

Wolfe 17th Annual Global Transportation & Industrials Conference

Werner Enterprises: Derek Leathers, Chairman and CEO

Schneider National: Mark Rourke, President and CEO

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Public Truckload CEO Panel

Wolfe Analyst: Scott Group

Scott Group

All right, everyone, we're going to get going with our next session. I think personally, for me, this is going to be one of the highlights of our conference, just because I think that the opportunity to have panels with two companies is unique and great. Mark and Derek, I appreciate you guys doing this.

So, it's our Public Truckload CEO Panel with two of the real thought leaders in this industry. To my left, we have Mark Rourke, President and CEO from Schneider National, and Derek Leathers, Chairman and CEO from Werner Enterprises. So, I'm going to just pass it to each of you. Just any sort of quick opening thoughts you guys want to share, and then there is lots to discuss.

Mark Rourke

Sure. Why don't I just do a little framing of Schneider?

Scott Group

That'd be great.

Mark Rourke

We're a highly diversified transportation logistics company across really three platforms of Truckload, Intermodal and Logistics. And we serve primarily the consumer and industrial segments of the economy, and we do so at scale in each of those three. Of the 9.5 million miles of freight miles we do a day, we don't have any customer over 5% of revenue. So, it's really highly diversified across the economy.

Within, underneath that, we've been in a little bit of a reshaping in our Truckload segment. We've placed more of our capital into Dedicated contract configurations. We finished the last quarter at 62% of our trucks operating in a Dedicated long-term contract versus the shorter-term Network side of the house. In Intermodal, we're an asset based Intermodal provider, meaning we own our containers, we own our chassis. We do 90 plus percent of our company dray on our assets for control from the customer experience, and certainly, we think it's the best operating model.

And we're aligned with the UP in the west, the CSX in the east. And recently we are the anchor Intermodal provider with the CPKC serving in and out of Mexico, which with the nearshoring and just the robustness of the Mexican market we think that's a terrific growth driver.

And then finally, in Logistics, we are largely a brokerage carrier that has its own freight generation capabilities. So, it's collaborative with our other assets and service offerings, but it doesn't sit there beholding to them. They create their own opportunities. And recently we've introduced a power only service that allows us to use our trailing assets with large trailer pull shippers and tie small carriers to large shippers, which ultimately our goal there is to aggregate capacity on one end and demand on the other, and then optimize across for the customer and for our service offerings.

From a capital allocation standpoint, we've been a continually increasing dividend company. We've done a modest share buyback. We're about \$75 million through our \$150 million authorization there. And at 0.4 times leverage, we still have plenty of powder and looking to not only grow organically in those strategic growth drivers I just mentioned of Dedicated, Intermodal and Logistics, but also to do so acquisitively as we find things that meet our strategic intent.

Scott Group

Fantastic. Derek?

Derek Leathers

Yes, sure. Thanks for having us here. Again, Derek Leathers, Werner Enterprises. A little overview about us. So, we're a North American transportation and logistics company. We segment our business in what we refer to as TTS, which is the combined efforts of our Dedicated franchise, along with our One-Way Truckload group. And then Logistics, which is predominantly similar to Schneider, its Truck Brokerage is the lion's share of the work that goes on in our Logistics business. That's also where we house our Final Mile. It's where Intermodal exists in our world. And that piece of our business now, through some acquisitions recently as well as organic growth is now approaching about \$1 billion business.

Inside of TTS on the trucking side, we're also heavily in Dedicated, where about 65% of our business is in the Dedicated side of our fleet. It would be our expectation that percentage would continue to grow. It's a more stable, durable, defensible piece of the business. We prefer kind of the harder to serve, difficult business that is, again, stickier with the customer, stuff that's truly dedicated. In other words, it's not really replaceable by one-way. It's certainly not replaceable by the spot market.

Inside of our overall portfolio on Dedicated, we're heavy retail, but specifically discount retail. So, we work with a lot of folks that sell kind of consumer non-discretionary items. They tend to be more cycle proof. They tend to do better than others in down markets and then really well in up markets. That has played out as we've been through this cycle, although obviously the cycle has been lower for longer than I think any of us anticipated.

From a capital story, really similar to Schneider, very healthy balance sheet, very good liquidity to be able to execute on any strategy that we see opportunistically is the right one at the time. We have made four acquisitions over the last few years. For various reasons, we will remain open to being acquisitive.

Our first choice always will be to invest back in the business, grow organically, acquisitions will play a role where appropriate, where they are accretive and additive to the portfolio. Share repurchase is certainly something that we consider and look at, and again, looking to be opportunistic there. Our board recently authorized a 5 million share reauthorization relative to that portion of our capital allocation strategy. And we will continue to lean into, as we look forward, really having a balanced portfolio across the network so that as we bring customers in, we can both attract and retain them and keep that revenue in house and be mode agnostic as to where it ultimately lands.

Scott Group

All right, fantastic. I'll start. If you guys have questions, raise your hand. Derek, you made a comment that the cycle has been – the downturn has been longer than you anticipated. I think everyone has sort of gotten this wrong just in terms of the duration of this. So, I mean, I guess I just want to start, why has this been such a prolonged downturn? And ultimately, is it a supply issue or a demand issue? Or maybe it's both. And then ultimately what I think we all want to figure out is when and where is this inflection? So maybe, Derek, we'll start with you and then we'll come to you Mark.

Derek Leathers

Yes, it's certainly been lower for longer. I think there is a lot of things that we can point to that most of us at this point, I think, agree upon. You have to start with how strong and high it was, and how inflated that peak demand was by stimulus and other sort of infusion or external infusion of capital. So, we went from a world where consumers were kind of kept up in their homes, where capital was abundant, being infused into the economy. They had more time to spend and certainly more cash to do so. And so, they did.

That led to a very robust trucking environment, which led to new entrants. We saw waves of new entrants come in at magnitudes we haven't seen before in prior up cycles. We saw an upcycle that was driven not only artificially but certainly externally by external factors such as all these stimulus programs versus sort of the old-fashioned way through productivity gains and GDP gains through that approach.

And we had consumers that, as they were kept up in their homes, simply spent fairly wildly. I think all of that combined, caused a significant increase in small – in an already fragmented industry, it got more fragmented, you had more entrants coming in than we've seen in prior up cycles. Anybody could make money at trucking during that time, and they certainly thought that it was a great time to get in.

But more importantly, as that changed and people left the house, and you had multiple negative headwinds all at one time. You had this shift from goods to services now that they were not pent up in their house. You had the expiration of some of the stimulus dollars and other things which caused some dampening of demand. And as all of that took place, you also had inventories that were both bloated and incorrect. So, it wasn't just that they were bloated, but they had the wrong inventory, in the wrong place, and the wrong SKU's in many cases for the post-COVID consumer. We've had to kind of grind through all of that. And you would think as that happened and as it went lower, you would have seen attrition at a much more rapid rate.

We believe, I don't think anybody knows, but we believe part of what caused that to be further delayed than a normal cycle is all of the stimulus that the carriers themselves were able to take part in. If you're a small business, which is 90% of the trucking industry, you're eligible for a variety of programs. If you partook in all of the above, you had, combined with elevated rates, you probably accumulated \$100,000 per truck level of cash reserves. We think those are burnt through now. And I think as they burn them

through and as this has stayed lower for longer, that's what's leading to early indications of some tightening.

Scott Group

Anything different to add here, Mark?

Mark Rourke

No, I'll just add maybe a couple other influences. Certainly, inflation replaced a lot of – we were buying goods, you've seen a lot of public company reports, particularly in the consumer sector, fairly healthy, but it was more on the price side for our shipper than it was on the volume side.

And I would say, secondly, there has been a bit of a digital revolution through our industry, both at Schneider and how we connect with our trade partners and the visibility of data. Our shippers also have invested in those. And so, there is just a much better understanding of the environment, much better available of information. And so that maybe was a little bit, hurts us in this down cycle, but that also will help us in the upcycle, that we can all pivot faster.

Scott Group

Okay. Derek, you just had a comment, indications of tightening. Can we dig into that a little bit?

Derek Leathers

Yes, I mean, so by no means am I here saying I think we're at a turning point or an inflection point, but I do believe, just like it took a long time to get this low and we stayed this low for this long, it's taken us a while to maybe pick up on some of the signals that are out there in front of us that seem to be more positive. So what I mean by that is whether you look at trucks being posted on a daily basis, and the fact that those are off fairly meaningfully over the last six to eight weeks across most of the multiple applications you can look at for that data.

Or you look at recently, like what we saw during Roadcheck and what we saw, both in our own network as well as some of the publicly available data and what appeared to be a more normal seasonal Roadcheck impact in effect, from our perspective, versus a muted one that you would expect if it was still far out of balance. It has to be somewhat close to equilibrium for Roadcheck to have any kind of meaningful impact. We certainly saw some, what I would call normalized Roadcheck impact. So that's a positive sign.

Overall attrition continues. We look at net deactivations and we study them weekly. That continues to play out, but clearly hasn't played out to the point yet that we have true inflection. And then lastly, I would just say conversations with customers, right. At the end of the day, there's lots of posturing that goes back both ways. But I think those conversations in tone have certainly taken a more positive outlook as we think about the coming months.

Scott Group

Any numbers around the trucks posted or the Roadcheck week? And to me, like one of the keys when I think about Roadcheck week is not what happens that week, it's sort of what happens after. Do you give all the gains back or do you sort of hold on to them? So, any quick thoughts there and then I want to come to you.

Derek Leathers

So, I just have one quick thought on that. While I agree it's really imperative to think about what happens the week after, I think that misses potentially the point of the actual week itself is only a barometer. The barometer that matters, in my view, is if there's no tightness or you're nowhere near tight, then there would be no impact during the week. Regardless of whether you give it back when they all put their trucks back on the road, it still is an indication on a standalone basis for how close you may be to equilibrium. And so, what we saw, and we went back and looked over the last five-year period, was a Roadcheck impact that much more resembled pre-COVID than it did any of the last couple of years. That is encouraging. That in itself is not enough to say that we're at a turn, but it's encouraging.

Mark Rourke

Yes, I'd throw in the weather in the January timeframe as well, where a year ago when we had weather, it was completely absorbed. This year, there was a little more dislocation and some impact even in January.

Scott Group

Mark, I thought on the Q1 earnings call, you had some positive comments as related to pricing and starting to see, I don't know if it was an aggregate comment or anecdotal comment about starting to see some contracts repriced higher? But maybe give a little bit more color here, a few weeks later give an update. Is that trend continuing?

Mark Rourke

Yes, I would think. Again, it's really difficult to over generalize, but I would say to Derek's point on customer conversations. I do think we're at the stage where folks are having a bit more bias towards assets versus maybe going to the farthest bottom line low rate they can get from a broker. And we've seen some of that pivot.

I think customers have told us they probably went a little too far there because it disrupted DC operations and did some other impacts when you're live loading, when you're really a trailer pool shipper. And so, I think that's a sign that at least their projecting what they expect, that we're long in this cycle.

As we came out of the first quarter, I'm really referencing our Network business which is the most volatile relatively pricing piece, is that on average across our renewals, and we're at around 40% as we came out of the first quarter, we had not anecdotally, but on average, slight increases in price on the contractual renewals. Modest low single-digit increases. And we think that's some place that we can build

upon as we get through the rest of the allocation season. So, it's not every customer. Some of those we had increased prices and increased share, some of those increased prices came with less share. But what is important is the discipline we need to have to recover what we need to recover from a compensable rate standpoint.

Scott Group

And that low single-digit increase, that's a year-over-year comment?

Mark Rourke

Yes, off the last renewal.

Scott Group

What are you seeing from bid compliance with that? Or as you put in low single-digit increases, are you seeing the volumes actually move there or you got the increase, but you're saying, oh, there's less volume than I would have thought. And maybe because someone else lowered the rate, which I think as we heard from some carriers a year ago.

Mark Rourke

Yes, I think in general, I think we're much more accurate. The shipper is, they were putting their last year's allocation out versus pandemic level volumes that they really didn't have. It's much more accurate and we're seeing the fulfillment rates be back to what we consider more historical averages.

Scott Group

Derek, are you seeing something similar in terms of renewals as we're going through bid season?

Derek Leathers

Yes. I mean, I think I'll start on the end part of what you were just commenting on, Mark. But we also would say that the bid data itself is better because it's not coming after that post-COVID first cycle where inflated volumes were in the bid that didn't actually exist and were not going to recur. So, it's a better level set of what they actually have to move and we're able to bid it more accurately and actually receive what's awarded at a better compliance rate this year. So that's a positive.

The other positive is that if you go back in 2023, it's a huge year of dislocation, at least in our network. And so, we might go into a bid at \$40 million, come out of a bid at \$40 million, but have 80% churn inside that bid. I've never seen that level of dislocation happening to get back to the same baseline number in terms of total revenue.

And what drives that obviously is that all this transparency that Mark mentioned previously. But shippers are looking for a lane-by-lane level for the best possible opportunity, and they'll move and shift carriers much more aggressively in a market that was as loose as it was a year ago. This time around we're not seeing that same level of dislocation. So we go into a bid, we signal with pricing what we want. We signal with pricing what we want to retain, and we've been able to do it.

Yes, we've seen renewals that are up this year, not across the board and certainly not at every customer. And we've seen less pressure for renewals that are down. Customers are kind of like the weather, it's local. So, I don't want to generalize here, but we do have kind of a tale of two cities. What gets lost in all of this, by the way is, when you say year-over-year, yes, I believe we're talking about the exact same thing, which is contractual renewals, which is different than what your network performance is going to look like because of the lag effect of stuff that was renewed a year ago that hasn't come back up for renewal.

We'll be at 50% complete by the end of the second quarter. We'll have another third in the third quarter, with the balance being in Q4. So, we still have some work to do. It's not quite as front end loaded as it once was, at least in our network.

Scott Group

Derek, do you guys have rate per mile guidance for first half? How are you feeling like you're tracking with respect to that?

Derek Leathers

We feel like we're going to be – well, we didn't update the guidance in Q1 because we feel as though we'll stay within that guidance. We were negative five, we're talking One Way Truckload only, just over negative five year-over-year mostly, some of that lag effect that I talked about from prior renewals. Our guidance had kind of a worst case of negative six. We felt comfortable reiterating that guidance, and we believe that will be possible. And I would tell you that just directionally things feel better in Q2 versus Q1 as it relates to both conversations, bids and outcomes.

Scott Group

Can we talk about sort of where you're seeing spot versus contract, like historically when we start to hear about spot rates above contract rates, then it's pretty clear it's coming, the contract – the pricing is really going to come. Where are we in terms of spot versus contract? Is there – I don't know, you get the point of the question maybe, Mark?

Mark Rourke

Yes, certainly there's still a larger gap there. Again, we generally are playing with trailer pool shippers, which, while it's correlated, it's a different market relative to how spot kind of is evaluated. I will say we are seeing carrier cost creep. Consistent with Derek's comments about Roadcheck and others, that we've

been on a steady, not dramatic, but a steady increase in PT costs across to our Brokerage business, which again, I think is another sign that it's hardening a bit.

But there's still a gap, and there's still probably not a big enough gap even between intermodal and truck as we would typically and historically see, particularly in those markets in the East and Western regional, which has the most truck alternative to intermodal. But again, the carrier costing change I think is starting to have an impact and I think that's reflective of the broader market.

Scott Group

Anything you would add differently there, Derek?

Derek Leathers

No, not a lot. I mean, I'll tell you this. I don't think you're going to see spot supersede contract. I don't think you'll need to see spot supersede contract to see it become meaningfully obvious that this market has turned. Because that stuff that's in spot, again to Mark's point, is not the same work that we do for a living.

We're also in a drop trailer environment, drop trailer pool world. The work we do, even when we work within this 'spot market', meaning it's non-contractual in our One-Way business, we're not pulling that off load boards and at the rates you see in DAT or some of these other places. That's really where the small, fragmented end of the industry is operating. But it is correlated and so we can't ignore it. So there's a gap between that and then what we do in spot versus where contract still remains. But I think the hardening that we're starting to see early innings of is real and will continue regardless of what happens in that more fragmented end of spot.

Scott Group

So, we've got contract, still sounds like, well above spot. But the fact that we're even starting to talk about some increases in contract rates sort of, in your mind, sort of confirms contract does not need to reset all the way to where spot is. It's reset a bunch, but it does not need to reset to where spot is.

Mark Rourke

Yes, it's certainly correlated, but it's not absolute. And I think both of those are evidence of that fact. Certainly.

Scott Group

Okay, you guys both talked about trailer pools, drop hook, I want to spend a little time here, and Derek, I asked you this on the earnings call. I want to maybe explain sort of my thought a little bit more, see where you guys think.

Mark Rourke

He made your earnings call. That's nice.

Scott Group

What's that?

Mark Rourke

You made his earnings call.

Scott Group

You guys overlap so many times. You got me though.

Mark Rourke

I've never seen him without words.

Scott Group

You guys have for every tractor, you have three trailers, give or take. The mom-and-pop trucker has generally one truck, one trailer. And so, for what is a super fragmented, right, you might say somewhat commoditized industry, you guys – the large carriers have a true advantage in terms of you can do drop and hook that someone with one truck and one trailer can't. I'm struggling with the idea of power only a little bit.

And I think, clearly, the customers want it. So, I'm not struggling with that. You're both growing, you've done a great job growing. The customers want it. I don't know why we're sharing that sort of advantage of that tractor to trailer ratio with smaller carriers that couldn't do it.

Why not sort of keep it to yourselves, truly differentiate it versus the rest of the market and price it better? Does what I'm saying make some sense? And I know it's not a huge part of the overall market, but I do feel like we're giving volume to small carriers and in some respects, maybe that's part of what's keeping them alive a little longer. Maybe I'm crazy. It's a thought I've had. I asked Derek, maybe Mark, I'll give you a first shot.

Mark Rourke

Yes. I certainly – I understand. And we thought about those things ourselves, Scott, but when you take the top ten carriers in the full truckload space, somewhere 12% or 13% market share inclusive of what we're talking about here in power only, right. So, to your point is, it's still highly fragmented. We see Convoy go out and see absolutely some gap being filled there with really no issue.

So, to me, if we don't do it, somebody will. And when you look at our strategy of aggregating as much demand on one side, as much capacity on the other, and using our technology then to optimize for the customer, but also optimize for optimal returns for Schneider, while we're meeting that customer spec. We think – I think, personally that strategically the right advantage for our company is to have as much capacity options and as much demand options and go to market with that.

Scott Group

And do you feel like, are there a lot of large but private fleets doing power only as well or is it more really isolated to the public carriers?

Mark Rourke

Yes. Could people be playing in power only around the edges. We even use that in Dedicated to help on some surge activity at times. But I think largely, it's a handful of carriers, predominantly at the large carrier standpoint, that have a large amount of assets and have the technology available to do that right, from a pricing standpoint, the acceptance standpoint and the optimization. So, to do it at scale, you have to have the underlying technology to do it as well.

Scott Group

Derek, now that I've maybe explained my thought a little bit better.

Derek Leathers

No, I knew your thought the first time. And look, our answer is not dissimilar from what Mark talked about, so I'll try to be additive to the answer. But just a couple of other things would be, I think, at the premise of the thought there would be this assumption that if we didn't do it via power only, and maybe you could get a little incremental pricing, we'll just play that argument out a little bit, then we still would then turn around and have to do it on our own assets. And the reality in One-Way, and the cyclicity of the One-Way business, at least from my view, is the shippers have voted and they do not put the reinvestable value on that part of the portfolio that we believe they should. It is a capital-intensive business, it's expensive to operate and it ought to perform better through the cycle than it does. We are moving our assets to where that value proposition does make more sense, which is Dedicated.

But we want to provide solutions to those shippers on the One-Way side in some way. And make no mistake, One-Way exposure to a shipper is often kind of the equivalent of dating before you get married. And so, we need an opportunity to get to know one another, meet our cultures, be able to work together in order to get into a longer, more sustainable relationship. So, I do not ever see it going to zero. But if I can make that a less asset intensive approach, I can get exposure and get them exposed to our technology and our ability to do things for them that only large well-capitalized fleets can do. I think it is a win for everybody.

Again, to your point, could it make marginally some carriers survive that otherwise would not? Maybe. But they are going to get loads brokered to them one way or another. Whether it is from the four or five large asset players or whether it is from the non-asset behemoth brokers, they are going to get freight brokered to them either way. We save them a trailer, that is not saving them much in terms of extending their life if they were to go pure power only all the time with folks like us. But I think it is a better solution.

The only reason – the only way fleets like ours get 11% production increase year-over-year is by making darn certain that through proper engineering, our One-Way assets go where they are good, where they're able to be efficiently utilized, where we have density and where it's repeatable. I cannot gain that kind of productivity year-over-year if I am trying to be all things to all people. And in the old days, I think all of us in the large fleet size, used to try to be pleasers too much, as it related to – you are a national carrier, I expect national support. Well, your pricing does not reflect my ability to give you national support. So, I am going to give you support where I can make sufficient returns to reinvest, and I am going to bring non-asset applications to play elsewhere.

Scott Group

So quick follow up on the productivity side because it is an interesting point. We have a Werner model that goes back to the 1990s, right. Utilization miles per tractor peaked in the 1990s. It has been on this sort of steady sort of decline part of that is just shorter lengths of haul, but you are now seeing pretty meaningful increase in utilization last couple of quarters.

Is there an opportunity for this to be a multi-year sort of improvement in utilization? Because I think prior cycles you can get a lot of price. Usually as the market tightens you give up some utilization. But if you could ever get price and utilization at the same time, right, I think the outcome could be pretty powerful. So, I don't know, again, maybe Derek, start with you.

Derek Leathers

I think it is a bit early for me to be signing up for multi-year utilization improvements coming off double digit year-over-year improvements. But we are excited about what all of this means. So, you were approaching power only from the potential negative lens? From the potential positive lens, it is learning what we do well, learning where our assets belong, keeping discipline on those assets, staying in those lanes and using power only to support our customer in a seamless way elsewhere. That's a big part of it.

Length of haul has been an ongoing headwind that I don't see subsiding. I don't know that it continues to go low at the rate that it has over the last decade because that was mostly driven by Intermodal conversion. And although there will be more Intermodal conversion, it's not going to have the same impact. But I think what we are going to see is the opportunity through technology, engineering and focus on dense lanes to hold the ground on those utilization gains we have made, potentially eke out some incremental ones from here.

But to your point, Scott, this is what I think is underestimated about fleets like ours and others. But these gains we have made today bear very little fruit to the bottom line because you're doing it at rate levels that are essentially break even. The rate level today is terrible. You take those same 11% miles that we have already gained and already placed onto those assets, and you see rate starting to move, those 11% incremental miles, that's like gold. And it does fall to the bottom line in a hurry. And so, we are really excited about seeing that play out.

Scott Group

Mark, it is a little tougher to see utilization for you guys, you just report total revenue per truck. But are you seeing the same benefits that maybe power only is leading to better utilization? Or how do you think about the utilization opportunity more broadly?

Mark Rourke

Yeah. I think asset productivity is a terrific self-help item inside the company through a couple of different levers. First, leveraging down and getting as tight as we can on a driver to tractor ratio, really across our platform, Dedicated, Intermodal and Network where we can drive same revenues with less capital. And we have made some progress there. We continue to make progress in that direction.

Secondly, when we can get better choice, particularly in the Network side, one of the best ways to get better choice is to take the friction out for the driver so they can be being more efficient And at the customer, both at the shipper and the consignee. And we don't have as much choice now as we would typically expect to have based upon market. And as that starts to improve, that's where you'll see another flywheel effect in my view, for increased utilization, which is terrific for the driver because that's a pay increase without changing your rate, it's more productive for them. And that really applies across all aspects of our portfolio.

So, and then the other item that I think is underappreciated, even improved pricing in our network business helps Dedicated because there's opportunities for backhaul that can enhance your value to the shipper and enhance your value to the bottom line. And as that price improves, Dedicated improves with it.

Scott Group

I want to spend time just talking about what the next sort of cycle is going to look like for both of you. But before we get there, maybe just if I can ask a near term one? We typically see margins improve Q1 to Q2 in both your businesses. We didn't see that last year, again, a function of just pricing coming down. Just how should we think about just near term? Should we be seeing sequential margin improvement? It sounds like maybe price a little bit better. I don't know, maybe, Mark, if you want to go first.

Mark Rourke

Yes, Scott, if you think about where we came out of the first quarter and where we've guided to, we should expect sequential improvement throughout the year. We talked about seeing modest seasonality return. We would even say coming into this Memorial Day weekend, we could see some modest seasonality returning like we did at the end of the quarter. Talked a little bit about the price renewals. So again, being very careful not to call an inflection in the marketplace, that's not what we're talking about, but steady sequential improvement without having to have an inflection in the market is really at the heart of our guide.

Derek Leathers

And as you know, Scott, we don't do quarterly guidance or annual guidance for that matter from an EPS perspective. But coming out of Q1, as in keeping with some of the comments I've been making, we do see signs of life. We're not calling it a turn either. We do see some positives in current period renewals, but we still have the lag effect of what took place in Q4 and Q1 that is now coming to roost and being

implemented in the quarter. So, you put all the puts and takes of that is that our expectation would be we'd see quarterly improvement in the year.

But we don't think that Q1 to Q2 is some pronounced step up because we still got a little bit of work to do to get into the latter part of the year to see some of the more recent renewals and other things take hold.

Scott Group

As we think about maybe lessons learned of this past cycle and maybe what we want to do differently or not differently this coming cycle. Both of you guys have seen a pretty significant increase in the mix of Dedicated versus where we've been. Has that worked? Do we want to continue to increase that mix of Dedicated? Have we swung too far?

I don't know, I'm not sure it's helped reduce the cyclical on the way down, but it didn't necessarily stunt the cyclical on the way up either. And so, open ended question, do we want to sort of continue to increase our mix of Dedicated or do you think we're at a good sort of over the road versus Dedicated mix? Derek, I'll let you go first here.

Derek Leathers

Yeah, I mean, so from our perspective, the things that I liked about Dedicated prior, I still like about it today. It's complicated to do. It's very service sensitive. It is not something that can be replicated through technology or aggregation of small carrier capacity. It's driver involved. It takes significant training and investment to do it well. So, we still like all of those things. It did not anchor us during the last upcycle, and we don't believe it will this time. When the market gets better, Dedicated improves much more than people realize, because every Dedicated fleet grows by three, four, five trucks.

You expand that over 100 plus fleets in our Dedicated network, that's meaningful growth, without meaningful additional investment to your fixed costs are fixed, your onsite personnel are in place. There's a lot of upside. Backhaul gets better both in volume and in price. That helps Dedicated. So, we're excited about what it looks like in the upturn.

During the downturn, I would argue, Dedicated did in fact do, at least directionally, exactly what we thought it would do. The problem is One-Way was under much more duress than anybody ever imagined. And so, our One-Way network has been hurting, it continues to be hurting. But yet Dedicated, even on a trailing 12-month basis, is still a double-digit margin business. But it gives kind of a peek behind the window of how tough one way really is.

Scott Group

Does that suggest that One-Way is like breakeven-ish, give or take?

Derek Leathers

Yes, give or take, but more take than give.

Scott Group

Mark, same question. And if you want to broaden it out a little bit to Intermodal and Brokerage as well.

Mark Rourke

We'll do that. Scott, I understand the question and I appreciate the kind of the sense of, okay, what's the ratios between Network and Dedicated? And we really disconnect that. We said if we can get to the return thresholds with the right customer and the right solution, that's durable, multi-year, good earnings stream, and with the wherewithal from the balance sheet that we have to invest organically. It's not a – it's not in our view, a percent of this versus a percent of that. That's where we believe the best earnings stream and long-term positioning of truck sits and that's within Dedicated, for all the reasons we've talked about here on the volatility within Network.

The other area that we didn't have a chance to talk a lot about here is Intermodal, which also will benefit as pricing firms and capacity tightens because there's so much freight that's moving over the road today that should be, from a cost and an efficiency and an emission standpoint, be moving on Intermodal. And so, we're a little frustrated as well, is that we have the capacity. We have 20% to 25% growth without adding an incremental piece of capital to get after the intermodal market.

And we have some new toys, certainly the CPKC in and out of Mexico, a market that's underrepresented on intermodal versus truck because of the lack of reliability that that market has experienced over the years. So, when you combine all of that, there's collaboration and there's a flywheel effect within the portfolio that benefits from whatever happens in Network truck other services will benefit.

Scott Group

And just think about again what maybe we want to do differently or the same. Both of you have done some acquisitions this past cycle. Do you feel like, have those been working? Do we want to do more of these sorts of \$100 million, \$200 million types of deals going forward in the next cycle?

Mark Rourke

Yes, I'll turn it to Derek here in a minute, but yes, very happy with those. Very much a specialty truck solution and are very active. And I actually think the back half of this year and 2025 could be a very attractive year for the industry on some consolidation opportunities. While they've been smaller in nature and been specialty, if we have something that we believe can be more transformational, we have the wherewithal to go after, and we'll look at things on a much broader basis than \$200 million and \$250 million acquisitions.

Derek Leathers

Yes, similar. So, we've done four. They were all done for unique, specific portfolio reasons. I think they've served exactly the purpose that we thought they would serve as we brought them on board in terms of customer acceptance, the ability to penetrate and expand with either existing customers or enter into new customers. What hasn't been able to materialize because of the market backdrop that we've been in during the time of integration of those acquisitions is any significant or noticeable or meaningful financial impact at this point.

But when I look at something like our acquisition in the Northeast and 40,000 incremental loads with existing Werner customers, that would have otherwise have probably been met with a no, that is now met with a yes, and we're able to service those customers in ways that they were previously not able to be satisfied. That is a great positive for the future and our relationship with those customers and our ability to expand into other products in other regions. So, it's exciting. I think we're happy with the acquisitions at the product level. We have more work to do on the integration level. And obviously this same market we've been talking about, we need more support overall from the market as it turns. But as it does, we feel excited.

Similar to Mark's comment, the last one we did was the largest one we did, which was the ReedTMS acquisition. We've learned quickly that larger is actually not harder, and that we feel like the integration capabilities of a larger organization into our own is better, more efficient and something that can be acted upon more immediately. So that's a different way of saying we are open minded and open for business to include something transformational.

But at the current state, right now that we're at in the market, until such time we find the right one and we look and we're active all the time. We're going to keep our head down, keep focusing on controlling the controllables, keep focusing on taking cost out of our network, leaning in to a best-in-class we believe Dedicated solution, cross-border Mexico solution and kind of the work we do today because the right one will present itself and I think we'll know it when we see it and we'll act accordingly.

Scott Group

Not a power only question, just a broader brokerage question, right. Both of you if I just look at Logistics for both of you, revenue basically doubled last cycle. Do we want to do as much Brokerage growth? Do we think that in some way contributed to the up of the cycle, the down of the cycle, just the proliferation of brokerage? I don't know, do we approach brokerage the same way this time around more broadly?

Mark Rourke

Yes. I think strategically, I think the asset-based brokerage model has advantage for the customer and for the business and the ability to collaborate and leverage relationships within the enterprise. And so – and we can do so with very little capital outside, making sure we're still calibrating and reinvesting in the tech to keep current, so that very much we see continuing. And Scott, we're sometimes colored as a trucker and we're very proud of trucking and that's who we were born as, clearly.

But with 50% of our revenues are now in the asset-light segments of Intermodal and Truck and 40% of our earnings. So, we really are a multimodal and we're working to be recognized as a multimodal provider and with that comes with that is that Brokerage I think will be here. And as we look to aggregate more demand and more capacity, that's one of our arms to do that.

Derek Leathers

Similarly, I think brokerage is ripe for further consolidation. I think the reality is we still have brokers all over this country that are five guys in a strip mall or two in a basement. There's a lot of that work that's out there where, that's where fraud exists. Not the broker himself, but they're more subjected to fraudulent carriers, fraudulent billing, fraudulent issues. I think we've seen customers really see the value in well capitalized brokers that have know how, that understand trucking at its core, because that's where we

came from. I think the actual offering is superior. With the asset backed offering of an asset backed broker is a superior offering.

I think customers are voting frankly with their freight and that's why you see the outsized growth in brokerage within the asset community. I expect that would continue, but we're not going to grow just to grow in any one of the product lines. I mean, we're going to look at each opportunity independently. We're going to make sure that we think it makes sense and that it shows sufficient returns. And if it doesn't, then similar to One-Way it will be deemphasized over time or at least modified into an asset-light type model.

Mark Rourke

While capacity itself has been a little elongated to come out, there's 11% less brokers this first quarter than there was last first quarter. So that market is contracting.

Scott Group

Okay. And again, both of you, and based on our models, plus or minus in that mid-single-digit margin range in truckload this year, I know that's not your guide. That's what we have in our models. Help us think about – what do you think normal looks like? How much price do we need to get back to the double-digit teens margins we'd like you guys to have? How many years does it take? Can we get there in one cycle? Does it take more than one cycle to get back to where we were?

Derek, I don't know if you have a thought.

Derek Leathers

Yes. I mean, so we've stayed committed, although we're outside of that range right now for certain, but long-term guidance range of 12% to 17%. We have a clear path in that in Dedicated. We have a tougher road to hoe so to speak in the One-Way side. However, the One-Way side has much greater leverage to an up-cycle and so the ability to improve that OR significantly with price is upon us, and that's why we've spent so much time trying to lean that network out, trying to engineer it to increase productivity, which we've clearly done. Double-digit utilization increase year-over-year.

And I think we're prepared, but we're going to need the market to continue to mature, the equilibrium to continue to arrive and then tightness thereafter to make that happen. We earlier had guided that we thought it was possible late 2024, early 2025. That may be optimistic at this point in the year, but we're going to work our tails off to get there.

Mark Rourke

Yes. Scott, I think our long-term ranges that we've laid out there for our three segments, and we're not performing there today, we don't believe those are structural, there's been structural changes to the extent that that's not where we should be and can be, and I would certainly expect, at least on a run rate basis in 2025, we are much, much closer to being back inside those ranges. It may not be for the full year. We'll have to see. We certainly probably need one more cycle of renewals or allocation season of the early 2025 season. But to me, it's not like, throw those out and start over.

Scott Group

Okay, one thing I know we're over. One or two last things I just want to touch on, if we can. One thing that I think we've been very wrong about is or didn't anticipate was this massive divergence in fundamentals for trucking companies and just the Class 8 cycle. Do you have views on sort of if and when and how the trends sort of meet again? Ultimately, when do we stop seeing big orders in trucks and big increases in pricing for trucks? I don't – does that change?

Derek Leathers

Well, I think the closer you see truckers getting back to their naturalized age of fleet level, the pre-COVID level of fleet, we're there now. It took us a while to get there. Took us an outsized CapEx year last year to get there. But you still got a lot of people playing catch up. And so, people get kind of caught up in the orders. I mean, I would start with this. Orders aren't builds; they never end up equating. And so, some optimism coming into the year on orders may or may not translate to the same build rate. So, let's just start there.

But those orders that are placed that translate into builds still, in my view, are more reflective of people trying to get their fleet where they want it prior to the engine emission changes than they are any kind of growth. And that's clearly shown through fleet size across the publicly traded group. I mean, the fleet is not getting bigger, it's actually shrinking. That's the predominance of orders is coming out of that group, not the 20, 5, 10 truck carriers. And so, they're trying to get their fleet right. And the bifurcation was clearly started during COVID because at a time when freight went through the roof, truck availability went to the floor. And so that's working itself out.

Scott Group

Do you start your pre-buy in 2025 or 2026, or you don't subscribe to a pre-buy? Mark?

Mark Rourke

Well, we generally aren't fans of taking early generation new engines. We like to see those burn in, so we like Derek to take those first. But, you know, I think this is really a question for the OEMs, Scott. I think if you ask me, do you think there's going to be the opportunity for significant pre-buy, I would be highly skeptical. Is the OEM is going to be able to add labor, add shift, have supply chain to go through a 30% increase in one year, to only go through a 30% decrease the next. I call that into question if that's even going to be possible.

Scott Group

So, you might be interested in one. You don't know that they can deliver one.

Mark Rourke

Again, I would speak to them.

Scott Group

We will.

Derek Leathers

Yes, we're going to keep our fleet fresh where we have it today. We'd like to keep it there going into that engine change. We also are not fans of first generation or early generation engine changes, so we'll certainly take a bit of a timeout for a bit. I don't know that you'll see a large pre-buy out of us, maybe around the edges, just some kind of cover the stumps type work, but we're going to sit back and see where this all plays out. This engine is more expensive. It's, as of yet unproven, but we believe they'll figure it out. They've got good people, good engineers. They'll figure it out.

Scott Group

And then just last thing. I know, we spent a lot of time talking broadly about the industry, and I appreciate you guys doing this, but maybe just give each of you an opportunity for a minute or two, something that you just want to make sure we know about Schneider, we know about Werner in terms of your story and where you go from here.

Mark Rourke

Yes, I haven't had a chance to really talk about this multimodal. It's not just a trucking company, and I think you're going to see us continue to pursue that strategy. I think it's being received well by the marketplace, and with the balance sheet that we have, I think we can continue to look at both organic and acquisitive ways to accelerate that growth.

Derek Leathers

Yes. I'll be quick. I mean, look for us, I think we've set the table as well as we can set it through the work we've done over the last couple of years, back-to-back years of over \$40 million of cost takeout, an ongoing quarter-over-quarter sequential and year-over-year, improvement in utilization, and that's a result of engineering in the fleet. I want to set the record straight on one of the questions I've been most asked today, which is about discount, retail, dollar stores, et cetera, and its impact on our fleet. We're up year-over-year with every member of the discount retail space in our portfolio.

That's something that shows, I think, our stickiness with them and our ability to grow with them through good times and bad. And as this portfolio, place setting is in place, when it turns, I like our chances on the upside; I think we're well positioned to capitalize head-to-head with anyone.

Scott Group

Mark, July 25th 10:30 A.M. I'll be there. Derek, I'll do my best. Thank you, guys. This is great. Appreciate it.

Mark Rourke

Thanks for being a good sport.

Scott Group

Thank you. That was great. Really appreciate it. Hey, thanks so much. Appreciate it. Enjoyed it.

Derek Leathers

Me too.