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Werner Enterprises: Derek Leathers, Chairman and CEO
Heartland Express: Chris Strain, CFO
UBS Analyst: Tom Wadewitz

Tom Wadewitz
We're ready to go ahead and get started with our truckload panel. We have Heartland Express and Werner, and we're going to bounce back and forth between them. We have Derek Leathers, the Chairman and CEO of Werner with us. Thank you for joining us, Derek. Chris Strain, who is the CFO of Heartland Express.

We are going to talk about trends in truckload and what's happening at Werner and Heartland. If you do have any questions, let me know along the way, raise a hand or you can send in with a QR code, you can send a question to the iPad. But a lot of interesting things to talk about in truckload.

Let's start off with Chris, if you want to offer some thoughts on what you're seeing in freight market? What's the trend look like in 4Q? Are you seeing some seasonality into peak season? What are you seeing?

Chris Strain
Yes. I would say, generally, you take it back to COVID, very high demand, a lot of turndowns, a lot of freight we couldn't get to. A week during COVID, September of 2021, turned down 15,000-plus loads a week. And right now, we're turning down maybe 500. So that's a pretty sharp contrast to where we were to where we are. It has gotten a little bit better. There seems to be the conversations with customers are a little more positive. It's not all cut your rate, cut your rate, cut your rate, seeing some increases in there.

We've also seen some people that made some decisions probably in the last two years to go away from us basically being an asset carrier, non-brokerage type outfit, that some of those are starting to come back. Some that have lost some capacity with some of their carriers going out of business, mini bids coming up, and we're basically in the throes of getting right into contract season.

But those conversations have been a little bit more positive in that regard and we have seen some freight pick up a little bit. I know Derek will have his thoughts. I mean from a peak season, last two years, peak season was noneventful. I mean it was muted. So, we might see a little bit more this year, but I'm not expecting a whole lot more than what we've seen in the past.

Tom Wadewitz
So, you're seeing some seasonal pickup in activity if you look at kind of October, November, current condition.

Chris Strain
A little bit, but nothing that would say it's just going like gangbusters out there. Yes, a little bit of a pickup, not a lot.

Tom Wadewitz
Okay. Derek, what are you seeing in terms of freight trends? And is there some seasonality? How are you thinking about trends and peak activity?

Derek Leathers
Yes. My commentary will be similar. We've certainly seen a difference this year from maybe what we've seen in the last couple of years. But by no means am I calling it a complete turn at this point. We have seen opportunities. And I'd remind the audience that we're roughly 60% retail exposed. And so, we always participate probably a little more in peak activity than maybe some others just based on our customer mix.

What we've seen this year is something that looks a lot more similar to pre-COVID in terms of the seasonal uplift that's come along with kind of the close of the year and the preholiday shopping, et cetera. That's encouraging, I view it positively. Same comments really on customer interactions and conversations. They're more constructive right now than they've been in a couple of years, but a lot of work and a lot of ways to go.

The opportunity is in front of us right now. I do believe we're still seeing some attrition taking place that's further constraining the market over time. But I've said throughout some of the one-on-ones today that to me, the big equalizer, the thing that's really showing the most promise in my mind is inventory levels coming back into balance and now getting into a more normalized replenishment cycle. That's helpful. And then the supply side of the equation, the attrition being kind of the second big factor.

What's a little tough, I think all of us just are cautiously optimistic, but it's a little tough because we do know, obviously, there's some degree of noise relative to some of the demand because you had some pretty big hurricane activity that took place to kick the quarter off. You had some of the strike noise on the East Coast that caused some reactions out of some players in the market, relative to pull forward.

And then potentially, in this mix, you've got a little bit of pull forward from tariffs, although I personally don't subscribe that that's much of the demand equation right now at all. And if anything, I think it maybe influences positive demand trends as we open up early into next year. But overall, similar comments to what Chris was talking about.

Chris Strain
And I would just layer on to what Derek said in the pockets around the country, certain pockets are better some weeks than others, like Midwest, I would say right now is pretty good. Southeast is still slowish to sluggish a little bit, and the West Coast hit or miss. But not all of them are hitting at the same time. It's one week, one is good, then it's back down in the next week. Some other market is -- we're overbooked in some other markets. So, it's just kind of hit or miss right now.

Tom Wadewitz
How long do you think the hurricane impact, two different hurricanes, but how long do you think that impact lasted on tightening truck in Southeast?

Derek Leathers
Yes. So, some of the exposure we had in the kind of book of business we work with, it was certainly impactful for a couple of weeks. I think the lasting or longer-term impact is all the rebuild that's going to have to take place, and that's pretty significant. So, I think there's some lift that will be embedded now throughout 2025 as you start that rebuild process and the widespread nature of some of the damage and infrastructure nature of some of the damage. That will take a bit longer than normal.

So that's all constructive as we think about the out quarters as we look forward. The other thing that was mentioned earlier that I think is constructive right now is sort of an increase in mini bids and shorter-term duration activities. And as I've stated previously, people don't do mini bids just to do them.

That freight wasn't new freight generally. That's freight that's starting to come back into their network that's not being covered, whether it's bankruptcies or attrition in general or folks moving those trucks to greener pastures, that's what's creating those mini bids. And so, as that uptick continues and as we see more signs of it, as it leaks into 2025, that's when it becomes even more encouraging because it's not just peak related. It's bigger than that.

Tom Wadewitz
So, when have you seen the kind of uptick in mini bids?

Derek Leathers
So, from our side, we started seeing some of that in Q3. Obviously, it's continued into Q4. Again, Q4 mini bids can, at times, reflect nothing more than trying to offset some additional volumes that are part of peak. But in many of these cases, you can kind of tell the difference based on lanes and densities of those lanes. And I would tell you that it is certainly being influenced today by some of the exits, some of the bankruptcies and some of the abandonment issues that go along with people looking for greener pastures. So somewhat said differently, you cut too deep on some of these rates, and it does come back to haunt you. And I think that's starting to show itself now at the shipper level.

Chris Strain
Yes. And I would definitely agree with that. And I think the other part of this is over the last two years, they've come at the carriers and said, cut your rate, cut your rate. And then they found people to cut their rate, and they chased rate. I don't disagree with that's what they wanted to do. They could definitely get it hauled for cheaper. But I believe that there are carriers that bid some of this freight, not knowing what their cost structure was, took them a while to figure out, I bid it to buy the business per se.

Now they're struggling with it because they can't make it work and then they're going back or the shipper is sitting there saying, no, I'm just going to put it back out to bid. Service is another component that plays into that. Are they getting service, okay? Is there a lot of failures on the lane? Is it hurting them from a business perspective? So, all of those things play into, like Derek said, they're not just going to do a mini bid to do a mini bid. There's a bunch of different reasons that probably collectively make up the reason to do that mini bid. But the fact of the matter is they're coming back not in their normal contract cycle, saying – hey, I need some help here.

Tom Wadewitz
Right. Okay. That makes sense. That seems like that's fitting in well with the broader cycle improvement and giving some evidence that we're moving the right way. Derek, what about project freight? That's something that you mentioned that you have a lot of exposure to retail and consumer. Are you seeing the kind of level of project freight activity that you had anticipated?

Derek Leathers
Yes. We talked about on our Q3 call that we expected this year's peak to be a little higher volume and a little more opportunity from a price perspective than a year ago. That has certainly shown itself to be true as we've gotten deeper into the quarter. So, we're comfortable with where that is sitting at this point. There's some opportunity for the upside because we have really two different sets of project/peak freight. One set largely materializes and completes prior to Thanksgiving. And then there's a second wave of shipments that happen between Thanksgiving and call it, the third week or second week of December.

We're in that second phase right now. It's holding up pretty well. Forecasts look pretty good. So, we feel pretty good about this being back to like normal seasonality. So, nothing as robust as what we saw during COVID, but that project opportunity freight looks an awful lot like pre-COVID days in terms of normal seasonality.

Tom Wadewitz
Okay. So, you saw pre-Thanksgiving, you did see the project freight materialize, and you think it will materialize in the next, whatever, two to three weeks as well? The second wave?

Derek Leathers
Correct. Different sets of customers, different types of customers ship in those two windows, but yes.

Tom Wadewitz
Okay. Great. How do you think about the pace of attrition? I feel like that's been something that's surprising to me. Maybe it should not be surprising. I've followed the industry for quite a while, and you have both been in the industry for a long time. And so, I guess in the downturn, rates go down and you think that capacity will exit, but it just seems like it takes longer.

I know there have been some idiosyncratic reasons this cycle. But what do you think about what's been happening with the pace of attrition? And does it continue at kind of a similar pace? And is that a component of the further improvement in 2025? So just some kind of broader thoughts on capacity.

Tom Wadewitz
Derek, why don't you start?

Derek Leathers
So first off, yes, it's definitely taken a lot longer than I think any of us would have expected. I think we largely underestimated the amount of cash that was accumulated during COVID and the sort of slush fund of the stimulus money that went into many of these small regional carriers. Few, if any, of the large

publicly traded crowd really participated in any of that stimulus money, but that doesn't mean that 90% of the industry didn't, because they're all much smaller carriers.

So, they have several sources of excess cash. They've burned through it largely at this point. We've seen ongoing really two years straight now of week-over-week-over-week attrition. It's been slower and more methodical than we would have expected, but nonetheless, it's real. I think the piece that I'm most excited about is really it's been now, call it, a quarter-and-a-half or so, where both the BLS data, so the employment line is also going down as well as the registration of carriers is reducing. So, they're not transferring from being independents back into fleets because fleets aren't hiring at that level and not looking to grow in this rate environment.

And so that's when it starts to show itself. And I think that's exactly part of the equation that is showing itself in terms of everything we've talked about until now, whether it be mini bids, normalized peak, opportunities for projects. All of that plays into it because in an abundant capacity situation, that freight still moves. It moved last year; it moved the year prior. It just moved through general means. And now you've got to package it up and make sure you garner some sort of support for it when you have these outsized volume months. And we're happy to participate in that and have been doing so with some success this quarter.

Chris Strain
And then you can find drivers now because they're moving around. When drivers move around is when freight is slow. So, we could grow the fleet right now if we wanted to, but it doesn't do us any good to grow the fleet right now because we don't have anything for them to do. And so, we talk about the driver side of it.

The other thing is it was earlier in November, late November, the kind of the drug clearing house is now being published through all the state DMVs. So, some of these people that may have been flying below the radar per se, on their CDLs, some may come out. So that may cause a little bit of a wave of some drivers coming out, tighten the driver market up a little bit. If they're in that camp, those are the right ones to come out of the driver market. So, some of that could play into it as well.

And when you talk about COVID, we never saw a period and then why it's taken a little bit longer is the high that we came off of. I mean it was a high of all times. So, I agree with Derek. I personally underestimated. I figured, well, if they got it, the money was in their pocket, they spent it. And they didn't have these reserves. But obviously, that's a little bit different. I think there's also been debt. When you look at the debt side of this and some of these carriers that are out there, the banks, the OEMs, my belief is they've extended terms to these guys.

They haven't called debt maybe as quickly as maybe they should. I don't know what the amount of bad loans are that they're sitting on, but they've kind of kicked that can down the road a little ways as well and kind of helped keep some of the lifeline going, whereas all things being equal in a normal, whatever normal cycle is these days, that some of them may have gone out sooner.

Tom Wadewitz
So, if I think about next year with a degree of optimism. I don't want to be ahead of things, but eventually, freight is going to pick up. And it seems like there's a backdrop where capacity given a fairly long period of attrition, rate picks up a bit, you can get some rates moving the right way. And I think you've already been getting rates moving the right way, incrementally, I don't know, 2%, 3%, right, like you're getting on some contracts.

It doesn't seem like it's enough to help the broader industry or to offset attrition. So do you think it's reasonable to say, hey, you can run kind of six months into 2025 with a setup for an improving cycle and still have attrition taking place. Is that reasonable?

Derek Leathers
Yes, I believe that's very reasonable. I mean some of these folks talking about lender leniency that Chris mentioned, I mean, it's real. We've talked to several carriers that we just know over years in the industry, you develop relationships with small and midsized carriers. And some of what they've seen is just significant lender leniency, but there's no coming back from where they're at. If you've been interest-only or in some cases, even more extreme, you're eight months, ten months in the arrears on truck payments, the market is not turning fast enough to save some of those folks.

So, the attrition, I think, will continue. I think you'll see it well into probably middle of next year before those that then make it have made it far enough that they'll probably get out the other side. As that happens, yes, rate will start to go up. We saw that in our Q3 results. I mean, for the first time in a long time, we were year-over-year net positive on rate per mile.

Now that's some ugly comps we're comparing to from a year ago, and we've got a long way to go to make this re-investable. But we're working every day at that, and we're pretty excited about what 2025 looks like as it relates to getting the trajectory of that turned around and going in the right direction.

Tom Wadewitz
Right. Okay. Makes a lot of sense. If I go to a little bit more in 4Q, how do you think, maybe for both of you, is there enough of a seasonal pickup to see margins up in 4Q versus 3Q? Or are there other factors that are offsets that we shouldn't necessarily anticipate that?

Chris Strain
I'll just say fourth quarter, you have Christmas and New Year's on Wednesday. It couldn't happen on a worse day. I mean, because it's right in the middle of the week, a lot of drivers come off the road. Shippers will have all kinds of different schedules during the last couple of weeks of the year. There's some pickup so far. October was a good month. November was pretty good, but then you have Thanksgiving in there that kind of screws up that last week of the month and then you get into later December.

Orientation classes become a challenge when you bring in drivers to seat trucks. Because of the timing of the holiday, can you get them in, get them out. That's a challenge. But top line will definitely be impacted for us, specifically in the fourth quarter just because of kind of how the holiday falls. And I don't think the

pickup in the other things in quote-unquote peak season is enough to offset kind of disruption in the last week or so of the year.

Derek Leathers
Yes. I'd concur. The calendar is a problem, just the way it lays out this year. It's difficult. We did mention even on the call that we do expect some sequential improvement, but it's going to be marginal in that, one, you've got the calendar working against you. The other thing is we still have the reality of negotiated freight that took place in Q2 or Q3 that you're living with in Q4 prior to the fact that the market was more supportive of a better rate structure. So, there's headwinds that are countering some of the tailwinds of the peak demand and what we're seeing there. In our case, the net of the two will be positive, but it's not going to be a big material shift from Q3 to Q4.

Tom Wadewitz
Okay. So, it sounds like it's probably broadly playing out similar to what you expected. Is that fair, Derek?

Derek Leathers
Yes, I would say that's fair. I would say again, the peak stuff is probably a little better than what we expected. Some of the headwind and the realities of pre-negotiated rates and then volumes on those rates creates a little bit of headwind to that peak activity I was talking about. And then the cost of peak, the cost to serve is a little bit elevated because I'll go back to something Chris said earlier, these pockets have been pretty pronounced in certain areas. So, your cost to serve when you step up, yes, you get more money, but you spend more too to get there. So those all kind of go in the soup. And so marginal kind of increase in earnings would be where our head is at, and those are the puts and takes.

Tom Wadewitz
Marginal increase in earnings and in margin sequentially?

Derek Leathers
Sequentially. Yes.

Tom Wadewitz
Okay. Chris, what about you? Is it kind of playing out similar to what you might have expected?

Chris Strain
I would say for us, a little more on the gain side of our equipment in the fourth quarter. So that will help us a little bit marginally. But without those gains that are looking at our operating performance without gains, our OR is probably flat to maybe a little worse in Q4 because of the holiday and how it impacts us.

Tom Wadewitz
Okay. And it sounds like your October was pretty good though?

Chris Strain
Yes, October was for us. I mean, Q3, we were a total OR over 100 in Q3. For the month of October, we had it back under 100. So that was directionally correct, given the two acquisitions that we did in 2022 and kind of where we've been with them over the course of the past two years. So directionally correct, October was very good, but we expected that to be, like Derek said, how the calendar plays out. That was probably the high month-wise in the quarter and then November and December will be coming behind October.

Tom Wadewitz
Okay. So, Chris, if I look at your book, there might be some that's in there that's like pseudo-dedicated. I don't know. Is there some? Or is it pretty much all irregular route?

Chris Strain
Some. I mean not a huge component, 5%, 10%, maybe. And we have some that we would call engineered dedicated. So, it's not one customer. We might package together two or three customers to put a loop together. And then put a driver on it. So, the driver does the same thing, but we've pieced it together internally with two or three customers. But, here's your dedicated guy.

Tom Wadewitz
Yes. So, there you go. We've got two ends of the spectrum. Why do you think, like have you considered, has Mike considered going to more dedicated, right? Because we've seen Werner has been doing this for a while, J.B. Hunt going way back, moved away from irregular truckload. I think Schneider clearly has shifted quite a bit towards dedicated. Knight Swift has some dedicated, I don't know, want to say, 25% of their book, something like that. So, it's still very heavy irregular route. But how do you think about that? Is that something that you've considered to say, well, maybe we do that over time? Or is that something that it's like, no, we do irregular route, and that's just what we do.

Chris Strain
I would say, for us, the margins and where we're really good is still on that irregular route. I mean not to say that we don't sprinkle in or wouldn't sprinkle in dedicated because we do have some of that in there that's true dedicated, engineered dedicated as well. But our true bread and butter is irregular route.

Tom Wadewitz
Right. Okay. Derek, what about you? Do you think there's a limit on how much you get to? Or do you just kind of keep -- and I guess you keep growing Dedicated and then One Way kind of swings a bit. But how do you think about where you want the mix to be over time? And then I guess I think of the Schneider too, like doing some acquisitions like kind of one a year with one that's pretty recent with Cowen, I think, was the recent one. Is that something where you kind of could, or would want to juice Dedicated with acquisitions as well?

Derek Leathers
Yes. So, a few years back, we had talked about we thought at the time, maybe 60% Dedicated was the upper threshold. We're obviously past that now at 66%. We no longer believe that threshold is valid or real. The concern at the time was how do you surge, how do you provide the type of service expectation

the customer has if you're overly exposed in Dedicated, where do you pull the support from? Where does the calvary come from? And I think we underestimated that as you get larger and larger in Dedicated and we have more density, the surge often comes from other Dedicated fleets.

And so, we've realized that, and we've kind of gotten out of the upper limit game. But clearly, for the time being, we're very comfortable going from 66% up to 70%, we'd probably reevaluate. But we're going to let the market decide ultimately, right? So, we're not doing dedicated just to do it. We've got a robust pipeline, but a low win rate because in that low win rate is just as often us backing away as it is a customer backing away because if we feel it's really just sort of One-Way freight masquerading or packaged up to look like Dedicated, we know that will go away in time.

And so, we want it to be true hard to serve, high service expectations, just-in-time type activities that there's a premium associated with and there should be because it's hard, it's very difficult work. But we found a niche in that. We feel like we do it really well. I definitely think you guys should not do it, Heartland, that's a terrible idea for you guys. And we'll just do our thing.

Chris Strain
But I mean, Derek hit on it. I mean it's all about finding your niche. And what is your niche? And once you find what your niche is, stick to it. I mean and really drive into that. For us, it's irregular route, hard to service customers, high value that service, that on-time delivery. That's what we've done. And we've known that over the years, that's the market that has provided us the returns that we want because of the amount of work and dedication and the service levels that go into it. Just like Derek said, like they have a specific what they're looking for to fill that niche and what fits. And it's stick to your niche.

Tom Wadewitz
So, would you think about M&A in Dedicated? I know, just trying to remember, lose track of precise timing, over the last couple of years, you've done some acquisitions, which was very different than historical approach from Werner. So clearly, you kind of move beyond that threshold and said we will do deals. Would you consider Dedicated deals as a factor? Or is it just like, hey, you're really big in Dedicated, just grow organically?

Derek Leathers
We would certainly not exclude a deal because it was Dedicated at all. We obviously believe in what we do. It has to be additive either geographically or portfolio-wise to what we do in Dedicated. It could be different verticals. It could be different know-how that we think this particular target brings to the table that advances or accelerates our learning curve. And so, we'd absolutely be open-minded. I'll remind everybody the four acquisitions we did, each in their own way, were filling what we felt was a gap in the portfolio.

We don't wake up every day right now feeling like we've got some gap in the portfolio. We feel like we like the way our portfolio mix is, especially going into an up cycle. And so now it's time where if we were to do acquisitions, it's about where do you add density. And so Dedicated would certainly be on that list of places that you could grow, add density, but we'd want it to be a quality target that fits our culture, that we think is accretive, that we believe we can kind of grow upon what they've built to that point.

And that would apply whether it was Dedicated or in the Logistics space, non-asset type world, equally. And so, they're both on the list as potential. But right now, it's just a matter of sifting through the right targets to make sure that we feel like we found something that adds value and kind of checks the boxes I just talked about.

Tom Wadewitz
How do you think about the transition of some of the Dedicated fleet attrition to organically growing fleet again in Dedicated? How do we think about kind of Dedicated fleet count 4Q versus 3Q and when it starts growing again sequentially?

Derek Leathers
Yes. So, you saw in Q3, for instance, average Dedicated fleet count was down, but end of period was up because we're starting to see adds come back into those fleets. So often, a Dedicated contract has a plus/minus range that's acceptable within the language. So, a 50-truck fleet might be able to flex down to 45 or up to 55 with no other changes in the agreement.

And obviously, during the last couple of years, many of those flex down. We're going to see those, and we already are seeing those starting to return to their normal level. So that gives you some sort of organic lift inside the existing fleets and then growing deeper with some of the relationships we already have gives us new fleet opportunities. So, all of those bode well for us to be able to kind of look forward and see some growth in Dedicated. I don't think you're going to see a lot Q3 to Q4, and you shouldn't be looking for it there necessarily. But again, the pipeline right now is very robust.

The problem in my view right now, whether it's One-Way or Dedicated or anywhere else, this is not the time to lose discipline as it relates to pricing. And so, as a result of that, no matter how wide and robust that pipeline may be of opportunity, we're going to be more disciplined right now even than we were throughout the year, and we've been pretty darn disciplined all year long.

And so, we're going to have to let it play out. Dedicated has a long tail on it from the start of conversations to closing one can be months, if not many quarters sometimes. And as it plays out, we like how that looks. The last thing I've been asked repeatedly throughout the day is the growth of private fleets. So, I guess I'll just take that on right now. Yes, we know private fleets have been growing. I think the question that people need to kind of ask themselves is the why.

I would argue that the reason private fleets grew so much in recent years is because starting with COVID, they had to. Like even with all the capacity that came on board, even with all the trucks that came into the market, there still wasn't enough trucks to move some of this freight and people that had high service expectation retail-type freight had no choice but to go out and find a solution.

It doesn't mean it's what they want to do long term. It means it's what they needed to do during COVID and in response to COVID. Well, most of those trucks and that growth and that acquisition that happened of assets by these folks in the private fleet environment are now up for renewal. They've got to go buy those trucks again. And I think there's an interesting sort of fork in the road that they're faced with, is that the business they want to be in or do they want to focus that capital on their core business. As many of

them make the choice, and I believe they will, to focus that capital on their core business, that actually opens up more ramps, more entry points for further Dedicated growth.

Tom Wadewitz
So, I'm glad you brought up the topic. It's an interesting topic. Chris, what do you think if you look at like your top ten customers and you say, okay, we know that this customer or that customer has added a lot to their own fleet, right? So obviously, you could think of like Walmart as an example, it's grown their fleet a lot. So that could be one example. But I think other big shippers have increased the private fleet, too, one that Derek works with a lot, right? So, have you seen that in your customers in your top ten that you say, okay, and if so, does that change their behavior, how they interact with you?

Chris Strain
Some. But what we've seen is they'll take it up, they'll bring it down. They'll take it up, they'll bring it down. Given where just the total freight movement is right now, if that freight movement picks up, which we're pretty well bouncing off the bottom still right now. But when that freight does pick up, they're not going to be able to have enough in their own internal fleet. It's just going to pour over into external fleet. So, it's going to come back.

It's just a matter of, okay, when is that inflection point. But will it all come back? I don't know if I can sit here, I can't speak to anybody's private fleet, but I would agree that the private fleets have picked up a little bit. But it's all a product of how much freight is generally moving in the industry. I mean right now, our total fleet is about a full load per driver per week short of where we want to be just from a utilization perspective. So that takes a lot of freight more to come back for us to get to full utilization of our fleet.

Tom Wadewitz
Just to level set on what's the baseline? Like you want a driver to do four loads?

Chris Strain
Probably 4.3 to 4.5 a week.

Chris Strain
We're 3.3, 3.4 right now. So, we're about a full load off per driver per week, per truck.

Tom Wadewitz
So, I guess it is a good question for both of you. How does the, when the cycle improves, pricing can help. Obviously, that is really important. Utilization also can improve. Are they kind of both pretty important levers and you would expect to see them kind of coincide in 2025? Clearly, what you're saying, Chris, is that, yes, I mean, you got drivers and trucks, and you have quite a bit of ability to drive that utilization. So, are those both pretty important levers? Or is it still primarily about price?

Chris Strain
Well, I mean, for us, the more freight you move, the more opportunities you have. And I'll take our turndowns, like I said earlier, when we're turning down 500, 600 loads a week. We need that number to be more like 4,000 to 5,000 a week to really say you've got a supply and demand balance. And when you

have that opportunity, you limit your deadhead, which is a big factor of cost right now because when you empty that load, you're chasing to get to that next load. And we're taking about all the loads we can get, and we're still a load short per truck per week.

So, utilization is definitely a key with a pickup in the market demand comes or more of the carriers come out of the industry. I mean you can get there one of two ways, and it's probably a combination of both. But definitely, that utilization factor also has other implications of just being more efficient with the freight you are hauling because you can fill those deadhead spots.

Derek Leathers
For us, it's a little bit different only in that we've really invested heavily over the last, call it, 18 months on the engineering side of the business. And therefore, that's yielded some pretty significant production gains. And so, look at first quarter, second quarter, you're kind of 9% to 10% up year-over-year in a tough freight market. Q3, we were up 7% year-over-year in a tough freight market.

And so, at this point, what we really want to make sure we do is hold serve and hold that utilization improvement that we've found a way to kind of engineer into the fleet. The negative of all those extra miles right now is they don't pay very well. So, you can run 8% more miles and if you're doing the 8% at breakeven, you're kind of running around chasing your tail a little bit.

Chris Strain
Trucking for exercise.

Derek Leathers
That's right. That's exactly. And as rate increases and we get this inflection point that we're starting to see the early signs of, then it really becomes pretty lucrative. Those 8% matter an awful lot. And so, we want to hold on to the gains we've made in productivity. I don't want to act like we're not always going to be digging and driving to find more. But really, for us, as the rate inflects positively, there's real opportunity to see movement and sort of the beginning of the return back to the long-term margins.

Chris Strain
And for us, a lot of our opportunity as well as getting CFI on our operating system, which we're pretty much at the goal line of that right now. So, once we do that, you see all the trucks, you see all the drivers, you see all the moves, you see all the loads you're booking, all of that. That in itself without any market impact will make us more efficient in our day-to-day operation.

Tom Wadewitz
When does that happen?

Chris Strain
Soon. Near term.

Tom Wadewitz
So, in December, you transition over?

Chris Strain
Either by the end of the year, early first quarter.

Tom Wadewitz
Okay. So that's a help in 2025.

Chris Strain
Correct. Most definitely. Yes.

Tom Wadewitz
Okay. I only got a couple of minutes left. I want to get both of your views on kind of best guess on contract rates. If you want to give a range, that's fine. But truckload contract rates, contract season, what do you think? 3% to 5% a reasonable range?

And then I'm guessing, Chris, you don't have a lot of cross-border exposure. Derek, I know you've talked about having a good cross-border Mexico. So, I wanted to see if you could give a few thoughts on like how do we frame that just related to tariff risk and if there's some kind of slowing in trade activity. So, I don't know, if you want to offer the thoughts first, Derek, and then come back to you, Chris, for the view on that.

Derek Leathers
Sure. I'll start on the Mexico equation. I mean, look, tariffs are obviously being bantered about regularly right now. But at the end of the day, when you look at the types of products that are moving back and forth across the U.S.-Mexico border, there's very little of that that's sort of discretionary. I mean it's stuff that you have to have to keep the U.S. economy moving, you have to have to be able to keep production flowing at plants on both sides of the border, et cetera.

I think it's mostly appropriately, in my opinion, by the way, threats or pressure being applied in advance of actually implementing them to gain a change in behavior of what was taking place south of the border. We'll see how it plays out. But either way, we have seen a major and steady influx of nearshoring. That's here to stay. There's going to be ongoing investment.

If you look back in 2023, I think they were at $36 billion of direct foreign investment, which was the largest since 2006. 2024 passed that number by July. And so, there is a heavy amount of investment flows going into Mexico, and I see way more to like than I do on the concern side of the ledger relative to a little bit of tariff friction that would likely, if implemented, be short-lived until behavioral changes took place on both sides.

Tom Wadewitz
What percent of your book would you say is cross-border Mexico?

Derek Leathers
So, in our One-Way, it all resides basically in our One-Way group as well as a portion of it is in our Brokerage or Logistics group. So, in One-Way, it's about 1/3, a little less than 1/3, call it, 30% of what we

do in One-Way. And then the Logistics, it's a smaller percentage than that, but it's one of our larger offices we have. And that's where we run a large cross dock at the southern border so that we can create sort of flexibility for our shippers because there is such a trade imbalance. I mean, and it's only gotten worse over the years. And so, you have to create new and creative ways to produce capacity at the southern border and our cross-dock is one of those ways that we do that.

Tom Wadewitz
So, what percent of Logistics would it be?

Derek Leathers
It's low teens.

Tom Wadewitz
Low teens. Okay. Great. And then what's your best guess on rates and contract rates in 2025?

Derek Leathers
Well, we don't give guidance. I'm not giving our own guidance when I say this, but I think mid-single digits is where the market is going to need to go to even have any opportunity for people to kind of see that flow through to the bottom line. I think that's sort of where people's heads are at today. And I think if the exodus was to accelerate and/or demand was to pick up, either of those two, I think then you start talking about something that maybe is more aggressive.

But bear in mind, and this is what always gets lost in translation, I think, even if contracts as you're renewing them are going up by that level, that doesn't move your network by that level because you always have stuff that isn't yet up for renewal. It's not yet part of a bid and mix can play a major role in what happens as well. So, it's going to be a tough slog from here, but the environment is different than it's been for the last few years.

And it's certainly the setup is preferred going into the bid season than anything we've seen really since back in the COVID times. It's not going to look like COVID, but it's a market that sets up well for us to be able to draw the line in the sand and kind of move forward with a better rating.

Tom Wadewitz
Chris?

Chris Strain
I concur with Derek on low to single digits. We're predominantly contract, 99% of our freight is contract freight. All those renew predominantly in the first half of the year. But that's what we're saying today. But if some of those factors change, you could get a little more than that. And they reprice starting January 1, all the way through June. So, it could get a little better as you move in, but time will tell with what all happens here as time plays out.

Tom Wadewitz
What do you expect to get on the business that's coming up that's repriced in January 1?

Chris Strain
Low single digits.

Tom Wadewitz
Okay. So, your view is kind of low to mid-single digits and that kind of accelerates as it goes?

Chris Strain
Those are the conversations that have been taking place before today and today are the contracts that are up for renewal first part of 2025, and then they just keep building on that through the first half of 2025.

Tom Wadewitz
Okay. Great. We're out of time, so we need to wrap things up. But Derek and Chris, thank you so much for the time. Thanks for joining us.

Chris Strain
Thank you.

Derek Leathers
Thanks. Appreciate it.