Werner Enterprises

Q2 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 Second 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.

Earlier this afternoon the company issued an earnings release for its second quarter 2020 results and posted a slide presentation to accompany today's discussion. These materials are available in the Investor 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 is our CFO, John Steele. Second quarter 2020 was one of the most challenging periods in our nation's history and our company's history as well.

Our employees, customers, suppliers and third-party providers contended with the rapidly changing landscape and the unprecedented impact associated with COVID-19. After the pandemic declaration in March, we took immediate action to create an environment to safeguard our associates while delivering on the needs of our customers. We quickly implemented and communicated safety policies and practices and purchased PPE for our driver and non-driver associates.

I'm extremely proud and grateful for our Werner team for taking the extra precautions and care to remain safe and healthy, while continuing to make on-time deliveries of the goods and products that keep America moving.

In addition, recent tragic events have intensified the national discussion for diversity and inclusion. There is absolutely no place for racism or inequality in our communities or workforces. Our core values continue to be based on respect and inclusion in everything we do. Our team is continuing to take steps by our words, deeds, and actions to further strengthen our diversity and inclusion program.

Moving to sustainability, during the second quarter, we were pleased to be named a 2020 Top Green Providers by Food Logistics and a 2020 Green Supply Partner by Inbound Logistics. The EPA previously named Werner as a SmartWay Excellence Award winner and SmartWay High Performer Award winner. These recognitions represent the highest award level granted by the EPA and Werner has received these awards the last three years. Werner is proud to invest in the latest technology that allows us to work toward fuel-efficient sustainability initiatives. Werner has conserved more than 265 million gallons of fuel since 2007 and reduced our carbon footprint by more than 3 million tons.

Next, following the review of our second quarter financial results, I'll provide specific details about how Werner is assessing, proactively adapting, and adjusting our business strategy to successfully navigate this dynamic environment.

For investors new to the Werner story, on Slide 4, we provide an overview of our key market size and fleet size metrics, as well as revenues by segment, industry vertical, and customer. To summarize, we have a diversified fleet and revenue base that has served us well over many years and economic cycles.

In the interest of time, let's move to Slide 5 for a brief overview of our financial performance. In the second quarter, revenues decreased 9% to $569 million. Adjusted EPS was 2% lower at $0.62 per share. Adjusted operating income declined 3% to $57.7 million, while adjusted operating margin increased 70 basis points to 10.1%.

As we think about COVID-19 related impacts and trends during the quarter, we experienced a significant decline in economic activity in the first half of the quarter. This affected the freight volumes of some of our One-Way Truckload and logistics customers, who were forced to temporarily close or significantly curtail their businesses. As we moved into the back half of the quarter, we saw a steady recovery of One-Way Truckload freight volumes from these customers as they reopened. This improving freight trend has continued into July. We are encouraged by recent conversations with our customers about their expectations for freight trends going forward.

Our dedicated freight volumes were strong during the second quarter, as three quarters of our dedicated revenues are with customers that ship essential products.

We ended the quarter with 7,650 total trucks in TTS, a decrease of 285 trucks year-over-year, and a decline of 185 trucks sequentially. This sequential fleet decline was anticipated in the early stages of COVID-19 as we aligned our fleet to adjust to reduced demand, we had delayed implementations of dedicated fleet startups, and we planned for lower driver numbers at our driving schools, and the other schools that we are aligned with, due to social distancing requirements in state licensing agency closures and cutbacks of services.

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

John Steele
Thank you, Derek, and good afternoon. Beginning on Slide 7, let me review in greater detail, our second quarter financial results and provide some additional color on the drivers of our performance.

In summary, Werner produced strong results in the second quarter, particularly noting the challenging and volatile operating environment. We carefully monitored, managed, and adapted to a weaker freight market in April, which then began to improve in mid-May and June. By carefully executing our Dedicated and One-Way Truckload fleet management strategies, combined with strong cost management, we improved our TTS and company-adjusted operating margins.

Total revenues declined $59 million, with nearly half the decrease associated with lower fuel surcharge revenues caused by lower fuel prices. The balance of the decrease was due to adjusting to the impact of COVID-19.

Despite the challenging operating environment, our TTS revenue per truck per week increased 1.1% due to higher revenues per total mile and partially offset by lower miles per truck. We adapted to the softer freight market with 2.2% fewer trucks. The softer freight market and lower fuel prices produced a 16% decline in logistics revenues.

Adjusted operating income declined 3%. In TTS we expanded operating margin by 170 basis points, while our logistics operating margin declined 120 basis points. During the quarter, we implemented numerous cost-containment programs that are ongoing, which helped to mitigate the more challenging market and pricing conditions.

Our salaries, wages, and benefits expense declined sequentially all year-over-year due to improvements in non-driver payroll cost, lower placement driver expense, improved workers compensation cost, and lower medical expense. We believe a large portion of these cost savings are sustainable going forward. A portion of our lower medical costs as well as lower travel and entertainment costs are more temporary and are likely to increase when COVID-19 abates.

During the second quarter, we dealt with social distancing requirements that limited the number of drivers trained in our driver schools coupled with state licensing delays for new drivers. This contributed to our corporate and other operating income decline of $3.1 million, or $0.03 per share. Our adjusted earnings per share were $0.62, or $0.01 lower than the $0.63 a share we earned in the prior year period.

Beginning on Slide 8, let's look specifically at results for our Truckload Transportation Services segment. In the second quarter, TTS revenues decreased $35 million, primarily due to lower fuel surcharges of $28 million. Adjusted operating income was $56.1 million, increasing 7% due to expansion of our operating margin. By proactively adjusting and adapting our fleet to fit the changing freight market, we were able to produce a slightly higher TTS rate per mile and keep our fleet productive. Combining this with a lower cost structure, we improved our operating margin. Our adjusted operating ratio, net of fuel surcharge was 86.3%.

Turning to fleet metrics on Slide 9. For Dedicated, we grew trucking revenues, net of fuel by 5% to $239 million. Dedicated average trucks increased 1% and revenues per truck per week increased nearly 4%. One-Way Truckload trucking revenues, net of fuel, decreased 9% to $168 million. Average trucks decreased 7% and revenue per truck per week declined 2%. One-Way Truckload miles per truck decreased 0.3% and revenue per total mile declined 1.9%.

In April, freight volumes in One-Way Truckload were lower, which caused our spot miles as a percentage of total miles to increase to 16%. As freight began to improve in One-Way

Truckload in May, our spot miles percentage declined to 12% and further declined to 9% in June.

Moving to Werner Logistics results on Slide 10. In the second quarter, logistics revenues declined 16% to $110 million. Truckload Logistics volumes were 9% lower and revenue per load declined 15%. Intermodal revenues declined 10%, while international revenues increased 20%.

Our gross margin percentage declined 40 basis points, as contractual brokerage experienced an increasing cost of capacity as the freight market began to improve in the back half of the quarter. Based on what we are seeing so far in July, Truckload Logistics gross margins were lower due to higher capacity costs and volumes are down a high single-digit percentage year-over-year.

Logistics operating income decreased 39% to $3.1 million. While our logistics operating margin declined 120 basis points year-over-year, it improved to 180 basis points sequentially from first quarter due to stronger performance.

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 5T's strategy. 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 key highlights are, our truck and trailer fleet ages are low with an average of 2.0 and 4.1 years, respectively. We intended to keep our truck and trailer ages at or near these levels.

While the labor market continues to change with the higher national unemployment rate in the last few months, we remained 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 our ongoing terminal capital expenditures.

We continue to invest in upgrading and modernizing our IT infrastructure and data security. During the second quarter, we launched Werner EDGE, which demonstrates our commitment to technology development and innovation. In June, after an extensive search process, Daragh Mahon joined Werner, as our new CIO. Daragh has excellent credentials, with nearly two decades in IT as well as supply chain experience, which we believe will strengthen our IT infrastructure performance and productivity going forward.

We're extremely proud of the heroic Werner 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 20 weeks and they will continue to be going forward. The ultimate goal of our 5T's strategy is to safely deliver superior service to our customer's on time, every time. That goal has not changed, and I'm proud of our team for consistently going the extra mile to differentiate Werner in the eyes of our customers.

Moving to Slide 13. We've taken significant steps to manage our business during COVID-19. Trucking is an essential industry that delivers essential goods for consumers. Our driver and non-driver associates take this responsibility very seriously. I'm extremely proud of their achievements during this difficult time.

Beginning in March, we thoughtfully instituted policies and procedures to reduce virus risk and enable our associates to remain safe and stay healthy. We continue to closely monitor and disseminate CDC, State, local, and company guideline updates to our entire team. We continue to execute against the Werner playbook, by adapting to constantly changing scenarios, every Werner decision has been guided by three basic and important values--be rational, logical and above all, be compassionate.

To effectively manage our operations, we continue to aggressively address nonessential discretionary costs across the board. We remain keenly focused on hiring and retaining the safest and most qualified drivers. To support a safer and more efficient driver experience, we are installing new untethered telematics technology, with smart workflow, best-in-class navigation, improved safety features and reduced manual entry. And we have worked hard to implement COVID-19 protocols that enabled our associates to remain safe and healthy so that they can continue to safely deliver our customers' freight on time. Our company associate COVID-19 positive incidence rate, as a percentage of our total workforce, has been tracking well below the national average.

Turning to Slide 14; nearly two-thirds of our revenues for our top 100 customers in the first half of 2020 consisted of basic-necessity consumable products. Their essential products are more defensive in this economy and include the discount retail, home improvement retail, food and beverage, and consumer packaged goods verticals. We have supported certain retail customers with increased freight volumes as COVID-19 has shifted some food and beverage consumption from restaurants to grocery and as online ordering of essential products has accelerated. We transport numerous essential products that are continually being restocked in today's economy.

Moving to Slide 15 and our financial position, we paid off $75 million of debt in second quarter. Our debt is currently below our target range at $175 million. Our net debt to EBITDA leverage is currently very low at 0.2 times, due to our desire to remain conservative during the pandemic and create flexibility as opportunities arise.

Our long-term goal of 0.5 to 1.0x net debt to EBITDA has not changed. We have available liquidity of $345 million at quarter-end, based on cash on hand and credit facilities and excluding a $75 million credit facility that expired in July. We have plenty of cushion with our two debt financial covenants and we remain well positioned with a strong balance sheet and ample liquidity.

On Slide 16 is a summary of cash flow from operations, net CapEx and the resulting free cash flow over the past four years. We continue to invest in maintaining a new fleet equipped with the newest and cutting-edge collision mitigation safety technology to reduce both the frequency and severity of accidents.

We are also investing in an enhanced terminal network for our drivers and ongoing modernization of our IT platform and software and we are adopting new truck technologies. We expect to generate free cash flow in excess of $150 million this year and have already achieved that goal in the first half.

We expect free cash flow to be more neutral in the second half of the year, as net CapEx in the first half was lower due to OEM new truck delivery delays, resulting from temporary plant closings. Also, $34 million of the improvement in working capital in the first half was due to the temporary deferral of federal and state income tax payments for the first half, which were paid in the third quarter.

Looking to Slide 17, we compare our prior annual guidance, second quarter actual results and current annual guidance metrics for 2020. Our fleet declined in the first half of 2020 by 4%, due to an intentional decline in our One-Way Truckload fleet in a softer freight market and very few dedicated fleet implementations this past quarter. We also had lower driver school hires as enrollments declined due to the previously discussed challenges with social distancing and state licensing closures and delays. We expect to begin growing our dedicated fleet in the third quarter, based on anticipated fleet implementations. Our full-year truck growth guidance from the end of year 2019 to end of year 2020 is now in a range of negative 3% to negative 1%.

As we expected, the used truck sales market remains challenging in the quarter due to low demand, which limited equipment gains to just shy of $1 million. While we're seeing some recent slight improvement in the used-truck market, it remains very difficult to predict used equipment gains for the back half of the year.

We expect net capital expenditures to remain in a range of $260 million to $300 million.

When we forecasted One-Way Truckload revenue per total mile in late April for the remaining months of the first half of 2020 compared to the first half of 2019, we assumed that the freight market was going to be very difficult for the entire second quarter. Beginning in mid-May, the freight market began to improve and that trend continued in June. As a result, we exceeded our forecast for this metric. We've established One-Way Truckload revenue per total mile guidance for the second half of 2020 compared to the same period in 2019 in the range of negative 1% to positive 2%. This guidance reflects the recent improvement in freight and assumes a more normalized peak season in the fourth quarter. This also assumes there is no widespread round two of the stay-at-home order programs.

We expect our effective tax rate for the full-year to be in the range of 24.5% to 25.5%. We expect the average age of our truck and trailer fleet to remain at or near current levels.

So far, in the first four weeks of July, freight demand trends in our One-Way Truckload unit have been stronger than normal, representing a continuation of the improvement in freight that started in mid-May.

Our annual liability insurance policies renew on August 1st. As a result of the tightening of capacity in the commercial trucking insurance markets, we currently expect the premiums for these policies to increase by at least $7 million on an annual basis, noting the policy's coverages and rates are not yet finalized. We also expect to continue to be responsible for the first $10 million for claim under these new policies.

As we sit here at the end of July, COVID-19 case counts and deaths have been rising in the last few weeks in over half of the United States, with the return-to-school scheduled to start beginning next month. How we manage the virus as a society over the next few weeks and months will determine if there is a strengthening or slowing of economic activity going forward.

We believe there are several factors that will constrain truckload supply in the back half of 2020, including below replacement level Class 8 truck builds, fewer eligible drivers as the Drug and Alcohol Clearinghouse database continues to build, aging truck driver demographics, lower driving school enrollments, an extremely challenging trucking insurance market, and the expectations for increased trucking company failures.

I believe Werner remains well positioned with a superior team that will continue to execute and produce strong results. There will continue to be a near term freight and cost uncertainties and we will focus on controlling the controllable. We will balance our near term priorities with our long-term strategies, while continually reinvesting for the future.

In June, our Founder, first Driver and my mentor CL Werner began his retirement. The company CL founded 64 years ago became one of the giants in the trucking industry, by relentlessly taking care of our customers, drivers, associates, and suppliers. That isn't going to change on my watch. I would like to sincerely thank CL for this opportunity and for his confidence in me to lead the company he built. I am fortunate that CL will continue to be available for his insight, wisdom, and knowledge.

In summary, we are very proud of our results during challenging times. We have now demonstrated strong execution and performance during a variety of economic cycles.

And with that, 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 touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press"*", then "2." To allow for as many callers as possible to ask questions, we ask that callers limit their questions to one question and one followup. This will end at 5 pm EDT following the company’s closing remarks.

Our first question comes from Ben Hartford with Baird. Please go ahead.

Ben Hartford
Hi, good evening guys. Maybe Derek, just some perspective on where the fleet sits today and where it can go? I mean, there is debate about where we are on the pricing cycle and obviously you've got a very strong quarter here behind your belt. You've talked about 11% all-in TTS segment margins, it's kind of a cycle target. But where is your mind today as it relates to the potential over the next few years, as it pertains to where maybe the top-end or a full cycle average for the TTS fleet can be in terms of a margin profile?

Derek Leathers
Yes Ben, so first off, good afternoon, and thanks for the question. I think a few things are indicative of our second quarter results and how we think about going forward. But one, we're finally finding our stride on the cost side of the equation. I think the Werner story is one that for years performed at the top end relative to yield in revenues and revenue per truck per week. But we need to get better and have really built a culture over the last couple of years on the cost side, that shows through in tough quarters, or I should say volatile quarters like the ones we just went through…and you can kind of see the results of those efforts.

So, you are right. As we look and think about going forward, the expectation is, we'll be as good as we've ever been on being paid fairly for a premium work and a premium service. But at the same time, couple that with a little more tenacity around cost controls and cost management. With that, coupling those together, my expectation is, we'll continue to push forward, expand…a more aggressive approach relative to long-term margins. With that said, right now in the middle of where we're at in the pandemic, it's not the time for me to be restating long-term goals. All I can tell you is that, I think our results speak to where we're at, and how we can perform, and what we…and the confidence that we have for the back half is apparent in some of the guidance that we've already issued.

Ben Hartford
Okay, that's great. And I guess just a follow on to that, I know we're in the midst of a pandemic, you talked a little bit about some of the supply constraints. But the July strength stands out as clearly being unusual, there are some anecdotes about some tightness on the West Coast as it stands, kind of here today and the rail networks becoming a little bit tight already. I know it's very difficult to forecast over the next few months where we're going to go. But could you speak a little bit about what's going on in July and maybe what that sets up as a best case scenario…or I should say what the baseline scenario might be as you finish up the third quarter and look into peak as it stands today?

Derek Leathers
Yes, I mean, so July thus far has really been an ongoing continuation of the improvement we saw in the back half of the second quarter. We've seen continuing…continued strengthening, it's certainly stronger than a year ago. It's now stronger at certain times in the week than multiple years of prior data. I would say what I'm more focused on right now is the encouraging conversations we're having with our customers. If you think about our portfolio mix, we talk all the time about it being focused on discount retail, focused on home improvement, and also focused on those that win within that space. Those folks are doing well, they are performing well during the pandemic. I think they'll do well regardless of how the next couple of forks in the road play out.

Again, we did preface all of our guidance with the reality that we're assuming no widespread secondary round of shelter-in-place orders, which doesn't mean that we can't survive or persevere through hotspot issues or selective geographies that may go through that. The west is strong right now, really the entire country is pretty strong right now. It's most pronounced in the west and across the south and really all the way over to the southeast. The dialogue is indicative of one that we've got everyone's attention, if you will, as we start talking about peak and talking about pricing and talking about wanting to make sure to be there to serve our customers.

I think you started and asked about where the fleet could go and I thought you might ask about mix, that is really going to be determined by our customers. We going to listen to them, understand their needs, and on the mix front, we're going to be nimble. I think, we've shown our ability to be nimble over the last several quarters in different economic environments, we'll stay nimble going forward. We've got a strong Dedicated pipeline. But we've got a lot of opportunity in One-Way right now. And so, we will balance those dialogues with our customers, we'll give them options and pricing to reflect those options, and hopefully close out on something that works for both of us. But certainly, our expectation is that our results need to continue to show progress as we go forward.

Operator
Our next question comes from Brandon Oglenski with Barclays. Please go ahead.

Brandon Oglenski
Hi, good afternoon everyone. And John, Derek, thanks for taking my question. Derek, now that you have more public float out there and by no means this is disrespect to Mr. CL Werner, he obviously has left a very long-lasting legacy with this company. But objectively, as an investor, we could look at this and say your fleet has been around 7,500 now for two decades plus, margins have been cyclical but range bound, maybe a conservative approach previously. What do you see changing going forward, now that this is becoming maybe more of an enterprise run for maybe more risk, so is that the wrong way to put it?

Derek Leathers
Yes. So, here's how I'd put it, and I don't know if it'll answer exactly what you're asking Brandon. But, look, we're going to stay true to our roots on the things that really matter, so integrity, service, drivers, customers, being best in class, and being committed above…to that above all else. Those are things that are indicative of CL's DNA, but they're also part of mine. That's not going to change. We're going to place those drivers where they belong, which is really at the top of the org chart and make sure we are giving them the respect that they deserve. But with that said, we clearly, have expectations and CL himself has those expectations that this company not only continues to prosper and exist, but actually thrive and grow and look forward to the next 65 years. My dialogues with him have been clear on that subject. He has talked about that with me and me with him that yes, there is a transition underway, and the culture, you can count on going forward. But it's…the world is changing.

The environments that we operate in are changing and it's going to require us to change with it. And that includes a willingness to take educated risks when that's the right answer. And to go where our customers need us and to grow where our customers may need us. But that's all going to be done with financials in mind. That's going to be done, I think you've all got to know me enough to know, I'm going to be bottom-line focused and I have to have a re-investable kind of return to justify that growth.

But we'll have our eyes opened and looking and be opportunistic as we go forward. But again, I don't want to keep going back to the touchstone of the pandemic, but right now, I can assure you we are laser focused on kind of a short-term and trying to navigate the remainder of this as we get through it and keep putting up the numbers we've been putting up and improving upon them as we go forward.

Brandon Oglenski
Well…and I really appreciate that response, Derek. And I know it's difficult right down in the middle of the pandemic. But you guys have been performing relatively well pre and even during the pandemic, I guess, if you could look out a little bit further, what do you want investors to watch, especially maybe new shareholders that have gotten involved here under your watch now at Werner. What will be the right metric to measure the next few years?

Derek Leathers
Well, I mean, I think so, I may not give you one, but I'll give you some thoughts. So, a few things you mentioned being range bound for a couple of decades and I'm not going to dispute that. But I'll tell you, we've been living in the top end of that range as of late. So, we're going to continue to push that top end of the range in terms of results higher, that's my expectation, that this team's expectation, that's what we've signed up for.

We are going to be aggressive as it relates to growing as appropriate, and that doesn't just mean truck growth or it may not mean truck growth at all but looking for revenue opportunities. We're going to expand our logistics portfolio. We're going to expand and understand that growth is the fuel that an organization needs. But all of which is going to be put against the backdrop that's clearly entrenched in bottom line performance.

So, you're not going to wake up and worry at night that we're just growing for growth's sake, I can assure you. But I do have an eye towards the reality that to create opportunities not just for our investors, but our associates, our drivers, our leadership team. Growth is part of that equation. So, we'll lean into that and I'm looking to lead the organization toward one place and that's to be the best-in-class truckload carrier and logistics company that there is. And that's where we're going to set the bar and every quarter if that's not the case, I can assure you, we talk about it. We do it at our segment level, at division level and I don't want to compare ourselves to just anyone. I want to compare ourselves to whoever is best and eventually take their place.

Operator
Our next question comes from Todd Fowler with KeyBanc Capital Markets. Please go ahead.

Todd Fowler
Great. Thanks, good evening. Hi Derek. Hi John.

Derek Leathers
Hi Todd. How are you?

John Steele
Hi Todd.

Todd Fowler
Hi Derek. I'm doing well. Thanks John. So, on the revenue per total mile guidance for the second half, the down 1 to up 2, I understand that you guys have easier comparisons based on the second half of 2019. But can you help us think a little bit about some of the assumptions that you had in there, either for spot rates, or what you see on the contract side? And then, Derek, do you think in this environment this creates the opportunity for some mini-bids or to pull forward some pricing just based on the tightness that you're seeing in the market right now?

Derek Leathers
Yes. So first off, I'll say, you asked what's based on...what's baked into the assumptions, let's start with the fact conservatism is. I mean, we're going to be conservative. And we're going to think about these assumptions in ways that we feel comfortable we can deliver. But the market is going to dictate how and where we ultimately end up, just like it did last quarter, when we were able to exceed that range. But we've got work to do to get there. I'm not looking to do pull-forward as our primary strategy. I think, there's plenty of opportunity for us to respond to existing customer needs for additional support, additional volumes, pop-up fleets, and mini bids as you referenced. That's where our work needs to get done.

The spot market is clearly moving and going to continue to move in my view, and we'll play a role there and we'll get our fair share. We're going to stand with our customers as it relates to commitments we've made and volumes we need to haul, but those commitments have been right-sized for the volumes that we've been seeing over the last 8-to-10 weeks. And as those

commitment levels decreased to new normals, that's the new commitment that we're going to make sure we stand behind and we'll work with them as it relates to increased needs and increased volumes above that. But it's really going to be a mix of a lot of things. We've got dedicated implementations that will take place and that will drive some of the revenue per truck per week on that side of the ledger. On the rate per total mile, in One-Way, it's going to be many bids, spot opportunities, projects and excess volumes that need to be covered. And frankly, some of the fallout we're seeing from bids that have just recently been completed, that's a fairly widespread phenomenon. Those all will be priced appropriately so, we can continue to reinvest as we look forward to future growth.

Todd Fowler
Okay. That helps. So, when you say, priced appropriately and above the commitments, some of that work would be more, kind of, like a spot-rate versus a contract's rate in the second half right now?

Derek Leathers
Yes, it could be where the spot market is. It could be above the spot market, depending on what that need is or what that volume is and how far we're going to pull capacity from. We're going to have real open frank discussions. We work with great companies that have good leadership on their side. We're going to talk to them and be fair and appropriate about it. But in order to add additional capacity, there is a cost of doing so and especially right now. And I can't overstate that some of the issues going on in the supply side. When COVID came along, we've seen as an industry accelerated retirements from that demographic that was near retirement anyway because of the...their preference to bow out now. That was coupled with a 100,000 less CDLs issued in the first six months of the year at the licensing agencies across the country to new entrants. And then that's further backed up by the fact that with social distancing classes around the America are producing somewhere in the neighborhood of about 60% of the graduates that they did pre-COVID. And so, that's kind of lost sleep, you can't make up for. There's a gap there. And so, we're going to be constrained on the driver side. We'll be constrained, I think just out of financial prudence relative to just adding trucks, not just here, but across the industry. And yes, rates are going in the right direction, but there's a lot of folks that have had a lot of pain in their networks, especially in the second quarter, that are going to be I think pretty reluctant to just throw trucks against that volume. They need rate first and that's where they're going to focus and they need to focus there.

Todd Fowler
Okay. That makes a lot of sense. And just a followup. John is there anything you can share with us, the margin performance here was very good. I think it's the best that I've got in my model, even better than 2018 when you had higher gains in the second quarter. It seems like that there are some unusual seasonal patterns. What are some things you'd point out sequentially as we move into the third quarter that we should factor-in from a modeling perspective, maybe on the cost side that maybe helped you in 2Q that won't help in 3Q or that could reverse that we should think about just from a margin perspective? Thanks.

John Steele
Sure. Thanks, Todd. A few things to consider. We pointed out the insurance premium increase that goes into effect August 1st. That's currently estimated at a $7 million increase and we'll have two months of that, or $1.2 million in third quarter and then a $1.8 million run-rate after that, assuming no changes to our coverage and rates for the next couple of days as we finalize that policy. Logistics margins are going to be challenged, based on what we're seeing so far in July. The cost of capacity has risen significantly, and while that's good for the truck

side, it creates near-term challenges for the logistic side of the business. Fuel prices dropped $0.35 a gallon from March to April, but they moved up another $0.25 a gallon from April through here in July. So, we won't...we had a little bit of a help from lower fuel prices in second quarter and we don't expect that in third quarter. And then, the last item, which is really up in the air, is how COVID plays out and will the stay-at-home programs affect the strength in the freight market that we're seeing right now.

Operator
Our next question comes from Amit Mehrotra with Deutsche Bank. Please go ahead.

Amit Mehrotra
Thanks operator. Hi Derek. Hi John. Thanks for taking the question. I was hoping, Derek, obviously I appreciate, we appreciate the guidance in the back half in terms of revenue per total mile in One-Way. I was wondering if you can opine on what you think '21 may look like. We're not obviously going to hold you to it, given how quick the market is moving, but be curious just you see where your head's at with respect to '21 yield outlook, just based on the freight, how the freight environment is evolving and also comes on the conversation with your customers and how the supply side is evolving as these well.

Derek Leathers
Sure, Amit. First off, thanks for the question and thanks for the...not holding me to it. But even despite the fact you're not going to hold me to it, it's probably still early for us to try to predict '21. What I can tell you is going back to the supply side, it's tight right now. I think, it's going to remain tight. As I look forward and think about across our network, even with our strength of our customers, there are still many other customers that are only partially back or they're back and open, but at reduced volumes and yet that's enough to have the network be as tight as it is. There is not a lot of belief, and we've got that in our guidance on the truck side, that we're suddenly going to be able to bring the cavalry as it relates to new trucks, given all of the delays with licensing and training and the restricted classroom size and retirements going on in the industry. And so, clearly '21 is setting up to be a year for rates to continue to drive forward or upward from where they're at. I think...to the extent I'm being cautious about wanting to talk about a particular number, it's because it's really hard to tell, just how tight it might get. Meaning, we might become more bullish as the quarter plays out. I'd find it unlikely that we would become less so. But it's too early to talk about a number or a range at this point.

Amit Mehrotra
Okay. So, you're saying 5% to 10% basically that? Okay, fine. I understand that. On the Dedicated side, the tractor counts have kind of stabilized here after decent growth phase. Obviously, the utilization, the productivity of the fleet is still very strong. What's the opportunity to get back to growth in tractor counts in Dedicated? And do you still see the opportunity to continue that productivity rate increase at 3%, 4% a quarter in terms of revenue per tractor per week?

Derek Leathers
So, the comps in revenue per tractor per week obviously are getting tougher, but the market is also getting a little better. But it's...I'm not willing to sign up just yet that that's a run-rate that we think is fully sustainable at this time. What I can tell you is our implementation pipe is full as it's been in a long time, because we've really went through a couple of quarters in a row of businesses that were closed and committed, but just haven't yet implemented. So, now we have a little bit of the rabbit to the python problem of trying to get a lot of stuff implemented as people start reopening and looking to get that done. And we're going to have to work our way

through that as to when we can get it implemented, at what stage, because if it's been delayed for six months already, we're having those dialogues and those conversations. We want to stand-up those fleets that we've won, but they've been on the back burner for the better half of a year. And so, we got some work to do there.

I do think it's a safe assumption, you're going to see Dedicated growth in Q3 versus Q2. That may start getting us to the higher end of the range on total truck count growth. But right now, it's a struggle because we got a lot of One-Way demand too. And so, when I talk about these obstacles to growing, they're real and they're not...and they're not freight related. It's all of the other obstacles that are going to really put a lid on capacity including here. And so, we're going to have some tough conversations we have to have. And some of that's going to be yielding off the bottom. We've got some work to do with some freight that maybe doesn't fit the network very well or maybe is it was priced very aggressively and needs to be re-looked at because we're going to create some cap room for our fleet, it's going to...we're going to certainly try to continue to grow it as appropriate. But I think it's a tough time to grow as a trucker right now, even if somebody was so inclined.

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

Scott Group
Hi, thanks. Afternoon guys. So, I get we're not getting '21 pricing expectations, but maybe Derek, to the extent that there are some bids happening right now, I know there's probably not a ton, but to the extend there are some, any color on the direction or magnitude of pricing right now?

Derek Leathers
Sure, Scott. So, I mean I'll start with…we're over 80% done with our bid season at this point and so, it isn't like the bids are where the back-half work is going to be predominantly residing. There are some bids that are still working their way through the network right now. Our expectation on those, given the market conditions we're at, is that it would only make sense for in those bids for our pricing to reflect….to inflect positive right now on those bids and we've got to work through that. That'll be up to our customers to decide, you know what portion of that bid ends up landing with Werner. We need to do that to continue to reinvest in our fleet, to continue to take care of our drivers.

And so that's where our mind is, you know rates are going to be in positive territory on those bids, rates will be in positive territory in spot and rates will be in positive territory on project and mini-bid-type opportunities. You still though are digesting bids that are getting into the network and that you're starting to live with that might have been priced in April and April wasn't a real good environment, and decisions were having to be made in April that you might have to live with right now for a little while.

And so, we're going to work through those and have that dialogue and try to do the right thing, but that's all in the eye of the beholder. What's exactly right and I can tell you, back to the statements about our character and our roots and our integrity, that stuff still matters and we're not just going to run from it. We're going to stay true to it, but yes, we've got a lot of price work to do. Current bids, if they were to come out today, will be pointing in positive territory on those, I can assure you.

Scott Group
Okay, thanks. And then, I want to ask about drivers. So, usually when the markets tightening like we're seeing right now, the driver market tightens up and we need to get some driver pay increases. Are you…I'm not really sure, are you seeing a tighter driver market right now and how big of a deal do you think this double unemployment is right now in terms of the driver market and how you think the driver market evolves from here? Thank you.

Derek Leathers
Yes, it's a great question. So, the driver market is tight, especially for quality drivers, right? So, it's not a matter of how many drivers are out there that have CDLs or how many applications we get a week because those applications are abundant, right now. It's a matter of those that are hirable, that meet the criteria that have the culture that we're looking for, that we think can make a difference in our fleet, and that market is tight. I do think you got to look at the positives during this pandemic wherever you can find one. And I think, one of the positives is our drivers have seen and witnessed and lived with us treating them right. We've worked hard through this pandemic to keep our drivers safe, to keep them equipped with all of the suppliers they need, to be able to do their job and do it safely. We've aggressively tried to work and to honor our communication and keeping them in the know and I've filmed videos on a regular basis and pushed them out to the trucks to continuously talk to them about where we're headed and why, and what we need from them, and to ask for their support.

And I'd say morale in the fleet is really strong and that's important, because there's times when the driver market is tight and morale is suffering to a cyclical low or a momentary low, and you can find yourself in real trouble. That's not where we're at today, but it doesn't mean that we don't need to be cognizant of what it's going to take to attract and retain the drivers. So, part of where we'll do some work over the next six months is, my commitment on the driver wage side would be this, to the extent, I'm needing to do any work on driver wages. I'm going to have those conversations with our customers, it's only right that I do. Because the reason I'm doing that wage work is so I can then turn in all their freight and deliver.

And so, the two go hand in glove. And if you see…if you were to see driver wage lines moving, you should see rate moving at that rate or greater. And so, that's where our expectation is. Right now, not a lot of wage pressure because we are working really, really hard on what matters and when they feel safe and feel like their company cares and feels like that we're taking the steps to put them in the right position, they want to stay there and they've been doing that.

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

Ken Hoexter
Hi, Derek and John, good evening. Can you compare and contrast some of the comments on your higher insurance, the hard used truck market but yet on the capacity that you were just talking about building Class 8 net orders seems to be kind of scaling up here. The market always seems to hurt when rates are turning. So, the question is, why if we're, I guess investors want to know if we're nearing peak or if not, why is it going to continue to improve? I think you've got a lot of questions on the rates into 2021, so why should we not expect this to be peak if we're seeing that kind of net orders start to build up again?

Derek Leathers
Well, I think on the net order front you've got to.…I mean first of all, I don't want to speak with too much detail on how the OEMs manage those numbers and what all goes into those numbers, but I will say that I know it like in our case, we've certainly got orders come in and in some cases some elevated CapEx in the back half, but it's replacement. And it's because we have to make up for the fact that we had supply disruptions and we're having to relook at our order rate and make sure to keep our fleet new and young.

Back to Scott's question around drivers, we've got to keep them in the right equipment and so that's part of that. You know the reality, as it relates to capacity going forward is going to be can you put a driver in it, even if you order it and if you do, can you put the kind of quality driver in it that you need now more than ever before in this tight insurance market and we've got to make sure that all of those things are thought about. And as it relates to peak or whether there's additional earnings from here, I will just kind of remind that, you know this quarter was accomplished with not only no help on the rate side of the equation, but really headwinds as it relates to rates, and yet we were able to deliver these kind of results. Well, rates clearly are under market right now as an industry and they clearly need to move in the right direction.

So, we've got work to do and we've got a whole entire bid cycle coming in '21 to get some of that work done. So, I think there's room to run and we've got to continue to do better. And I think the onus on us, and I'm speaking of Werner specifically, is keeping the discipline and keeping religion around the cost control side. That's really where we've got to continue to excel and we've got more work to do. I mean we've got internal plans I was looking at today that are ahead of our initial expectations and a lot of fanfare around where we're at on cost and my take is there's still more to go and there's still more to find. And that's the direction I've given and the team has embraced that and they're going out and they'll find it.

Ken Hoexter
Perfect. And then for my follow-up, you kind of you mentioned a little bit about Werner EDGE and it seemed really exciting, yesterday another trucker talked about the digital move to frictionless orders and really seemed to get excitement rolling in. And you know Schneider used to talk about their systems a lot, maybe can you just take a minute and talk about where does Werner stand. You talked about what Daragh was going to kind of jump in on as new CIO. Maybe talk about the development and what the opportunities you see for advancing that? Thanks Derek.

Derek Leathers
Yes. So, we saw the announcement yesterday and I applaud them for the work they are doing and the efforts they're taking. We find it…I think it's good whenever other competitors start to enter that game and start to enter that frictionless order arena. That's exactly the kind of work we've been doing and have been doing over the last couple of years. We looked and benchmarked a lot of our internal metrics against some of the things that have been stated over the last several days and feel really good about where we're sitting on those same benchmarks, and feel really good about our percent of freight that comes into our network in an automated format, dispatched automated, automated interaction with the driver, etc. That's part of how we're getting into where we are today with some of these results. It's part of why SG&A is lower year-over-year, and we're making progress in that category, because we're becoming more productive.

Werner EDGE is going to continue that as we go forward, and we're going to continue to look for ways to go to more and more to a workflow environment where we're intuitively managing

our business. And if you think about trucking, it's pretty crazy that with satellites on the truck and satellites on the trailer and redundant feeds of both of those position locations, that there's people out there still asking drivers to send in an arrived at shipper or departed shipper, or arrived at consignee type messages. So, we're using more and more geo-fencing, and more and more automation to…we should know where they are at and ask them to drive and do as a little other things other than driving safely as we can do.

We're real excited about some of the work we're doing in Werner EDGE on breakdown and safety in particular, to use AI to auto process and auto educate us, if you will, on where the real issues are because the problem with Big Data is people get overloaded with it. You have all these alerts and all these things coming at you and if you can't filter through it quickly and make it usable information, it's not very useful at all. And so that's where our focus is and that's where the whole Werner EDGE platform is being built around and I can tell you like Daragh is, you know I'm not trying to overplay our hand here, but he's a breath of fresh air and I'm excited about where he is going to take us. And I'm just really excited about where our tech stack sits today, but more excited about where it's headed.

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

Tom Wadewitz
Yes, good afternoon and congratulations on the strong results. Obviously, it's a pretty dynamic backdrop. Wanted to get your thoughts on, you know it seems like the market has been really strong in June and July. Where do you think…you think customer inventories are low and replenishment is going to drive things through fourth quarter? How do you think this plays out just in terms of inventories and demand? And then, you know maybe I guess another way of looking at that, what do you think this feels analogous to? Is this similar feeling to as you were in third quarter of '17 and the market was really tightening up a lot? I know…no kind of historical period exactly the same, but here's a couple of questions on freight demand and outlook.

Derek Leathers
So, first on inventories, I will tell you that I think that's a tougher question to answer than maybe at any point I can recall because it's so customer-specific. Those that are winning in their space that have consumer...discount consumable-type items have really been pushing stuff through their networks. And they've got...they are in a replenishment phase, because their sales are up and continuing to go further and we're part of that replenishment. So, we do have customers on our network that clearly are going to be on the other end of that spectrum, that have inventory levels that might be heightened.

Our job is to make sure we're at least knowledgeable about where they're at in their cycle and make sure that we think about that as we think about the back half, but the net, the net aggregate of all of that is that I think we have both a consumer that's still engaging and engaged. We have people now coming out of the shelter-at-home orders and starting to have some pent-up demand, if you will, in their activities, and you have inventory levels that on...in the aggregate, need some work relative to replenishment prior to peak, all of that sets up well.

In terms of trying to compare what we're going through right now to any other cycle, it's so hard because we've never had a cycle that included parts of the country totally closed, parts of the country totally open, people that are now sheltering back in place, and others that are coming out for the first time, all within...with a backdrop of some of the social unrest and other issues going on. What we know is that we are more committed than ever to both to those working

through the pandemic and frankly, those communities that are suffering through some of the social unrest to keep stuff on the shelves and respond and deliver in a time of really multiple crises that are going on in our country. That is an opportunity and we're poised and ready for that opportunity and we will deliver for our customers. And so, it's exciting to have these challenges because we want to play a part in overcoming them.

Tom Wadewitz
Okay, great. And then, I guess just for the follow-up on the...you've talked a bit about capacity and I think a clear message of constraints. What about the driver that's kind of collecting unemployment benefits in the supplemental that potentially can come back to the market if the supplemental unemployment is cut back meaningfully, do you think that's a kind of latent capacity that we don't see that could meaningfully come back, or how do you think about that as a component of capacity view?

Derek Leathers
Yes. So I think there is some of that, I don't know that it's as much as people might believe because you had a large swath of the industry's capacity that stayed busy through the entire pandemic, kept hiring, kept training, kept running well...orientation or welcome experiences and kept bringing people into their fleet. Yet other swaths that maybe went the BPP route and had drivers that weren't working or were laid off or furloughed temporarily, many of those folks already got hired. They're already back; they're just working for someone else. And so, as those fleets try to spool up, as we've had anecdotal conversations across our broker network with fleets in our broker network, very few if any, are talking about having any line of sight to getting back to where they were before in the short-term. Many of those drivers went elsewhere.

One thing about the American, or really driver period, this would be true in Mexico and many places, is during the pandemic, they did not go to the couch, they said, what can I do, put me in the game, I want to participate. Our ready and available percentage was as high during the pandemic as we've seen it in many, many years because drivers wanted to be out there to make a difference. And so, I just don't know, that I buy that there is this huge swath of drivers that just sat around during the pandemic taking the check and not wanting to work, but there's going to be obviously some of that. I don't think it's enough to change the many things on that list we talked about and overcome them all. But clearly, if there are out folks returning to work, we're happy to hire them if they meet the criteria and they could be driving for Werner soon.

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

Jack Atkins
Hi guys, good evening. Thanks for taking my question. Just one for me and I'll turn it over, because I know we're sort of running low on time here. But Derek, in your prepared comments, you referenced the balance sheet and how you guys are below your target sort of debt level or leverage level. And I was just curious maybe if you could talk about your, sort of, outlook on the ways to deploy that capital. Is it maybe...is M&A maybe rising in terms of the potential uses of capital in your mind now that you are sort of trying to be a little bit more aggressive, I guess as you think about growth or is it sort of what's maybe accelerate to buyback or maybe do another dividend?

Derek Leathers
So, when we think about capital allocation, it's always going to be in all-of-the-above strategy. We have a quarterly dividend that we've continued to either keep constant or raise for the entire history of our company, I don't see that changing, we're going to stand with that and over time, appropriately move it up. Share buybacks, when there is opportunity or the right timing, we'll be opportunistic as appropriate. We will look at M&A and we've looked at M&A in the past, but we're not going to stray far afield from a....the same conservative kind of methodology that we've had. But make no mistake, as I said in my opening remarks, we do understand that it's the time for us to take that step to continue to push forward and be aggressive as it relates to our shareholders...our total shareholder return is going, it has to matter more and more over time. To do that, I can't do that if we're not growing, we can't do that if we're not growing with, more importantly, an eye towards the bottom line. And to properly pull that off, everything's got to be on the table, so it will be. I guess that's my answer to that and if you have a follow-up, that's fine.

Jack Atkins
No, I think that answers the question perfectly. Thanks very much.

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

Christian Wetherbee
Thanks for squeezing me under the wire here, maybe keep it at one for me as well. Just on the Dedicated side, obviously pricing has been a bit stronger now than on the One-Way Truckload side, can you maybe talk a bit about what the outlook is in the second half there, what you're...how sort of you are positioned. It seems somewhat uniquely given the large offering that you have and take advantage of that. How much more of a shot on goal do you have as you go back to the second half of this year?

John Steele
Well, I think on the Dedicated pricing side, we were up nearly 4% revenue per truck per week in second quarter year-over-year. We expect that pricing increase will moderate a little bit in the second half, just because of the larger pricing gains that we were able to achieve last year, but definitely stay in positive territory. We like the fact in Dedicated, our customer base is...consists of companies that are strong winners, particularly in the discount retail space. And as they've had needs to grow post pandemic, we've been growing with them. So, we think there's good opportunities to grow Dedicated going forward.

Christian Wetherbee
Great. Thanks very much, I appreciate it.

Operator
This concludes our question-and-answer session. I would now like to turn the call back over to Mr. Derek Leathers who will provide closing comments. Please go ahead.

CONCLUSION

Derek Leathers
Thank you. I just want to thank everybody for being with us today, I appreciate your time and your interest in Werner. Just a couple of closing thoughts is, I think as we look at the market we're in, and the one we've been in for the last several quarters, one thing is clear. The turns

are quicker and more violent than what we've seen historically. But we've shown a nimbleness to be able to adapt and respond and succeed through those changes. There's not a lot of certainties out there, but there are a few, one is that quality and safety win the day, and we're going to stay focused on that.

Serving our customers on time, every time, but doing it safely. Customer selection has never been more important and we're going to be working more aggressively than ever to make sure we're aligned yet again a further layer with those that win and those that have models that we think we can support. There's a lot of questions about the rate cycle and we understand that most of the bid season is behind us, but there is plenty of opportunity as we look through the back half to work our network as we re-balance and rethink about how to best support our core customers. And with that, will present opportunities for us to make sure that we're properly rewarded for the work we do for them every day. We're going to continue to invest and spend the money appropriately in CapEx to drive future cost controls and future productivity. So, that's not something we're going to shy from, because to do that is the only way I feel we can set ourselves up to continue to deliver the type of returns we have been and even....and improve upon them over time.

In the short-term, we're going to survive this pandemic. We're going to stay safe. We're going to keep our people and our drivers safe. We're going to continue to deliver and support the communities within where we work and live, and all of those communities around the country including those that are going through some pretty difficult times, both from COVID and various forms of social unrest.

We're going to stay committed and double our efforts on diversity and inclusion and it's something that matters a lot to me personally. And I'm going to push my team and our organization forward on that front.

And we have and our and are excited about the opportunity to really flex our muscle and logistics, and the back half as capacity continues to be constrained, as we continue to find ways to bring solutions for our customers. You're going to see logistics play a larger role in that.

Lastly, as it relates to all of the conversations over the last several hours, if not days around automation. Again, we've done a lot of internal benchmark and I like where we sit, but yet, we will continue to push further. I welcome those that want to do more investment in that space and want to join some of the best-in-class carriers out there that have been doing that work for some time, because it makes the industry better and stronger.

With that, again, thank you. We appreciate your interest and your time.

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