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Dan Moore

I appreciate you guys being here. It's been a heck of a year. It's been a heck of a couple of years, really. I was wondering if we could maybe just start off with a state of freight. Get your perspective on the current backdrop. This year, in particular, has had a lot of dynamics to navigate, everything from the front-loading of inventories to government shutdown, regulatory developments, just a fairly benign economic freight environment in general. How are you guys thinking about the broader market?

Derek Leathers

First off, thanks for having us. We appreciate being here. Yes, it's certainly been a volatile year. I mean, I think coming into 2025, we all kind of thought normalization was going to be back sooner than it has appeared to arrive. A lot of noise with tariffs, a lot of inventory reshuffling, as you talked about. But as we get in the latter half of the year, I mean, there are some encouraging signs. This time of year is when we've kind of finalized what peak season looks like with most of our major shippers. A year ago, we talked about the first sort of normal peak that we felt we had seen in the preceding few years. This year's peak is shaping up to be very similar, with an opportunity to the upside over last year. So that's encouraging.

What's harder to kind of figure out or parse is how much of that is sort of new demand or increased demand versus some of our core customers just taking share in the space that they operate. We do a lot with discount retail. Discount retail is doing pretty well right now. Large big-box retail is doing pretty well right now, with an exception or two. Those exceptions happen to be lower exposed in our portfolio. As we go into this sort of end of year, a bright side would be that it looks like it's shaping up to be a normal peak that we would have seen in the years preceding COVID, et cetera, in terms of the pace of sequential sort of lift that you might get, that's exciting.

There's increased enforcement out there, so it's hard to tell how much is on the supply side, just pulling more out abruptly with some of the non-domicile CDL enforcement, ELP, B-1 visas, some of those things. The net of it all is that things seem to look a little brighter, a little better as it relates to the supply-demand equation in our network. The last thing I'd say on that is just to remind people that if you're at the trough and maybe even starting to see a glimmer of a turn, it is not at all uncommon that larger, well-capitalized fleets like Werner would start to see the benefit of that earlier as customers start to shelter in search for sort of quality, if you will. These difficult, complex solutions to solve suddenly want to find asset homes versus non-asset homes.

They suddenly want to find well-capitalized carriers that they know are going to be here every other Friday versus finding out that their drivers were just stranded over the road without a paycheck. All of that creates noise. The big picture would be that it seems to have hit bottom, stabilized with the potential year-over-year for some peak upside.

Dan Moore

Maybe to dovetail on some of that into a question about next year and the framing for moving forward. We've argued that part of the reason why freight demand has been weak has been the lack of fiscal or monetary stimulus. We seem to have a more accommodative Fed. We've got a tax bill that should deliver some stimulus, both in terms of rebate checks, but also the potential for reacceleration in domestic manufacturing activity. We've got some very easy comparisons. It's very clear that capacity is coming out. I think we're all just waiting for demand to show some improvement. Housing is a questionable backdrop, really need the long end of the curve to come down. The short end of the curve, near-term end of the curve, seems to be positioned to come down.

So how are you thinking about 2026 at a high level, given the duration of weakness? I guess, this is really the longest downturn I think I've ever experienced in my career. As we look forward, how are you thinking about 2026?

Derek Leathers

I agree, first off, it is the longest downturn I've seen. I've been doing this 35 years and I've never seen one this long or this deep. It's uncharted waters. As I think about 2026, I guess I'll start with what I'm excited about, is the portfolio itself. We could have taken a lot of paths over the last year, in particular in 2025, sort of hunkering down, stopping the investment, stopping the technology journey that we're on in order to kind of play the short game. Or you can just realize, no matter what you do, it's going to be fairly difficult and instead take a long-term view. That's what we did, we took the long-term view.

So as we come into 2026, our portfolio is rounded out better than it's ever been going into an upturn, whether that's everything from Final Mile to Intermodal, Dedicated, One-Way, all the different things we do. And then our Truckload Brokerage group and Power-Only group is as strong and robust of a product as we've ever had in our history and so I like the setup.

On the investment side, I love the fleet setup because it's going to be a constrained OEM market in 2026, in my view. We're not having to make up for a bunch of lost sleep. Our truck and trailer age are in good shape as we go into the year and so we're able to be nimble and respond and bring a broad portfolio of solutions to our customers. So, all of that bodes well.

As to how the year itself will shape up, obviously it's tough to tell. We tend to wake up every day right now with policy changes via social media. And so, I'm not going to try to sit here and predict what the next one might be, but it does matter that we don't have any glaring hole in the portfolio nor any tech debt or other investment oversight that we haven't been making, so we're going to be nimble.

Out of all the things you mentioned, the one that I think I'm most excited about is this tax rebate. I think the group of the population that will be the ones receiving this outsized refund this year based on no tax on tips and no tax on overtime is the exact consumer base that our customers serve. And those are the customers that we are very pronounced with. So, the positioning there is outstanding.

Clearly some of the other stuff has a little longer tail, whether housing bounces back, whether CapEx behavior changes meaningfully with some broader economic sort of ambiguity out there, I don't know for sure. But all things would point to a much more positive environment in 2026 at the macro level. And then this rebate thing I think is overlooked greatly by many people in terms of what this tax refund could be like in terms of a stimulus. And so we're excited about that.

Dan Moore

You mentioned the regulatory environment and it's been an evolving one, a dynamic one. I think a lot of us are trying to discern exactly what ELP means for the industry over the next year. I think a lot of us are trying to figure out obviously what non-domicile driver CDL attrition looks like. We had development I think around the close of the market yesterday with a D.C. court issuing a stay on the DOT's efforts to curtail non-domicile CDLs, but seems more of a speed bump than anything else.

Could you maybe just talk a little bit around those two in particular? And one other comment around that, I think we've all wondered why capacity has been so slow to come out and I think maybe this gives us an idea of why capacity has been slow to rationalize. But I think these are pretty meaningful developments, kind of an iterative process over the next 12 months where you would expect capacity to rationalize. We haven't had a supply driven cycle since 2000. How are you thinking about ELP? How are you thinking about non-domicile CDLs?

Derek Leathers

Yes. I mean there's a lot there obviously, but I mean, I think I'll just kind of zoom out for a second. I mean we are very much in favor of increased enforcement. We think the industry has shown the need for some increased enforcement based on some of the actions of certain players within the industry. At Werner, we're in great position on all of the above. We never stopped our English language proficiency as part of our onboarding exam for new drivers. So, we feel very comfortable with the status of our fleet from an English language proficiency.

I do believe it's a safety issue. I know there are debates and politics that leak into some of this stuff, but at the end of the day, if you have 80,000 pounds and you're going down the road and you can't read a dynamic road sign, that's a problem. I mean, you need to know that, that sign that just changed, said there's an accident ahead and you need to immediately break. And if you can't read that, then we've seen some of the outcomes that can come out of that. So, we're in great shape on ELP. We hope that enforcement continues to spread.

So far it's been targeted at best and very localized in its enforcement. I think you'll see that spread. Non-domiciled is really the answer to the question that none of us have been able to solve for the last several years because all this experience and all of this tribal knowledge that everybody seemed to have relative to trucking histories and cycles and none of us could figure out why this downturn lasted so long.

And I think we missed something right in front of us which was we track bankruptcies and new MCs and deactivated motor carrier counts and all kinds of different metrics and what to my knowledge nobody was really tracking, is the most basic thing of all, which is number of CDLs issued by state. And there was a sudden and massive ramp up in a handful of states where they would go from a baseline of 15,000 a year to 50,000. And that's a problem because you didn't suddenly increase the driver school network in that state. You didn't suddenly increase the quality or quantity of people looking to become truck drivers.

So where did they come from? And many of those, not all, but many of those came through this sort of non-domiciled loophole that was never advocated, contrary to all of the stuff you may read by the transportation sector. It was an immigration thing that was advanced or the loophole was exploited, if you will. Non-domiciled originally, the origin of it was we had states that had six months to nine months delays to be able to administer a CDL test. So, the industry was advocating that you should be able to go to the state next door and go get a CDL test, hence non-domicile CDL.

Somebody somewhere figured out that it could be exploited in a different way. So, I think the administration, if they've shown one consistent thing is the tenaciousness about enforcement of things they sink their teeth into. So yes, there was a stay last night. I suspect they will stay all over this issue. They will continue to ramp ELP enforcement. They will continue to find and fight for the non-domiciled enforcement. And I think all of that will in fact clean some of the issues that the industry has been faced with from overcapacity, but also just some underlying safety realities. So, this isn't some big data study, but the facts are still the facts. If you look at all of the major 10 truckload carriers in America or trucking companies in America for that matter, one thing you'll see in common is every one of them is announced repeatedly in the last three years, all time low in accidents per million miles, all time low in preventable accidents or 20 year low or 25 year low.

And yet over this same period, total truck involved accidents in the United States has been creeping up. So, if that's not the base case at the major players within the industry, and I would argue it's not the base case at all these family owned businesses that have been around for 50 years either, why is it increasing? And I think the answer over time, when you get a chance to do the full exhaustive study, we're going to find a lot of it linked back to lower standards on CDL issuance, lower standards on driver schools. And so enforcement of the entry level driver training is a very important part in 2026, that will also be a component that we are strongly in favor of.

Dan Moore

One thing that I think has been very differentiated this cycle has been inflation. It's something that was underappreciated, something that's had a profound impact on financial returns across the entire industry. As we think about the path forward, the only way to get back what you lost as an industry is through rate. When you have inflation, rate is the lever you have to pull, not utilization, not productivity. It sets the stage as things eventually do improve to potentially have a fairly aggressive recovery in rates.

I don't want to put words in your mouth and I certainly don't want to put the carriage before the horse, but that seems fairly self evident. I'm curious how you're thinking about what the next upturn is likely to look like from a rate standpoint and what your disposition is as things improve. Do you think you'll be more inclined to go after rate or do you think that this next up cycle will be consistent with a more traditional rate recovery which would be maybe a little bit more pace driven and not as aggressive?

Chris Wikoff

Sure, Dan, maybe I'll start out on that one. Certainly, rate matters. We've had, in terms of our One-Way business, on a rate per mile basis, we've had five consecutive quarters of rate increase, but they've been obviously very modest. We're talking tenths of a basis point over many of the last few quarters on a year-over-year basis. So that's good. But we need more, rate definitely matters. Some of the other things you mentioned also matter and contribute – production, operational efficiency, technology, seeing value out of a long journey there in terms of invested time, energy and capital into technology and how that's changing our business as well as cost discipline.

So, we're focused on all that. But absolutely rate does matter. We need more of it. We'll take more of it, we'll pursue more of it. It needs to be something north of low single digits and a lot more to play out in terms of this backdrop of maybe some accelerated capacity attrition that will set up 2026 to be a better year where we can pursue rate more meaningfully. But all of it does contribute. Back to your comment on inflation, it's moderated a bit maybe compared to prior years. It's not as up and down the P&L and maybe more in pockets of expense line items, but it's still there for sure and we have to be mindful of that.

As you said, tariffs, there's a lot to be seen with the impact of tariffs on equipment costs and other things to continue to play out. And some of the inflationary concerns there, certainly from an insurance and claims perspective, more so on the cost per claim, insurance renewals are up, but those are low single digits. So still inflationary, but we're not seeing some of the double-digit rate increases that maybe others are, but that's still an inflationary category.

The cost to provide employee benefits, there's inflationary concerns there. So, tackling that with rate but also controlling what we can leaning into technology, continuing to be mindful of cost, which we've done over the last couple of years of, call it, \$50 million annually of cost takeout, cost savings per year. But the reality is that's about 1.5% of revenue. So that's combating inflation. And we need other things, some things that we control, some things that might be more influenced from the macro and how that's changing. But all of that is needed and contributes.

Derek Leathers

Yes. The only thing I would add, I agree with Chris wholeheartedly. In general, the whole rate discussions are always kind of supply-demand driven and you get into these long debates about where we're at in the market. But as we sit here today, these shippers are aware, now how they respond to it will be a different story, but they are aware, that the most sustainable solution they can put into their supply chain is the one that can afford to exist next year. And if you look at the publicly traded group, which is the best and most capitalized group out there, and you think about them hovering at or around break even multiple quarters out of the last four or five, that is not a sustainable solution. And so the time has come, we have to up the volume on this. We have to be more aggressive relative to rate as we go into this upcoming bid season because we're unable to continue to respond.

As they've already seen in their own networks, carrier after carrier go under and we get those calls today and we can't continue to respond to those calls, if we're going to help, we need to ask for help as well. And so I think there'll be some friction back in the network now that we're close enough to equilibrium and that friction is needed and necessary. And it won't be just us out there alone kind of pushing as it relates to the rate relief that's needed to make this industry reinvestable.

Dan Moore

Thank you for that. Maybe to shift to Dedicated. I'd like to talk a little bit about what you're seeing in the Dedicated market. I think that the financials of the industry have been so pressured and strained that it seems like a lot of irregular route is finding its way into the Dedicated market. At the same time, I think you guys have indicated that your fleet size got too small relative to your fixed costs. You've been very actively engaged in rebuilding the business pipeline, bringing on incrementally, certainly compensatory business and trying to position that vertical for improvement. Could you talk a little bit about what you're seeing in the Dedicated market? How you feel about your efforts to grow the pipeline and add truck count?

Derek Leathers

Sure. I mean, it starts with, you mentioned this, but our heels are on the line in terms of there is no retreat from here on fleet size. We have to hold the line at or around where we're at. I'm not talking about 100 truck variations up or down. But there can be no meaningful shrinkage of the fleet to try to solve this problem because there's a certain amount of infrastructure, fixed cost and kind of muscle mass that we need to be able to do this complex work for our customers.

So instead, we're going to continue to focus on what we do well, what is more stable to and through any cycle and that's Dedicated. Demand in Dedicated is strong. The thing to watch out there is to keep discipline around, not letting irregular route type freight that isn't really Dedicated be able to be packaged up and masqueraded as Dedicated because that will unbundle as soon as the market was to ever get loose again. And so we would prefer to pursue and luckily the pipeline is plenty robust that we can focus on our efforts on true Dedicated.

So, while the macro total fleet count may not move much in the year over the next several quarters, the opportunity to move more of the total fleet into Dedicated is in front of us. We're going to be able to be very selective out of this robust pipeline because the pipeline is much larger than the amount of trucks that we feel comfortable moving. We need to leave some trucks in One-Way for a couple of reasons.

One, One-Way will in fact be a place that has opportunities to be very nimble and potentially have a lot of upside as we go through this turn in the cycle. Secondly, we are one of the largest players to and from Mexico and that is serviced by our One-Way network. And that is a different market with different characteristics and different ability to take rate as the market tightens. So, we want to have our exposure there.

In Dedicated itself, it's also about kind of expanding our verticals. So, we've talked a lot about the last couple of quarters being burdened with some pretty significant startup costs. That is not some indication of what startup looks like from all of the future Dedicated, because those were new verticals that we made strategic decisions back to playing the long game. If you have the opportunity to expand your exposure into brand new verticals with a quality name that has tons of upside, you sometimes got to spend what you got to spend to make sure you nail the first one.

And so that's what we did in Q2, that's what we did in Q3. That tail is now tapering off in Q4 and will represent much less of a headwind than it did in those two quarters. And future wins in that vertical will not come necessarily with that same headwind as we've learned and developed the kind of expertise and sort of muscle memory that we needed. That's not to say there isn't headwinds with every Dedicated startup, but these were very much outsized compared to the norm.

And not to mention that as markets do, in fact, if it does tighten as you get deeper into 2026, we have history with getting implementation costs offset at times by our customers or at least supported. But the market in 2025 just wasn't going to be supportive of that. And our desire to expand beyond such a heavy discount retail, food and beverage type structure within Dedicated made that a strategic investment in my mind.

Dan Moore

Right. Appreciate that context. So used equipment market, regulatory influences around it. We've seen a pretty meaningful change in the used equipment market post-COVID highs. Kind of, I guess I would say really used equipment has always been an important consideration for investors when you think about Werner and your exposure to that market, your expertise in that market. I think there's certainly an expectation that if regulatory efforts wind up effectively reducing the number of non-domicile CDLs, English language proficiency always also has an impact. We could see an incremental increase in used units in the marketplace.

At the same time, if you go back and look, there was certainly a 2021, 2022, 2020 period where you couldn't build a truck, couldn't get a truck. So there's a structural deficiency in the market that I think also could act to support used equipment values. Could you talk a little bit or frame how you're thinking about the used equipment market today and what that means for your business?

Chris Wikoff

Yes, I'll maybe start on that, Dan. Where you started this topic, yes, gains are important. They've been an important part of our P&L in any environment, up, down, we think we're maximizing value just with our expertise across the country in our fleet sales network as well as just the modern and low age, low miles remaining warranty that we have in our equipment.

In much better years, gains have been north of 150 basis points of revenue. Even in peak years 2021, 2022 it was between 2% and 3% of revenue. All of last year it was less than 50 basis points. Although the last two quarters that has been improving largely due to a return to higher resale values. All of last year we were on a per unit basis, we were seeing resale values at two-year lows, that really came into and was fairly consistent in the first quarter. But literally in about 30 or 45 days at the end of Q1 and coming into the second quarter, we saw those resale values on a per unit basis, particularly on the tractors, return from two-year lows to two-year highs and that's where it has been over the last couple of quarters.

So that's been a significant development. Can it stay there? A lot of factors involved, I think over a longer period of time, call it the next couple of years, there's probably more things that move incentive towards the used equipment market rather than the new equipment that will be helpful, that will continue to support those values. When you look at tariffs, when you look at OEM manufacturing limitations and constraints, even some of the views and how the EPA mandates and 2027 mandate plays out, all of that I think drives more incentive to the used equipment market. So, because of that, over the longer term, I think there's more things to point at that will support resale values. But that's not to say, given the backdrop and all the pressure points on capacity and some accelerated attrition there, that there can't be some valleys in the short-term of resale values as additional equipment comes into the market.

Dan Moore

Right. I have another question or two here. To the extent though that anybody in the audience has a question they'd like to ask. I'd like to afford you guys an opportunity to ask. Any questions from the audience?

Audience Member
[Question Inaudible]

Derek Leathers

Well, if you look through history, anytime we quote, have to pay truckers more, it's still a good environment to be a trucker. So having to pay truckers more is not incongruent with us being able to expand margins and do better. Almost every contract we hold, and certainly every contract in Dedicated we hold, has carve-outs for two things. One is, unforeseen government regulations, and two is, driver pay. Because if I can't seat the truck and we can provide meaningful insight and data to the customer that it is a compensation issue, then we have mechanisms to gain their support. And as we do that, usually it also ensures that we have even better stickiness with the ones already in the fleet. And the one thing we know for sure is the more longevity you have in a fleet, that the lower your actual overall cost is in that fleet because of decreased maintenance cost, less accidents, less issues, better service. And so it's a net positive.

Yes, I understand the concern. I also would just point out that the thing that we're very enthused about as a driver market that tightens and maybe becomes more of a domestic-only driver market, is that we operate one of the largest school networks in America and we have long ago transitioned to all of the standards and then even some additional standards above the entry level driver training standard. So all the talk and rhetoric about enforcing that standard more excites us, because that's the exact training standard that we use, even with some additional add-ons and then after we take a driver out of even our own schools, we then finish that driver with a leader in our fleet for multiple weeks of direct supervision over the road. And so we've got this sort of vertically integrated pipeline that puts us in a unique position. Doesn't mean we're insulated completely from a tightening driver market, but it does mean that we're in better position than most.

Dan Moore

I think we're out of time. Thank you very much for being here. We've really enjoyed the conversation and I hope you guys have a good conference.