Werner Enterprises

Q1 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers - *President, Chief Executive Officer*

John Steele - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon, and welcome to the Werner Enterprises First Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*". then "1" on your telephone keypad, to withdraw your question, please press "*". then "2."

Earlier this afternoon, the company issued an earnings release for its first quarter 2020 results and posted a slide presentation to accompany today's discussion. These materials are available in the Investors section of the company's website at werner.com by clicking on Investors, then news and events and then webcasts and presentations.

Today's webcast is being recorded and will be available for replay beginning later this evening. Before we begin, please direct your attention to the disclosure statement on slide two of the presentation as well as the disclaimers included in the earnings release related to forward-looking statements. Today's remarks contain forward-looking statements, including those related to COVID-19, that may involve risks, uncertainties and other factors that could cause actual results to differ materially.

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

I'd now like to turn the conference over to Mr. Derek Leathers, President and CEO. Please go ahead.

Derek Leathers
Thank you, and good afternoon, everyone. With me today is our CFO, John Steele. Let me begin by saying that our heartfelt thoughts go out to those directly impacted by this global pandemic and their family members, the medical professionals, the first responders, and all other essential workers who are bravely and heroically combating this terrible virus under very difficult circumstances.

I'd like to sincerely thank the men and women at Werner who are relentlessly focused, determined, and are 100% committed to serve during this challenging time. I've been in constant communication with our associates since the pandemic began, which I know, based on their comments, they very much appreciate.

Our frontline professional drivers and mechanics take tremendous pride in being an essential service provider and safely delivering America's freight on time and damage free, while protecting their safety and health. In these challenging times, our non-driver associates continue to step-up in numerous ways to remain productive and efficient while ensuring the needs of our customers and drivers are being met.

We remain focused, flexible, and strategic as we constantly adjust and adapt to the changes affecting our business and associates. Following the review of our first quarter financial results, I'll provide specific details about how Werner is assessing, proactively adapting, and adjusting our business strategy in the rapidly changing COVID-19 economy.

Turning to Slide four, we've included some background information. For 2019, over three-quarters of revenues were generated in our primary segment, Truckload transportation services, or TTS. With the remainder coming from Werner Logistics. 60% of our TTS trucks are in Dedicated with 40% in One-Way Truckload.

Just over half our revenues are in retail. And almost 60% of our retail revenues are with discount retailers that focus more on selling necessity-based products. 20% of our revenues were in manufacturing and industrial, 17% were in food and beverage, and the remaining 12% in the logistics and other category. We have a diversified customer base with nearly 60% of revenues coming from outside our top 10 customers and about two-thirds spread across our top 50.

Next, let's move to Slide five for a brief overview of our financial performance. In the first quarter, revenues decreased 1% to $593 million. Adjusted EPS was 24% lower at $0.40 per share. Adjusted operating income declined 24% to $37.3 million, and our adjusted operating margin declined 190 basis points to 6.3%. Regarding EPS, as a reminder, in January 2020, one of our trucks was involved in a serious accident. We discussed this on our previous earnings call in February.

Werner's self-insurance for the first $10 million of liability coverage for this policy period and has appropriate excess liability insurance coverage with insurance carriers above this amount. We approved the $10 million of our self-insurance for this accident during the first quarter of 2020, which reduced our earnings per share by $0.11. This expense is included in our GAAP EPS and adjusted EPS.

Our insurance and claims expense in first quarter 2020 was $13.4 million higher than first quarter 2019, due to the $10 million claim and a very few other larger claims. We place an extremely high priority on safety at Werner, and our numerous first safety first programs are making excellent progress. The frequency of our claims in the first quarter of 2020 compared to first quarter 2019 and on a per-mile basis declined 14%.

On March 26, we provided a COVID-19 Business Update that is posted in the Investors section of our website. That presentation included a business update slide that summarized our first quarter 2020 freight demand trends for One-Way Truckload, Dedicated, and Logistics. We updated our first quarter 2020 freight demand commentary for each business unit in today's earnings release and we will be happy to answer your questions or clarify first quarter demand trends during the Q&A.

We ended first quarter with 7,835 total trucks in TTS, a decrease of 110 trucks year-over-year and a decline of 165 trucks sequentially. Later in the call, I'll provide you updates for our 2020 guidance metrics. Also, we are not repurchasing shares until we have more clarity on the duration and effects of COVID-19. We intend to continue our quarterly dividend, which we have paid for 34 consecutive years. This capital outlay currently results in slightly more than $6 million per quarter.

At this point, I'll turn the call over to John to discuss our first quarter financial results in more detail. John.

John Steele

Thank you, Derek, and good afternoon. Beginning on slide seven, we provide some additional financial performance drivers for first quarter. Starting with our TTS segment, revenues per truck per week increased 3.2%, net of fuel, due primarily to higher miles per truck and, to a lesser extent, higher revenues per total mile. A continued lackluster One-way Truckload pricing market was more than offset by relative strength in Dedicated pricing and utilization. Year-over-year, we reduced the average number of trucks in TTS by 25 trucks

In our Logistics segment, revenues were 4% lower. Due to current used truck market conditions, in the first quarter, we reviewed and updated the estimated life of certain trucks currently expected to be sold in 2020 to more rapidly depreciate these trucks to their estimated residual values. The effects of this change in accounting estimates increased first quarter 2020 depreciation expense by $5 million, or $0.05 per share These trucks will continue to depreciate at the same higher rate per truck until the trucks are sold. This expense is included in GAAP earnings per share and is adjusted as a non-GAAP item due to the unusual and infrequent nature of this expense.

Our adjusted operating income declined 24%, primarily due to a 190-basis point decline in our adjusted operating margin, due to the more challenging freight and pricing market conditions and the large insurance claim. We were able to partially mitigate the challenging freight and pricing market conditions by implementing numerous cost containment programs that are ongoing. Our adjusted earnings per share were $0.40, but 24% lower than the $0.52 a share we earned first quarter a year ago.

Beginning on Slide eight, let's look specifically at results for our Truckload Transportation Services segment. In the first quarter, TTS revenues increased $2 million to $465 million, primarily driven by the 3.2% higher revenue per truck per week. TTS miles per truck increased, due in part to the impact of improved transit times after the pandemic declaration.

With fewer passenger vehicles on the road and less traffic congestion, our TTS fleet achieved a 2.0% increase in average miles per hour, comparing the first 71 days of 2020 prior to the pandemic declaration to the first 39 days after the pandemic declaration. However, once drivers arrive at their origin pickup and delivery destinations, processing and delay times are longer than normal due to strengthened customer COVID-19 security procedures.

Adjusted operating income was $35.3 million, declining 20%, primarily due to the decrease in adjusted operating margin of 190 basis points. Our adjusted operating ratio net of fuel surcharge was 91.5%.

Turning to fleet metrics on Slide nine. For Dedicated, we grew trucking revenues net of fuel by 6% to $231 million. Dedicated average trucks grew 1% and revenues per truck per week increased nearly 5%. One-Way Truckload trucking revenues net of fuel decreased 1% to $178 million. One-Way Truckload average trucks decreased 3%, and revenue per truck per week increased 1%. One-Way Truckload miles per truck increased by 5.1%, and while revenue per total mile declined 3.7%.

Moving to Werner Logistics results on slide 10. In the first quarter, Logistics revenues declined 4% to $112 million, primarily driven by a 9% decline in Truckload Logistics revenues. We had fewer transactional opportunities from a slowing freight economy and the competitive logistics market. However, due to an 8% increase in contractual business, our truckload logistics load count increased 1%, while our revenue per load declined 10%.

Our gross margin percentage declined 280 basis points driven by the softer freight market, and contractual brokerage had a higher cost of capacity in March 2020 due to higher replenishment activity. While we achieved a 3% reduction in our Other operating expenses, gross profits declined by 20% and resulted in a 300-basis point decline in our operating margin percentage to 1.0%. Logistics operating income decreased 77% to $1.1 million.

I'd now like to turn the final portion of our prepared remarks back to Derek. Derek.

Derek Leathers
Thank you, John. Moving to Slide 12, I want to update you on our five T's strategy. Second quarter and 2020 results will likely be further impacted by the disruptive effect of COVID-19. The degree of disruption is difficult to predict. However, we are preparing for various scenarios and expect an extremely challenging second quarter based on the anticipated double-digit percentage decline in the second quarter U.S. GDP rate. Our leadership team has been meeting daily to discuss and address issues relating to our customers, freight, drivers, safety, staffing, human resources, and cost structure.

Over the past few years, we created structural and sustainable improvements with our modern and more efficient fleet, high-quality professional drivers, and strong management execution. A few important highlights are: our truck and trailer fleet ages remain new, with an average of 2.0 years and 4.1 years, respectively. We do not intend to let our truck and trailer ages increase significantly from here, subject to the impact of OEM and OEM supplier plant shutdowns that are currently impacting truck and trailer production. The labor market is challenging with the rapid rise in the national unemployment rate the last few weeks, and we remain committed to our rigorous hiring processes to attract and retain industry-leading driver talent

In our terminal network, we implemented social distancing and other safety procedures to enable our mechanics to continue to maintain our trucks and trailers. We are utilizing enhanced technology tools to orient and train our drivers, and we continue to analyze and make thoughtful decisions with regards to ongoing terminal capital expenditures.

Our IT team continues to upgrade and modernize our IT infrastructure and data security. We also quickly enabled over half of our non-driver associates to work from home and remain productive and efficient. We're extremely proud of the heroic owner-drivers who continue to safely deliver America's freight and keep America moving during these challenging times.

The contributions of Werner drivers to our citizens and our economy have never been more important than they have been in the last seven weeks, and they will continue to be going forward. The ultimate goal of our five Ts strategy is to safely deliver superior service to our customers on time, every time. That goal has not changed.

On Slide 13 is a summary of the significant steps we've taken to prepare for and manage our business during COVID-19. Trucking is an essential industry that delivers essential goods to the consumers. Our driver and non-driver associates take this responsibility very seriously. I'm extremely proud of their achievements during the difficult time. Over the last several weeks, we thoughtfully instituted policies and procedures to reduce virus risk and enable our associates to remain safe and stay healthy. We closely monitor and disseminate CDC, WHO, and company guideline updates to our entire team. While the thinking, there's no playbook for times like these, is true in some respect, Werner does have a playbook that we stay true to every step of the way.

By adapting to constantly changing scenarios, every Werner decision has been guided by three basic and important values: be rational, logical, and above all, compassionate. We've been and will continue to be rational, which means regularly staying in close contact with and following recommended protocols provided by leading scientific experts. And we are implementing policies and processes that are guided by the most current scientific analysis and advice.

We have been and will continue to be logical, which means we made significant early investments to support our associates with sanitation products, masks, and gloves. We double down on those efforts to make sure our associates can stay safe and equipped moving forward. We logically, carefully, and aggressively implemented social distancing practices throughout our company. We activated thoughtful pandemic response plans and virtual workforce capabilities.

We continue to aggressively address nonessential discretionary costs across the board. Specifically, I took a voluntary 25% pay reduction, EVPs took a 15% pay reduction, and VPs took 10%. We implemented a hiring freeze for almost all non-driver open positions. Throughout the company, we aggressively attacked and reduced discretionary controllable costs wherever possible, and those efforts are continuing. Above all, our decisions are driven by compassion. I personally keep our associates informed about COVID-19 developments through ongoing video updates.

My team has done a fantastic job making sure that up-to-date written information is pushed out across our network. We have been keeping our associates informed on all COVID-19 topics as well as Werner's ongoing plans to keep America moving throughout this crisis. Also driven by compassion, we introduced Werner-specific COVID-19 associate relief plans to provide rapid and needed assistance to those Werner associates affected by the virus. This includes two weeks of paid sick leave for eligible associates impacted by COVID-19. It also includes a company pledge of $1 million to the Werner associate COVID-19 Relief Fund to provide financial support to impacted associates and their families.

To further supplement the Werner COVID-19 Relief Fund, our founder, C.L. Werner stepped up with his own compassion. C.L. personally pledged an additional $250,000 to that relief fund as further demonstration of our commitment to the men and women of Werner Enterprises. At this time, hundreds of Werner associates and their families directly affected by COVID-19 already have received needed financial assistance from Werner through these programs.

Slide 14 shows our revenue mix in first quarter 2020 by industry vertical for our top 100 customers or 85% of our total revenues. 62% of these revenues are for basic necessity consumable products that are more defensive in a COVID-19 economy, including discount retail, home improvement retail, food and beverage, and consumer packaged goods. We transport many essential products that are continually being restocked in today's economy.

On Slide15, is an analytical assessment, we performed shortly after the pandemic declaration to better understand our customer base. Using independent objective criteria developed by the major credit rating agencies to assess industry risk, we classified our 100 largest customers into lower, moderate and higher industry risk categories. This assessment is based on how significant the impact of COVID-19 is estimated to be for their industries.

Our focus on the discount retail and food and beverage industry verticals results in us having a lower overall industry risk. At the same time, we updated our ongoing assessment of customer financial risk based on each customer's size, financial leverage, liquidity, profitability, and other

financial performance measures, including using data from an independent financial risk rating provider.

At the present time, while our financial risk has clearly increased since the pandemic began, we have a relatively lower level of financial risk with the predominance of our customer base. Over the last few years, our strategy has been to focus on the winners in each industry vertical, which naturally aligns us with financially stronger companies. We will continue to monitor and manage these customer industry risk and financial risk assessments going forward.

On Slide 16 is the summary of our balance sheet strength and liquidity at the end of the first quarter. Our debt is low at $250 million, and we paid off $50 million of debt in the first quarter. Our net debt-to-EBITDA leverage is very low at 0.4 times. We have available liquidity of $352 million, based on cash on hand and credit facilities. We have plenty of cushion with our 2 debt financial covenants. We are well positioned with a strong balance sheet and ample liquidity.

On Slide 17 is a summary of cash flow from operations, net capital expenditures, and the resulting free cash flow over the past five years. We are maintaining our 2020 net CapEx guidance range of $260 million to $300 million.

We've analyzed and have made several downward revisions to certain CapEx projects for the year. While we are decreasing the amount of new truck purchases by an estimated $46 million, this will be offset by an estimated lower used truck sales at lower expected prices. Therefore, our net CapEx guidance range stays the same. We continue to expect to generate significant free cash flow in 2020 of at least $100 million.

Looking to Slide 19, we compare our prior annual guidance, first quarter actual and current annual guidance metrics for 2020. We do not plan to grow our truck fleet until market conditions improve. Our fleet count may decline more in the second quarter depending on the freight market. Depending on the pace and timing of recovery, we could begin to rebuild our truck count later this year. We are withdrawing guidance for gains on sales of equipment, due to very low demand in the used truck and trailer market. We intend to reinstate our guidance for this metric when we have a better market and better data.

As noted before, we expect net capital expenditures to be in the range of $260 million to $300 million. We continue to expect that One-Way Truckload revenue per total mile for the first half of 2020 will decrease in a range of negative 7% to negative 5% compared to the same six-month period in 2019. This assumes that the freight market is very difficult in May and June.

We expect our effective tax rate will be in the range of 25% to 26%. We expect the average age of our truck and trailer fleet to be at slightly higher levels. This depends on the freight recovery and the timing of when OEMs can get back to reopening their plants. So far, in the first four weeks of April, freight volumes in our One-Way Truckload unit have held up fairly well, with some gradual freight softening, which was expected, given that some parts of this economy are shut down or have been significantly curtailed.

In Dedicated, our volumes have been mostly steady. While a few dedicated customers are experiencing significant declines, due to temporary plant or business shutdowns, most are seeing solid volumes.
Overall, regardless of whether we get U, V, L or W economic recovery, our defensive freight base should allow us to more effectively manage through what we anticipate will be an extremely challenging economic and freight environment in second quarter 2020.

While we are well prepared and well positioned with our protective rain gear for the second quarter economic downpour, we will still get wet. We continue to refine our strategies to prepare for when the economic storm passes. We are ready for, and look forward to, the eventual economic recovery.

At this time, I'd like to turn the call over to the operator to begin our Q&A.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your telephone keypad. If you are using a speakerphone, we ask that you please pickup your handset before pressing the keys. To withdraw your question, please press "*", then "2." To allow for as many callers to ask…as possible to ask questions, we ask that callers limit their questions to one question and one follow-up. This call will end at 5 PM Central Time, following the company's closing remarks.

Our first question today will come from Robbie Shanker of Morgan Stanley. Please go ahead.

Christyne McGarvey
Hi, guys. This is Christyne McGarvey on for Ravi Shanker. How are you guys doing?

Derek Leathers
Good.

John Steele
Hi, Christyne, how are you?

Christyne McGarvey
Good, good, thanks. I guess my first question would be maybe on the pricing guidance. Can you guys talk about what's giving you confidence in that range for 2Q? When you say it assumes a tough freight environment for May and June, is that pretty much holding at these levels or any sequential improvement, any seasonality? And then maybe, early thoughts on pricing for the back half of '20?

Derek Leathers
Yes, sure, I'll take that. This is Derek. So, the guidance we gave was for first half of 2020 and so we ended this first quarter at negative 3.7%. We left our guidance unchanged of negative 5% to negative 7%. So, we're essentially pricing in the potential for a worsening freight environment or a tough couple of months ahead of us. It certainly could be better than that, and we've seen some indications as we've seen, as everyone has seen, with some return or potential opening in certain regions of the country. But we felt it was best to be conservative and leave the guidance unchanged, and I would rather be in a position to potentially exceed that guidance, if the market gives us that opportunity.

John Steele

And as far as the back half of the year, Christyne, it's just too difficult to be able to predict rate per mile guidance at this time. We struggled with giving second quarter guidance, but felt like it was appropriate to do that. So, we're not giving guidance for the second half at this point in time until we have more clarity on the market conditions.

Christyne McGarvey
Got it. Thanks. And maybe as my follow-up on some of the supply side rationalization, I imagine that might be accelerating in the next couple of months. But can you talk about your thoughts on that and how some of the production shutdowns that you mentioned earlier might play into that?

Derek Leathers
Sure. So, good question, but I must admit it's a little echoey, and so I may not have caught all of it. Let's start with this. On the OEM shutdowns and equipment maker shutdowns, that's been an ongoing issue that we've been working through. They're doing the best they can, obviously, under the circumstances to try to stay up and open. There has been closures and, therefore, delays in receipt of trucks industry wide. The used truck market remains very difficult, that's why we've withdrawn our guidance relative to used trucks.

And I think the broader market is one that's setting up for capacity rationalization for a variety of reasons. I mean, if you're a carrier out there that's predominantly operating in the spot market or even has extended exposure in the spot market, that's not a place that's very friendly right now to be participating. Costs are not going down, they're going up for carriers, because of all of the safety and precautionary measures they're taking. And yet, rate pressure is pretty extreme, especially in the spot or noncontract market. The contract market is behaving a little more normally, but I think you'll see capacity working its way out, and then, we're already seeing signs of that now and it will be accelerated through this pandemic.

Christyne McGarvey
Great. Thank you so much. Thanks for taking my questions.

John Steele
Thank you, Christyne.

Operator
Our next question comes from Brian Ossenbeck of JP Morgan. Please go ahead.

Brian Ossenbeck
Hi, good afternoon, thanks for taking my question, guys. First one, maybe for Derek, just on the network and reconfiguring it probably pretty consistently regularly in the last couple of weeks. Can you just give us a sense as to where that stands right now, when you think about both the One-Way just going into areas that you're just not getting the same sort of freight coming back out, the delays that John mentioned, when you get to the receiver facilities? And then also on Dedicated, to the extent you had to spin up for any customers and then spin down for others, is that fairly well balanced at this point? So, just some thoughts on how that's progressed throughout the quarter and where you see that kind of going into April, May, and June?

Derek Leathers
Yes. So, Brian, good question. And I guess, I would start by saying the thing, I am probably the single most proud of during the quarter was the team's execution and communication internally

on re-optimizing the network in real-time, because as you've indicated, what we saw throughout the quarter and especially later in the quarter, was markets that were in high demand for inbound product because they were affected directly by the pandemic, were the very same markets where demand for outbound shipments were correspondingly lower, because places were shut down or closed altogether. It causes a tremendous amount of strain on the network with repositioning assets and trying to make sure that we put those trucks back into head haul markets with relief and other essential supplies as quickly as possible.

And so, all bets were off on our traditional network design. We were able to pretty seamlessly work through that. It's painful, but they worked hard, they put the time in, and they did it very well. That has settled some in recent weeks, so although volumes have declined and have started to take a post-surge kind of feel, if you will, once we got through the initial rush of pandemic supplies, the upside to it is that the ups and downs market-by-market have also leveled out a little bit. And so, we're a little bit at a new normal with a slightly lower volume set. And now we're optimizing for that environment and trying to make sure that everything from truck count to personnel costs to any and all controllable costs are right-sized appropriately for the market we find ourselves in.

On the Dedicated side, you really spelled out exactly kind of what's happening. The predominance of those accounts have been stable and have performed exactly like we thought they would in a down market, or a market that was stressed like this one is. There were other accounts mixed in there, where volumes were either down considerably or shut off altogether, because of the type of product that they have. Those have been balanced pretty effectively by surges across other fleets. And so thus far, our Dedicated model has held up real well, but there are certainly puts and takes within those results.

John Steele
And Brian, one thing I would add to that on Dedicated, if you see that chart on page 14, our overall company is set up with 62% of our top 100 customer business with those 4, what we call, essential product customers. Well in Dedicated, it's even higher, it’s 73%. So Dedicated is aligned with companies that are continuing to do well for the most part in this pandemic economy.

Brian Ossenbeck
Okay. Got it. Yes, that chart is helpful. Maybe for a quick follow-up. If you can give us a sense with those customers and probably some others, just how bid season is progressing. Obviously, there's a lot of other stuff going on. So, maybe you can give us some color on just how bid season is going, if it's on pause, if it's still moving forward in pieces? And then to any extent you can offer, some color on the Dedicated pipeline, both of those would be helpful.

Derek Leathers
Yes. So, we're about a third of the way through our bid season at this point. And on the bids that are already completed, those renewals have happened along expectations that we talked about, even on the last call, which has been flattish type renewals, by and large. What we've now entered to is a phase, however, where there have been some delays in implementation of bids and/or completion or closing out of bids. That's been specifically apparent on the Dedicated side of the equation. What's encouraging is, total Dedicated volume is up and been very strong, and we actually had one of the strongest quarters for Dedicated opportunities and bids that we've seen in the last 8 quarters. But the implementation of those bids and finalizing the results of those bids is certainly taking a slower path to the finish line.

And I think it's understandable. Customers are working through the risk reward trade-off of making a change and introducing a new fleet and new group of people, drivers, on-site associates

during the pandemic. And so, we're working through that with our customers. We're staying patient and trying to be supportive of them. But the encouraging backdrop and, I think the takeaway is, the pipeline is as strong as it's been in a long time and specifically stronger than any quarter in the last eight.

Brian Ossenbeck
Thanks guys. Thank you very much, very helpful.

John Steele
Thank you, Brian.

Operator
Our next question comes from Chris Wetherbee of Citi. Please go ahead.

Chris Wetherbee
Hi, thanks, good afternoon, guys. I want to ask a little bit about the fleet and expectations for maybe 2Q and 3Q as you move forward here. Do you think you can kind of hold the line here? And then maybe, can you talk a little bit about how the mix might change between One-Way Truckload and Dedicated as we go forward through at least 2Q and then maybe 3Q and the back half, if you have that visibility?

Derek Leathers
Yes, Chris, it's a tough question to answer just given where we're at in the return-to-work phase or Phase 1 of this sort of pandemic response. As I indicated on the prior question, we have a tremendous amount of pent-up bid activity in Dedicated. And in many cases, bids that are already to the finish line or across it. When they would implement is, it would be irresponsible of me to try to predict. I would like to think that some might happen in Q2, but in all likelihood, you're looking down the road further than that before we see actual implementations of some of those activities.

So, given that, it doesn't provide an opportunity to do a lot of fleet shifting between One-Way and Dedicated. And that 60:40 mix roughly is about what I think you should expect as you think about Q2. When you think about overall truck count, it's really going to be a lot clearer in the next three to four weeks, because as we get a feel for whether we do have an economic restart, which would bode well for One-Way and volumes that we see in the One-Way side as they start to replenish some of the depleted stocks that are out there. And on the Dedicated side, it would bode well, because we'd start to see actual implementations are at least moving forward on awards. But in both cases, if I'm giving you my best guess, the second quarter is a too early timeline to really try to put any kind of line in the sand.

So, for now, its holding serve with the fleet we have. We're willing and able to shrink it a little further if we needed to for volume purposes and right size it as appropriate. We do that by managing the front door of the building, not so much any kind of aggressive downsizing, but rather just controlled shrinkage through the quarter. And the back half will be determined by where volume goes from there. We'll...I can tell you this, our recruiting machine is ready, applications are up, quality is up. You have to sift through a lot more application counts to get to those quality drivers. And so, we know that if we are in a situation where the freight is there and it's time to move, we can make that move.

Chris Wetherbee

Okay. Okay. That's helpful. And then maybe that just leads into my next question, which is about sort of a potential recovery. And obviously, demand is going to...we don't know exactly how that sort of shapes out, whether it's U shaped or something different there in terms of the recovery. But from the capacity side, what are the potentials that could keep this from being a tight market? Because it feels like the setup is that we could be coming out of this into a significantly better truckload market. So, I just want to understand whether it be on the driver side or if there's other stuff on the capacity with tractors themselves that we should be considering as a potential offset for upside, when we do come out of this?

Derek Leathers
Yes. So, I think capacity rationalization is going to happen. It's happening already. We know in surveying fleets across our brokerage unit, that there are carriers parking trucks and/or downsizing their fleets actively, given where rates have gone market wide, especially in the spot market. We know and can see and track what's going on with order rates at the truck OEMs. And then, even if order rates were at that level, builds are under pressure because of plant closures and other things. So, capacity will be leaving. If you see a U recovery and you see economic uptick, that's going to lean into a tighter market.

To answer your question about watch-outs, things we're paying close attention to is, what's the effect of all the stimulus money and the unemployment benefits that have been extended and enhanced. Is it more difficult to get people back into the workforce, because the programs that are set out...set up right now are pretty robust? What happens with infrastructure? And if you see infrastructure happen and become the next phase of stimulus, which we obviously would support and hope it does, that's going to be a direct demand for drivers and create cross competition.

The fact of the matter is, we'll get through and have plans for those things, but those are some of the offsets that could make it tougher to be able to react as that market tightens and be able to fully take advantage of a changing market. But all signs at this point, in my eyes, at least point to us. We're on the bottom. We're dragging along the bottom. And as we see economic upside from here, the capacity left to move that freight will be less than it was when this all started.

Chris Wetherbee
That's very helpful. I appreciate that. Thank you.

John Steele
Thank you, Chris.

Operator
Our next question comes from Ken Hoexter of Bank of America Merrill Lynch. Please go ahead.

Ken Hoexter
Hi, great, good afternoon, Derek and John. Derek that was great insight on the state of the market and your thoughts on growth. Maybe I just want to hit on this a little bit further on the CapEx side. I just want to understand your messaging. Are you trying to talk about you're pushing out the CapEx or is it an outright reduction? I'm trying to understand your message and timing and plans that you have and you're sustaining that CapEx for the year?

Derek Leathers
Yes. So, let me start with what we didn't maybe comment on as much. The first thing we did with CapEx is take a very thoughtful, logical approach to what was...what could be cut from the CapEx plan to just rationalize our spend for the year and make sure we did what was right relative to kind

of the like to have versus really need to have type items. We've done that and rationalized a lot of spend within that CapEx budget across infrastructure and terminals and office and other requirements. But the big mover in CapEx is trucks and trailers. And so at the end of the day, we wouldn't be able to buy the type of trucks or the same volume of trucks and trailers we started the year at, in all likelihood, just given the fits and starts with OEMs relative to the production schedules and some of the issues they're facing inside their plants.

So, we've right-sized what we think is the right amount of trucks for the year that reduced...and trailers as well, which reduced CapEx over $40 million. But that's offset by the fact that we'll sell less trucks as a result and the gains on those trucks will be considerably less, even with the $5 million write-down. The used truck market is a very tough one at the moment. And so those two kind of wash or even slightly worse than wash. So, the net stays within the range, and we didn't want to change the range. The actual spend inside that range might change some, but we're going to continue to monitor and look for options to conserve cash where it's appropriate.

Ken Hoexter
Alright. That's great. And then, just on your mix, either going to the early slides or Slide 14, where you talk about the top 100 customers. You talked about the essential customers. Are you seeing a pullback after the replenishment? How do your dollar stores, which are sizable entities as well, shift into the e-commerce world that we're seeing expanding right now?

Derek Leathers
Well, Ken, I mean, I think as you know, as a general rule, I don't talk about specific customers, but I will say that the same folks that were successful during the early push and have good business models where customers go for products they count on are holding up well, even after that initial rush. They are going to the same stores people will continue to shop. And if anything, we've seen in prior cycles, that when the economy gets tough, people downside, or they work down the value chain in terms of where they make some of their purchases from. And so, they'll go down into lower price points and actually increase volumes at some of those discount retailers. So, we think that's going to hold up well. So far, it's held up very well.

We don't see signs of that weakening at this point, and that's why we're relatively bullish on how we will fare even in a difficult market. We think the market is going to be tough. But we think our customer mix, both the strength of their product, their models, and their management combined with the inherent strength of their financials sets them up very well, and that's why we included information that was pretty specific. And I will tell you that all of that is third-party validated information, because our internal approach, when we did the exact same analysis, was more optimistic than even what's on the slide. And that's why we decided to take another step and take a more...to try to be even further objective. And even under that additional lens or additional filter, the results, as you saw on the slide, are very positive.

Ken Hoexter
Appreciate the thoughts. Great job in a tough environment. Thanks guys.

Derek Leathers
Thank you. Appreciate it.

Operator
Our next question comes from Scott Group of Wolfe Research. Please go ahead.

Scott Group

Hi thanks, good afternoon, guys. So, if I can start on the rate side, maybe can you...the 3.7% drop in rate per mile, can you maybe just talk through the progression of the quarter and what you're seeing in April on that front? And then, Dedicated rev per truck was still really...was again really strong. Do you think that stays strong, stays positive in the second quarter?

Derek Leathers
Yes. So, on the first question on the rate, there really wasn't any progression, if you will. It was a fairly consistent year-over-year lapping effect based on mix, based on bids that were rebid during the year last year that we knew would be now comping against a tougher comp. Renewals, to the extent those were happening, as I said earlier, were generally flattish on all of the contractual type renewals in One-Way. Dedicated has held-up better and continues to hold-up better from a revenue-per-week perspective. We haven't seen anything in the cards that makes us change our view on that. Clearly, when markets get this tough, you see a lot of less experienced operators trying to enter or bid on Dedicated or look for safe havens for their trucks. So, we will have more light noise in the bid cycle for the coming quarter or two or maybe longer.

But customers that we work with, those that have winning models want to work with winning suppliers and folks that can grow and live up to their expectations. And we have pretty proven track records over long periods of time with those customers. And so, we stood with them during the pandemic. We surged up with them when they needed it. We were in constant communication. And these are times relationships are tested. And I like that so far, those tests have been passed, and we feel pretty good about it. We'll stay close to it, that I can assure you.

Scott Group
Okay.

John Steele
And on the Dedicated rates, Scott, I would add that we were up 4.9% in first quarter. I would expect some moderation in that increase in revenue per truck as we move forward, but we absolutely expect it to remain positive.

Scott Group
Thanks. And then, so, we've got demand and rates getting worse since the end of second quarter versus first quarter. But hopefully, we don't have the $0.10 drag from the accident, fuel is falling. I know this is a tough question, but maybe any thoughts you can give on Truckload margins sequentially better or worse in second quarter than first, any initial perspective?

Derek Leathers
Well, as you know, we don't give guidance quarterly, and that includes both company-wide, as well as, down to a divisional level, of course. The second quarter is...it's just too soon right now. We're really seeing the slowdown of the initial surge of all of the pandemic essentials, coupled with a slower, but improving volumes across some of the less essential, but now reopening and/or restocking. Where those two lines cross and how that plays out over the remainder of the quarter, it's just too early to call. So, I'd be doing a disservice to even attempt to answer it.

What I can tell you we will be doing in the second quarter is, doubling down our efforts on controllable cost, focusing on everything we can do from a productivity perspective. And realigning the network, now that all of that sudden surges in volume, coupled with rapid declines in other regions is sort of behind us. And now we have at least a new normal. So even with volumes being lower, we're seeing better balance, better behavior of the network, less distractions, trying to respond to major short-term projects, and more of getting back to the

blocking-and-tackling of trucking. That's something we think we're pretty good at. We're going to stay focused on, and the team is laser focused on doing that at a lower cost point in the second quarter, knowing that rates will be under pressure.

Scott Group
Okay, that all makes sense. Thank you for the time guys.

Derek Leathers
Thank you.

Operator
Our next question comes from David Ross of Stifel. Please go ahead.

David Ross
Thank you. Good afternoon.

Derek Leathers
Good afternoon David.

David Ross
I want to talk a little bit about the drivers. It seems like you guys have gone out of your way to stay in front of the drivers, communicate well with them, take care of them. I would imagine turnover dropped in the quarter, but I did see that the independent contractors dropped off 18% year-over-year. And I wanted to know what's going on with the driver training schools, given certain state mandates.

Derek Leathers
Yes, so, several parts to that. The turnover has seen improvement, as the quarter progressed, especially on the voluntary quit side. We've seen a fairly dramatic decrease in drivers leaving the organization. I think they do feel that we're here for them, supporting them and staying in constant contact with them. I think the work we've done over the last several years with all of the driver facing meetings, conversations, sit downs, and the direct line of communication that I set up with them three years ago, it remains open today, and I actively monitor on a daily basis all that goes into it. And so, we've seen a lot of positive movement.

On the owner operator side, it's a little different, we support our owner operators, we want to continue to hold and value those relationships that we have, but with everything that was going on out in California and other states, we made a conscious decision, a little over two years ago, to not actively be trying to grow that. And so, it's really a matter of decreases, because we're not out recruiting or trying to bring onboard large quantities of new owner operators. We're really trying to support and maintain those that we have. And you see normal shrinkage over time, especially in that group as it relates to retirements, because they're generally have started their career as a company driver, converted to became an owner operator later in their career, and many of them have now approached the time by which they're looking to retire.

Driver training schools, different story that's been under a lot of duress, not just for us but nationally. At one point in the quarter there was over 50% of the driver training schools nationally that were shut down completely or under limited work orders. We've had to retool our schools. We have both a location shut down altogether as whether…as well as retooling all of them for social distancing. What that means in real life is, your enrollments had to be cut by half roughly, in order to socially distance and still get training to accomplish, we had to convert to more e-

training and lean in the technology we've been developing for some time. And it really just slows the throughput of the process of getting drivers through a school, onto a truck, and ultimately qualified and now driving on their own.

So, the driving…the driver training, the new entrants into the market is definitely down industry wide. It will stay down, I think, for the foreseeable future. And so, that's why it's even more important that we hold on to the quality drivers that we already have in the fleet, and we're working diligently to do that.

David Ross
Do you think social distancing really makes sense in terms of keeping drivers six feet apart really is going to help anything, versus having them three feet apart and get more drivers to the school?

Derek Leathers
Look, I'm not a doctor, but if we're going to be committed to following guidelines and if we're going to give a layer of comfort to our drivers that that stuff matters to us, we're going to walk the walk that we talk. And so, when we get guidelines...and understand, we're in a different situation in Omaha. We are one of the leading pandemic units in the entire United States is based in Omaha. I've got a direct line of communication with them, and we have at least twice a week calls and get understanding and updates on the latest news and developments.

We've designed our programs and had the opportunity to run it by people that matter and do know these things. And we're going to err on the side of caution, because we're committed to our safety of our drivers. They need that and want that from us, and that's what I signed up for. So, it will impact in the short term. As for how effective it is, I think history will write a different story probably on all...a lot of these actions we've taken and whether the economic price and, even honestly, the healthcare...the health price of some of the actions that have been taken, when you look at all of the empty hospitals with people deferring needed, but still elective surgeries, but that's for a different subject on a different time. I'm just here to talk about trucking.

David Ross
Thank you.

Derek Leathers
No problem.

Operator
Our next question comes from Jack Atkins at Stephens. Please go ahead.

Jack Atkins
Hi, Derek, hi, John. Thank you so much for taking my questions.

Derek Leathers
Hi, Jack, how are you?

Jack Atkins
Doing great, guys. Thank you and I hope you are doing well too. I really appreciate all of the color around what you're seeing in April. And then also sticking your neck out on the guidance when a lot of companies are pulling their guide, really appreciate that insight. I guess, as we sort of look forward beyond this and think out of the next couple of years and out of the next couple of

months. I think, one thing that's clear is, we're going to see quite a bit of capacity attritions. And Derek, from your comments, it seems like you feel the same way.

So, I guess, my bigger picture question for you is like, how are you sort of preparing the business today for what's coming in '21 and beyond, where it feels like there's going to be a lot of market share for it to take. And what are the steps you can take now to sort of be in a position to really capitalize on that and grow on the other side of this?

Derek Leathers
Yes. I think it's a great question. And I think one of the things as a backdrop to the CapEx guidance we've given, because I'm sure at times, it may look as though we haven't made some big move there. And part of the reasoning for that is that we are going to continue to invest in our company. Good times and bad, we're going to stay consistent with what matters, and that's investing in the five Ts. As it relates to preparing for 2021 and what does that mean? It means we're leaning into the technology spend that we've been talking about doing, and the investments we're making. We want to be able to be increasingly mode agnostic for our customers. We want to bring both our own capacity, as well as, third-party capacity to bear, and be better prepared than ever to do that, when this capacity crunch arrives.

We want to make sure the fleet is renewed, so we're not playing catch up when we get through to the other side of the pandemic. We want to hold on to the quality drivers we have and let that fleet gain tenure, which it’s gaining as we speak. We're going to continue to focus on the safety program, so that we come out of the other side even safer than ever before. And if we do all of that, and still have that asset in the school network, which is an asset even though, at today's throughput, it represents a higher cost structure for us, we will be positioned for that turn.

So, I'm pretty excited about what the world looks like when the dust settles. You see the capacity that falls out. You see the economy come back, people call and want quality. They know where to call, and they know that we're going to be ready to haul that freight. So, it's a pretty difficult short-term time. We're focused on, obviously, safety and health and trying to do our part as a corporate citizen, but we're very much preparing for what it looks like on the other end of this, and I think we'll be ready and able to respond.

Jack Atkins
Okay. That's great to hear. And then I guess for my follow-up, John, I know you do a great job keeping up with your customers’ inventory levels and sort of what they say about that. And I guess, when we think about what's happened here over the last couple of months, we had issues getting imports in from China. Then, we had this huge pantry-stocking phenomenon. Do you think that inventories are fairly depleted and that once things kind of begin to pick back up, you could have maybe more of a surge, because of an inventory restock? How are you guys thinking about that and how are you thinking about where inventory levels stand overall? Thanks again.

John Steele
Well, Jack, the last reported inventory levels from our large retail customer base showed a decline in inventory per store relative to same store sales. So, they were fairly lean at the end of January going into this. Now, the pandemic completely impacted a lot of our large retail customers that are in the discount business. And in my opinion, significantly reduced inventory, and that's based on the fact that they were actively asking for our help in the latter part of March to build the inventory back up that had moved from the stores to the pantry.

I think levels of volume with those customers have settled back in to more normal levels, but they're not significantly dropping. So, the retailers that we serve, I think inventories are still relatively lean. Now, there is an entirely different segment within retail that serves, for example, the apparel market that they've had their stores closed. If the company doesn't have a significant online presence, my guess is their inventory levels are pretty high. So, I think there's a big separation between the type of retailer and where their inventory levels currently sit.

Derek Leathers
Yes. The only thing I'd add to that is, we have had indications in recent days and weeks from some of those very discount...some of the very people we're talking about quality winning companies in the discount space that sell products that people need and want, that those...some of the products coming out of China have finally started to see an uptick. They're actually arriving at U.S. shores. We're starting to see over the next few weeks some positivity as it relates to what those volumes might look like. It's too early to say it's here or that we have actually hold it, but we think that's a positive indicator, at least to offset some other areas that may be more negative over the next few weeks as closures really start to set in further.

So, it's a mix of...there's a lot of puts and takes. It's probably the hardest quarter to ever talk about because of that. But there's a lot more cause for comfort as it relates to winners winning right now than there has been in other quarters where maybe others could pretend to be successful or have indications of success. This really kind of culled the herd a little bit and we think we're with the right folks.

Operator
Our next question comes from Tom Wadewitz of UBS. Please go ahead.

Tom Wadewitz
Yes, good afternoon. I know that Derek and John, you've had several questions on pricing. Hopefully, this isn't completely redundant. But just in terms of shipper behaviour and also how you think about these markets being separated it, there's a lot of pressure in the spot market, you're pretty optimistic on Dedicated and then you, I guess, you're talking about contract rates that come under pressure in second quarter. Do you think those markets can stay separated and you can keep pricing on Dedicated, or do you think that you kind of end up everything gets dragged down and the pricing pressure gets broader that you have to deal with in second half?

Derek Leathers
Well, I think a lot of that depends on when you start to see economic lift. And if you know, you believe the return to work kind of strategies that are starting to take place and the economy is starting to open up and you start to see any economic lift, there's no way spot market capacity works its way into a Dedicated bid or suddenly starts hauling Dedicated at 99.9% on-time over the course of the second quarter. That just doesn't happen.

One-way is going to be under pressure during the quarter, and that's why we've talked about it, and that's why we've left our guidance at negative 5% to negative 7%, even though we just came off a quarter where we are negative 3.7%. So, we understand that there's going to be some tough discussions to be had. But again, by and large, through this pandemic thus far, customers have treated...quality customers have treated quality carriers as you would hope and expected they would, which is they place a value on it.

And so, if the move in rates is two months or three months in duration and the spot market is a blood bath and continues to be one, that's a pretty short time frame to go take advantage of a

short-term buying opportunity at the expense of a relationship that's been delivering the very product you've been selling in high volumes throughout this entire pandemic time frame.

So, we're not bullish. If we were, we wouldn't be saying negative 5% to negative 7%, but we're also not throwing in the towel. I think a lot of our customers have really shown their colors, and we've been really proud of those relationships, of course, if you have 100 of anything, you've got a few bad apples, and that's true of customers, not just as much as it is of any other of carriers or anybody else. And so, there's behavioural erratic...there's erratic moments in behaviour that we go through, but at the end of it all, our portfolio is structured well, and we're responding, and it's behaving as we expected it would behave during a crisis like this.

Tom Wadewitz
Yes. And perhaps I think one the question is precisely as I was, I guess, trying to...I'm not saying spot rate pressure would necessarily go directly to Dedicated, but you know, contract rates are down 5% to 7%. Do you think, I guess, it sounds like you think the larger players that are good at Dedicated are just maintaining discipline. And you don't think the newer players, or the large players will kind of put pressure on Dedicated pricing. Is that a fair way to understand what you're saying?

Derek Leathers
Well, that's one way, but I wouldn't say it's quite that linear. I mean, remember that earlier in the call I commented that our Dedicated pipeline is as strong as it's been in eight quarters. So that means there could be Dedicated exits that are coupled with new Dedicated entrants that take place over the back half of the year, and we've talked about a 60-40 freight…truck mix between Dedicated and One-Way. I don't foresee that mix changing a whole lot so…and the way that doesn't change is, because if rates go or if there's undisciplined pricing out there and a customer decides to chase it, I have to have a pipeline robust enough to be able to replace that business at rates that offer the opportunity for a re-investable return.

Where we're priced today is fair and market based. The value that we provide those customers is known and acknowledged, and that's best seen by the number of Carrier of the Year awards we've won over the last couple of years, specifically in the Dedicated space, but there will be puts and takes. There will be fleets that will downsize and/or go away, replaced by other fleets that are either growing and/or new to the business. The mix between Dedicated and One-Way will stay at or around 60:40, but certainly, the opportunity for Dedicated to being a higher percentage is in front of us. If both the pipeline materializes and our negotiations with our customers stay true to form and stable, we will potentially grow more in Dedicated. We're not looking to grow the fleet at this point and won't revisit that until we see true signs of an economic return, so, we'll be disciplined in the meantime.

Tom Wadewitz
Okay. That's helpful. Maybe just one other kind of wrinkle on a prior question, when the market does get stronger, would you consider adjustment on the strategic view of more and more mix to Dedicated just to, I guess, to kind of capture some of that lift and tightness in the market that for a period, you put more trucks in One-Way or it's just kind of continue to march on toward more and more of the fleet with Dedicated?

Derek Leathers

We want to be nimble, and so when we look at trucks and CapEx and orders for the following year, we have healthy debates and competition inside the building as to where those trucks will land, and people make their case. We also want to tend to be in front of the market shift, i.e., if we think there's a particular part of the market that's going to be more robust over a cycle period, not over a month or a quarter or even a year, but over a cycle period, we'll certainly adjust accordingly. But right now, if you look at the quality of the Dedicated portfolio, how it performed during both good and bad times over the last cycle, there's not a lot of reason to run scared from Dedicated or try to put more eggs in the One-Way basket because we think that's going to be way better later. We think they both can perform well in an up market.

On the One-Way side, we're going to continue to focus on our strengths, which is cross-border and team expedited. When the market gets stronger, and as you see near-shoring starting to take place and take hold, that applies a multiplier to whatever market growth you see because it's augmented further by those that are near-shoring or investing closer to home. Those bode well for our Mexico franchise as time and time-essential service becomes increasingly critical and as two-day becomes one-day expectations across the customer base. Team expedited becomes higher and higher in demand. So, we think we're building a portfolio that's in advance or in front of where the market is headed. I am not trying to play catch up and that's why we like our positioning right now. For as long as the crisis may last, as well as when the market turns, we have the ability to be nimble.

Tom Wadewitz
Great. Thanks for the time.

Derek Leathers
Thank you, Tom.

Operator
Our next question comes from Bascome Majors of Susquehanna. Please go ahead.

Bascome Majors
Thanks for taking my question. Derek, you ended your prepared remarks by saying when it rains, we get wet, but it sounds like you're staying pretty dry so far, certainly in the quarter and with some of the directional commentary you gave on April. Clearly, you expect the second quarter the commentary is that it will be, you know extremely challenging. Can we just focus in on the pain points, where that pain is going to come from, because it certainly sounds like, so far, things have trended exceptionally well? Thank you.

Derek Leathers
Yes, thanks for the question. So, first half, we want to be conservative at all times with our guidance and especially in a time of…like the one we're in. So, we felt it is important to make sure that despite the results of the first quarter, nobody is immune from this pandemic on a corporate level, meaning, we will…we know volumes will decline. We've seen a tapering of those initial volumes. You can see the same data, and I'm sure you guys all track it as well. And so, we want to prepare for what we think will be the worst of it, which is the second quarter. We've been doing that preparation for a long time and have daily, multiple times a day, Zoom meetings to make sure that we're ready to react. I think the second quarter should be the worst of it and then climb out from there.

And I think the risk is maybe to the upside, meaning if we do see phase one go well and you start to see more re-openings and you see the stimulus money actually hitting people's bank accounts

versus being a headline on the television, and they're out there able to engage and stay active in the economy, there's a lot of reasons for hope and optimism. But we're going to plan based on practicality and execution. And so, that's what that comment was intended to do. It was intended to, no pun intended, dampen the mood a little around the fact that it's going to be tough out there, but we take that head on. We're taking tough decisions. We've taken the pay cuts we talked about. We've frozen hires coming in the front door. We're actively addressing performance issues throughout the organization and we are going to make sure and address controllable cost in every corner of the building. And I think we're…I appreciate the comment. I think we have weathered it better than most. I think we had a better starting point to go into it than many. So, that certainly helps but our work isn't done, our team knows that, and we're going to keep focusing on executing.

Bascome Majors
Thank you for that, Derek.

Derek Leathers
Thank you, Bascome.

Operator
Our next question comes from Jordan Alliger of Goldman Sachs. Please go ahead.

Jordan Alliger
Yes, just a quick question following up on your comments on Mexico. Can you talk a little bit about what you're seeing with cross-border trade today, and then, you mentioned near shore, I'm just sort of curious you envision that may be happening sooner or is that type of thing still take a fair bit of time, you know two or three years from now? Is that more of a reasonable timeframe?

Derek Leathers
Well, I think it takes time. Yes, I think it's not a quarter-to-quarter or even, you know now to the end of the year. There's some reallocation of supply lines that customers can and are and will do, and we think that will benefit us. But the bigger strategic stuff is going to take time to develop but it takes time for us to continue to build that network out and be prepared for that growth as well. So that's okay by us. We know we're ready. We're prepared and we know we are the quality player in that market and the largest volume player in the Mexico cross border market, and we expect that to continue. We're going to defend that position because we take pride in it. But yes, it will take a little bit of time for that nearshoring to really, I think, take hold, but I don't think anybody can refute that philosophically. People are really questioning and asking themselves bigger picture questions beyond just where is the lowest cost of manufacturing and really thinking more about longer term strategic plays in terms of showing up their supply chains, all of which will benefit a quality truckload and logistics company like Werner that has a dominant North American footprint.

Jordan Alliger
And just in terms of the current cross border trade, I mean, is that affected similarly to what you're seeing in the domestic U.S. Is it more or less hard to tell?

Derek Leathers
I would say it's similar. There have certainly been some complexities over the last few weeks that are unique, because of the essential business classifications that have happened. There's a lot of misalignment between what's considered essential in the U.S., versus essential in Mexico. And so, now you have double jeopardy, because either end of your supply chain could be potentially shut down versus just one company being shut down.

That's caused disruptions and that's certainly a cause of concern for us, but they're working through that and the administrations in both countries seem to be actively trying to get that ironed out. But Mexico is certainly…I would say the bigger concern I have for Mexico is just how they, as a country, get through the pandemic. And we're trying to stay close to that. What happens to their overall economic output and their GDP? What's going on with consumption in the country as a result of really a less mature healthcare system and less mature economy overall as comparison to Canada and the U.S.

I mean, so we are aware that there's going to be some hills and valleys along the way between now and the end of the year with our Mexico franchise. But again, we're going to get through whatever that is presented, as well as, anyone else, just given our experienced and breadth of services that we offer in cross border.

Jordan Alliger
Thank you.

Derek Leathers
Thank you, Jordan

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

CONCLUSION

Derek Leathers
Yes. Thank you. I just want to close by thanking everybody for calling in today. I appreciate your questions and concerns about what the future holds for Werner. To summarize, I just want to reiterate, our strategies haven't changed. We're going to continue to focus on working with winning customers that win in good times and bad. I think that's shown itself to be a sound approach during the first quarter, and we feel it's equally sound as we go into a lower volume period here in Q2. Quality will shine and rise to the top. And I think this is a time that that will be more apparent than ever.

Relationships are going to continue to be tested, but we feel very strong that those relationships we've built matter, and we will mutually hold one another to account as we work through this to make sure that we make good long-term strategic decisions. Cost relative to COVID directly will be increasing. The plans we've laid out do cost money, both on the direct salary continuation or paid sick leave, as well as, the additional COVID relief fund that we structured to set up for…to provide additional relief to those that are even more impacted. Those are all part of the plan that we put forth to get through this. We think they're thoughtful, they're logical, they're compassionate, they're consistent with our values.

In closing, this is a time that will define us in a tough market that has traditionally been a knock or concern about Werner in the past and how we've behaved in down cycles. This is a down cycle like we could not have predicted and yet we're weathering it fairly well.

We're proud of that and I'd like to close ultimately by thanking our drivers. They have answered the call to action. They've stood up and been counted. They're delivering on time, staying safe, staying healthy, and keeping America moving, and I want to thank all of them for their efforts.

Thanks for being with us today.

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