Werner Enterprises

Fourth Quarter and Full Year 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers - *Chairman, President and Chief Executive Officer*

John Steele – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good afternoon, and welcome to the Werner Enterprises Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to John Steele, Werner's CFO.

John Steele
Earlier this afternoon, we issued our earnings release with fourth quarter and full year 2021 results. The release along with the slide presentation are available at 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 two of the presentation as well as the disclaimers in our earnings release related to forward-looking statements.

Today's remarks contain forward-looking statements 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 Derek Leathers, Chairman, President and CEO. Please go ahead Derek.

Derek Leathers
Thank you and good afternoon, everyone. 2021 marked another year of strong performance and financial results. We adapted to new and changing developments throughout the year in a market with robust demand and limited supply. I'm extremely proud of our entire Werner team for their resourcefulness, determination, persistence, and creativity. We safely delivered superior service and solutions to Werner customers.

I'm also pleased to report that Werner delivered record fourth quarter earnings, our sixth consecutive record-setting quarter. And once again, we achieved record annual earnings. During 2021, the domestic freight economy strengthened. Increased consumer spending led to depleted inventories. COVID issues persisted, supply chains became stressed and labor challenges escalated. This led to a very competitive driver market and increased cost pressure in driver recruiting, development and retention.

New truck and trailer production slowed. Truckload capacity became constrained and used truck and trailer pricing increased to record levels. Despite the significant driver headwinds, our strategic investment in sourcing, pay and driver amenities, enabled us to expand our driver base and grow our TTS fleet. During fourth quarter, we added 120 trucks, and for the year, we added 510.

To proactively address the challenging driver market, we're actively leveraging the strength of our industry-leading driver training school network. During fourth quarter, we added two strategically located schools for a total of six added this past year. At year-end, we had 19 school locations; and during this quarter, three more schools will be added. During 2021, our driver hires increased by 17%.

Werner is uniquely positioned to achieve strong financial results going forward. We will benefit from our attractive freight base with winning customers and the stability and consistent performance of our driver preferred Dedicated fleets that perform well in all freight markets.

Werner also possesses several other attractive businesses, including our industry-leading cross-border Mexico franchise, Engineered Freight Lanes and One-Way Truckload, our recent acquisitions of ECM Truckload and NEHDS Final Mile and our comprehensive and growing capacity solutions in Werner Logistics.

Moving to slide four, here is an updated snapshot of Werner. Our TTS truck fleet grew 7% during the past year to a total of 8,340 trucks ending with a fleet mix of 63% Dedicated and 37% One-Way Truckload. Werner continues to maintain a consumer-centric freight network, with over three quarters of our annual revenues in retail and food and beverage. Nearly half our revenues are with our top 10 customers and nearly 80% come from our top 50. Werner has long-standing and growing relationships with customers that are winning in their industry.

Let's move to slide five for a summary of our fourth quarter and 2021 financial performance. For the quarter, revenues increased 23% to $765 million. Adjusted EPS grew 27% to $1.13. Adjusted operating income rose 22% to $101 million, while our TTS adjusted operating margin net of fuel remained a strong 18.2%. For the year, revenues rose 15% to $2.7 billion. Adjusted EPS increased 33% to $3.45. And we expanded our full year TTS adjusted operating margin by 190 basis points to 15.9.

Dedicated freight demand remained robust in fourth quarter as our winning customers continue to generate strong sales in discount retail, home improvement and food and beverage. In fourth quarter, Dedicated average trucks grew 7% year-over-year and increased 3% sequentially from third quarter.

Bid activity with new and existing customers remained strong. Dedicated average trucks in fourth quarter grew by 353 trucks year-over-year and we expect similar fleet growth in 2022. One-Way Truckload freight demand also remained strong in fourth quarter. We expect our One-Way Truckload fleet to grow slightly this year.

In fourth quarter, Werner Logistics produced another strong quarter of accelerating growth in revenues and operating income. In a capacity challenged peak season, Logistics provided enhanced capacity solutions for our Brokerage, Intermodal and Final Mile customers. Logistics actively managed several peak projects for key customers throughout the quarter. During this year, we expect Werner Logistics to achieve continued revenue and operating income growth.

We received fewer new trucks and trailers than planned in fourth quarter due to OEM new truck and trailer production delays. We expect this trend will continue for the industry during at least the first half of this year.

Consistent with our fourth quarter guidance, we sold one third fewer trucks and one-half fewer trailers. Used truck and trailer pricing strengthened again to new record levels, resulting in higher gains on sales than anticipated. At the same time, reduced new truck availability is increasing the percentage of our trucks not covered by chassis warranties, which is increasing our truck maintenance expenses.

In late November, we closed on the acquisition of NEHDS Logistics, a leading and growing Final Mile provider that delivers home furniture and appliances to residential and commercial customers in the Northeast and Midwest. We are pleased to retain the experienced NEHDS' leadership team and their associates. We've combined our Final Mile business in Werner Logistics with NEHDS as Werner Final Mile. To date, integration activities are going very well. And we are confident that Werner Final Mile will generate over $100 million of revenues this year and be accretive to our earnings. I would like to take this opportunity to welcome the elite team of NEHDS' Final Mile professionals to Werner.

Now, I'd like to turn the call over to John to discuss our fourth quarter and full year financial results in more detail. John?

John J. Steele
Thank you, Derek, and good afternoon.

Beginning on slide seven, total fourth quarter revenues increased $145 million to $765 million due to TTS fleet growth, higher rates and growth in Logistics. TTS revenues per truck per week increased 5.5% year-over-year and nearly 4% sequentially from third quarter.

Adjusted operating income increased over $18 million or 22%, on top of 30% adjusted operating income growth in the same quarter a year ago. Logistics achieved another strong quarter with 42% revenues growth and over $9 million of operating income growth. Adjusted earnings per share in fourth quarter was $1.13, up 27% year-over-year, on top of the 33% adjusted earnings per share growth we achieved in fourth quarter a year ago.

Moving to slide eight, here are our full year comparative results. In 2021, we stepped up our revenue growth by $362 million, an increase of 15%. Over the same period, we expanded our adjusted operating margin by 140 basis points, resulting in 31% adjusted operating income growth and 33% adjusted earnings per share growth. Both TTS and Logistics made significant contributions to our improved performance.

Beginning on slide nine, here are results for our Truckload Transportation Services segment. In fourth quarter, TTS revenues increased 19% to $563 million due to average TTS truck growth of 6.7%, revenue per truck growth of 5.5% and higher fuel surcharges. Adjusted operating income grew 13% to $90 million. TTS produced an adjusted operating ratio of 81.8%.

Turning to TTS fleet metrics on slide 10. For fourth quarter, Dedicated revenues net of fuel increased 13%, average trucks increased by 7% year-over-year, revenues per truck per week increased 5.2%, which was ahead of our expectations and was 490 basis points higher than the increase in third quarter. One-Way Truckload revenues net of fuel increased 12% in fourth quarter to $197 million and average trucks increased 6%. Revenues per truck per week also increased 6% due to a 19.2% increase in revenues per total mile.

Driver pay rose in fourth quarter due to driver pay per mile increases, incentive recruiting bonuses and minimum pay guarantees. Our fourth quarter TTS driver pay per company mile increased 22% year-over-year. Insurance and claims expense increased $3 million year-over-year in fourth quarter and increased slightly compared to third quarter.

Moving to Werner Logistics on slide 11. In fourth quarter, Logistics revenues grew by $55 million to $185 million. Excluding Werner Global Logistics, which we sold in first quarter, Logistics revenues grew 58%. Truckload Logistics revenues increased 58%, driven by a 29% increase in revenues per shipment and a 23% increase in shipments. Power-only and project business continued to generate strong revenue growth.

Intermodal revenues grew 37% supported by a 35% increase in revenues per shipment and a 1% increase in shipments. Intermodal shipment increases were limited by a decline in rail velocity, chassis shortages and increased dwell time throughout the rail and customer networks.

Werner Logistics produced a $9.1 million improvement in operating income to $11.7 million due to enhanced revenue growth and margin expansion. Logistics provided needed capacity for our customers during peak season with creative project and Power-Only solutions. Our Logistics operating margin improved a strong 430 basis points to 6.3%. Final Mile produced $9 million of revenue growth with the NEHDS acquisition in effect for six weeks of the quarter. NEHDS was accretive to adjusted earnings per share in the fourth quarter.

On slide 12 is a summary of our cash flow from operations, net capital expenditures and free cash flow over the past five years. Expanded operating margins and less variable net CapEx resulted in higher free cash flow during the last four years. We expect to continue to generate meaningful free cash flow going forward.

On slide 13 is a summary of our disciplined strategy for capital allocation. Our first priority for capital continues to be reinvesting in our fleet with feature-rich trucks and trailers with the latest safety, driver-friendly and fuel-efficient capabilities. And we see intrinsic value on our stock based on our long-term growth expectations. We purchased over one million shares in fourth quarter. We are committed to maintaining a strong and flexible financial position. Our long-term leverage goal is a net debt to annual EBITDA ratio of 0.5x to 1x. During fourth quarter, with the acquisition of NEHDS and stock repurchases, we ended the year with a net debt to EBITDA ratio of 0.6x.

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

Derek Leathers
Thank you, John. Moving to slide 15. The 5Ts+S strategy serves as our North Star, guiding us in all aspects of our business. During the fourth quarter, the age of our newer truck and trailer fleet increased slightly as it has become more challenging to receive new trucks and trailers in recent months. We've been limiting the number of trucks and trailers we sell to enable us to meet our capacity commitments to our customers.

During fourth quarter, we made good progress expanding our driver school network by two more locations, bringing our total to 19. Our schools are performing well and are producing highly trained graduates, many of whom we hired to join Werner. These drivers are able to further develop their skills with certified and experienced Werner leader drivers. And the investments in our school network enabled us to organically grow our fleet the last two quarters in a very difficult and competitive driver market.

Two weeks ago, the American Trucking Association completed a rigorous selection process and named 22 elite professional drivers to be captains for America's Road Team for the next two years. I'm pleased that three of these industry captains drive for Werner. Thank you, Gina, Jesus, and Eric for being outstanding Werner leaders and role models for safety and service.

Our commitment to innovation and investment in technology led to an expanded rollout of MasterMind Transportation System to most of our Logistics offices in the fourth quarter. We also successfully converted our driver payroll and human capital management systems to Workday in January. And there were multiple updates to our growing ESG program during the quarter.

On slide 16 are those ESG developments. In fourth quarter, we established a standalone ESG committee of our board of directors. We also participated in a commitment to opportunity, diversity, and equity assessment, focusing on inclusion, perspective, and company culture. We also committed to purchase 10 additional battery electric trucks and the battery diesel hybrid. And we were proud to again to be recognized with the 2021 SmartWay Excellence Award, the highest award level given by the EPA. Werner has won this award the last five years and eight of the last nine.

Next, on slide 17, I would like to spend a moment revisiting our durable business model. Here is a history of our annual TTS adjusted operating margin percentage net of fuel since 2008. Over the last five years, while we successfully implemented our 5Ts+S strategy, and we grew our Dedicated fleet, we achieved meaningful TTS operating margin improvement. In our third quarter earnings presentation, we raised our TTS annual adjusted operating margin net of fuel goal from a range of 10% to 16% to a range of 12% to 17%.

Our carefully constructed and optimized fleet mix is designed to generate strong adjusted TTS operating margin performance in good freight markets, like the 15.9% margin we achieved this past year. At some point in the future, the freight trends will change, and the market will become more challenging. Yet we are increasingly confident we will perform well in a softer freight market due to our growing and resilient Dedicated fleet, which is now 63% of TTS.

We also have strengthened and diversified our One-Way Truckload fleet with emphasis on Mexico cross-border expedited, engineered lanes, temperature-controlled and short-haul regional. You can look to 2019 as a bellwether of our financial performance in a softer freight market. 2018 was a strong freight market. And in 2019, industry freight shipments and rates in the One-Way markets declined. The strength of Werner's execution with our large Dedicated and diversified One-Way fleets produced only a small decline in operating margin in 2019. And in that difficult year, we achieved the year-over-year growth in adjusted earnings per share.

During the decade ending in 2020, the size of our truck fleet increased slightly. Going forward, we will have more of an eye to both top and bottom-line growth. Revenue growth creates opportunities for our customers, associates, and shareholders. Let me be frank, this is not an or, this is an and proposition. We are not deemphasizing our operating margin. We expect improved top-line growth with a strong operating margin.

Over the last five years, we've generated average annual revenue growth, net of fuel, of 6%. This includes two double-digit years of revenue growth in 2018 and 2021. Over that same five-year period, we achieved an adjusted TTS operating margin of 13%. We recently completed a rigorous process to develop our comprehensive five-year plan.

Over the next five years, it is our goal to achieve annual average revenue growth of 10%. Over the five-year period, we also expect to achieve an average TTS adjusted operating margin net of fuel of at least the midpoint of our long-term guidance range of 12% to 17%. This takes into consideration an expectation that there will be a variety of freight markets during this five-year timeframe.

Now let's move to slide 18 and a review of our performance versus our 2021 guidance metrics as well as our outlook with our 2022 guidance. During fourth quarter, we increased our truck count by 120 trucks sequentially, ahead of expectations. Our trucks increased by 510 for the year.

For 2022, we expect our fleet to increase from 2% to 5% with the majority of the fleet growth in Dedicated. Net capital expenditures last year were $193 million. Based on our expectations for new trucks and trailer purchases this year, we anticipate a net CapEx range of $275 million to $325 million. This guidance is subject to the timing of delivery of new trucks and trailers this year.

Dedicated revenue per truck per week increased 5.2% in fourth quarter, up 490 basis points from the third quarter. For this year, we expect our Dedicated revenue per truck per week to grow in the 3% to 5% range.

One-Way Truckload revenue per total mile for the fourth quarter increased 19.2%, slightly above the top end of our guidance range. For the first half of 2022, we expect our One-Way Truckload revenues per total mile to increase in a range of 16% to 19% over the same period last year. So far in the first five weeks of 2022, freight demand trends in our One-Way Truckload unit remained strong.

Our income tax rate in fourth quarter was slightly lower than expected at 23% due to a few discrete items. For 2022, we are reaffirming our effective tax rate of 24.5% to 25.5%. And we expect the average age of our truck and trailer fleet at year-end to be 2.2 and 4.8 years respectively.

We are no longer providing guidance for gains on sales of equipment as there are simply too many variables affecting the number of trucks and trailers we can sell, as well as the used equipment pricing. We anticipate a continued strong freight market this year. A tight labor market and a rapidly growing economy are contributing to increased cost inflation, and we expect higher freight rates in 2022.

Recent elevated COVID case counts from Omicron are a near-term temporary headwind for truck productivity and fleet growth. The last two years have presented numerous unexpected challenges and opportunities. Werner remains well positioned with a superior team and an active talent pipeline that we believe will continue to yield strong and sustainable results.

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

Questions and Answer

Operator
(Operator Instructions) And our first question comes from Todd Fowler of KeyBanc Capital Markets.

Todd Fowler
Derek, just to start, maybe to spend a little bit more time on the focus on the 10% annual revenue growth. Can you give us a sense, are you thinking about that as being predominantly organic or are you thinking about acquisitions in there? And then how do you think about mix of Dedicated, One-Way Truckload in the context of growing the top-line at that rate?

Derek Leathers
So first off, the last five years, we were pretty transparent about the focus on the fundamentals. So, the whole 5Ts and S strategy was all about getting the foundation in order, getting a return to excellence from a margin perspective, making sure that our operating teams were executing at the highest of levels and putting the safety and service above all else. That's a journey. It's a marathon, not a sprint, and we've worked hard to get to where we are today. And that's led to the six consecutive quarters of earnings growth….setting new EPS records, etc.

As we look forward, the time has come that we need to have the and proposition I talked about in the script, which is both focusing on top and bottom-line growth and not losing any focus at all on our attention to detail relative to the bottom-line execution. Both for our customers and our shareholders, but with a little more eye towards the need to grow along with it.

So, we are going to be more revenue driven than maybe you've seen historically out of us. It is predominantly organic, almost exclusively. Let me say it this way; we believe there's a path for us to get there and consistently achieve those results purely from an organic perspective. But I'm not going to rule out the ability to do M&A as part of it.

And there will be times and places where, as you do certain bolt-on opportunistic acquisitions that are additive to the portfolio and accretive to results, that does shift some focus in a particular quarter or two. So there could be some blend. But the predominance of the 10% is in terms of the takeaway from this call would be we have an organic path to getting to those types of numbers over that horizon and averaging that 10% number over the five-year period.

Todd Clark Fowler
Derek, that's helpful, and that makes a lot of sense. Just for my follow-up, and I'm not sure how granular you want to be on this. But as I think about the TTS margins here this year and kind of the range that you've laid out, what's your sense on your ability to improve upon that into '22? And if you don't want to give specific margin targets or guidance, are there some things that you can maybe help us think about that could impact the margins as we move into '22?

Derek Leathers
So, as we think about '22, we are certainly optimistic as we look out right now and as we have conversations with customers and talk about the kind of quality service that we provide, we think it sets up and presents the opportunity for us to achieve the necessary rate increases to help offset the inherent cost pressures that we spoke about during the opening remarks.

We are going to be faced with cost pressures in this industry and most every industry. But we believe that through increased focus on the costs that are controllable, to help offset some of those costs that are simply facing the type of inflationary pressure, as well as looking for our customers to help invest with us so we can continue to provide them the kind of quality service that they expect, that there is some opportunity in '22 to at least hold serve, if not expand slightly, margins on the TTS portion.

We will, of course, be growing in Logistics as well in '22. And you've seen some outpaced growth on that side of the portfolio. And that's expected to continue as we go forward, not necessarily at the percentage rate that you've seen in recent quarters, but at an outpaced rate compared to that growth that you might see in TTS.

Operator

The next question comes from Ravi Shanker of Morgan Stanley.

Ravi Shanker
Derek and John, if I can just kind of follow-up on that question. The 10%, sorry if I missed this, but did you break that down into price versus volume kind of driving that? And like, if you are targeting volume growth in excess of GDP, kind of where is that coming from? Is it share gain? Is it converting other modes? Do you think trucking naturally kind of gains

share as the economy grows? Kind of some color there would be helpful.

Derek Leathers
So obviously, there's hours of conversation that goes into the number and hard to answer in a one-minute sound bite. But volume growth, it makes up, let me start with this; truck growth makes up a little over half of what we believe where that growth comes from, organic truck growth, I should say. Logistics will continue to grow at an outpaced level compared to TTS growth over the same period.

Those two things added -- and then added to that would be price. Price will play a role in it. And we have not assumed five years of stable freight conditions. Our assumptions are that there will be some ups and downs in the freight market over that five-year period, and I'd rather not get more granular than that. And the outcome of all of the above is that 10% growth. And again, predominantly, if not exclusively, organically relative to the 10, so the upside would be where we find opportunistic acquisitions to add on to that as well.

Ravi Shanker
And for my follow-up, just given your target for '22 on Final Mile was really helpful. What do you think the near-term outlook kind of in '22 or '23 of that business looks like? I mean, there's a lot of debate as to what some of the heavy appliance-type end market looks like post-pandemic and some mean reversion there. Do you feel like that's a market that's potentially due for a slowdown before resuming long-term growth?

Derek Leathers
Well, I think there's two different issues there, Ravi. There's what happens industry-wide and then what happens on a secular basis with Werner and the product we're putting into the market. What we see relative to our runway, is with our customers who are growing and having great success, is an underserved need in the big and bulky Final Mile marketplace.

So, we're not an all things to all people provider in that space. We're going to focus heavily on that big and bulky application. And in that world, with our customer base, we believe the runway is pretty clean as we look forward. There's a lot of opportunity. There’s other competitors out there that do a fine job, but nobody has fully solved this whole Final Mile dilemma. So even with some cooling in the rate of growth in that Final Mile environment, there's plenty of share gain, as well as, even in a cooling market, there's still net growth of demand in Final Mile. So, we're very optimistic about it, I should say.

John Steele
And Ravi, I'd add one thing. The existing business for Final Mile has a greater emphasis on furniture than appliances. But going forward, the prospects for both furniture and appliances with our existing customer base are very strong.

Operator

The next question comes from Scott Group of Wolfe Research.

Scott Group
I want to start on the buyback. It's two quarters in a row of $50 million a quarter. Do you think this becomes a new sort of normalized run rate? And maybe is there any chance to accelerate it even more just given that you're still at the low end of the leverage target?

Derek Leathers

Great question. But look, I'm not going to be, I'd rather stay away from trying to guide on where we're at on it. I'll just give you a mindset as to where we've been and why. As we think about a market that is continuously over the last several quarters, and frankly, even all the way back to 2020, kind of pre-called the cycle turn, in our mind at least, and knowing what we knew about our customer base and what they were doing, it was our belief that our stock was, and is, undervalued and has been underappreciated for its improved performance. And as long as that stays the case, we're going to continue to stay interested in share buyback.

At some point, if the resilient nature of our portfolio, if the defensive high-service kind of structure of our Dedicated model is better appreciated, that will certainly weigh into our decision as to when and how much we would buy back. But I think the better way to think about it, Scott, is that we're willing and able to do so when we think the time is right, just like we've shown a propensity in '21 to be willing and able to acquire assets that we think make us better, both in the form of ECM and with the case with NEHDS.

Scott Group
And then on the modeling side, when I look at the pricing guidance, the comps naturally start getting a little tougher in the second quarter. So, do you think you could be at the high end or maybe even above the high end of that pricing guidance to start the year in 1Q?

Derek Leathers
Well, we're a month into the quarter as this call is taking place. We're pretty dialed in on where we believe we'll be. I'd remind you that it's a One-Way Truckload guidance metric as it relates to price. And in that scenario, we feel like that's the right range. We're certainly going to ask to be paid what we think it's worth. And we think the product we're putting forth is worth and we'll keep our eyes on spot. But I'd remind you that that spot is such a small portion of what we do.

I mean, we stayed committed, even in the fourth quarter, with our core customers. And to the extent you saw margin expansion, or not margin, but the rate expansion outside of the range, it was really just our ability to step up and do more on behalf of our customers during their peak season. Right now, the start with, and it's early in the bid season, gives us the confidence to put these kinds of numbers up. And we'll continue to work at it and chip away at it every day with our customers.

Operator
The next question comes from Jack Atkins of Stephens.

Jack Atkins
So, Derek, I'd love to get your thoughts on the driver market. What's recruiting like? Has it gotten maybe a bit better at the margin here over the last several months? And then you've got 19 driver schools I think at year-end, adding several more here early in 2022. To what degree is that giving you a competitive advantage as you're thinking about strategically growing your fleet throughout 2022 and beyond?

Derek Leathers
So great question. I appreciate it. The driver market is tough, and I don't think that's going to change. I mean, it's an ongoing demographic uphill challenge that we face over the next several years and we, mean in the industry.

Within that challenge, I clearly believe that our driver school network is a competitive advantage and that's why we've continued to expand that model. We still do hire from high-quality schools around the country, as well as we do a lot more hiring than people realize of experienced drivers in the marketplace that come to Werner to find a home.

But yes, we've added these schools. These are much more targeted schools. I think about these as sort of strategic rifle shot type locations that are being put up or stood up for very specific regional needs and with a line of sight to what our pipeline looks like a quarter, two quarters, three quarters out, relative to Dedicated and other customer opportunities.

So, it isn't like we're going to add them indefinitely and we're not trying to get to any specific number. But as we have found greater and greater success with some of these smaller locations targeted for very specific customer needs, we'll continue to do so as long as that model continues to perform. And so far, it's performing very well.

Jack Atkins
That's great to hear. And I guess, my follow-up question, you referenced MasterMind being rolled out to I think most of your Logistics branches, I think you said by the end of the year. Could you maybe update us on what the next steps are? Whether it's with Mastery with MasterMind or just your digital journey more broadly within Logistics? And sort of how that plays into your thinking about your broader top-line growth opportunities over the next several years?

Derek Leathers
So first off, our partnership with Mastery is sort of the foundation or backbones, if you will, the platform tech to which we will hook all of our in-house developments to. So, when it comes to like how we think about optimizing our network, how we think about planning and developing more engineered routes in the future, how we work across Logistics to do better and better load matching, there's all kinds of things we are focusing our internal efforts on developing so that that portion of the secret sauce, if you will, stays and remains exactly that.

It's our approach to the market that we believe will differentiate us over time. Logistics was the natural jumping off point. And within that, it was actually Brokerage, even more so, because that was a little more ready for prime time early in this migration. But this is a three, probably four-year type total journey by the time it's completely complete and we

have all of our systems more integrated. The focus, as I mentioned today, is on Brokerage and the full rollout as well as the full tie-in with all of our internal optimization tools. As we go forward, we'll continue to focus across our portfolio, rolling in Dedicated and One-Way at future dates, and most importantly, connecting all three of the above in a way that's better connected than what it is today.

It's hard to get too granular because we have several phases to this integration as well as we're always going to be nimble depending on where -- as the market develops and we'll make moves where appropriate. But this is going to be a multi-year journey. But a lot of it is happening concurrently, and we do have work underway all the time even with recent acquisitions as an example to make sure that we're building once, not building something that will then be replaced by some future system as we try to bring them on and integrate them.

Operator
The next question comes from Jason Seidl of Cowen.

Jason Seidl
I wanted to focus a little bit on pricing and looking out towards '23 as stuff rolls over. So, my question is, once we get past June, how much of your business will be repriced in the first half of this year? And then are you seeing contracts lengthen out beyond one year? We are starting to hear that from some other people in the market.

Derek Leathers
So good questions. And to answer the first part of the question, roughly 60%, perhaps a little more than that, but about 60% of our business will be priced or repriced, if you will, in the first half of this year.

As it relates to multi-year contracts, on the Dedicated side, which is the majority of our fleet, those have always been multi-year contracts with a variety of annual renewal and/or rate kickers included. So, some are negotiated rates on an annual basis, some are indexed rates. And there's really a mix of all of the above, and that mix is something we pay very close attention to.

On the One-Way side, we have also entered into, in select situations with very high quality, think of kind of the best of the best, if you will, from a customer base perspective, some multi-year arrangements. Those also have annual rate language in them. And in those cases, those are more often indexed to a variety of things that we've worked very, very judiciously on, to make sure that we're, both we and the customer, have sort of mutual protections as this market evolves.

We think that gives us better stability for what then remains, which is that more ad hoc annual rate renewal type world that we're always so focused on. But it gives, that stability allows us to be even more laser-focused on what we'll retain year-over-year, what we're looking to grow, and with whom year-over-year, and how we're going to deploy these scarce assets, because I don't see a line of sight toward capacity suddenly coming online on a macro level.

And even here, if you were to look forward to our 2022 guidance, I mean, we're guiding to a fairly low number of 2% to 5%, and that's a day in, day out kind of hand fight to be able to attract, train and retain the best drivers. So, it's a little bit of all of the above with a heavy, heavy focus on driver retention being a leading indicator of our ability to be where we'll fall in that range.

Jason Seidl
That really helps, Derek. I want to now just focus to try to better understand your outperformance here in 4Q. John, I think you said in TTS that the revenue per truck per week was above your expectations. So, I wanted to dig into why was it some of the specialty work that you mentioned that you did in the quarter?

John Steele
So, we worked real hard after third quarter on getting our mileage to improve, addressing some of the issues, parts shortages and challenges that we faced, and we did make progress. Revenue per truck per week in Dedicated was up 0.3% in third quarter and up 5.2% in fourth quarter. So, we made some really good progress, particularly in Dedicated, but also made progress in One-Way in improving our productivity.

We made good progress in improving our TTS margin. It improved 420 basis points from 14.0% to 18.2% from third to fourth quarter. And that was a combination of improved productivity, improved pricing, better cost management in an inflationary environment. So, we're pleased with the progress we're making and think that sets us up well for '22.

Operator
The next question comes from Jeff Kauffman of Vertical Research.

Jeffrey Kauffman
So, I want to ask a little bit about the Power-Only solutions. That seems to be something we're seeing more of across the industry. And some people are mixing it in with the truckloads, some people are putting it into the Logistics and the brokers. Could you give us an idea for how big that business is, whether you want to use revenue or whether you want to use, say, number of trailers or something like that that are out there, just relative to say, where it was a year ago so we can get an idea of how that business has grown for you?

Derek Leathers
Well, I'll probably steer clear of how big it is in total because that would just be yet another breakout that we'd be giving, and I already feel like we're pretty transparent on how much information we give. But what I will tell you is we've seen significant growth in Power-Only over the last year.

It's something we've been doing for several years and had really kind of kept it in the background on purpose and intentionally, as it related to something we viewed as a competitive advantage as we were trying to vet that out and expand it faster. With that said, in the last year, we've seen exponential type growth in Power-Only, both in Dedicated and in One-Way. And so, we have a unique mix of everything from Power-Only Brokerage where it's truly a Brokerage environment where we're matching them up with transactional

freight to Power-Only operating within our Dedicated fleets and then Power-Only obviously operating like others in their One-Way network. So, it resides in multiple places.

What we know for sure is across all of the above, customers like and appreciate the scale advantages of a large national fleet of trailers. And so, we're going to continue to lean into that. You've seen our trailer ratios increase. You've seen our trailer sales decrease; that's intentional. We understand that it represents more depreciation on the P&L, but it's an investment in a product that we think will only grow in its significance as we look forward.

Jeffrey Kauffman
And I guess the simple answer is it just complicates our analysis a little because it's not located in just one place, to your point. It's in Dedicated, it's in One-Way and it's in Brokerage. That's my question.

Derek Leathers
And I do apologize for it being complicated, but it's, we want to put it where the customers need it and where we think it's most profitable.

Operator
The next question comes from Jon Chappell of Evercore ISI.

Jon Chappell
Derek, I think Jason asked this, I'm not sure it was addressed directly. Obviously, Dedicated's pretty long in duration and spot's known as being kind of much shorter term. Is there kind of a third tier developing just given some of the elevated demand and the capacity constraints where you're doing One-Way business that may be longer in duration, maybe a little bit more visibility on pricing just because of the service you provide, the network you have and the fact that customers want to lock in capacity of line of sight?

Derek Leathers
I think, Jon, that's a fair way of thinking about it. I would say, using your verbiage of tiers, I mean, there's really kind of four tiers. The spot that's overly focused on and overly, everybody gets overly animated about. We do very little of that, less than 5% of total miles in our fleet are really that.

There's the traditional One-Way annual renewal type business that's a lot more secure and stable than spot, but nonetheless, does renew annually. There's Dedicated, which would be the longest end of the spectrum, which is multi-year with annual rate mitigation factors. And now there's a growing trend, at least in our business, for very select, and I want to be emphatic about this, but very select opportunities with key winning customers to kind of partner over a longer-term horizon.

And we've worked, these were months, and in one case in particular, over a year in the making. They weren't based on any particular point in the cycle. They are strategic decisions we were taking with folks that we think align with us long-term, that we believe give us stability through the cycle, and most importantly, allow us to build around their successful model and thus dedicate more resources towards the analysis and negotiations and transactional nature of what's left over. So yes, it is evolving.

Jon Chappell
And my follow-up is somewhat related to that. I mean, the range you gave on truck growth, 2% to 5%; I imagine the majority of that will be in Dedicated. But as far as the demand is concerned, would it be fair to assume that if you had the drivers and if you had the OEMs able to meet your demand, that that could be at the high end, if not higher than that range because the pipeline is so strong, or are you starting to see a little bit of slowing in the demand for Dedicated at this point of the cycle?

Derek Leathers
No, I'll start with this. The pipeline is very strong. So the pipeline is very robust and we are very optimistic about what that means for our ability to grow. Yes, you're right, the majority of that growth would be in Dedicated.

I'm not as sure about the second part in terms of…. if drivers were readily available and if trucks were easy to get, then I suspect the durability of some of those opportunities wouldn't be as great. So I don't, it's hard to play in a hypothetical world right now. What I know is drivers are very hard to get and trucks are even tougher. And so, in that world, with the pipeline we have, we're going to push and do everything we can to be at the high end of the range. If those two dynamics were suddenly different, we'd be cautious about growth at that point, at least as it relates to asset-only growth, we'd still be bullish, obviously, on growing Logistics.

So, we have to react to the market depending on where we're at, at any given time. But right now, I think the crux of your question is what's the overall freight environment like? And the answer is very strong. What's the outlook for that freight environment through 2022? And we believe that outlook is also strong. And then what does that Dedicated pipeline look like? And I would say, it's as full today as it has been in the last several quarters. And we're equally optimistic about our ability to add trucks in that space, although it's just increasingly difficult on the driver and OEM side of the equation.

Operator
The next question comes from Ken Hoexter of Bank of America.

Kenneth Hoexter
Derek and John, I appreciate the details and great discussion on growth. So maybe just dig into that to follow-up on your last thought there on your outlook. If rates at Dedicated, you mentioned at 5.2%, that's kind of at the top end of your 3% to 5% range and revenue per load mile is at 19%, the top end of your range, are you then, I mean, it doesn't sound like you're seeing softening. But are you suggesting that we're now at the peak? Is this as good as it gets and you're seeing from here on in it's going to start decelerating? I just want to understand your thought on kind of capping the targets at the levels we're at.

Derek Leathers
Let me start on the Dedicated side. Don't misread the 3% to 5% compared to fourth quarter over fourth quarter at 5.2% to mean that the rate negotiations or rate activity with those customers is decelerated. What it really means is we're continuing the trend we talked about last quarter, which is 16 of our last 20 Dedicated accounts that we've added have

been shorter haul in nature with both lower expenses and lower revenue per truck per week because they simply run less miles. And I think that trend continues over time.

As people forward deploy more and more inventories, they continue to raise the bar on their expectations for service. There's more and more opportunity for these shorter haul Dedicated fleets. And so, you could see some muting of your revenue per truck per week number that does not necessarily reflect a decreased margin or decrease in op income potential. It just simply means that truck runs a little less miles because of the nature of the work that it's in.
And so right now, again, the market is as strong as it was. It's continuing to look as strong as we look out into the pipeline. Dedicated has a long tail, so when we talk about pipelines in Dedicated, we have a multi-quarter forward look because they take multiple quarters to close. And so, it's not like it's getting skinnier further out in that pipeline. We've got to continue to sift through those opportunities, make sure they align with our long-term objectives and with the type of customers that we believe we'll continue to win in their space. And we'll land a relatively small percentage by choice, by design, of those opportunities that we think fit the criteria we're looking for.

On One-way Truckload, it has more to do with just comps will get tougher on price as you continue to get deeper into the year. And right now, we're guiding to the first quarter, which shows sustained momentum, if you will, of what we've been seeing, and that's reflective of a sustained strong freight market.

Kenneth Hoexter
The follow-up would be, you posted an 81% and change operating ratio at truck this year and last year in the fourth quarter. So, I don't want to be sound ungrateful for the solid level because it's amazing to get to low-80s, but it is flat despite 13% ex-fuel revenue growth.

Would you have expected to get ahead of that and improve given that revenue growth or is it, hey, labor and cost inflation, it's just so tough to stay ahead of that with the rate gains that you're putting in? Kind of give your thoughts on what you would have expected looking back at that kind of revenue growth.

Derek Leathers
Well, I think the first answer, and I'm not trying to evade the crux of the question, but the first thing I have to remind you of is Q3 was a heavily disrupted quarter and we were very vocal about what was happening within our network from a combination of things. Start-ups that were significant in nature and highly costly in their makeup. Parts and OEM shortages that were disruptive in our network and our ability to produce miles. And the list kind of went on from there.

We indicated that we had a line of sight to correct it and to get back on course, and we did that. And when I think about Q4 this year versus Q4 last year, and the level of disruption going on right now in Q4, and yet the ability to put up the 81.8% OR, to be frank, I'm probably more proud of this one than I am of what we did a year ago. So, I understand the concern about why not better. But given the nature of the underlying disruptive forces within our network, the team's ability to rally around their execution philosophies and their focus on the details really was impressive in the quarter, and I'm proud of them.

They also did all of the above, while having the necessary distractions of performing another acquisition in the quarter, and all of the work and focus that does go into that. And so overall, I think it's a very solid quarter. We're going to always push Ken to do better. And as we have this conversation a year from now, we'll do everything in our power to not have to repeat a flat conversation, but we'll be equally unapologetic about an 81.8%.

Kenneth Hoexter
Can I just get a quick understanding there? You mentioned the Dedicated backlog. Is that… that's nothing we can ever kind of forecast or see. It just depends on what the scale that hits in that quarter, right? It's not like there's a size of ramp that impacts it more?

Derek Leathers
No, it's more driven, Ken, by the makeup of the actual fleet. So, it would be so difficult to even attempt an answer that would do anything other than further confuse.

There are Dedicated fleets, just as an example, that could be 10:1 trailer ratios. And the amount of work and effort and start-up costs associated with the fleet of that type, especially depending on where that geography might exist, could be significant. And you'd have all kinds of temporary headwinds as you ramp that particular fleet.

There are other ones that are Power-Only Dedicated fleets to begin with. They are truck-only Dedicated fleets in which you can get in and engage and ramp up very, very quickly. So, there's a robust pipeline coming down the path at us. It's the type of mix we're looking for and our sales team has done an incredible job of staying true to the mission, if you will, that we've given them. And our job will be to just make sure that everything is rated appropriately for its level of complexity.

And every once in a while, like we saw in Q3, you just have the worst of all timing, where all of the costs reside in a quarter and none of the opportunity. And so, we've got through that knothole and we've performed in Q4 on a more normalized basis, and that's kind of what you see in the results.

John Steele
And Ken, I would add, back it up with the numbers and the stats. In Dedicated, from first quarter to second quarter, we added 15 Dedicated trucks on average. Second quarter to third quarter increased by 100. Third quarter to fourth quarter increased by 175. So you saw a ramping up of Dedicated growth, and that was some of the start-ups that we were referring to.

Operator
The next question comes from Chris Wetherbee of Citigroup.

Christian Wetherbee
I guess I wanted to pick up a little bit on the cost side. Again, I don't want to nitpick too much here, but I'm trying to look through some of the very elevated gains that you guys realized on sales in 2021 and get a sense of sort of what the core profitability of the truck business is and maybe where some of the costs are kind of running.

So obviously, the third quarter was a challenge and somewhat of an anomaly, as you talked about. It still sounds like there's disruption going on in 4Q. But we saw sort of core EBIT down, margin was down on a year-over-year basis. I guess when we look out to 2022 and then maybe even thinking longer term, I know you don't want to guide gains because it's obviously extraordinarily volatile. But can you give us some help directionally to see sort of when we can start to get that margin expansion maybe on a core ex-gain basis? I think you guys have built in some costs that are likely to unwind a bit as we go into next year, just want to understand the cadence of that a little better.

John Steele
Chris, this is John. Good question. Let me start off with, we consider the fleet truck sales and fleet trailer sales side of our business to be a core part of what we do. We've been in the business for 30 years. We have an excellent team and they executed pretty, pretty well in fourth quarter when you think about the fact that we sold one third fewer trucks and one-half fewer trailers and generated an increase in gains. Our gains have gone from $11 million in first quarter to $13 million in second quarter to $15 million in third quarter to $21 million in fourth quarter. So, there's been an acceleration. I would say that's because of better pricing more so than unit sales. So, we considered gains to be the core part of our business.

On the cost side, I would agree completely that it's a more inflationary environment. It's very, very competitive for labor, both on the driver side and on the non-driver side of the business. Benefit costs are higher for both health insurance and work comp this year than they were a year ago. And we've also made some investments in our school network to be able to bring on more schools with more instructors, hire more placement drivers out of the schools to join our network, and that has increased our cost structure. And we think that we're in a good place based on the school development. We have one more significant quarter to go with schools to be added in first quarter. But we are very optimistic about the opportunity to continue to improve margins in 2022 going forward based on the runway we have right now.

Christian Wetherbee
That's helpful. I appreciate that color. And obviously, understanding the gains are going to be part of the story going forward as well. I guess, do you have a number that you guys contemplate when you think about the 12% to 17% long-term target range? What's embedded in that over a multi-year period of time?

Derek Leathers
What's embedded in terms of what percent comes from gains?

Christian F. Wetherbee
Yes.

Derek Leathers
I don't have a number off the top of my head. I can tell you that that gain number fluctuates year-to-year in that five-year plan based on the best, our best estimate of what we think happens within the market, taking into account everything from EPA changes to two back-to-back years of less than replacement level followed eventually someday by a year where

there will probably be a glut of manufacturing.

And so, all of that type of stuff has been built into it. But in terms of a percent average over the course, no. I can tell you, it does fluctuate greatly year-to-year or not year-to-year, but it does fluctuate through the five-year period, just like many other line items do as well, and it is contemplated.

John Steele
And Chris, we've had gains for the last 20 years every year. I think the last year we had losses on equipment sales goes back to the early 2000s.

Operator
The next question comes from Brandon Oglenski of Barclays.

Brandon Oglenski
Good afternoon everyone and thanks for taking the questions. I guess, Derek or John, just given where truckload valuations are right now in equity markets, there's a lot of, I guess, uncertainty with investors that these levels of earnings and margins are sustainable. And Derek, I really appreciate the focus here on moving forward and staying in that range. But I guess, what can you tell us about how are you managing the inevitable turn in the cycle when things get a little bit more difficult, capacity is more abundant? Should we expect the same type of contraction we've seen in the past from your company?

Derek Leathers
Well, so first off, how we are managing it. I mean, it's really a preponderance of what we focus on right now is the ongoing build-out and strategy of what I consider to be the most resilient portfolio in trucking. If you think about what we've been working on, communicating, speaking about and really trying to message, it's that our portfolio is different.

We're predominantly Dedicated and increasing in that ratio all the time. We're continuing to further engineer the One-Way portion of our network and focusing on franchises within it that we think we're best-in-class. So cross-border Mexico, Team Expedited, Engineered fleets and now with the addition of ECM and then the expansion of those concepts into Engineered Regional short haul.

And so, all of the above continues to place us in a position that when it turns, and we believe that is further off than most folks probably on this call, but when it turns, our model is built for that. And in terms of what should we expect, and will it be as bad as it was last time, I would call back or call your attention to the '18 and '19 cycle, where you could see in almost every portfolio around after we came off a very strong robust year in trucking followed by a less stellar freight market and demand environment, our EPS actually went up by 1% in that timeframe.

Now I'm not predicting that our EPS, every year regardless of how bad the cycle gets will go up, what I'm saying is it's remarkably more defensive than it's ever been. And even in prior cycles, it's performed better than most, if not all, as it relates to how far that fall goes.

Fourth quarter, which is pertinent since that's the call we are on, again, these results were achieved without a heavy involvement in the spot market. And instead, it was a heavy focus on our core customers. We worked with them on what their needs were. We met them where they were. And they were willing to invest with us as appropriate to make sure their products are on the shelf. So arguably, I have spent most of the last five years trying to change or focus a culture around a more resilient portfolio. And while it's not complete and never will be, I think we're better positioned right now than we've ever been.

Operator
This concludes our question and answer session. I'd like to turn the conference back over to Mr. Derek Leathers for any closing remarks.

Derek Leathers
Thank you. Once again, I just want to thank everybody for spending time with us this afternoon. We appreciate sincerely your interest in the Werner story. We're really proud of the record results in the fourth quarter, but I am more excited about the foundation it provides for 2022.

Our portfolio continues to improve in service, safety, and capabilities, while achieving improved financial results. As we move into '22 and beyond, we are focused on building upon the great brand we have today and growing both top and bottom-line results for all of our stakeholders.

While we may never change the perception of this being a cyclical industry, here at Werner, we have built a portfolio with incredible resiliency. Our alignment with winning customers combined with our focus on strategic Dedicated relationships and a fast and growing Logistics segment positions us well to prosper in coming years through any economic or other adverse cycle that we may face.

And lastly, I would like to close with another sincere thank you to the men and women of Werner that have made 2021 possible. And a thank you in advance for all of you that I know, and all that you will achieve in 2022.

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