aggressive approach in the last few months on costs. Is this freight market kind of languishing at levels lower than we expected? We're addressing non-driver labor, supplies and maintenance, insurance, third-party supplier spend to try to position us for if this market does remain kind of lackluster for an extended period of time, maybe the tariff situation is ongoing, we want to be prepared to manage our cost structure effectively if that's what we're -- the hand we're dealt.
- Amit Mehrotra: And you haven't bought a lot of trucks at the wrong time either.
- John Steele: Yes. Yes, we're -- and going back to compare us to 2015 which was a good freight



market, and 2016 which was not a good freight market, was a completely different situation. We were -- we had management changes which occurred in the third quarter of 2015 that changed our direction as a company. That's when the five T's initiative started. So, we raised driver pay significantly in 2015 going into what turned out to be a softer economy. We aggressively replaced our fleet to get our average age down which meant we bought more trucks and increased depreciation. We sold more trucks into a market that was not very attractive; from a used truck pricing standpoint. So, our position back then, as we were getting our quality initiative going, is way different than where we are today. We have a new fleet. We have drivers that are in the top-tier of the industry from a pay standpoint. Our turnover is low. We have more dedicated business and logistics business than we had back then.

So, we think if there is an economic storm, so to speak, that comes our way, we're in a much better position to deal with it. If this is just kind of a temporary slowdown in the economy due to the tariff situation and other factors, we think we're also well prepared to take advantage of it and continue to perform well.

Amit Mehrotra: Okay. The other couple -- last couple of things I wanted to hit; one is with respect to structural change in the truckload market which has been talked about in terms of driver availability; hair follicle testing which shouldn't be a problem for me, and then also the central clearinghouse. So, one is -- it seems like the hair follicle testing, more and more companies are doing it, but it's not really being mandated right now. So, I want to get your thoughts on where that's going and then the central clearinghouse, I do think that does go into effect, I believe in January, but may be delayed. So, I just wanted to get your thoughts on what those -- that impact could be. It could be another ELD type moment for --

John Steele: Yes, Amit, our conversations with people in leadership positions indicate that their intent is to make the National Drug and Alcohol Clearinghouse go into effect 1/1/20. So as far as we know, that's the scheduled date. We think that will tighten the driver market because it will prevent CDL drivers that test positive for drugs to job hop to another carrier because they're required to go through a return to duty rehabilitation process before they switch.

So, once it's on their record and they're in the database that they have a positive test for drug or alcohol --

Amit Mehrotra: If I could just ask, about that specifically, interject here. Because if you hire a driver, and I see Werner trucks on the road all the time, say hire only good and courteous drivers.

John Steele: Right.

Amit Mehrotra: If they -- don't you do a background check on them already? Don't you call them --

John Steele: So, starting January 1, 2020 when we do tests on drivers and they test positive we're required to submit that to the database.

Amit Mehrotra: Got it.

John Steele: And that's how the database will be built up.

Amit Mehrotra: Got it.

John Steele: And once that's on that drivers record, they've got to go through this rehabilitation process to unwind it so that their record will be clean again.

Amit Mehrotra: Okay, got it. And then what about the hair follicle testing for drugs?

John Steele: So, hair follicle is flat out just a better test than urinalysis and we implemented hair follicle 2.5 years ago. Our failure rates under hair follicle testing were north of 10% when we first implemented it. Now that it's well understood in the driver market, and they know they'll be tested for hair follicle, our positive rate is 5%. We're testing for opioids, methamphetamines, marijuana and cocaine; which is the standard under the government requirements.

Because hair follicle is a better test, we think the entire industry should move to that. The Department of Health and Human Services last week moved a review of hair follicle testing over to the Office of Management and Budget, and what's being proposed is to allow hair follicle testing to be a valid drug test that companies can use as opposed to urinalysis. Today, we do both tests. We do both urinalysis and hair follicle because urinalysis is the standard. If they allow hair follicle to be another standard, we think that will begin to shift more companies to hair follicle because companies won't want to be the home for the wayward drivers. There are websites out there that tell you, don't go to Werner, they hair follicle test. If you want to pass the urinalysis test, which stays in your system for three days, as opposed to the hair follicle system where it stays in your system for 90 days, you should go to X, Y, Z company as opposed to Werner.

Amit Mehrotra: Fascinating. I'm going to end, if there are any questions out in the audience, please raise your hand. I'm going to end on this capital structure that you did; special dividend. I know you've done special dividends before back in 2008 for five consecutive years. But it just definitely seems like it's a little bit of a pivot to like a new Werner; Derek Leathers being the first non-Werner CEO of the company.

Talk about, you know, how high you want to run the balance sheet right now and what you're going to do with the excess cash flow going forward.

John Steele: Yes, so the half turn to one turn of EBITDA is where we're comfortable with. So, it's --

Amit Mehrotra: On net debt, on net debt?

John Steele: Yes. So, moving from virtually no leverage to what we would characterize as modest leverage. We expect that will lower our weighted average cost to capital by 30 to 50 basis points. The -- the initial way to get that accomplished more quickly was the special dividend. We are aggressively planning to repurchase shares in the market, as we have done in the last four quarters. And we were pleased that we were able to redo our debt arrangements with our existing bank group with attractive terms. Our terms and covenants are, we believe, the best in the industry.

Amit Mehrotra: On the share repurchase, you know, the new authorization is basically it takes two years or so, or a little over two years --

John Steele: If we buy at the same rate that we have in the past.

Amit Mehrotra: Are you going to accelerate the share repurchase --

John Steele: You tell me what the share price is, and we'll evaluate how we value our company relative to how the market is valuing our company. And so, we may be more aggressive than that two-year period; depending on where the share price is at.

Amit Mehrotra: Got it. Any final questions for John Steele or Werner? Great, John, thanks so much for taking the time. Appreciate it.

John Steele: Thanks Amit and thank you for inviting us.

Amit Mehrotra: Thank you.