Werner Enterprises

Business Update Call

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CORPORATE PARTICIPANTS

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

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

Chris Neil – *Senior Vice President of Pricing and Strategic Planning*

PRESENTATION

Operator
Good afternoon, and welcome to the Werner Enterprises business update call. All participants will be in a listen-only mode. [Operator Instructions].

I would now like to turn the conference over to Chris Neil, Werner's Senior Vice President of Pricing and Strategic Planning. Please go ahead.

Chris Neil
Good afternoon. This morning, we issued a press release and posted a slide presentation announcing our acquisition of ReedTMS Logistics. These materials are available at our 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 the press release related to forward-looking statements. Today's remarks could contain forward-looking statements that may involve risks, uncertainties and other factors that could cause actual results to differ materially.

I'd now like to turn the conference over to our Chairman, President and CEO, Derek Leathers. Derek, please go ahead.

Derek Leathers
Good afternoon and thank you for joining us on the call today. We are excited to announce that we've closed on the acquisition of ReedTMS Logistics, a leading asset-light logistics provider and truckload carrier.

ReedTMS offers a comprehensive suite of freight brokerage and truckload solutions to a diverse customer base, and it will be a great addition to Werner.

This afternoon I am in Tampa, with the ReedTMS team. We are thrilled to welcome this strong team to Werner, and this acquisition will further strengthen and diversify our freight brokerage and truckload capabilities.

Before discussing this transaction, we want to update you on the evolution of our strategic plan.

John, could you take us through slide three?

John Steele
Yes, I will, Derek.

As Werner evolves, our focus is centered on building our core strengths, driving our competitive advantage and defining our future through strategic growth. It is important to understand how ReedTMS and our other three acquisitions in the last 16 months align with our long-term strategic plan.

In May of 2016, when Derek became CEO, we began to transform Werner when we started implementing our 5T’s strategy.

At that time, we made large capital expenditures to refresh the age of our truck and trailer fleet, upgrade and modernize our terminal network, and we invested heavily in our driving and non-driving associates and technology.

Our strategy was to reposition Werner for future success by raising the bar for our customer service to best-in-class levels.

This significant multi-year undertaking included the following.

To attract and retain the best drivers, we upgraded to a newer and innovative fleet, and we were an early adopter of new truck features such as automated manual transmissions and auto-braking safety technology.

We expanded our nationwide terminal network by reengineering existing terminals for greater efficiency, and enhanced driver amenities. We built three state-of-the-art terminals in Illinois, Pennsylvania and Florida to further expand our capabilities and solidify our network.

We began working toward a more balanced revenue portfolio with more defensive characteristics, to better position Werner to grow earnings and free cash flow in all business conditions.

We aligned the interests of our executive management team with our shareholders, by implementing a comprehensive metrics-driven pay-for-performance program.

We raised our driver hiring and retention criteria, despite a tight labor market, and we vertically integrated the largest driver school network in the industry, focusing on quality and training.

We strategically grew our Dedicated truck fleet as a percentage of our TTS fleet, in order to produce more consistent revenue and income streams in all freight markets.

Four years ago, we established quarterly earnings calls with informative presentations and guidance metrics to effectively communicate our strategic plan with our quarterly financial results.

We changed our marketing focus to align with customers who are winning in their industry vertical, and who view their supply chain as competitive advantage rather than as a cost center.

During the next three years, we accelerated our pace of change and stabilized our CAPEX spending to a normalized and more consistent run-rate targeted at 11% to 13% of annual revenues.

With this strong foundation, we refocused on capital allocation to strengthen our shareholder return and reduce our cost to capital.

In May 2020, we announced Werner EDGE and outlined our commitment to technology and innovation through our digital transformation.

Later that year, we formalized our commitment to ESG and identified sustainability as a recognized and durable competitive advantage for Werner. The 5Ts became 5Ts plus S, representing our commitment to sustainability.

We established three milestone ES&G goals to be a leader in corporate social responsibility. This included establishing an aggressive goal to lower our carbon footprint by 55% by the year 2035.

An essential governance goal was to upgrade and diversify our board of directors both in terms of experience and skills and raise ethnicity and gender. Today, four of our nine talented and experienced directors are female, and 56% are diverse.

In fourth quarter 2020, the success we achieved from implementing our 5Ts plus S strategy enabled us to establish new long-term operating margin goals for our TTS segment. And a year later, we raised those TTS margin goals to 12% to 17%.

In November 2020, we announced the long-term partnership with Mastery Logistic Systems, whose cloud-based transportation management system will serve as a platform for all Werner business units and operations.

In the second half of last year, we acquired ECM Transport and NEHDS Logistics, further rounding out our portfolio of services and enhancing our capabilities through the addition of an elite regional carrier and a leading Final Mile home delivery company.

Also, last year, we issued our inaugural comprehensive corporate social responsibility report.

During the last two years, we doubled down on one of the crown jewels in the Werner portfolio. We expanded and leveraged the strategic advantage of our industry-leading driver training school network. From December 2020 to March 2022, we increased our driver training school locations from 13 to 22.

And in August, we formally introduced Werner DRIVE, which is the next evolution of our Werner business strategy. DRIVE incorporates sustainability, capital allocation, and outcome-oriented approach to operations, innovation, and a culture that supports and values our team members.

Our intentionally designed durable portfolio of asset-heavy, and asset-light solutions serves a highly-diversified client base of industry-leading customers with an emphasis on necessity-based goods.

We are intensely focused on strengthening our results. And we have a culture emphasizing service and safety. In the last year, Werner has earned Carrier of the Year awards from four of our top five customers and seven of our top 15.

We are focused on innovation through our investment in technology and our Werner EDGE cloud-based platform, which are improving the experience of our customers, drivers, non-drivers, carriers, and suppliers.

Our core values of safety, service, and integrity are based on an unwavering commitment to inclusion, community, innovation and leadership.

We embrace ESG through the exploration and implementation of alternative fuels and equipment, executing an aggressive carbon reduction plan and exploring partnerships through Werner Blue, our sustainability initiative.

Since the initial rollout of our "5T's plus S" strategy, and our evolution to Werner DRIVE, we have regained our place as a top-tier provider in the transportation and logistics industry.

Last month we acquired premier truckload carrier, Baylor Trucking. Synergies with our first month of integration are exceeding expectations.

And today, we are very proud to announce the acquisition of an elite brokerage and dedicated truckload company, ReedTMS Logistics.

Our goal with this discussion is to provide you with a historical perspective for the strategic steps we have taken to further balance our portfolio and position Werner to excel in both tight capacity markets as well as periods when our economy is slowing.

Next on slide four, you can see that bottom line results are an essential scorecard for DRIVE.

This shows our quarterly adjusted EPS and the trendline for annual adjusted EPS over the last seven years. The successful execution of our strategic plan has resulted in a consistent track record of improving financial results.

Last week, we achieved record third quarter adjusted EPS, the ninth consecutive quarter of year-over-year earnings growth.

Now, I would like to turn the presentation back over to Derek to discuss our acquisition strategy and history.

Derek Leathers
Thank you, John.

On slide five, you can see that our acquisition criteria are stringent and prescriptive. When considering potential acquisitions, we look for opportunities that bolster, or are complementary to our core portfolio of truckload transportation and logistics, either through geography or capabilities.

The acquisition price of the target must be reasonable and accretive to our earnings in year one.

We are biased toward companies with a strong service and safety profile, and their company culture must be aligned with our own. We search for strong and experienced management teams that highly value their professional drivers, associates, contractors, customers, and suppliers.

And as we've seen with the acquisitions to date, Werner's scale allows the acquired company to benefit from our purchasing power and operational synergies.

We perform extensive due diligence to validate assumptions, focusing on the outcome of being better together. With the four acquisitions we have completed to date, our team has fine-tuned our due diligence, synergy identification, and integration processes.

Each of these acquisitions met our strategic criteria and are consistent with DRIVE.

Our first acquisition in July last year was ECM, based in Pittsburgh. ECM is an elite and highly profitable regional fleet with 500 trucks operating in the mid-Atlantic and Northeast. We've been able to grow ECM's fleet and retain its talent while implementing cost saving measures.

Our second acquisition a year ago was NEHDS, a leading and growing final mile home delivery company based in Monroe, Connecticut, and operating in the Northeast and Midwest. We combined NEHDS with our existing Final Mile business and rebranded it as Werner Final Mile. We have had recent success growing Final Mile, by both growing business with existing NEHDS customers and cross-selling new dedicated final mile business with Werner core customers.

Last month, we closed on Baylor Trucking, a premier truckload carrier with an impeccable safety and service record. Baylor has been in business for 76 years and has expertise in serving expedited and high-value pharmaceutical shipments. As our third acquisition, the initial cost savings measures with Baylor were implemented in days, not weeks.

This morning, we announced the acquisition of ReedTMS Logistics, a freight brokerage and truckload carrier, with particular expertise serving customers in the stable and growing food and beverage verticals.

The ReedTMS transaction details are highlighted on slide six.

ReedTMS was founded by Mark Reed Sr. and has been led for many years by his two sons, Jason Reed, CEO, and Mark Reed, Jr., President and Jordan Strawn, Chief Operating Officer.

During the last several months, I spent time with Jason, Mark and Jordan. In addition to complementing our business and adding scale, the ReedTMS team also shares a similar culture as both organizations put a very high value on the significant contributions of all of their associates, customers and carriers.

Similar to other acquisitions, the ReedTMS management team and their talented associates will remain with the business. They are a highly performing company and are proud to have ReedTMS join Werner.

ReedTMS generated revenues of $372 million for the last twelve months and produced strong revenue growth, with a CAGR of 28% over the last five years.

On a trailing twelve-month basis, Werner Logistics and ReedTMS produced $1.1 billion of combined logistics revenues.

The acquisition price was $112.4 million, including a $7.5 million earn-out based on 2023 EBITDA. We financed the acquisition through our existing credit facilities.

Since its founding more than 25 years ago, ReedTMS focuses on operational excellence with industry-leading service, becoming an integral part of their customers' overall strategy with comprehensive value-added solutions. Reed's top 10 customers average eight years of tenure.

Going forward, the ReedTMS brokerage financial results will be reported in our Werner Logistics segment. Their trucking financial results will be reported in our Dedicated business unit within TTS.

ReedTMS generated brokerage revenues of $333 million and truckload revenues of $39 million for the last twelve months.

ReedTMS will continue to stand by their existing customers by providing them with excellent service going forward, with the full support, capital and commitment of Werner.

Turning to slide seven. ReedTMS has four brokerage branch offices in Cleveland, Birmingham, Philadelphia, and Miami, as well as two operating centers in Florida and Wisconsin. They have an extensive carrier capacity network with 19,000 active and 70,000 approved carriers.

90% of ReedTMS revenues come from freight brokerage and 10% from truckload, with 130 company trucks and 775 trailers. Nearly two-thirds of the revenues are contractual, with the remaining one-third transactional. They have significant expertise in refrigerated brokerage, which generates nearly half their revenues, and the balance comes from 42% dry van, and 11% flatbed and other.

We're excited to welcome the entire ReedTMS team and its growing business with winning customers to Werner.

On slide eight, here's an overview of our combined pro forma numbers, including the Baylor and ReedTMS acquisitions.

Annual combined company revenues for the last twelve-months grows to $3.6 billion. The annual run-rate for Logistics revenues increases to $1.1 billion.

Our asset-light Logistics mix as a percentage of total revenues grows from 23% to 30%. With Baylor's 200 One-Way trucks and the ReedTMS 140 Dedicated trucks, the TTS fleet grows to over 8,900 trucks with 62% in Dedicated.

ReedTMS focuses on the more stable food and beverage vertical, which will increase the percentage of our revenues to nearly 19%. These two acquisitions provide further diversification within our customer base.

It's an exciting time at Werner, as we continue to capitalize on our competitive advantages, and further execute our DRIVE strategy.

At this time, I would like to turn the call over to the operator for a few questions.

QUESTION AND ANSWER

Operator
(Operator Instructions) Our first question comes from Tom Wadewitz from UBS. Please go ahead.

Tom Wadewitz
Yes, great. Thank you. Good afternoon and congratulations on the acquisition. Derek, I was wondering if you could give a thought, on the trend in the ReedTMS business. Brokerage has had a great run the last two years, but obviously there's been pressure on spot, and some pressure on 3Q results that some of the other brokers in 3Q had. You gave us the trailing 12 months, any thought on kind of the momentum in 3Q and how we ought to look forward for the way Reed is performing? Thank you.

Derek Leathers
Sure, Tom, thanks for the question. Thanks for calling. Clearly, I want to start by saying this acquisition is done for strategic purposes, and with a much longer-term view than any cycle or quarter.

But I will point out that one of the things that really excited us about ReedTMS is their agility in changing markets. So not just the market that we're going through today, and we all know that there are changes happening in the market currently, and they're not going to be immune completely to those changes, nor will any other logistics company. But their ability to be agile and adapt to those changes quickly is very impressive. So, in short, what I would say is that they're managing the transition well. They continue to perform very well.

And as we thought through the acquisition, everything from purchase price to what it means from an accretion perspective, it was under the assumption throughout that we knew where we were at in the market. We knew the market would be changing. And the terms of the agreement reflect that.

With all that said, we like our chances as we integrate these two logistics organizations together. And having been down here in Tampa all day working with the ReedTMS team hand-in-hand, the opportunities for cross-selling, for operational efficiencies and other items have only been enhanced now that we've been able to work in the trenches and in the rows with the actual teams. So, I'm excited about the future.

Operator
The next question comes from Chris Wetherbee from Citigroup.

Chris Wetherbee
Hey, great. Thanks. Good afternoon, guys. I was wondering if you could help a little bit from either a margin perspective or an accretion perspective Derek. I just wanted to get a sense of you know maybe how to think about this. Should it be roughly in line with the margins of your core Logistics business? Is there any reason to think that some of the end markets that they serve are either more profitable or less profitable?

Derek Leathers
So, John, you want to take that?

John Steele
Yes, sure, Chris. Good afternoon. Yes, ReedTMS is definitely profitable and generates EBITDA. We are not disclosing the margin percentages. We are confident that the purchase price we negotiated based on the margin level they are producing is an appropriate and fair price. And they've had strong performance over the last 12 months and based on the agility and ability to adapt that Derek mentioned previously, we expect them to perform well going forward.

Operator
The next question comes from Allison Polinak from Wells Fargo.

Allison Polinak
Hi, good afternoon. Could you talk to any of the best practices, maybe on either side, that the platform combined can leverage going forward, whether it's capabilities or technology? Any thoughts there?

Derek Leathers
Sure, Allison. Thanks for the question. The list is fairly comprehensive, but I really would probably most point to the fact that we have very little overlap in our customer bases today. They are very good at what they do, and they are really a leader in that food and beverage space and particularly doing work in the temperature-controlled side of the brokerage market. If you look at our customer

base, we have needs across our portfolio for the very products that Reed excels at, and frankly vice versa.

So, as we have been talking, I would tell you that I think the biggest opportunity is the ability to cross-sell across two portfolios, and the welcome reception we have already received from several of the key ReedTMS customers in conversations that have been ongoing today. My voice is giving out a little bit already at this point in the day from how many conversations we've been having internally and externally, but the excitement has only grown as the day has worn on.

From a technology perspective, clearly, over time, as we continue our development of Mastery in our transition to the MasterMind cloud-based product, we think there are synergies there. They currently run a very strong McLeod system and it operates very efficiently and so we are not looking to stop that.

On the asset side, in those 140 Dedicated trucks and 700 plus trailers, there are opportunities from a purchasing perspective, refreshing the fleet, fuel cost savings and others. And so, really there are lots of line items up and down the P&L where we think there is opportunity to take cost out while increasing service and collaboration across our two businesses. So, again, it's an exciting time.

Operator
The next question comes from Jack Atkins from Stephens.

Jack Atkins
Okay, great. Good afternoon and thank you for taking my question. So, maybe thinking about the temperature-controlled side of brokerage for a moment, it's not a piece of the market that I think we really have a lot of exposure to from a public company perspective.

Could you maybe just talk about the cyclicality of that particular piece of the market, and then as you sort of look forward, is there anything that's coming, either in terms of investments inside of Werner, or just within the market more broadly, that make that a particularly more attractive piece of the transportation market for you guys in particular?

Derek Leathers
Sure Jack. Great question and thanks for calling in. I will start with this. I mean, today at Werner, we operate a…what is really a fairly significant temperature-controlled fleet, both in trailing equipment as well as power units. So, we have experience and knowledge in temperature control. We have a growing and improving best-in-class brokerage platform.

But what we have learned through this process, and we continue to gain confidence in is, although there is cyclicality in that refrigerated brokerage market, if you're good at what you do, and you have the diversified customer base to support it, you basically…they really have developed a track record of fitting the puzzle pieces together similar to what we do in Dedicated. And so yes, there are times in the year where produce season surges in certain markets, but there are other times where there are other products that move by those same modes that surge as well.

I'll probably stay away from too many details here other than to say, we like what we see, and we love the way they have driven cyclicality out of their business. And we have confidence as we go forward, and when combined with our asset support, that we might be able to even drive that further.

So it's, again…it's not to be redundant, but it's an exciting time as we have continued to dig into this and it's one that we are really pretty enthused about; putting this last piece in our brokerage puzzle as it relates to capabilities and then expanding it with the cross-selling capabilities given the very different customer base that we work with today.

Operator
Our next question comes from Scott Group from Wolfe.

Scott Group
Hey, thanks, guys. So, I know it's tough to analyze an acquisition without having some sense of the multiple you're paying. Any color on the EBITDA multiple, either trailing or expectation for future or maybe asked differently, if we're estimating about $0.10 of accretion net of financing, is that in the ballpark? Any help you can give us would be helpful?

Derek Leathers
I'll refer that to John. If you want to answer that, John?

John Steele
Yes, Scott. I really can't be too helpful here with accretion estimates. I can tell you that Reed is profitable. They've definitely improved their profitability through the last year in a strong market. And one of the things we liked about Reed was that, when markets soften, they also perform well because of their balance with two-thirds contractual as opposed to one-third transactional. And with this mix, we will now move our truckload brokerage mix for the company on a pro forma basis to 50% contractual, 50% transactional over the last year.

Operator
The next question comes from Ari Rosa from Credit Suisse.

Ari Rosa
Great. Thank you for taking the call. Derek, maybe you could talk about the extent to which you anticipate this as a signal of a wave that M&A is maybe to follow, whether for Werner specifically or across the transportation space.

What I was hoping you could talk about what your appetite is in terms of how much leverage you could take on, how much capacity you think you have to look at bigger deals? And what you're seeing in the marketplace in terms of opportunities coming up, maybe in greater abundance, as we go through a challenging period here in the freight market? Thanks.

Derek Leathers
Sure, Ari. Thanks for the question. I would tell you that, we've been fairly active over the last couple of years, at least by Werner historical standards for certain. But we feel really good about the four acquisitions that we've made and how they fit into the portfolio. If you noticed, and one of the reasons we spent the time we did on opening remarks, was to really draw out a little more color and a little more background on the why of each of them. And the reason that I wanted to do that was to share that we're not looking to just become a roll-up company. And we're not going to stray from our stated objective, which is to always grow and invest organically in this business, first and foremost.

At the same time, when the right opportunities come along, and you see something that you think can not only make us better, but make us better together with the acquired company, we're going to take it seriously, and we're going to look at it.

This particular acquisition, as well as all previous ones, were funded through our existing credit facilities. We have already actively begun the process of expanding the credit capacity over the next several weeks.

But with that said, I would tell you that it's my goal right now, especially at where we're at from an economic backdrop, and where we're at in the cycle, to really focus on making sure the integration, the synergy identification and implementation, and the cross-selling that I've been talking about, has an opportunity to flourish.

So, no, I don't believe that you should expect that we're going to be equally active in the next two-year period as we were in the past two years. But at the same time, we will absolutely be open for business with eyes and ears open, and always looking and exploring ways to make us better.

You know, I talk about it a lot, but I expect excellence around here in everything we do. And that's a journey that really doesn't have a destination, because you always can improve. So, we'll look for those opportunities and if we find one, then there may be more.

But I'm not really in a position today to signal any kind of goal setting around number per year or per quarter…or even per five-year period. Because right now the heavy work begins relative to making sure that this integration goes well, our customers are excited, and they feel the benefit of the work that we've spent on putting this portfolio together.

Operator
The next question comes from Bert Subin from Stifel.

Bert Subin
Hey, good afternoon, and thanks for the question. The opportunity at least seems here for ReedTMS on the brokerage side, would probably be to increase digitalization, automation and Power-Only, or at least I imagine those are your logistics aspirations. Can you talk about how this deal fits into, you know, those stated objectives?

Derek Leathers
Sure, Bert. First off, you are right. We are actively engaged in working towards a more digital world with more automation. We have got significant amounts of our business now moving on our new Mastery platform and the focus of that migration has been, first and foremost within our Truckload Brokerage operation.

What ReedTMS brings to the table is a significant set of capabilities, contacts, relationships with customers and carriers alike, that add to that portfolio of services. And then you mentioned Power-Only and that is clearly something that we see great growth potential for, and even more so, as we add their very capable network of brokers, offices and personnel to the mix.

They have been doing great work essentially with one hand tied behind their back. It's a mid-sized broker with high quality results, but doing so without the asset backing that they now can really count on relative to Werner, and obviously with the same capital constraints come with every company of their size.

So, at this point, when we put these two things together, the whole better together theme really bubbles up to the top and it's something that gives us the belief that our Brokerage business becomes significantly more relevant overnight. Our ability to take both our business, their

business, and let the best idea win, is something that we are committed to. And there are things that we think that they do as well or better than us, and vice versa.

And so, we will have those debates and we will look to find ways to cross-pollinate those best ideas, as well as people and human capital as well. So again, excited about the future. We think this gets us one step closer, and as we bring not only all of our business units under one digital platform going forward, as you think about doing the same with these acquired companies, that's when the synergies get real interesting very quickly and our ability to serve our customer even improves further. So, it's an exciting time here at Werner as we look forward and I'm looking forward to this full story playing out.

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

Analyst
Hi, it's Adam Roskowski on for Ken Hoexter. Thanks for taking my question. Maybe just getting back to the contract exposure. John, you mentioned, it would bump this to about 50%. Where do you see this evolving up to, maybe 65%-70% like some of your peers? Any thoughts around that? And then just more broadly, maybe just from a non-asset, and asset-based exposure, how are you thinking about that evolving over the next three-to-five years?

John Steele
Thank you, Adam for the question. In terms of evolving the 50% to 65% to 70%, that's not a planned strategy. However, we were pleased to bring ReedTMS to the table to increase our contract percentage.

The non-asset side of our business is growing from 23% of our total business to 30% of our total business now. That's part of our balanced revenue portfolio strategy that we've been working hard on. And like with our trucking business, we prefer a contract business that is longer-term, more stable and predictable, like our Dedicated business, which is also stable and predictable.

So, I expect we'll continue to work towards a contract business at least at that 50% level, while at the same time being cognizant of markets that are strong, where having a transactional exposure is important to take full advantage of opportunities that come with transactional pricing.

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

CONCLUSION

Derek Leathers
Yes, thank you. I just want to thank everybody again for joining the call today. It means a lot because you spent your time with us. It's an exciting time at Werner, and as we talked about during the presentation from a pro forma basis, Werner plus the recently acquired companies of Baylor and ReedTMS sets the stage for us as we go into next year with $3.6 billion of total revenues with the Logistics business over $1.1 billion, 8,900 trucks, and yet remains and retains our commitment to Dedicated with 62% of our trucks being in Dedicated post these two acquisitions.

We're particularly excited about adding the capabilities of ReedTMS to our business and their industry-leading focus on the temperature-controlled brokerage space, and their ability to execute with the best of any company out there in that space. I'm excited that we've built this portfolio to endure a variety of economic cycles. And as we all know right now, as we're in a time of some economic slowdown, we believe the Werner portfolio has never been better positioned. And I think this acquisition even adds to our confidence in that statement.

I thank you for spending time with us. I look forward to the future as I've said a couple of times on this call. I look forward to the story playing out. Thank you.

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