

Werner Enterprises, Inc.

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers – *Chairman and CEO*

Chris Wikoff - *Executive Vice President, Treasurer and CFO*

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

Operator

Good afternoon and welcome to the Werner Enterprises First Quarter 2024 Earnings Conference Call.

(Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Chris Neil, Senior Vice President of Pricing and Strategic Planning. Please go ahead.

Chris Neil

Good afternoon, everyone. Earlier today, we issued our earnings release with our first quarter results. The release and a supplemental presentation are available in the investors section of our website at werner.com. Today's webcast is being recorded and will be available for replay later today.

Please see the disclosure statement on slide two of the presentation as well as the disclaimers in our earnings release related to forward-looking statements. Today's remarks contain forward-looking statements that may involve risks, uncertainties and other factors that could cause actual results to differ materially.

The company reports results using non-GAAP measures, which we believe provide additional information for investors to help facilitate the comparison of past and present performance. A reconciliation to the most directly comparable GAAP measures is included in the tables attached to the earnings release and in the appendix of the slide presentation.

On today's call with me are Derek Leathers, Chairman and CEO and Chris Wikoff, Executive Vice President, Treasurer and CFO. Derek will provide an overview of our Q1 results and update on our strategic priorities for 2024 and our market outlook. Chris will cover our financial results in more detail and provide an update on our guidance for the year.

I'll now turn the call over to Derek.

Derek Leathers

Thank you, Chris, and good afternoon, everyone. We appreciate you joining us. Before we get started on our first quarter update, I would like to acknowledge the very difficult time many of our associates and fellow citizens of Omaha are enduring as a result of the catastrophic tornadoes that took place this past Friday. It is truly inspirational to see both the Werner and broader community come together to support those in need. Miraculously, there are no reported fatalities locally at this time, but there remains a path of devastation that is hard to even describe. Regrettably, the devastation continued throughout the weekend in Iowa, Kansas and Oklahoma. Our thoughts, prayers and ongoing support go out to those impacted by this horrible disaster that has impacted so many. I will now turn my attention to the results of the quarter.

Our first quarter results reflect the reality that the freight market continues to be challenging and was further compounded by adverse weather in Q1. Despite these industry-wide headwinds, our focus remained on controlling the controllables. We realized another favorable quarter for One-Way production, increased revenue per truck in Dedicated and maintained high customer retention. We generated solid operating cash flow, are proactively managing expenses, executed on additional cost savings, reduced our debt and repurchased shares during the quarter. While we cannot control the macro, we are focused on our long-term strategy and structural improvements to position Werner for success in an eventual tighter market.

Let's move on to slide five and highlight our first quarter results. During the quarter, revenues were 8% lower versus the prior year. Adjusted EPS was \$0.14. Adjusted operating margin was 2.4%. Adjusted TTS operating margin was 4.7% net of fuel surcharges.

In Dedicated, there's more noise from competition. Despite losing a few fleets to changes in the supply chain approach for select customers and isolated competitive undercutting, Dedicated remains solid and resilient and delivered another quarter of year-over-year revenue per truck growth. We are maintaining price discipline in Dedicated, particularly given our long-term agreements. Our Dedicated offering is superior in scale, service and reliability. Accordingly, we look to large enterprise customers that value their supply chain as strategic, mission-critical and not left to less sophisticated or inexperienced carriers.

As expected, One-Way Truckload volume was steady and seasonally consistent. The revenues remain challenged by ongoing rate pressure. Despite setbacks from weather, miles per truck increased 11%, marking the fourth consecutive quarter of improvement. Our total miles were nearly similar to prior year, down less than 3% despite 13% fewer trucks. We are pleased with the operational excellence that has been building to achieve similar volume with less capital intensity.

Within Logistics, the first quarter volume reflected normal seasonality while results were impacted by further rate pressure. Still, we maintained a 15% gross margin, saw meaningful increases in both domestic and cross-border Power Only volume, drove strong customer retention and realized new business wins and higher volume in intermodal. In short, despite seasonably stable customer demand, lower rates caused freight conditions to remain challenged.

Inclement weather further negatively impacted One-Way and Logistics and limited driver throughput for our school network. This, combined with higher than usual health and workers' comp benefits and elevated insurance expense, resulted in lower operating income. That said, we are proud to have achieved a first quarter 20-year record low for preventable accidents in addition to a high level of service to our customers, improved One-Way miles per truck and progress on our cost savings initiatives.

Moving to slide six, despite the challenging environment, we continue to push forward with implementing structural improvements that will position Werner for success as rate normalizes. Our drive framework continues to inform our decisions over the long term, representing our commitment to durability, results, innovation, values, our associates and the environment.

Last week, we announced that Werner made it to Forbes list of America's Best Large Employers for 2024. Forbes selected 600 outstanding companies for its list and Werner placed number 10 in the transportation and logistics category. This honored award highlights Werner's quality in employee satisfaction and an industry leadership.

Relative to our 2024 objectives, last quarter, we communicated three overarching priorities to generate earnings power and drive value creation in 2024 and beyond. They are driving growth in core business, driving operational excellence as a core competency and driving capital efficiency.

Relative to our first priority, driving growth in core business, topline improvement depends on time and pace of market inflection. In Dedicated, we see increased pressure as the down cycle continues and other carriers seek shelter. We continue to see a strong Dedicated pipeline of opportunities to first backfill isolated fleet reductions and then focus on that growth.

To achieve our long-term TTS range of 12% to 17% adjusted operating margin, we are executing on our cost savings plan, which is going well. We purposely set this as a long-term target knowing certain years could be exceptionally up or down, but most years would fall within the range.

From an operational and cost basis perspective, Werner is in a much stronger position and with increased demand, better rates, a stronger used equipment market and further reigning in of insurance cost per claim, we are confident we will achieve this and see operating leverage come through. However, in the current day, the freight environment remains very challenging to forecast. If the market stays lower for longer, it may serve as a headwind to reach this goal by the end of 2024.

Relative to our second priority, driving operational excellence as a core competency, we are maintaining a favorable safety record, advancing our technology strategy, and progressing our cost savings program. Transitioning to our EDGE TMS platform is a multiyear journey, and we remain encouraged by the synergies and value of a single freight platform, enhancing our customers' experience and our visibility while providing additional opportunities to grow revenue and reduce cost.

And finally, our third priority, driving capital efficiency. We had another strong quarter of operating cash flow. We continue with intentionality in our capital allocation. Net leverage CapEx spend, and fleet age all remain low. Despite lower used equipment values, we are on track with our expectations and continue to anticipate a greater pace of gains later in the year. You will hear more about these priorities on quarterly calls going forward. Before passing it over to Chris to discuss our financial results for the quarter, I want to provide our current view of the market.

Turning to slide seven, we expect a challenging freight market to continue through the second quarter and into the second half of 2024. While inventory levels have normalized and destocking is largely behind us, we haven't seen signs of significant restocking. Attrition is happening, but at a slower pace, and as a result, competitive pricing pressure remains. We have experienced more seasonal freight trends in April, specifically better demand on the West Coast related to certain spring projects.

Recent isolated fleet losses in Dedicated will put pressure on our full year fleet guidance. We performed well in Dedicated, continue to maintain a 93% customer retention rate and we can see a pathway to truck growth with a more normal supply demand environment, although our focus is first on backfilling losses while managing yield.

The One-Way operating environment remains challenging and led to a competitive early bid season with mixed results. We will continue to exercise pricing discipline. The environment in Logistics is still very competitive and margins will continue to be pressured. Longer term, our portfolio of customers, our deep network of qualified carriers, our investment in technology and our operational improvement initiatives position us well for long-term profitable growth in this segment.

With that, let me turn it over to Chris to go through our first quarter results in more detail.

Chris Wikoff

Thank you, Derek. Let's continue on slide nine. First quarter revenues totaled \$769 million, down 8% versus prior year. Adjusted operating income was \$18.6 million and adjusted operating margin was 2.4%, down 68% and 450 basis points, respectively. Adjusted EPS of \$0.14 was down \$0.46 with over 95% of the variance, driven by a softer used equipment market and lower gains combined with rate pressure in One-Way and Logistics.

Turning to slide 10, Truckload Transportation Services total revenue for the first quarter was \$551 million, down 6%. Revenues, net of fuel surcharges, fell 4% to \$478 million. TTS adjusted operating income was \$22.7 million, down 58% versus prior year, and adjusted operating margin net of fuel was 4.7%, down 600 basis points.

A decline in equipment gains drove nearly half of the TTS decline in operating income. We continue to see gains, albeit lower, and we are leaning into the expertise and capability of our national fleet sales operation. During the quarter, consolidated gains on sales of equipment came in line with our expectations, totaling \$3.6 million, a decline of \$14.8 million or down 80% from a tough comp last year.

We are maintaining our view of second half versus first half improvement in the used equipment market, although values may be held down for longer. Net of fuel surcharges and equipment gains, TTS operating expenses declined modestly year-over-year and sequentially but were more than offset by TTS trucking revenue rate per mile decline of 2% versus prior year and a 7% smaller fleet size.

One-Way rate per total mile during the quarter decreased 5.1%. In terms of improvements in the quarter in various TTS expense categories, operating supplies and maintenance expense was down \$5 million and 8% versus prior year, and non-driver salaries, wages and benefits were down \$2 million or 3%. Driver pay was down excluding fringe benefits. Benefit expense in the quarter increased nearly \$2 million versus the prior year, driven by outsized health insurance costs in January that subsided later in the quarter.

Dedicated remained steady and durable, generating double-digit operating margins on a trailing 12-month basis, whereas One-Way remains especially challenging. As Derek mentioned, achieving our long-term TTS operating margin range is a key priority, and we remain focused on producing higher operating margins, but achieving this goal by the end of the year will be more challenging given the first quarter results.

Turning to slide 11 to review our fleet metrics. TTS average truck count was 7,935 during the quarter, down just over 7%. We ended the quarter with the TTS fleet down 2% sequentially and 8% year-over-year. Our TTS revenue per truck per week, net of fuel, grew during the quarter by 2.8% and has increased year-over-year 20 of the last 25 quarters. Within TTS for the first quarter, Dedicated revenue, net of fuel, was \$301 million, down 3%. Dedicated represented 64% of segment revenue compared to 63% a year ago. Dedicated average trucks decreased 4% to 5,149 trucks. At quarter end, Dedicated represented 65% of the TTS fleet.

Dedicated revenue per truck per week increased 1.3% year-over-year, growing 24 of the last 25 quarters through all economic conditions. While our per truck production is trending well, the impact from isolated fleet losses will continue into the second and third quarters as those reductions are fully realized. As we've said before, the opportunity pipeline in Dedicated

remains strong but competitive. We are focused on winning with customers that value the reliability, scale, safety and service of our proven Dedicated model.

Demand improvement will naturally expand existing fleets that contracted single-digit percentages over the last year. And with a tighter market, we are positioned well to further penetrate new verticals and other hard to serve freight opportunities.

In our One-Way business for the first quarter, trucking revenue was \$169 million, a decrease of 8% versus the prior year. Average truck count was down 13% to 2,786 trucks. Revenue per truck per week was up 5.6% year-over-year. One-Way bid season is well underway with mixed results that are customer specific and reflective of the competitive environment.

As we focus on the controllables, we are pleased with another quarter of production gains, achieving near similar total miles versus prior year, but with 13% fewer trucks. We expect the favorable production trend to continue throughout the year, although year-over-year improvements will moderate.

In addition, our Power Only offering within Logistics segment continues to grow. In a tighter market with better rates, this combination of One-Way production gains plus double-digit Power Only volume growth translates to improved ROI, and it provides more options for our One-Way customers, which we can leverage when the market turns.

Our Baylor acquisition continues to maintain shipper brand loyalty, and in terms of our ECM acquisition, our northeast density is proving valuable to cross sell and expand business in the region with long-standing Werner customers.

Turning now to our Logistics segment on slide 12. In the first quarter, Logistics revenue declined \$26 million or 11%, representing 26% of total first quarter Werner revenues. Revenue in Truckload Logistics declined 13% and volumes decreased 6%. Shipments declined sequentially from normal seasonality and due to our focus on revenue quality. As previously mentioned, our Power Only solution again represented a growing portion of the Truckload Logistics volume in the quarter.

Intermodal revenues, which make up approximately 12% of segment revenue, declined year-over-year due to a decrease in revenue per shipment partially offset by an increase in shipments. Final Mile continued to show growth in the first quarter, reporting just under a 5% increase in revenue despite a softer market for discretionary spending on big and bulky products.

Logistics adjusted operating loss was \$1.2 million in the first quarter. Adjusted operating margin was near breakeven, reporting a small loss of 0.6%, down 340 basis points year-over-year and 190 basis points sequentially, driven by rate and gross margin compression.

We expect Brokerage margins will remain challenged in the near term with operating margins expanding later in the year through our cost savings and integration success. The team was able to improve revenue quality as the quarter progressed, resulting in gross margins that were better in February and March.

During the quarter, we further integrated the Reed acquisition, along with completing certain technology advancements in EDGE TMS, and implementation of improved freight payment and audit processes. We are seeing the fruit from these initiatives, and this will aid in sustainable

margin improvement in coming quarters. Our strong and growing Brokerage refrigerated services should also position us to capitalize on improving seasonal trends related to produce and food and beverage. Overall, we remain encouraged about the mid and long-term benefits of our Logistics business, given a strong customer portfolio and growing contract business; our growing Power Only solution; advancing our technology strategy and long-term opportunity for growing Final Mile and Intermodal.

On slide 13, we provide an update on our cost savings program. Executing well on our cost savings program remains key to expanding margin and earnings in 2024 and beyond, given a freight and used equipment market that will continue to be challenging. In 2024, we continue to expect to capture over \$40 million of savings that are largely structural and sustainable. We have realized \$12 million of savings through the first quarter and have a clear line of sight on the rest of the program.

Let's look at our cash flow on slide 14. We ended the first quarter with \$60 million in cash and cash equivalents. Operating cash flow remained strong at \$89 million for the quarter or 11.5% of total revenue. Net CapEx in the first quarter was \$19 million or 2.5% of revenue, down \$84 million or 81% year-over-year.

Free cash flow for the quarter was \$70 million or 9% of total revenues, up 130 basis points year-over-year. Our total liquidity at quarter end was very strong at \$619 million, including cash and availability on our revolver.

Moving to slide 15, we ended the quarter with \$598 million in debt, down \$51 million or 8% sequentially and down nearly \$94 million or 14% compared to a year earlier. Net debt to EBITDA was steady at 1.2 times. We are committed to maintaining a strong balance sheet and access to capital to fund growth in investments that are accretive to earnings.

On slide 16, let's recap our capital allocation priorities and strategy. We will continue to prioritize strategic reinvestment in the business and returning capital to shareholders. We spent \$6.5 million on share repurchases during the quarter and will remain opportunistic.

Regarding capital expenditures, 2023 was an elevated CapEx year, reflecting lower year-over-year gains and a greater pace of reinvestment in the business. For 2024, we are expecting net CapEx to be between \$250 million and \$300 million, with 80% towards trucks and trailing equipment and 20% towards technology, terminals and our school network.

Next on slide 17, is a review of our guidance for the year. We are lowering our full year fleet guidance from down 3% to flat, to down 6% to down 3%. We are down 2% year-to-date with visibility to additional reductions from known isolated losses in Dedicated. Although greater than anticipated, we are not surprised by a more competitive Dedicated environment through this prolonged weak market. We are seeing new business wins to assist with backfilling losses, and we see potential for growth in Dedicated in the second half, but we recognize the challenge and believe it is reasonable to lower fleet size expectations at this time while we focus on maintaining price and margin discipline across our portfolio.

Net CapEx is being lowered by \$10 million on either end to a range of \$250 million to \$300 million. Dedicated revenue per truck grew year-over-year and is expected to remain within our full-year guidance range of 0% to 3%. One-Way Truckload revenue per total mile for the first quarter decreased 5.1% and is within our guidance range for the first half of the year.

Equipment gains were \$3.6 million in the first quarter, consistent with our expectations. We expect similar gains in the second quarter but now anticipate lower equipment values to linger into the second half. As a result, we are lowering the top end of our range and now expect equipment gains in the range of \$10 million to \$20 million, down from \$10 million to \$30 million previously.

While our tax rate in the first quarter was 32.9% due to certain one-time discrete items, we expect this to level out throughout the year. Our full year guidance range is now 24.5% to 25.5%. The average age of our truck and trailer fleet in the first quarter was 2.1 and 5 years, respectively, compared to 2.1 and 4.9 years at the end of 2023.

I'll now turn it back to Derek.

Derek Leathers

Thank you, Chris. Despite the challenging macro backdrop, our leadership team and nearly 14,000 talented Werner team members stayed the course by executing our strategy. They remain focused on upholding the Werner brand and reputation, making safety our top priority and providing superior service to our highly valued customers. We are actively taking steps to improve our operations and advance our competitive strength in the marketplace by investing in technology, reducing costs and optimizing cash flow.

While times have been tough, we're cycle tested and built to last. Our historical results demonstrate our ability to generate earnings power as demand accelerates and the proactive actions we have taken position Werner to capitalize on opportunities as they present themselves in the future.

With that, let us open it up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

The first question comes from Amit Mehrotra with Deutsche Bank. Please go ahead.

Amit Mehrotra

Thanks. Appreciate the question. Derek, I guess my couple of questions. First and foremost, I know you're a student of supply, and historically you've talked a lot about supply, and I know that's been stubbornly persistent in the market. Wondering if you could just share your view on kind of where the latest on your view on supply is going to be over the next 12 months?

And then, obviously, on the bid season side, it feels like the shippers are trying to take one last big bite of the apple. Wondering how you're navigating that and thinking about still keeping the optionality to the upside while obviously navigating utilization of the One-Way fleet? Thank you very much.

Derek Leathers

Yes. Thank you, Amit. Thanks for the question. On the supply side, kind of like I indicated last quarter, it's tough to predict any turn at this point. I will tell you that there are some signs of life that are encouraging, but clearly, we've still got some work to do to get this market back in balance.

We did see and we referenced some spring project activity that's sort of new and encouraging. We've seen an uptick in demand as we've kind of got ourselves into Q2. But at the end of the day, we do need capacity to continue to come out of the market. I think we're closer to equilibrium than we've been in a long time. We can see that in a variety of ways through load bookings and customer interactions and even customer conversations as of late. And so, it's just going to take a little bit longer to play out. Clearly, this has been longer than any of us anticipated and extremely frustrating.

As it relates to the second part of your question, yes, there is clearly a group of customers out there that will always try to take a last bite of the apple, as you indicated. I would tell you our focus is really staying disciplined in what we believe, making sure rates are reinvestable, meaning that we can turn around and make a margin that allows us to invest back into the fleet.

But we're especially going to be disciplined at this point in the cycle, knowing that the end is closer than it's been at any point prior. And so, at times, that's going to lead to some frictional conversations, but we've got to stay true to who we are and what our shareholders deserve. And that includes a very disciplined cost-focused approach that includes making sure that agreements we enter into, that we feel as though we can honor and that's why we've indicated the possibility of some further attrition before things get better within our own fleet. We'll see how that plays out. The pipeline is strong, both in Dedicated and frankly, One-Way, has been encouraging as of late. But the pricing environment is still competitive as people are desperate to find safe havens for their assets.

Amit Mehrotra

Yes. And then, Chris, I mean, does the OR, I mean, obviously, the first quarter of the OR is typically the weakest, and you had weather challenges. Do we see a pickup in the OR, as we progress through 2Q? I certainly hope so, but obviously, it's a different, difficult market. I wanted to get your latest thoughts on that.

Chris Wikoff

Yes. Sure, Amit. So yes, we should have improvement as we go forward. Our long-term target continues to be in TTS, 12% to 17%, but that's going to take some time to get there. But we do expect with our continued cost savings program, and continuing to focus on our long-term strategy, that we'll continue to improve from here.

Derek Leathers

I would just add, Amit, one way to think about it is, each month of the quarter the OR improved and we saw margin expand. We obviously are going to work our tails off to keep that trend going forward. We can't control the macro, but what we can control is what we do inside these walls. And the team is committed now, execution to the highest possible level.

Amit Mehrotra

Very good. Thank you very much Derek, Chris. Appreciate it.

Operator

The next question is from Jason Seidl with TD Cowen. Please go ahead.

Jason Seidl

Hey, thank you operator. Hi Derek, hi Chris and team. Just a couple of quick ones from me. I noticed the nice productivity gains and miles per truck per week. Just curious, did that result in any big mix shift in your business?

Derek Leathers

Hey, Jason, I'll take that. I don't know that I would call it a large mix shift, but clearly, it's intentional. The shift that's taking place is intentional. In order to lower our cost to serve, we're leaning in further and further to things that we do very well and that we think are particular to us. We have a heavy focus on Mexico cross-border. That length of haul lends itself to better productivity. We've been really aggressively further engineering our own assets so that they are operating in more and more repetitive, kind of repeatable lanes, where we can extract better productivity, both for our drivers, but also high service levels for our customers. So, there's a lot of intentionality about it.

Some of the tech that we've been building and working on is helping us to be more selective. Now, it's tough to do that in a freight backdrop like the one we have right now. But nonetheless, it is producing increased utilization, and that's something that we think we can hold as we go forward. Comps will get tougher as we get into the back half because you started to see those gains taking place in the back half of '23. But it's exciting, and I think it really shows what utilizing our assets, specifically for what they're good at, and then supplementing it with Power Only where that's a better solution for our customer, can really result in. And that's really where the operating leverage comes from in an up cycle and our ability to then utilize that denser, higher velocity network at a higher rate per mile to produce upside in an up cycle.

Jason Seidl

Well, that makes sense. I guess I'll use my follow-up on the comments on used equipment. Chris, I think you mentioned there is expectation for improvement in the back half of the year. Is that just that you guys plan to sell more or do you think that pricing is going to improve? And if it's on the pricing side, I guess, what gives you the confidence in that, and is that for both trucks and trailers?

Chris Wikoff

Yes. We do expect some improvement in the values as we go through the year. I think it's going to be a modest improvement as we go through. We are being mindful of equipment and trying to maximize what we can. Where it's appropriate, leverage our advantage in having a national fleet sales network and operation. So, leaning into that to maximize the gains where possible, but really, we're just looking for the market to improve. And it's difficult to say the exact timing of that, but we do look for improvement.

Derek Leathers

Yes. The only thing I would add is that all of the public data that's out there where folks that do this for a living also lend their forecast to the same bend as our internal view. And as it relates to the follow-up question that often comes is that, with all of the carriers going out of business, then that put pressure on used.

And while it does put pressure on used in the categories that they would be selling or be placing into the market. We're talking about near new or still under warranty, higher value equipment that holds up better and really plays well into the pre-buy, as people start to think about those that are secondary buyers to begin with, needing to refresh their fleet and start that work today.

Now, there's a lot of regulatory issues coming at us in trucking and folks getting their hands on a much fresher fleet, we believe starts taking place later this year.

Jason Seidl

Makes sense. Appreciate the color and time as always.

Operator

The next question is from Ravi Shankar with Morgan Stanley. Please go ahead.

Ravi Shankar

Thanks. Good afternoon. So just on the cost side, obviously, the structural cost actions are notable and most welcome. But I think a lot of the transportation companies basically decided to not get super aggressive with responding to the down cycle this time, because of all the struggles with bringing resources back post pandemic.

But just given how long the down cycle has lasted and how deep it's been. Is it time do you think to maybe pull some of the reins in a little bit more for some tactical cost actions as well or do you think that will be coming in the wrong time just as the cycle inflects?

Derek Leathers

Yes, Ravi, I'll take that. First off, I will tell you, I think our ability to rebound, so regardless of where the fleet is at in any given moment, our ability to rebound from that point is advantaged over others with our vertically integrated school network. And so, we do believe that we have some elasticity to the fleet that puts us at a competitive advantage. And so, I'll start with that.

That also, therefore, gives us confidence to pull back where we think pulling back is the right decision and really keep that focus on pricing discipline as we enter the very late stages of this particular cycle. As it relates to cutting back too far, I don't think that's where we're at. I think we're prudently trimming where it makes sense. We're eliminating costs that, frankly, we can live without. But it is tougher and tougher to come by incremental cost savings without doing damage to long-term strategic initiatives at Werner. And we're simply not going to do that. This is a long game. We're going to be in this for this cycle and several more. And we're preparing this ship for kind of those future seas, not the ones we're in today.

I'm really excited about it as the turn takes place, our ability for upside operating leverage both in Dedicated and One-Way, as well as, now a much larger Logistics division, to be able to participate both via Power Only, as well as, transactional Brokerage, Intermodal and Final Mile. So, the way the table is set, we feel comfortable with. Clearly, we need some support from the macro, but as that support comes, our ability to respond, I think is in a better position than even it was in the last up cycle.

Ravi Shankar

Understood. That's really helpful. And maybe as a follow-up, I think you had mentioned something about reigning in insurance costs. Is that just again, tactically on the margins or are you guys coming up with ways to significantly pull that down, because we think that's going to be a meaningful risk to the industry in the coming years?

Chris Wikoff

Yes. This is Chris. Thanks for the question on that. So, the quarter was back to a bit of elevated insurance costs overall, more representative of the first half of last year, not necessarily some of those lower trends that we were seeing in the second half of last year. But

again, we still view this as a cost per claim issue, not so much a frequency issue and certainly doesn't reflect our continued trend and record setting in our safety metrics. We communicated last year that we had a 19 year low in our DOT preventable accidents per million rating. And then for the first quarter, in comparison to other first quarters, we hit a 20-year low. So, we continue to see very positive safety metrics.

Last year, from a premium perspective, we had a low single-digit increase in the second half of the year. So that's not really impactful. This is more of a cost per claim issue, and we anticipate that as we continue to focus on safety and have a very low and positive safety record, that will come through more sustainably in the insurance expense line.

Ravi Shankar

Sounds good. Thank you.

Operator

The next question is from Scott Group with Wolfe Research. Please go ahead.

Scott Group

Thanks. Good afternoon. So Derek, the fleet guidance came down a bunch, the CapEx guidance barely budged. And any thoughts there? And then I'm sure you listened to the Knight call last week and the discussion around mid-cycle margins, higher highs, lower lows. I'm just curious, how you think about that in mid-cycle just given the starting point for margins being so low. Obviously, I'm asking that for you guys. I'm not asking for an opinion on Knight.

Derek Leathers

Well, thank you for that, Scott. I appreciate it. Look, I do think this cycle is perhaps a once in a lifetime, we'll see as time plays out. The COVID highs were higher than any previous up cycle. Clearly, the lows have been lower and longer than anything we've endured. We have reiterated affirmatively our long-term guidance relative to TTS margins, and that's not without significant introspection. We believe that with the strategy we're putting forth and the execution that we have in place will allow us to return there, although the timing of that return is certainly delayed as this market has lingered lower for longer.

I suspect, as we go-forward with this next up cycle, it is going to be also somewhat unique, not as much as COVID, but unique in that it's combined with significant regulatory headwinds, significant environmental overlay that's going to cause capital outlays for carriers to be greater than ever before. That's why we kind of made our move early to freshen the fleet and position ourselves to be in a really good position as that plays out. I also suspect there's a whole lot of people that have been taught some lessons through the pain of this cycle, and there may be more reluctance for capacity to come back in this next time around but only time will tell. In the interim, our job is to focus relentlessly on getting back to that long-term margin guidance range in TTS.

And as it relates to comparing to prior cycles, when I look at our portfolio, it's just significantly different now with the acquisition of ReedTMS, the size of Logistics as a percentage of the portfolio, the amount of engineering we've done within One-Way to produce the increased miles per truck that we've been talking about. And then, Mexico near-shoring plays directly into our portfolio very nicely. So, we're still bullish on what it looks like longer term. And that's why we're trying to take a longer-term view of how we build this portfolio out and get ready and prepared for the turn when it happens.

Scott Group

Okay. And then, if you had a thought on the CapEx relative to the fleet guidance?

Derek Leathers

My apologies. Yes, on the CapEx part of the equation. I think what you're seeing there is, one, some carefulness and thoughtfulness on our part of what the back half could look like. We talked about the opportunity. The fleet guidance range is for the first half, whereas CapEx is for the whole year. And so, we talked about the reality that we do have a strong Dedicated pipeline for the back half of the year. That continues to look encouraging. And so, we want to be prepared to be able to do that. And it's really just trying to be thoughtful about how we think about that, it's a dramatically reduced CapEx from what you saw a year ago. And so, we don't want to starve the fleet, and we want to make sure as Power Only grows or has the opportunity to continue to grow that we have the trailing equipment to go with it. But at this point, that's the comfort level we have. By the way, I want to fix my first statement on fleet guidance, that is a full year range, not a half year range.

Chris Wikoff

Scott, just to expand on the net CapEx. Historically, that's been a 10% to 13% of revenue, net CapEx. We did guide for that \$250 million to \$300 million range for the year. That's not only lower in dollars, that's also lower as a percentage of revenue. It was \$19 million for Q1, so that will elevate as we go through the year.

Scott Group

Okay. And then, Derek, maybe this is a crazy thought, but everyone is saying the same thing that it's just taking longer for this capacity to come out of the market. And it strikes me that this cycle versus prior cycles, you and all the asset-based carriers have much bigger Brokerage businesses, much bigger Power Only offerings that are just sort of feeding volumes to these small carriers. And again, maybe crazy, but could it make sense for you and maybe others to shrink the Brokerage offering, shrink the Power Only offering, maybe stop giving volume to small carriers? And do you think that could help accelerate this capacity reduction and get the cycle going again?

Derek Leathers

Yes, Scott. I don't think it's a crazy thought. I think the issue just lies in the execution, right? Like to actually do that, we'd have to assume that the other brokers that don't have asset positions would also somehow magically stop distributing that freight and not take advantage of the vacuum that it would create. And I don't think that's how it would actually play out. I think they would fill that vacuum. They would feed those carriers.

And so instead, I think it took a while, at least here at Werner, for us to really execute properly on making sure if we're going to have this large non-asset portion of our portfolio, how do we make sure our assets are doing exactly what they're designed to do and in the most optimal performance lanes for our assets, which is different than where a small carrier may be able to operate more effectively. It's a competitive space in Truckload Logistics, which includes both asset and non-asset from a market perspective, and so we've got to bring to bear a product that can compete effectively long-term. And we believe that mixed approach is the best one, kind of a more asset light, if you will, approach.

Finally, I do believe the difference maker in Power Only and the reason it's so valuable is the customer experience. Power Only is a completely different experience from a non-asset broker in that we've got trailing equipment already there and in place. We are hauling a portion of that

portfolio on our own assets. The remainder going to Power Only. The customer gets a seamless experience with a seamless interaction, tracking and tracing and capability.

And I think it wins in the market and we're seeing that with outpaced growth in Power Only inside of a division of Werner that's also outpaced growth, which is Logistics overall. We did do some culling in Q1, so you saw and end, I believe, to the 12 plus quarters of double-digit type growth in Logistics. And that's because of us just simply yielding off the bottom and being aggressive on some of these untenable rates. We're going to keep that pricing discipline front and center as we go forward, especially at the point in the market where we believe we are.

Scott Group

Thank you, guys. Appreciate the time.

Operator

The next question is from Brian Ossenbeck with JP Morgan. Please go ahead.

Brian Ossenbeck

Hi, guys, afternoon. Thanks for taking the question. Maybe just wanted to follow-up on that conversation there. In terms of the 11% utilization or production growth that you see for Werner here, is that something else you think other fleets, larger fleets, maybe mid-sized ones are also doing? And therefore, there's a bit of a belt tightening on the large fleet side and so they're able to keep more capacity in the market. And then on the other side, we've speculated on this for a while now, but what do you think is really keeping some of these smaller carriers from going under at least maybe if that would accelerate from here, what do you think would finally move that, or do we just have to be patient on that front?

Derek Leathers

Yes. Thanks, Brian. Starting with the utilization question. Although other fleets have shown utilization improvement year-over-year, I haven't seen anybody that's hit double digits, to my knowledge. I think it's something that we're laser-focused on. We're executing at levels that I'm extremely proud of with our team and the work they're putting in to do that. I think it's sort of the early innings of some of the tech coming to bear that and some new tools that we're deploying as well as, as I stated earlier, just a simple focus on what we do really well and doing that with our assets and then providing a solution to customers via Power Only to do some of the remainder work at still a very high level based on the technology that we've deployed to make that happen.

So, it's hard to come by. It's not easy to achieve, especially with the freight market like the one we're in. But I think all of us are getting more creative with how we can try to sweat the assets further. But again, that 11% is a number that we're extremely proud of.

As it relates to the attrition question, it's tough to predict. We are seeing ongoing attrition. You're now starting to see, in recent weeks, bankruptcies that are more notable, size of fleets that are more impactful, but it's going to have to continue to take place.

And unfortunately, or fortunately, I guess, depending on how you look at it, customers seem all too willing to continue to push people over that cliff. We're going to maintain our discipline and stay on firm ground, but there will be others that are continuing to sign up for rates that I don't believe are tenable and then will find themselves on the wrong side of the ledger shortly. So, it's got to play out. We've got to be patient. In the meantime, we can't sit around worrying about it all day. What we have to do instead is redouble our efforts on best-in-class execution.

Brian Ossenbeck

All right. Thanks for that, Derek. And then, maybe just sticking in the short-term, can you talk more about what you're seeing in April so far, how that compares to seasonality? What visibility do you have into the second quarter just for, probably in the TTS side, in terms of the demand there. And I guess, ultimately, if you still have an expectation for the spot market to recover here? Is that the demand visibility, is that helping drive some of that?

Derek Leathers

Yes. So, in April and in Q2, in general, and I'll keep this fairly high level, but it's a bit of a tale of two cities. We know that some of the fleet attrition we've seen in Dedicated will continue to play out in Q2 and Q3. At the same time, we do have a pretty strong pipeline of new opportunities and some new implementations that are already on the books. The net of those though is that we believe you'll see some fleet shrinkage as we have remained or kept that pricing discipline that I've referenced several times. We're simply not able to sign up for a Dedicated contract right now that is not reinvestable or not in our margin profile and we believe that would be shortsighted to do so.

One-Way by contrast has seen limited, but still have appeared spring activity, some project activity and increased opportunity for pricing. That's encouraging. It's early, early, early. And so, I'm not taking that to the bank just yet. But indications and how we think about network bookings and pre-bookings and overall demand seem encouraging. And then just the build I talked about from January to February to March in terms of profitability as all indicators are that we're on a path for that to continue as we go forward. And so, we'll have to see how it plays out, but early signs are encouraging.

Brian Ossenbeck

Alright. Thanks very much, Derek. Appreciate it.

Operator

The next question is from Ken Hoexter with Bank of America. Please go ahead.

Ken Hoexter

Good afternoon. Thanks for the time and the question. So Derek, maybe just harp on the Dedicated a little bit more. You talked about increasing competition. I just want to understand, is that because of the loss of dollar stores, or are there plans to shrink some of the stores. I know maybe not your direct one, but I know there were some out there talking about bringing some of that planned expansion back in or closing some stores? And is that just an absolute shift to now the cross-border opportunity with that fleet. So, is that a maybe more a permanent shift in that fleet? Maybe talk a little bit about that Dedicated market?

Derek Leathers

Yes, Ken. I mean I'll start with this. Every one of our discount retailers year-over-year is up in truck count within Dedicated. So, I just want to put to rest this idea that there's some big carnage going on within Dedicated, especially this hyper focus on the dollar stores and different announcements of different types. We are up across the board in our discount retail segment, and that includes beyond the dollar stores. So, we feel like that product is one that still has great value. It's one that's certainly appreciated and it's one that we believe we have a competitive advantage on, that differentiates us from our competitors.

Dedicated in general is very price competitive right now. So that pipeline I've referenced multiple times is full and it looks encouraging, but we would be remiss if we don't just accept that the win rate is going to be, at least in the current market, at historically low levels because of that pricing discipline that we're going to continue to execute against.

And so, where those lines cross is tough to predict right now. It's probably harder in Dedicated than anywhere because you're talking about signing up for what you hope to be, not just that initial multiyear term, but in most cases in Dedicated, it becomes a relationship that last decades. And so, we want to get it right going in. We want to do it with the right thoughtfulness.

And then, the last thing I'll mention because we've talked about some fleet attrition is, there are certain disadvantages with incumbency in Dedicated. And the biggest one of all is that you know what the actual work is, whereas competitors bidding on that same work, bid based on an RFP and a profile that's been provided that often sounds a little more amenable to your skill set than what it actually is going to be once you enter. And so, we've got a lot of new entrants into Dedicated that may or may not have full exposure and understanding of what they're signing up for, and we're seeing that in the pricing.

So, our job is to know when to walk away and push away from the table and make sure that we're still staying focused on the prize, which is long-term shareholder value and making sure we're building a company that's built to last. And I'm excited about what this looks like as it plays out and this turn takes place. But in the short-term, there is no refuting the fact that there is pain afoot, and we're going to keep fighting through it.

Chris Wikoff

Ken, I would just add. Yes, we do still have high customer retention. And with our, on average, large fleet size on a customer-by-customer basis, one, two, three losses can be more material and they can take a bit more time, particularly in this market, to replace it. But we feel good about growing Dedicated beyond some of the near-term backfilling of these fleets. Dedicated is a large addressable market. There's new verticals, there's private fleets that we can be well positioned to win in a tighter market. So, we are positioning for the long-term.

And with these isolated fleet losses that we've been referring to, a little bit less than two-thirds of them really relates to managing the yield in this competitive environment and making sure that we're getting into margin and pricing that's re-investable long-term. And then a little bit more than a third is really related to customers that are changing their approach to supply chain dynamics and parameters and the like. So there remains a very strong pipeline for us to draw from. We've continued to price numerous opportunities. So, it's competitive, but we'll continue to be in the mix and be aggressive and focus on pricing discipline for the long-term.

Ken Hoexter

I appreciate that. And if I could just get a follow-on kind of on that you mentioned a competitive bid season and noted that some brokerage, I guess, maybe either brokerage carriers or particularly guys out there who are getting more aggressive on pricing? Is there anything or industry or, I guess, industry leader that you would call out or want to talk to?

And then it seems like if you kept your revenue per ton mile down 3% to down 6% and the first quarter was down 5%. Does that mean maybe the midpoint kind of looking for a little bit of sequential improvement or stabilization in that rate? Or is that just hey, that was the rate we set, we're sticking with it. I just want to understand if there was a message you wanted in there.

Derek Leathers

Well, a couple of things. First, I'm not going to call out any industry leaders on their behavior or strategy. I do think when you get deep into a cycle, which one thing you find is customers, even those looking to take another bite at the apple are aligning themselves more with assets than non-asset. It's just a logical thing to do at this point in the cycle. And so, our ability to have those assets matters a little bit more now than they might have a quarter or two ago is upon us. And we're starting to see that with certain bid results.

But the white noise that's created by broker potentially undercutting rates or getting even more aggressive knowing it's harder to win right now, can be problematic, and we see that as well. And it's a matter of whether you're aligned with the right customer base. And in most cases, we are. And in some cases, we're finding that perhaps we are not. Our job though again, is to go back to the playbook and make sure we execute the plays as drawn and stay committed to what we know works to and through a cycle and feel good about what we're doing there, despite the Q1 results. It's a longer-term view. It's a longer-term strategy than just a quarter. So, we'll stick to our knitting and move forward. And as this plays out, I think we're going to have the right formula for success.

Chris Wikoff

Yes. And Ken, just to follow-up on the last part of your question there on rate per mile. I believe you're referring to the One-Way Truckload rate per mile and the first half year-over-year guidance of being down 6% to down 3%. You're correct. I think you referenced being down 5% through the first quarter on a year-over-year basis. So still within that range, although trending to the lower end, we're about 30% through the bid season. There's been some mixed results to this point, including some low single-digit reductions but also some that are flat, and more recently, some that are increasing renewals. So, we have a bit more to go in the heavy part of the bid season here, but we'll continue to maintain that pricing discipline and do what we can to stay in the range there.

Ken Hoexter

Thanks for the time, guys.

Operator

The next question is from Tom Wadewitz with UBS. Please go ahead.

Mike Triano

It's Mike Triano on for Tom. So obviously, a tough operating environment, but your free cash flow was up 9% year-over-year with the step down in CapEx. Werner is one of the largest and best-run trucking companies out there. But to what extent is the cash flow resiliency that you've had representative of the broader trucking market? And do you think this is a reason why capacity has been so stubborn to exit the market?

Chris Wikoff

Well, just in terms of maybe the first part of your question on our cash flow and trend. Over the past couple of years, our free cash flow has been more in the 2% to 4% of revenue. In building the plan this year, being mindful of the operating environment, margins and reinvesting in the fleet, lower CapEx, we were gearing towards a free cash flow that on a percent of revenue basis was just going to have higher free cash flow conversion. We still feel good about that outcome for the year, given all those factors and managing a CapEx level that still appropriately invests in the fleet. So, we think that even in this environment, is going to continue to be a positive trend on free cash flow conversion going forward.

Derek Leathers

And the second part of that, I'll jump in. As it relates to, are others able to do that. Certainly well run, large, capitalized fleets, I think, are probably putting a lot of diligence towards this. I'm not so sure your small to midsized trucker thinks about free cash flow much until it runs out. I think the difference is, it takes a long time to kill a trucker. And they are out there operating equipment that they're running to the end of life, but no ability to reinvest or re-up or even refresh that particular piece of equipment.

There's regulatory hurdles and other things about to come at them in waves that I think will make that reinvestment even more difficult. And they were flush with cash coming out of the COVID years, and that's largely burnt off, if not completely burnt off at this point. So, I think it's happening, it's going to continue to happen. But no, I do not believe they're managing free cash flow the way people like Werner Enterprises are. But nonetheless, it's just taken a long time for them to kind of burn through the remaining life on that asset and ultimately exit.

Mike Triano

Okay. Thank you for the time, Chris.

Operator

And the last question today is from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors

Thanks for taking my question. I don't want to get too short-term here, but I do think it would be helpful to level set expectations and bring together some of the seasonality commentary you said earlier in the call.

So, if I look at 1Q to 2Q, and you strip out the outliers, operating income and earnings, they typically grow anywhere from 20% to call it, 50%. Is that the kind of range that feels reasonable with the puts and the takes that you've already talked about, or is it just too early to do that kind of normal historical relationship given the uncertainty out there? Thank you.

Chris Wikoff

Bascome, I appreciate your question. We don't give EPS guidance, but just to give some color. I guess, in terms of the business outlook. As we look forward, kind of midterm, we would expect demand to remain steady. The rate pressure is going to be ongoing across the portfolio. No real signs of more meaningful attrition in that excess capacity, which is obviously driving this whole rate environment. It's going to keep the environment competitive. We have more to go in kind of the heavy part of the bid season, and we'll be backfilling some of the Dedicated losses, fleet losses into the second quarter although, again, there's a strong pipeline of opportunities that we can draw from.

We expect the revenue per truck per week on TTS to continue to be growing on a year-over-year basis. That year-over-year difference might moderate a bit as we go through the year, but we would continue to expect some year-over-year favorability there. The used equipment market is important. And as I said earlier, I think that will improve modestly throughout the year. And we're going to continue to advance our structural changes, the cost savings, which are on track and growing. We'll continue to progress those.

We'll continue to lean into safety and looking for that to show a more favorable trend and some of those low \$30 million per quarter numbers that we are seeing in the second half of last year. We'll continue to lean into our operational excellence and really get more of that production improvement on the One-Way side. So, we can't control the macro. We can focus on

controlling the controllables, continuing to serve our customers safely, reliably and at scale and execute on the long-term strategy.

If we do that, then we're going to be more positioned to navigate this market well and be ready for a tighter market and a better market. Q1 is typically our low quarter coming off the peak, and there were some compounding factors in the first quarter, including, call it, \$0.05 to \$0.06 of really unique one-offs in terms of the adverse weather, elevated health insurance costs and some discrete income tax adjustments in the quarter that aren't necessarily expected to continue. So, a lot there. I'm probably not being as specific as you would like, but we would expect some improvement, and we're just going to continue to be focused on controlling what we can and being set up for a better market when it comes.

Bascome Majors

So, it sounds like you do expect sequential improvement, just it's really hard to peg that versus any historic sort of bogey at this point?

Derek Leathers

We do.

Bascome Majors

Thank you very much.

Operator

This concludes our question-and-answer session. I will now turn the call over to Mr. Derek Leathers, who will provide closing comments. Please go ahead, sir.

CONCLUSION

Derek Leathers

Thank you, Gary. I want to thank our nearly 14,000 Werner associates for their dedication, loyalty and commitment to supporting each other and serving our customers daily. I also want to reiterate our support for everyone impacted by the recent tornadoes across Omaha and the Midwest, and we will get through this. I want to thank our valued customers for choosing Werner and giving us the opportunity to support their business. And we will continue to operate with our eyes wide open as we navigate the current very challenging environment. We are controlling what we can and driving operational improvements, managing expenses and driving savings while strategically investing for our future.

Our balance sheet is healthy, and our cash flow is strong, and our diverse portfolio puts us in a great position for the eventual market turn. In the meantime, we're going to remain disciplined on our approach. We're going to remain committed to safety and we're going to continue to serve our customers. I'm going to thank you all for being with us today and for joining our call.

Operator

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