WERNER ENTERPRISES (WERN) THIRD QUARTER 2020 EARNINGS CALL
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PRESENTATION

Operator. Good afternoon, and welcome to the Werner Enterprises Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

Earlier this afternoon, the company issued an earnings release for its third quarter 2020 results and posted a slide presentation. These materials are available in the Investors section of the company's website at werner.com. 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 2 of the presentation as well as the disclaimers on Page 6 of 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 the results using non-GAAP measures, which it believes provide additional information for investors to help facilitate for the comparison of past and present performance. A reconciliation to the most directly comparable GAAP measures is included in tables attached to the earnings release and the appendix of the slide presentation.

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

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Thank you, and good afternoon everyone. With me today is our CFO, John Steele. The shortest and deepest recession in U.S. economic history in the second quarter was followed by a steep rebound, as robust truckload freight demand with our customers, combined with a stubbornly tight driver market, produced strong truckload freight market conditions.

I'm extremely proud and grateful for how our entire Werner team responded with superior on-time service during the period with continued challenging operating conditions caused by the pandemic. Since the onset of COVID, our drivers have been on the front lines delivering products to our customers. And this is a responsibility we take seriously. Our primary focus will always be protecting the health and personal safety of our associates, their families and communities and our customers.

While there remain significant uncertainties ahead related to COVID-19 and its effect on the economy, we are increasingly confident that demand for our services will be strong for the fourth quarter and heading into 2021, owing to 2 overarching trends: one, driver supply constraints continue to persist; and two, many of our key customers are generating strong sales that significantly reduced their inventories. Inventory restocking will occur, and we believe this will continue over multiple quarters.

We are well prepared to thrive in this type of business environment as we did in 2018 when freight was strong and capacity was tight. In the event the economy were to soften causing demand to slow, you can look to our industry-leading performance in 2019 as an indicator of how we were able to respond.

The strength of our diversified revenue portfolio, our 5 T'S strategy, a relentless focus on operational excellence and our experienced management team enable Werner to succeed in any trucking freight cycle. Following a review of our third quarter financial results, I'll provide an update on our 5 T'S strategy. I'll discuss the unveiling of the addition of sustainability as an all-encompassing component of our 5 T'S strategy moving forward.

I'll review our environmental, social and governance strategy and announced three ESG milestone goals. I'll then discuss how we are leveraging our core strengths and sustainable competitive advantages. Following that, I'll update our 2020 guidance metrics and then discuss our new long-term TTS adjusted operating margin goal.

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. In summary, Werner has a diversified fleet and revenue base that has served us well over many years and economic cycles, including 2020.

Let's move to Slide 5 for a brief overview of our financial performance. In the third quarter, revenues decreased 5% to $590 million. On a sequential basis, revenues increased 4%. Adjusted EPS grew 21% to $0.69 per share. Sequentially, adjusted EPS grew 12% from second quarter, and adjusted operating income increased 19% to $64.3 million, while adjusted operating margin increased 210 basis points to 10.9%. One-Way Truckload freight volumes in the quarter were strong. Unlike the second quarter, the third quarter started out with relatively strong freight activity and then gained further momentum in August and September.

Our dedicated freight volumes and our operational execution remained at a high level throughout third quarter. Many of our largest dedicated discount retail customers and home improvement retail customers are producing much higher than expected, same-store sales growth that has

resulted in lower inventory levels. We are helping these, and other essential products customers, begin to rebuild their inventories as their strong sales continue.

We ended the third quarter with 7,710 total trucks in TTS, a decrease of 345 trucks year-over-year and an increase of 60 trucks sequentially. Most of the sequential increase in our TTS trucks occurred in September in our Dedicated fleet.

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

John J. Steele - Werner Enterprises, Inc. - Executive VP, Treasurer & CFO

Thank you, Derek, and good afternoon. Beginning on Slide 7, total revenues decreased $28 million, with $20 million of the decrease due to lower fuel surcharge revenues caused by lower fuel prices. The balance of the revenue decrease was primarily due to lower Logistics revenues. Our TTS revenue per truck per week increased 5.0%, up 390 basis points from the 1.1% increase achieved in second quarter. Our Logistics revenues decreased 3%, a significant improvement from the 16% decrease in second quarter.

Our cost management initiatives and programs continued to perform well in third quarter. While we dealt with sequential cost increases from second quarter to third quarter due to higher fuel prices and higher liability insurance premiums, we continue to more effectively manage our controllable costs with sustainable improvements through improved associate productivity, better leveraging our procurement spend and doing more with less. We are aggressively managing expenses, and to date in 2020, have implemented $20 million in annualized sustainable cost savings.

Adjusted operating income increased 19%. In TTS, we expanded our operating margin by 390 basis points, while our logistics operating margin decreased 320 basis points. In our driver schools, the number of drivers we can train is limited by ongoing social distancing requirements, which has been a factor in the 4% year-over-year decline of our trucks. This, along with a reduction in equipment leasing income, contributed to the corporate and other operating income year-over-year decline of $1.6 million or $0.02 per share. However, due to improved execution on a sequential basis, corporate and other operating income improved by $1.4 million.

Our adjusted earnings per share were $0.69 or $0.12 higher than the $0.57 a share we earned in third quarter 2019.

Beginning on Slide 8, let's look specifically at results for our Truckload Transportation Services segment. In the third quarter, TTS revenues decreased $22 million, mostly due to lower fuel surcharges of $20 million. Adjusted operating income was $65.2 million, an increase 31% due to the expansion of our operating margin percentage. Our adjusted operating ratio net of fuel surcharge was a strong 84.5%.

Turning to fleet metrics on Slide 9. For Dedicated, we grew trucking revenues net of fuel by 5% to $244 million. Dedicated average trucks decreased slightly and revenues per truck per week increased 5.8%. One-Way Truckload trucking revenues net of fuel decreased 7% to $173 million. Average trucks decreased 11% due to the challenging driver market and our ongoing focus on dedicated execution. Revenue per truck per week moved into positive territory and increased 4.4%. One-Way Truckload miles per truck increased 1.4% and revenue per total mile rose 2.9%.

We analyzed the mileage production of our TTS fleet before and after the changes to the driver hours of service that were implemented by the FMCSA on September 29. As we expected, so far, the increase in mileage productivity for our TTS fleet is approximately 1%.

Moving to Werner Logistics results on Slide 10. In the third quarter, logistics revenues decreased 3% to $117 million. Truckload Logistics revenues decreased 15% due to 15% lower volume and flat revenue per load. Revenue per load strengthened each month as the quarter progressed. Intermodal revenues accelerated rapidly throughout the quarter, up 31%, driven by a 37% increase in volume and a 5% decrease in revenue per load.

Our logistics gross margin percentage decreased 440 basis points, as contractual brokerage experienced an unprecedented and rapid rise in the cost of truckload capacity as the spot truckload rate market accelerated quickly throughout the quarter. Logistics had an operating loss of $0.9 million. During third quarter, we addressed many of our contractual brokerage accounts, and we expect that logistics will be profitable in the fourth quarter.

On Slide 11 is a summary of our cash flow from operations, net capital expenditures and the resulting free cash flow over the past 5-year period. Our net CapEx guidance range for the full year 2020 has been narrowed to $275 million to $300 million. We continue to expect to generate free cash flow in excess of $150 million this year.

I'll now turn the final portion of our prepared remarks back to Derek. Derek?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Thank you, John. Moving to Slide 13. I'll update you on our 5 T'S strategy. First, I will review the 5 T'S, which over the past few years, created structural and sustainable improvements with our modern and more efficient fleet, high-quality professional drivers and strong management execution.

During the quarter, we received further validation that our 5 T'S strategy is working. In August, Werner received Two Quest for Quality Awards from Logistics Management in the truckload dry freight carriers and 3PL categories. Over 4,500 shippers participated in this long-standing industry evaluation. Werner achieved the second highest overall ranking of all large public dry freight carriers. 2020 marks the fourth consecutive year, Werner has earned the Quest for Quality award.

Our first two T'S, our trucks and trailers, are characterized by young average fleet ages of 2.0 years and 4.0 years, respectively. All Werner trucks are equipped with advanced mitigation safety systems and automated manual transmissions. Through the first nine months, our accidents per million miles declined 18% year-over-year.

The tight driver market further intensified in the third quarter, as the improving freight market caused increased competition for a finite number of experienced drivers that meet our hiring standards. At the same time, social distancing and other safety procedures, combined with the state licensing cutbacks due to COVID, are reducing the number of driver training school graduates. The FMCSA estimates that there were 100,000 fewer truck driver CDLs issued in the first half of 2020 compared to the same period in 2019. Our driving school network is one of the largest in the industry and is producing highly trained new drivers while following COVID safety protocols.

In our terminal network, social distancing and other safety procedures are enabling Werner mechanics to safely maintain our trucks and trailers. We're also utilizing enhanced technology to orient and train our drivers at our terminals. We continue to invest in upgrading and modernizing our IT infrastructure and data security. We have recently completed installation of 85% of our trucks with our new in-cab untethered telematics solution. This innovative handheld solution, Edge Connect, provides Werner drivers with smart workflow, best-in-class navigation, improved safety features and reduced manual data entry.

And finally, I'm excited to announce that today, we are unveiling the addition of sustainability as a core component of our strategy. While Werner has long had a dedicated focus on this important imperative, over the last several months, our executive team has come together to discuss and mobilize around our organization-wide sustainability strategy. Going forward, we will outline our ESG approach more comprehensively communicate our ongoing progress and further identify areas for improvement to deliver value for all our stakeholders.

In addition to dedicating internal resources to support this effort, we will be transparent and hold ourselves accountable on our progress towards the performance milestones we outline.

Slide 14 outlines how we are architecting our strategy around the overarching sustainability elements: environmental, social and governance. While corporate adherence to ESG principles is becoming increasingly important to investors and associates, I'd like to emphasize that the ideals of environmental stewardship support of our local communities and strong corporate governance or nothing new to Werner. We have decided, however, that formalizing our approach and unleashing our Werner talent on this important area will lead to even greater positive outcomes than what we have delivered to date. What is new is that we will be applying a laser-like focus on ESG to develop sustainability into a recognized and durable competitive advantage. We have tremendous opportunity if we put all our talent behind this effort, and we will.

Turning to Slide 15. Today, we are announcing 3 milestone goals that support our commitment to be a leader in corporate social responsibility in our industry and beyond. The environmental milestone we are targeting is a 55% reduction in our fleet's carbon emissions by 2035. With an average truck age of 2 years, we will continue to refresh our fleet with the most advanced technologies as they become commercially available. This could include electric vehicles, alternative fuels such as hydrogen or something else entirely. We are not committing to any one technology, but instead, plan to achieve our goal by remaining at the leading edge with the most efficient, eco-friendly and reliable equipment available.

The social milestone we are targeting is the establishment of three additional associate resource groups by the end of 2021. And the governance milestone we are targeting is to have a formal diversity leadership position established by the end of first quarter of 2021.

Please turn to Slide 16. As a proof point that our commitment is real and very much present in how we operate, two weeks ago, we appointed Carmen Tapio to our Board of Directors, with her term beginning on November 10. Carmen is the owner, President and CEO of North End Teleservices here in Omaha, where she is also active in local community organizations, including the Greater Omaha Chamber of Commerce Board of Directors. Carmen serves as the Diversity and Inclusion Council Chair as well as the CEOs for Commitment to Opportunity, Diversity and Equity Council Chair.

One of our governance goals is to continue to refresh and diversify our Board of Directors, both in terms of experience and skills and race, ethnicity and gender. Carmen, with her capabilities in technology and operations as well as extensive experience addressing diversity matters, will provide valuable perspective. I want to welcome Carmen to our Board.

In the coming weeks, we will publish a comprehensive overview on our sustainability efforts today, where we are on our ESG journey and what you can expect from Werner going forward. Average is for other people, and we plan to be a leader on this front, for our associates, our customers and our shareholders.

Now let's turn to Slide 17 and our core strengths and sustainable competitive advantages that continue to support our strong consistent performance. Starting with strengths. Our diversified

truckload transportation portfolio of Dedicated, One-Way Truckload and Logistics levels out trucking cyclicality and positions Werner to perform well in both strong and more challenging freight markets. Our size and scale, as a top 5 truckload carrier, top 5 dedicated carrier and sizable logistics provider, gives Werner's stakeholder relevance and economies of scale.

Within One-Way Truckload, nearly half our revenues come from our industry-leading and high-service Mexico cross-border and team expedited business units. The implementation of USMCA on July 1 provides North American trade certainty in a period of COVID uncertainty. We expect shippers to expand the near-shoring of their supply chains in Mexico and the U.S. in the next few years. We are well-established in Mexico, and we are positioned to support our customers through this near-shoring transition.

Maintaining a new and modern truck and trailer fleet enables us to stay at the forefront of safety and fuel efficiency enhancements, while limiting maintenance issues that can lead to service delays. And driver talent is a hallmark at Werner. Our large and industry-leading 13 location driving school network enables us to vertically integrate the development of new drivers who are safely trained the Werner way. Our leading recruiting position with former military and women drivers is also a Werner strength. These core strengths produce our sustainable competitive advantages.

We focus on partnering with growing companies that are winning in their verticals. They value Werner's high on-time service levels that take cost and inefficiency out of their supply chains. Our advanced Werner EDGE technology platform enhances the experience of our stakeholders. Our performance-driven experienced leadership team encourages excellence in everything we do. And we work hard to speak with one transparent and consistent voice to all our stakeholders.

Last, Werner maintains a strong and durable financial position that is sustained by strong free cash flow and an industry-leading revenue per truck per week.

Looking to Slide 18, here's a comparison of prior annual guidance to third quarter actual results as well as our fourth quarter outlook. Our fleet declined in the first nine months of 2020 by 4% due to the COVID uncertainties in challenging driver market. During the third quarter, we grew our truck fleet sequentially by 60 trucks, with 180 truck growth in Dedicated and 120 truck decline in One-Way Truckload. Our fourth quarter outlook is for more modest fleet growth, and we expect this to occur in our Dedicated fleet. For the full year, we expect our truck fleet will end up at the bottom end of our annual guidance range of down 3% to down 1%.

The used truck sales market began to improve in the third quarter amid better demand, which resulted in improved equipment gains of $3.9 million. We are reinstating guidance for equipment gains for fourth quarter to a range of $2 million to $3 million, based on expected sequentially lower used truck sales. We expect net capital expenditures for fourth quarter to be in the range of $88 million to $113 million.

In late July, when we forecasted One-Way Truckload revenue per total mile for the second half of 2020, we did not assume that freight demand would strengthen as much as it did in August and September. As a result, we exceeded our forecast in the third quarter. We have established year-over-year One-Way Truckload revenue per total mile guidance for the fourth quarter in the range of 3% to 5% growth. This guidance assumes a continued strong peak season for fourth quarter 2020.

We expect our effective tax rate for fourth quarter to be in a range of 25% to 25.5%. We expect the average age of our truck and trailer fleet to remain at or near current levels. In the first four weeks of October, freight demand trends in our One-Way Truckload unit have remained strong. We believe there are several factors that will limit truckload supply for the foreseeable future.

These factors include fewer new drivers entering the industry due to COVID safety issues that limit driver school training and state CDL licensing; fewer eligible drivers as the Drug and Alcohol Clearinghouse database continues to build; aging truck driver demographics; and an extremely challenging truck liability insurance market.

Werner remains well positioned with a superior team and active talent pipeline that will continue to yield strong and sustainable results. We believe the runway for demand looks good for fourth quarter and heading into 2021. Inventory restocking will likely occur over multiple quarters. The economy continues to recover. This should lead to much better contract pricing opportunities in the bid-season in the first half of 2021.

Turning to Slide 19. We have reevaluated our long-term TTS adjusted operating margin percentage goal through the freight cycle. As a result of this review, we are establishing a new long-term average TTS adjusted operating margin percentage goal net of fuel of 13%. We believe this average operating margin is achievable, based on our improving financial performance and noting our growing dedicated fleet mix; our substantial essential products freight mix with winning customers; our cost structure that is 2/3 variable and 1/3 fixed; and our experienced and capable leadership team.

Based on our current assumptions and expectations for what we believe will be a strong freight market in 2021, we believe our adjusted TTS operating margin net of fuel in 2021 will meaningfully exceed this 13% long-term goal.

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

QUESTIONS AND ANSWERS

Operator. And our first question today will come from Bascome Majors with Susquehanna.

Bascome Majors - Susquehanna Financial Group, LLLP, Research Division - Research Analyst

Derek, I was curious about your comments on restocking. When you speak with your customers, what sort of signals are they giving you on the duration of that capacity need? And their willingness to perhaps pay up to make sure that capacity is secured? And perhaps beyond that, how are you managing the business to satisfy those customers, but not be overcapacitized when inventories reach target levels and demand moderates closer to the baseline?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. Good afternoon, Bascome. Good question. So, when you think about -- so the conversations today are inventory levels, especially if you slice it further and look at retail inventory levels, are really at historic lows. And those are -- those data points are confirmed as we speak with our customers every day.

As it relates to restocking, yes, there will be a need for restocking more urgently as it relates to still trying to get freight in before peak and during this peak season. But a lot of those conversations have really lended themselves around how long this restocking will likely take to get back to normalized levels. Without getting into any customer specifically, many of our larger customers are thinking in terms of multiple quarters of restocking well into 2021, to get inventories back to a more balanced equation.

As it relates to overbuilding or overproducing capacity to meet what -- building the church for Easter Sunday, so to speak, for this peak, clearly, we're showing a discipline not to do that. We're going to have to make sure and sweat the assets that we have. We have to make sure and do more with less wherever we can, but we also have to bring the portfolio to bear.

So, when we're talking to customers, we're not only talking about how we can bring that portfolio to them for this peak season to augment and offer additional sources of capacity, but how our expectation moving forward is that we have better discipline around purchasing across the portfolio and with more diversity of their spend or their wallet share with Werner. All of those conversations are going well. I think we all understand the predicament that we're in. And that it's going to be a tough peak, but we'll get through it together.

John J. Steele - Werner Enterprises, Inc. - Executive Vice-President, Treasurer & CFO

And Bascome, this is John. To back that up, the data for our four largest brick-and-mortar retail customers based on their year-to-date revenues, they're almost 1/3 of our total year-to-date revenues due to the growth that they've had. Their same-store sales in the most recent quarter were up 15%; their inventory per store during that same period was down 8%. That's a massive gap, and they expect their same-store sales to remain strong. They're continuing to have challenges with their suppliers and getting merchandise. So, we're pretty confident that, that inventory restocking will take multiple quarters to be resolved.

Operator. Our next question will come from Jordan Alliger with Goldman Sachs.

Jordan Alliger - Goldman Sachs Group, Inc., Research Division - Research Analyst

A question for you. On your total miles per tractor per week, which I think was up, I think it's 1.4% in the quarter. Just sort of curious, I would have thought maybe that would be a little higher given the demand surge. Is that a function of just the driver availability issue? And how do you think about that going forward?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Well, I think there's a few moving parts in that, and John may weigh in as well. But first off, during COVID, team capacity is tougher to come by than normal. And I'd probably lead with that as my answer. I mean it's real hard during COVID to get folks to want to team and our team count is under duress as a result of that. We're doing a lot of creative things to build teams, but health and safety has to come first. And so that really impacts your ability to get more miles on the existing asset.

The second thing is if you look at our utilization rates overall and compare it to most publicly traded competitors, we do a very high -- we're at the higher end of that spectrum as it relates to productivity. So simply put it, incremental gains are tougher to come by, but we're going to continue to work to get them.

Overall, we're pretty proud of the work in the third quarter with what we were able to do on productivity. We did get a little help, as we mentioned, but not as much as some of the publicly reported data points around the hours of service changes. We think some of those we simply don't take advantage of, don't believe they are appropriate to do so. Adverse weather conditions is a slippery slope. Some of the air mile radius work is something that we're not going to engage in. We just believe the liability that comes with some of those decisions far outweighs the reward.

So overall, we've got eyes toward increasing and doing more, or incremental gains on the productivity front, but the biggest thing that will change the game for us is of comfort, comes back into the concept of two drivers in one truck.

John J. Steele - Werner Enterprises, Inc. - Executive Vice-President, Treasurer & CFO

Jordan, in last quarter, we were down 0.3% miles per truck, so we moved up 170 basis points this quarter to get to 1.4%. And that hours of service change was very late in the quarter when that happened.

Jordan Alliger - Goldman Sachs Group, Inc., Research Division - Research Analyst

Got it. And then just one quick follow-up. As you think ahead to next year, obviously, the spot rates are very good. Presumably, the contract market's going to heat up in the first part of 2021. Any initial thoughts on how that may shake out in terms of contract pricing?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

There's been a lot of public commentary from others about where they see contract rates going. I mean directionally, we're aligned with comments that have already been made. We know that the current capacity situation lends itself to a really strong setup going into '21. We will, both in Dedicated and in One-Way, be working with our customers to take rate as appropriate.

We also know there are certain headwinds that are out there. There will be a headwind relative to insurance premiums that we've talked about in our last quarter, and those will continue as we go forward, and those need to be recouped. Driver wages are something that is a market reality. Although our turnover is down and our driver morale is up, and I'm actually really proud of the position we're in today, we're not naive to the reality. It's a competitive marketplace. So, we're going to have to take rate for that as well.

What I will tell you is that we've done a lot of analysis on various rate scenarios and various cost scenarios. And then the end of all of those, one thing that is true is we see the opportunity for margin expansion, while taking into account the headwinds from insurance and risk costs, driver wages and other items.

So, where it ultimately lands, I'll just tell you we're committed to get what's appropriate and what the market will bear because we needed to make the reinvestments back in the fleet that are going to be required in the coming years.

Operator. Our next question will come from Ravi Shanker with Morgan Stanley.

Ravi Shanker - Morgan Stanley, Research Division - Executive Director

So back in 2018, you guys did really well with project business, especially in the back half of the year. What are you seeing right now in terms of the pipeline for project business in 4Q and into '21? And how much of a boost could that be to the OR?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. So, the project pipeline's strong. I mean most of that work and those negotiations are predominantly settled. Now it's just a matter of whether there will be any surprise to the upside is more likely than the opposite. We feel good about what we've been able to put in place this year. It's not surprising with capacity being as tight as it is, that you're able to go out and lock up projects at a premium rate as appropriate to be able to provide that level of service.

Couple of things that will play out as the quarter develops. One is what I mentioned earlier, teams make up a big part of any project solution, and we're working diligently on some programs to build more teams as we go into final innings of peak or the middle innings, I should say, of peak. We're making progress there. That bodes well for some margin opportunity because those are even more in demand than solos at this point.

But -- and as it relates to '21, I think the real uptick in '21, first off, we're going to have a stronger setup than we've seen even then leading into '18. This setup is better. It's been longer in duration, and it's been more consistent than the '17 setup going into '18.

And secondly, what I'm really excited about is we see in most years, even medium to strong years, second quarter opportunities for project freight that always -- that kind of have happened year in

and year out. It's been a couple of years since that second quarter project opportunity has been as robust. I would suspect, based on the crystal ball today and everything we see looking forward, second quarter next year is shaping up to be another one of those opportunities for quite a bit of project activity in that quarter as well.

Ravi Shanker - Morgan Stanley, Research Division - Executive Director

Great. And just a follow-up. Very encouraging to see the ESG targets that you guys set, especially the E part. But like 2035 is a long way off, so is this just a marker in the ground? And do you guys feel like you're going to be doing the heavy lifting towards the end of the decade into early next decade? Or are there steps you're taking in the next two or three years, maybe even right now to kind of make incremental traction towards these targets?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. Great question, Ravi. I mean so the answer is both. The reality is we're always focused on this, and it was a pretty interesting eye-opening exercise for us to realize how far along we really are in some of our commitments. So, think about the first major fleet in America to go to automated manual transmissions and have 100% implementation; think about our commitment to aero packages across our entire fleet and what that's done to our carbon footprint. I believe it's four consecutive year winner of the highest possible EPA SmartWay designation as it relates to our environmental sustainability.

We'll keep doing those incremental things and keep our nose to the grindstone to be at the leading edge. The problem in the next five years, though, when you think about will it be back-end loaded? There's a lot of danger out there to be -- that slippery slope between leading edge and bleeding edge, when a lot of these technologies are not fully tested and most importantly, not commercially viable yet. So, we'll test, and we'll have prototypes, and we will have all kinds of different initiatives already underway as we are currently doing today. But we had to put a marker at 2035 versus something sooner because there's too many question marks about where electric lands versus hydrogen? What's the rollout? And is there an appetite for the level of infrastructure investment needed nationwide for hydrogen to be a reality?

If not, what kind of advancement can be made on battery range and weight? At what point does the environmental crowd really start to focus more on battery, sustainability, long term, i.e., how is it produced? Where the rare earth metals coming from? What's the carbon footprint of the initial construction and design and build of those vehicles?

So, we want to be cautious, but aggressive at the same time. So, our commitment, I will say this loudly, is we will be a sustainability leader. How we get there is still TBD. And if that's the case, in terms of what tech you're going to choose, it would be foolhardy in my mind to set that goal any earlier than 2035, because now you're forcing decisions to be made before the tech and the product and the viability is actually ready.

Ravi Shanker - Morgan Stanley, Research Division - Executive Director

That makes sense. I'm going to ask you one quick one. You started a trial dedicated service for a customer in California running EV trucks only. Can you remind us kind of has that kicked off? What have the early learnings been like? And how has that been so far?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. It's kicked off, and the early learnings are valuable. We're learning a lot every day. I want to be a little careful because anytime a trucker talks about some of the obstacles to EV, it's always -- it can be framed as somehow being a denier of the possibility of this technology. I'm all in on the reality that electric will happen. I believe hydrogen will happen, but there are real obstacles in the short term. So that truck is having, and that fleet is having the same type of obstacles that

you read about, right? So, range is still limited. Wheel base is still longer than we'd like. Weight is still heavier than is really commercially viable for an over-the-road application.

But with that said, progress is being made. And so, we're supportive of that progress, and we're going to be a partner in that progress with our OEMs because we believe a cleaner future is out there to be had, and we want to make sure and lead as appropriate through that transition.

Operator. Our next question will come from David Ross with Stifel.

David Ross - Stifel, Nicolaus & Company, Incorporated, Research Division – MD of Global Transportation and Logistics

I want to focus, I guess, first, on the segment, revenue per tractor per week was up a nice 5.8%. Wanted to dive in a little bit and see how you got there? Was that just the dedicated trucks were running more miles per week because the customers were that busy? Was it a mix issue? Or were there significant rate increases?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. There was a few things. One, obviously, when everybody is that busy, and we have the need to add trucks to fleet, it also usually offers an opportunity for us to talk about pricing that's a piece of it. There's a piece that just simply comes along with busyness overall of the customer even with the existing fleet base. If it doesn't change in size, you swap the assets a little bit more. That has a piece.

But honestly, one of the biggest pieces is just our ongoing efforts to be best-in-class in backhaul. When we go out and sell a value proposition to our customers, we talk to them about revenue shared backhaul opportunities, and we really want to deliver on that. It becomes a bit of a tailwind in being able to deliver on that when capacity is as tight as it is, and freight is as abundant as it is. And so, you're able to go out and secure more backhaul, increase revenues, share a piece of that back with your customer, lower their overall cost while increasing your overall yield. So, it's one of my favorite things about running dedicated fleets is, if done well, backhaul is something that everybody wins.

David Ross - Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics

Is this something that Werner Logistics is responsible for? Or Dedicated?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

They play a role. I wouldn't say they're responsible for it solely. They certainly play a role. I mean we'd be remiss if we weren't collaborating in the building and across divisions and talking about how to best use a limited number of assets in a tight driver market. So that -- some of that backhaul certainly comes from them, but we also work with other 3PLs and even customers directly.

And when freight is abundant, you have more backhaul opportunities to be able to fill those empty lanes on, because they're pretty prescriptive fill rates, right? I mean that load has to pick up at a certain time. It has to go back to a pretty defined geographic area. It has to meet our necessary timing requirements, so that we don't disrupt the head-haul operation of that dedicated fleet.

But when freight is more abundant, they have more to pick from, you make better matches. And so, I would tell you, it's logistics playing the role. It's our dedicated team working their tails off. And honestly, it's the advent or the output, if you will, of some of the tech we're investing in that's helping us as well.

Operator. And our next question will come from Brian Ossenbeck with JPMorgan.

Brian Ossenbeck - JPMorgan Chase & Co, Research Division - Senior Equity Analyst

Derek, one for you. We've heard -- it's probably just a sign of the times the market being tight, but it feels like we're back to talking about shippers of choice, areas of choice as well. So, do you think there's really anything that's going to change from an annual request for proposal perspective? Is there something in the technology side that might make it less frictionless? Or how do you expect behaviors will change from this cycle? And did you really see any change from the last one that we just went through feels like not too long ago?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. So, Brian, that's a great question. And I do believe there's incremental kind of iterative changes that happen when you go through tighter cycles. If you think about kind of step-ups or step-level changes between shipper and carrier collaboration, they tend to happen more in tight environments. They just do. There's more -- and that's not indicative of shippers not caring about it, maybe in a loose environment, at least not the logistics arm of that shipper. It's just they have more of the attention of leadership in their organization. Things that may get cold shoulder at other times are more fully embraced by the rest of their leadership team when they know they're in a tight market.

So, I think we have opportunity for gains on some of the flexibility items that carriers, obviously, like and prefer as it relates to working with shippers. And I think you'll see some of those incremental gains. Those bleed through in driver satisfaction. They bleed through in overall turnover results. They bleed through in productivity when they're executed properly.

So those are all things we're excited about. I always talk about in tight markets we've got to go beyond the rate. So, we're not being evasive when you ask -- well, maybe we are from your perception. But when people talk about rate, rate's only one of the levers as it relates to '21. The rate environment is going to be robust. We know that. That's pretty clear to, I think, all -- to everyone out there.

But what else can we do? How do we further align our network? How do we further build density in engineered lanes? How do we build better driver lifestyles when freight is as tight as it is out there right now? And then obviously, rate will be part of that discussion, make no mistake about it. But all of that leads to a better, more sustainable design when we come out of the other end. Because when we do and when that change occurs, we want to be even further equipped and better ready to weather it. And I think we are.

From everything from the diversified portfolio to the customer mix we have, to our commitment to taking longer-term views with our customers on the relationship overall. All of that bodes well for when and if that cycle changes, but we certainly don't see it happening in '21.

Brian Ossenbeck - JPMorgan Chase & Co, Research Division - Senior Equity Analyst

Okay. Got it. Just a quick follow-up on the dedicated in the backhaul. Is that -- it sound it's easy to match when freight is tight. So, is there a -- I guess, how do you manage the spot market risk or overlay when you look at those contracts? Is it still profitable and just maybe less so if freight goes down? Is that shared equally, if it slows down, same as it is on the way up? How did you manage and kind of plan for that cyclicality overlay on Dedicated as it were?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. So, a couple of thoughts, but let me start with one that I'm going to try to boil down to its simplest level. The hardest part -- hardest card on filling those backhaul Dedicated lanes is getting visibility to all of the freight that's out there. So, there's other opportunities that are out there in a market that's maybe looser, that you don't see or can't get visibility to because it's already owned or hauled by somebody else. When the spot market suddenly is twice as large in population of

loads or it's way more robust, it provides instant visibility. But that visibility is only as good as your ability to digest it into a system and into a tech stack that can then optimize against it and look for overlays that fit, then our ability to pounce on it, secure it, close it and implement it.

You do all of that. Once it sticks, if it's part of a Dedicated backhaul, it's hard to unseat it. Because even if the market were to loosen later, that Dedicated backhaul rate is pretty attractive to that shipper. As long as we're meeting their service requirements and it's still filling that Dedicated lane, they're going to want to hold on to that capacity in that form because even in a loose market, the pricing on that lane, if they were to go place it in the open market, it's going to be quite a bit higher.

So, these are sort of iterative step level changes that have pretty good stickiness even as the cycle turns. And that's, again, part of why we like so much our mix between Dedicated and One-Way. Hopefully, that answered the spirit of the question?

Brian Ossenbeck - JPMorgan Chase & Co, Research Division - Senior Equity Analyst

Yes. That's great detail. I appreciate that.

Operator. Our next question will come from Ken Hoexter with Bank of America Merrill Lynch.

Ken Hoexter - BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials

Derek and John, great update and an impressive new outlook in terms of your margin target. But let me just pick on one thing first. Where is the disconnect in the market with net orders climbing? You noted caution. I guess the market somewhat believes the peak is here, yet you and I continue to suggest there's room to -- there's legs in the story.

So, is the misunderstanding really the driver availability in the market, maybe just extend your thoughts on what really the constraint is and your thoughts on the driver market and the extension of tightness in the market into next year?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Sure, Ken. I'll give it a shot anyway. So, a few things, right? So, net orders are one dash on the dashboard and -- or one gauge on the dashboard, I should say. First off, they're not back to anywhere near 2018 levels. Secondly, they're climbing from an all-time low base. Third, they're directional -- I get that they're directionally going up. But you got to kind of put it against the backdrop of what are those other gauges. I mean BLS transportation data shows year-to-date off 4.8%. ATA's data year-over-year, in the most recent update that I believe literally was published yesterday, shows somewhere in the neighborhood of 3.9% off year-over-year, small, large company and owner-operator combined in terms of capacity out there.

Our own data shows our truck fleet off 4% in the period, 5% average for the quarter. Most of our publicly traded competitors that have released have been negative year-over-year, when carving out those that may have acquired somebody and kind of muddied the water a bit as it relates to that data point.

So everywhere you look, everybody's fleet is down and in aggregate, it's down. At the BLS level, it's down. At the ATA level, it's down. And yes, you might have some creep into that. Some build coming up into that. But we're not near replacement levels. We're starting to knock on the door perhaps that.

But I think what gets confused. If you look at our fleet, I would have -- it was a really tough day for me to accept that our truck age was going to go to 2.0 versus 1.9 or 1.8, which we'd like to see it at. But the OEMs simply had COVID-related issues that were real. Production was impacted,

and we're digging out of that now. So, we're over ordering if you will, or ordering up maybe a better way of saying it, to make sure our fleet doesn't age, and we keep that fleet refreshed for the drivers because that's the commitment we've made. I think that has to get factored in when you look at these order rates and some of the other gauges need to be kind of shined upon as well or looked at as well.

Lastly, I believe, and I have this fear personally, the OEMs are doing a great job. We're proud of their efforts. We're proud of the work they're doing. But COVID has not gone and it's not fixed, and it's not solved and it's about to be winter, and we've got folks working at these plants in -- with social distancing in place, but it takes very little of an outbreak for those plants to then reclose. And so, I think you see some eagerness to get orders in sooner than you might otherwise. And maybe at quantities that you might not otherwise ask for out of concern of not getting them because we went through that in 2020. I mean we spent the first half of the year waiting and playing catch up on our truck order, and I think that's built in a little bit as well.

So, drivers will be the overall constraint, make no mistake. But that's some other things to think about as well. Drivers, though, at the end of the day, are tougher to come by, 100,000 less CDLS, 40,000 people in the driver -- the Drug & Alcohol Clearinghouse. 90% of them not even starting the process to ever come back out of it. It's a tough time to hire a quality driver, and we're going to not lower our standards just to fill trucks.

Ken Hoexter - BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials

Great insight. I appreciate that. So, let me dig into your outlook then on the follow-up. Your margins now target that mid-13%. Can you just give maybe a little bit more thoughts on that? Is that really just pricing just given what you see in the market because of the tightness and driver constraints? Or are there -- are you saying there's things that -- with the -- your programs that you're launching, whether it's the 5 T'S or something else on the cost side, what's the driver of that? And how quick do you aim to get there?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. So, price is certainly one of the levers. And as you said, in the environment we're in today, we know we're coming into a bid season that will set up very well for price. But the cost controls and the cost culture that we're building is really still in kind of the middle innings. We've still got more work to do. We still have more cost to take out. And we believe we know where the bodies are buried, we're working to do that every day. It's not silver bullet stuff. It's not one line item by itself. It's more comprehensive than that. So, we can do -- but we know and feel confident or we wouldn't have changed that metric that we can do that over the cycle.

As it relates to the cycle range, we're seeing 13% through the cycle on average, but we're stating that we will exceed that meaningfully, we believe, in '21. There are some tailwinds -- or some headwinds that come into the mix. We know that insurance is going to be higher. We know that there'll be driver wage pressure. So, we have to factor those in and think about those as well. We're starting to turn the corner on depreciation as one of the items that's been a bit of a headwind as we were trying to move used equipment out, but new equipment coming in, and you started times to have more equipment, maybe than what you needed at that given moment based on driver availability. We're getting that cleaned up, and we think there's some opportunity for some support of the P&L in that category.

So, there's a lot of things that go in it. I think you can sense we -- first off, we don't change guidance very often. Secondly, if we do, it's because we feel confident in where we're headed. But the overarching message, I guess, would be, we just have to get better across the organization, and we're committed to doing that.

John J. Steele - Werner Enterprises, Inc. - Executive Vice-President, Treasurer & CFO

Ken, one thing I'd add. Our 10-year average truckload operating margin net of fuel is 11%. These last 3 years, we've improved that to 12.6%, and that included the truckload recession in 2019. And then the most recent -- I'm sorry, that was 11.7% for the last 3 years. Year-to-date, this year, we're at 12.6%. And then the most recent quarter, we're at 15.5%. So, with our mix of Dedicated and in One-Way, the cost improvements we've made, we're confident that 13 per cent is achievable over the long term, and we'll do significantly better than that in 2021.

Operator. Our next question will come from Tom Wadewitz with UBS.

Tom Wadewitz - UBS Investment Bank, Research Division - MD and Senior Analyst

I wanted to see, Derek, if you could offer some thoughts on how the current set up for 2021 or current environment is compared to 2018. I mean it seems like there are a lot of similarities. But are there some things that you think are different, good or bad? Do you think driver pay increase will need to be similar to what was a pretty high driver inflation in 2018? Just wanted to see if you could offer some thoughts on that comparison.

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Sure. Off the top of my head, a few thoughts I'd like you to, kind of, think about. First off, the strength of the market has been longer preceding the entrance into '21 that it was '17, '18, at least as it relates to just how tight it got and how early it was tight. The conversations and reality around some of the headwinds to driver availability is more pronounced and understood, I think, across the shipper community.

The economy is not yet fully open. I can't really emphasize that enough. The product economy sure is doing pretty well, but overall economy and economic inclusion of everyone is really not kind of back and anywhere near where it was in '17. So, there's upside there as we -- if we can continue to make progress relative to COVID.

As it relates to driver wages, the starting point is much more elevated. The driver wages today being a U.S. truck driver pays today a pretty decent delta versus other like type of work. It's not uncommon for a second year driver in fleets across America to make in the mid-60s or even higher. If they're in Dedicated, they're probably doing better than that.

And so, you don't have as many other alternative things pulling at that driver to put the same level of driver pressure or wage pressure. Where it will be particularly acute is in the One-Way part of the business, but that's also where the tightness is particularly acute. And so, we're going to have to make sure and get paid appropriately, so that we can staff those trucks to be able to provide that capacity for our customers.

So, I think the setup in just a lot of ways is better than what it was then. But both on the wage line as well as to be fair on the rate line, the starting point is elevated from where it was going from '17 to '18. So, it's going to be a case-by-case conversation. And we're going to do the right thing relative to our shareholders to make sure that as we take on some of the headwinds I've talked about that we're able to compensate for those and expand margins, so we can reinvest in this fleet and be there next year for our customers.

Tom Wadewitz - UBS Investment Bank, Research Division - MD and Senior Analyst

Do you think there's a level of increase in pay where you get more of a response in the market in terms of pulling more people in? I don't know if there's still drivers that are kind of or had the CDLs but haven't reentered the industry that are kind of -- have been on unemployment for a while or doing other things. It sounds like there are constraints, obviously, in the training pipeline from COVID. But do you think there'll be a certain level of increase that you reach that you actually draw more labor in?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Well, I think it's only fair to say any time wages go up and you make a job more attractive, you're going to bring some folks maybe back into the market that currently are on the sideline. But I don't believe there's a big army of folks that are on PPP payments sitting on the sideline in one of the tightest markets that we've ever seen. Those owner-operator types are going to be out on the road because there's never been a better time to be on the road than right now. Those company drivers have been getting recruited and pestered for some time and been hired by many fleets already to be able to come back in.

I think the constraint on the supply side, that's very, very real and systemic at this point, is you can simply not produce as many new entrants into the marketplace in a socially distanced world. Now we're around that eventually. We'll get around that at some point. But for the foreseeable future, driving schools across the country, when you aggregate those that are still closed because they're community colleges and other things where those programs simply don't exist, right now, and those that are open but socially distanced, the combined effect of that is somewhere between 60% and 70% productivity compared to previous levels.

So, you're simply not putting -- there's not as many graduates. You combine that with an aging driver demographic and retirements upticking some because of COVID and other health-related concerns, it sets up a different tightness and not one that you can just buy your way through. I mean you really have to retain the drivers you have. You've got to take care of the drivers you have, and you've got to hold on to now more than ever because there just aren't others -- the availability to buy your way through it, I think it's going to be harder than ever before.

Operator. And our next question will come from Chris Wetherbee with Citigroup.

Chris Wetherbee - Citigroup Inc., Research Division - MD & Lead Analyst

I wanted to pick up on the comments around the margin outlook in TTS. And so, 13%, I think, is the range and then significantly higher or substantially higher than that in 2021. You have a number on the slide, you have 16% on the slide there. I guess I wanted to get -- if you want to give us a view for what you think you can do in 2021, that would be fantastic?

If you -- if not, maybe if you could just sort of conceptualize some of the things that would allow you to reach towards that type of bogie. As we think about next year, we talked a lot about rate, we talked a lot about driver pay, so I think there's some pushes and some pulls there. But can you talk a little bit about next year and whether 16% is maybe the right number for TTS?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. Chris, we'll stop short of giving 2021 guidance on the third quarter '20 call. But I will tell you that if you look at third quarter '20, we're already in advance of the range that we just published as a new long-term range through the cycle. We don't expect to give ground from where we're at today, and we actually feel we have clear line of sight as to how we can improve and advance some of the ground that we've currently gained. It's going to come in the things we've already talked about. The headwinds are insurance and drivers. The tailwinds are cost controls, rate relief and rate support from our customers as capacity gets tighter, a better blend of dedicated in One-Way than we had in '18 in prior cycles. And the setup for that blend working together better.

And then a clear line of sight in our eyes to what we needed to do to fix Logistics. And we've taken measures, actively engaging our customers, fix some of those contract rates, and we're seeing and gaining productivity in some of the tech we're investing in on that side.

So, it isn't the focus of these calls often, but Logistics is a sizable business unit. It had a rough third quarter. We believe we've got a line of sight and a strategy in place that's going to correct that. So that's something that will help us not on the TTS margin side, I realize, but in overall operating performance, it will.

And so yes, we think we'll be above the 13% range. It's certainly my expectation that it will be above the current operating range. So that gives you some color of where you can look to. And anything more specific than that, we'll have to wait until later in the year.

Chris Wetherbee - Citigroup Inc., Research Division - MD & Lead Analyst

Okay. Understand. That's helpful. And then, I guess, I just have a little follow-up here on the mix of trucks here, 60-40 Dedicated, One-Way Truckload. Are there any new thoughts about how you think about that mix into 2021? And maybe some of the constraints that we're talking about from a capacity standpoint might influence that as well. So, any thoughts around that 60-40 mix going forward on the tractors.

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Yes. We're really like 61 now, 39, not to split hairs, but we're a little over that 60-40, even. But we said we were comfortable going there. And honestly, I look at it like this. We want to make -- we want to meet our customers where they're at, but that still means they've got to compete for those assets. And so, we have a finite amount of quality drivers that we can hire, train and retain. And as we do that, that then is going to seat a finite number of trucks. And that finite number of trucks is going to be competed for based on long-term returns through the cycle.

If Dedicated and those customers value the product that we're putting on the table, and they want to see that grow, we're going to have that talk. If One-Way wants to do it, the problem is that is more cyclical. And you do get into cycle problems on the One-Way side that are less apparent on the Dedicated side.

So, until we get further in the bid-season, I'm not yet ready to predict any major change in that. But we did foreshadow a little bit about where we see growth in the fourth quarter because we do -- we have indicated that we're going to be inside of the range by the end of the year in terms of our truck count. We've indicated that the focus of that will be in Dedicated versus One-Way. And so, you could actually see that percentage go up a little bit more. I think the important thing for the investor community is that I want to assure you we're not putting them in Dedicated at the expense of our ability to have an appropriate return. We're looking at that on a case-by-case, truck-by-truck and deal-by-deal level. And if they go there, it's because that's the right decision, and that's the one that we feel holds up over time.

Operator. Your last question today will come from Allison Landry with Crédit Suisse.

Allison Landry - Crédit Suisse AG, Research Division - Director

I just wanted to quickly ask one question on the outlook for contract rates in 2021, but specifically thinking about Dedicated versus One-Way and maybe just based on what we saw coming out of the 2017-type environment, do you think that there is any similar factors that may sort of keep that gap more narrow, as we go into 2021 between the 2 segments when thinking about core rates?

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Sure. Allison, thank you. And thanks for calling. Look, our dedicated product is as coveted today as it has been at any point in its history. We feel our execution there is really hitting on all cylinders. Our customers understand and want more of that product, that's why the pipeline is as robust as it is. And new customer entrants are coming into that space and looking for capacity as well.

Given all of the above, we are expecting that there isn't this big giveaway by having trucks in Dedicated that you somehow can't yield up on -- during the tight market. We will continue to have advancements in Dedicated backhaul, which ultimately represents a yield opportunity. We'll continue to add trucks to fleets that are better performing, and customers are growing with winning models in their vertical, which gives us opportunity for yield improvement.

So, it won't all necessarily be cleanly and obviously just through rate per mile, but there's a lot of opportunities for us to help our customers support them and maybe even lower their overall cost through -- if you think about that backhaul opportunity, as an example, while increasing our rate - our revenue per truck per week.

I think '18 was a shining example of Dedicated doesn't leave money on the table just because we have trucks in that unit. '21, we'll reiterate that story as we get through the year and prove out and show what we're capable of. And ultimately, the trucks have wheels. And if we need to move and shift that mix because of opportunities that exist or undervalue -- or a customer that's undervaluing that asset, we'll make those tough decisions, but we'll work with our customers over the next few months and have quite a few dialogues, whether -- we'll be on Zoom probably more than we wanted to be, but it's part of the process, and we're looking forward to it.

Operator. This will conclude our question-and-answer session. I'd like to turn the conference back over to Mr. Derek Leathers to provide closing remarks.

Derek J. Leathers - Werner Enterprises, Inc. - President, CEO & Vice-Chairman

Thank you, Cole. Yes, in closing, I just, as always, want to thank everybody for spending time with us today. I know you're very busy. We appreciate you being on the call. My closing thoughts are that we've laid out a story today that hopefully resonates to make people understand this supply issue is real. The driver market is constrained. It's not one that you can spend your way through, it's one that you've got to attract and retain the best drivers you already have and get through this peak. Peak is upon us. Volumes are strong and project opportunities are out there. We think that sets up for a very strong 2021.

Our service excellence is ongoing. It's paying dividends. It's showing through in the financials. I've always believed if you hire the right people, give them the right tools, but most importantly, set the right type of expectations, they will live up or exceed them, and they are. And we're going to continue to focus on that going forward.

We're in the middle innings on the cost story. We're going to keep working on cost and driving costs out of our network any and everywhere we can. And we think there's opportunities to do that.

And in closing, closing, I would just say that we are excited about doing everything I just said with an eye towards sustainability like never before. It's really something we're excited about. We're building a structure. We've got a report coming out in a couple of weeks that we'll further outline and define our ESG initiatives. And so, I'd ask that you take the time to read it when it comes out, and we'll be happy to answer questions on it as well. So, thank you all for being with us, and thank you for supporting Werner.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.