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Barclays Analyst: Eric Morgan
Werner Enterprises: Nathan Meisgeier, President and CLO and
Chris Neil, SVP, Pricing and Strategic Planning

Eric Morgan

Good afternoon, everyone. I'm Eric Morgan, I cover trucking here at Barclays and very excited to have Werner Enterprises here with us to close out the afternoon. With us, we have Chris Neil, SVP of Pricing and Strategic Planning; Nathan Meisgeier, President and Chief Legal Officer of the company, who oversees a lot of different functions across Werner. So very happy to have you both. Thanks for joining us. And as with the other sessions, we'll kick it off with audience response questions. If we can queue up the first three, just run through those, kind of quickly before we get into it.

I know you have some prepared remarks, but maybe we'll just do this real quick, some audience questions. So, do you currently own the stock? Yes, overweight. Yes, market weight. Yes, underweight, or no?

Second one – What is your general bias towards the stock right now? Positive, negative, neutral?

And then finally, in your opinion, through cycle EPS growth for Werner will be above peers, in line with peers or below peers? And happy to have you kick it off with some prepared remarks. Thanks for being here.

Nathan Meisgeier

Thanks for having us. So, for those of you not familiar with the Werner story, just a quick backdrop of that. We're approximately a 69-year-old company started by one man, CL Werner, one truck, and now have grown to a multi-modal portfolio company just shy of 7,500 trucks, just shy of 29,000 trailing assets. And so really, if you think of our business in two segments, so the asset part of the business, the trucking side of the business, Truckload Transportation Services, TTS for short, that's the asset side.

So that is broken into about two-thirds Dedicated – so trucks and drivers that are dedicated to a particular customer, hard-to-serve, complex usually large enterprise customers, 3- to 5-year contracts, hard to displace, like I said, complex, so often driver touch or multi-stop freight. The other third of TTS is One-Way. So not really "you call, we haul," but more engineered lanes, expedited freight and then cross-border Mexico. So that's the asset side of the business.

The asset light side of the business, which is our Logistics side of the business, has three main components to it: Truckload Brokerage, Intermodal and Final Mile, with Truckload Brokerage being the lion's share of that. So that allows us the opportunity to serve customers and really meet them where they are, find the best solution for our customers.

And then the only other thing I would really add, so we can get to questions, Eric, is that through the last, anybody in this room realizes that the freight economy has been in rough shape for the last 2.5, almost 3 years. And really what Werner has done during that time is make sure that we're investing in the things that will allow us to be in the best position to run when the upturn starts to really heat up. So, investing in our equipment, we have a leading, young fleet for trucks and trailers. Investing in technology to make sure that we come out of this downturn without any equipment debt, without any tech debt and making sure we're ready to run and meet our customers where they are.

Eric Morgan

Great. Appreciate that. I definitely want to dig into some of the insurance issues across the industry and at Werner, given your area of expertise. But maybe we could just kick off the Q&A with just kind of a cycle, a state of the cycle. You guys are calling for gradual improvement, I believe, this year after a very prolonged down cycle in truckload. We're seeing little bit of moderation in spot rates in February. What kind of gives you the confidence that we will see this improvement this year?

Chris Neil

Well, I think it would start with the fact that dialogue with customers already has just been more positive than maybe it was a year ago. So, discussions around capacity, around solutions, those kinds of conversations much more so than around price, and that was what we've been used to over the last couple of years. So, what gives us confidence in the setup of the freight cycle moving forward are a couple of things. I think a few things that we've seen would be improvement in spot rates, so you look back in December, we had two times as much peak volume than we had the prior year, and that came at better rates. And just in general, there were more opportunities. Spot rates were consistent with those better opportunities in the fourth quarter.

That carried into January, as you mentioned. I think seasonally, we're seeing a bit of a drop here with spot in February, but I think that's just normal seasonality. And so, we've seen spot rate improvement. We've seen rate improvement in One-Way trucking. We've now demonstrated and reported two consecutive quarters of improvement in One-Way trucking rates. That's clearly after two years of a downturn, something that hasn't happened. So, that's positive. And then just in general, just the backdrop of coming off of two years, coming off of capacity exits with less capacity in the market. All those things combined, I think, yields what we're predicting to be just generally a gradually improving market throughout the rest of the year.

Eric Morgan

Okay. And you do have the guidance for 1% to 4% yield improvement in the One-Way business. Based on where we are in bid season and what you're seeing, are you still pretty confident in that?

Chris Neil

It is early in bid season. There's nothing that's occurred, there's nothing negative so far. We only have a handful of events that have come all the way through to completion. And results so far have been consistent with our expectations. So, there's nothing that we've seen so far that would indicate to us that there's a reason to think outside that range. We posted a 3.3% increase in the fourth quarter in that metric. As you mentioned, guide was up 1% to 4%. We did have peak in the fourth quarter. Clearly, that won't happen in the first quarter. But as bid season progresses, we're just at a point with the One-Way environment where we have got to get some rate lift to provide more sustainable and reinvestable rate levels. You look across the public companies and the One-Way market has been dealing with inflation over the last couple of years. At the same time, you've had two consecutive years of rate contraction, obviously, pressuring margins.

And so, we're going to continue to maintain the discipline that led us to the 3.3% increase in the fourth quarter. We'll do the same as we continue through bid season. But so far, it's consistent with our expectations.

Eric Morgan

Okay. Supply has been a big focus over the last few years. Maybe we can dig in a little bit on the demand side. What are kind of the puts and takes there this year? What are you hearing from customers? And the tariffs have been a big topic today. So, I know you have a sizable Mexico exposure. What are you kind of seeing, if anything, developing there?

Nathan Meisgeier

Yes. So about 10% of our total revenue has a connection to Mexico cross-border. So, as you indicated, that's something that we keep a close eye on. The retail conferences happened earlier this week. We had a large contingent of our executive team there, meeting with customers, asking that same question, Eric. So, making sure we keep our eye on that ball.

I would summarize our customer feedback there as – really nothing to see here, yet. There's been a lot of noise, a lot of on again, off again, paused again, on again discussion. There was an announcement this morning about tariffs on particular targeted parts of inputs and imports, so that gives you a little more visibility. But really, with our customer base, we lean into retail, heavy in retail, heavy in food and beverage. So, nondiscretionary focus for us. And the replenishment requirements for those customers really stays the same with or without tariffs for the most part.

Now around the margins, of course, there will be some impact, but we are proud of our Mexico franchise. Our CEO and Chairman, Derek Leathers, founded that for us 26 years ago this month, I think. And so, we've got 100 Werner associates in-country, about 200 total Werner associates dedicated to the Mexico cross-border part of our franchise. So, we're keeping our eye on that.

More broadly, on your demand question, the consumer is really hanging in there well, did through the end of '24. Consumer sentiment sure seems to be positive and trending in a better way. I keep coming back to the tariff topic, which is why you connected those dots in your question because that might create some uncertainty for the consumer.

But again, until something really has some substance to it. I think it's still a little too early to tell. By the way, all day yesterday and all day today, getting that same question, so it's certainly a topical one.

Eric Morgan

Yes. Okay. And then on the supply side, you guys are calling for both spot rate improvement throughout the year and also continued exits on the supply side. So, if someone has made it this far, why would they exit now? I mean maybe this is a segue into the insurance discussion. But, what's the reasoning there on the capacity outlook?

Nathan Meisgeier

So, I think part of that is the lender forbearance that has taken place over the last year or so. There have been some lenders that have spoken publicly about the write-offs on their transportation loans. And if you're a small or medium-sized carrier that's just been barely scraping by and maybe doing an interest-only payment or maybe not making a payment at all and the turn comes later, it's probably too late.

And so even with an improvement in spot rate, even with the turn, we expect to see capacity attrition. We're still seeing it right now. The trend line continues down and to the right on the supply side as far as more revocations of authority than new authorities being granted. And then the Bureau of Labor Statistics data shows that employment in our space is on the down trend as well. So those economic indicators give us some faith that, that line will continue. And really, if it's a slow trend as it's been over the recent past, that's okay, too, because we'll see more exits that will happen and then the turn will maybe last a little longer. And if it speeds up, we'll be ready to help our customers that need some support.

Eric Morgan

Okay. Nathan, you're also the Chairman of the ATA's Legal Reform Advisory Committee and then also on the Board of ATA’s Litigation Center. So maybe just given your expertise there, you can speak to what we're seeing on the insurance side of the business as an industry, what Werner is experiencing. Is there a light at the end of the tunnel? Or is this just going to be another cap on capacity?

Nathan Meisgeier

Yes. So, fourth quarter for us on the insurance line was a rough one. We had an outlier number at $49 million. That's not the new normal for us. It's an anomaly of a quarter, but we've really seen a step level change across the industry. I think every trucker, every transportation provider, would say that we're in a brave new world now with nuclear verdicts and larger settlements.

The thing that everybody is seeing, so not just a Werner story, but really everybody is these injury claims that used to settle for, pick a number, for X, are now settling for 3x, 4x. And sometimes the verdicts become 10x or 50x of expectations. So hot off the press last Friday, Ford had a $2.5 billion with a “B” verdict in Georgia, which is timed interestingly because there's a tort reform effort led by Governor Kemp in Georgia because of this exact phenomenon that we're experiencing with verdicts and settlements getting out of control. So, the state of Georgia is kind of ground zero right now for tort reform. But it's an across every business issue. It hits home with us and hits home in our industry, but it's really across all industries. And so, the solutions are multifactor.

One is we're going to continue to lean into safety technology. We have collision mitigation technology on all of our trucks. Again, I mentioned earlier about the fresh age of our fleet, which means the newest and most advanced safety technology on the trucks, which we'll continue to lean into. We're piloting and we'll start working on side view cameras on the trucks, which both helps with safety and helps with claim mitigation after an accident happens. Most accidents in the trucking space and for Werner in particular are not the fault of our driver or of the company, and so the ability to prove that that's not our driver's fault is something that's valuable to us.

And then as you mentioned, the tort reform efforts. It's really a 48-state fight. We have to take that to the legislatures in all 48 states or at least the ones where we're suffering this the most and try to get some common-sense litigation reform. But truly, what truckers are looking for is a fair playing field, where an accident is the fault of the carrier, or of Werner, we're going to pay for that, and we're going to take ownership of it. If it's not our driver's fault and not the company's fault, we feel like we should have the ability to fight that on fair grounds, and that's what we're looking for across the country. It's not a solution that will happen tomorrow. It will take years to implement, but we're trying to fight that fight in the states that have the biggest impact to us.

Eric Morgan

Okay. And would you say smaller carriers or the marginal kind of capacity out there, are they impacted to a similar extent as the larger carriers or how does that work?

Nathan Meisgeier

Yes. It's a little different because typically a small carrier is going to have a much smaller tower of insurance, but that insurance is really expensive. So that's where it hits them. For the larger carriers, for Werner and our peers, there's a much higher self-insured retention. So, when an excess verdict hits us, it hits directly to the balance sheet for the first, again, large carriers are probably carrying $10 million or more of self-insured retention. So, it's going to hit you more directly. For a small carrier, it hits you more on what the cost of the insurance is. For us, it's both the cost of the excess insurance tower and the cost of the claim itself.

Chris Neil

The only thing I would add, Eric, you mentioned all the safety technology that we've been adding to the truck. That's been an investment, we have a new truck fleet at two years or so. All that, along with the investment in quality drivers through our driver school has led to DOT reportable accidents that are almost at a record low. 2023 was a record for Werner in terms of that metric being at a low point. 2024 was nearly a record but not quite, but nonetheless, that is something that we're paying a lot of attention to, a lot of focus on. That is what we can control to a large degree. So, we're going to continue to lean into safety being a focus across the company and continuing to work on decreasing accident frequency.

Nathan Meisgeier

Yes. And thanks for that, catch, Chris because the tail on those claims is years. So, the claims that we're settling and litigating today are often claims that are happening two, four, six years ago. So, the improvement in our safety stats that Chris just mentioned from '23 and '24 will bear fruit over the coming three, four years. So that's got a long tail to the positive, just like accidents from the past have a long tail to the negative.

Eric Morgan

Are there any other priorities on the legal reform side that you're kind of involved in? Or is it mainly just tort reform and these nuclear verdicts?

Nathan Meisgeier

Yes. So, there are a lot of subparts to it. I could spend way too much time on it, Eric, because I've got a passion for it. But for example, one thing that happens in a lot of states is an injured person can put in front of a jury, the amount of medical bills that they received rather than what the medical payment was for those injuries. So, think of when you go to the doctor and you get treatment and you get that EOB in the mail and it says that the cost of it was $5,000, but what the medical provider got paid was $800. So, what goes to the jury is the $5,000 number. We're asking that in states where that's the rule, that the actual billed amount is what is relevant to the jury.

Another one that's a common sense one – in about half of the states in the United States, if an injured person was injured in an accident and was not wearing a seatbelt, the jury is prohibited from hearing that piece of evidence. It's considered more prejudicial to the facts of the accident. That seems like something that is a relic of the '60's and '70's. I'm a child of the '70's, so I'm not judging people from the '70's. But it's something that is, in 2025, we all know that a seatbelt is something you should be wearing. Whether you choose to or not, we all know that in an accident, you're much more likely to not be injured while wearing a seatbelt; that's something that seems like it should go to a jury. Again, a long list of other passions here, but each one of those common sense, level the playing field, make it fair, are things that we think would make these nuclear verdicts come back into line.

Eric Morgan

Okay. I want to maybe shift gears, talk about Dedicated. This is an area where you guys have really leaned in over the last few years. There's been a little bit more competition recently with the truckload market having done what it's done with this prolonged down cycle. So, are you seeing any shift in competitive environment this year? And then I want to ask about upcycle, too, and how Dedicated can participate in that.

Chris Neil

Yes, I'll start on that. So as Nathan mentioned, about two-thirds of our trucking fleet is Dedicated. These are fleets that are dedicated to a specific customer. And that's really been where Werner has differentiated from many of our peers, in that Dedicated is about two-thirds of our TTS fleet. And so, we're going to continue to lean into that. That's not new. That's something that's been ongoing. That's been a goal of ours for a while. It's grown to 65% of TTS. It was years ago it was 50%, as an example. And I think our long-term goal would be it being 70% of our TTS fleet, would be fine.

It's got a higher margin profile than what One-Way is, much less volatility in Dedicated. These are 3- to 5-year contracts with customers. Some of them have escalators. Others we're reviewing on an annual basis. But over the last 10, 11 years, our revenue per week in Dedicated has increased all, but one. And so, it's a much more consistent, durable business model, and it's acted that way through this downturn. Margin profile has hung in there relatively well. We did have some fleet loss because of the additional competition that you referenced in 2024. That's really been unusual. We've not had that happen in other downturns. I think it has to do with the length of this downturn being 30-plus months, it's unusual and pretty much unprecedented. So, we're going to continue to work on that. I think that's got a long runway for us.

In terms of structural. I mean, thinking about the total addressable market, I don't think we view anything structurally different with Dedicated. I think it's still a service that customers will continue to lean into. Length of haul has continued to come down. That's been a declining trend for years and the forward deployment of inventory is something that's also a trend, consumers getting something the next day causes that forward deployment of inventory. All of that is more consistent with a Dedicated type level of service when you're replenishing to the customer. So, we feel really good about our Dedicated fleet. The Dedicated pipeline that we have right now is as strong as it's been in the last year. It was healthy all through 2024, but again, through customer dialogue, it feels stronger right now, the conversations feel better. So, it's our goal that we'll increase Dedicated fleet here in 2025. Our total TTS fleet guidance is plus 1% to plus 5%, and our expectation is that the majority of that growth would come in Dedicated.

Nathan Meisgeier

Yes, with two different ways for that growth to come. One is the individual fleet level. So, growth of trucks within an individual fleet, and then additional wins with new customers. The growth of an existing fleet has a really high contribution margin because the fixed costs are already there. And so, you're adding back at a greater contribution margin, which can move the needle faster. New customers, which we're excited about, and as Chris mentioned, the pipeline is really strong there and lots of opportunities to win new customer freight. It has a little longer tail to really add to the margin because there's some startup costs there. But with the longer-term profile of that freight, it's well worth the investment.

Eric Morgan

In terms of leveraging the upcycle, you have the guidance for the full year on pricing or on revenue per truck on Dedicated flat to up 3%. So, I guess, would it be fair to characterize the upside within Dedicated as kind of a volume or growth of tractors within existing fleets. So that's kind of the biggest lever.

Chris Neil

I think so. I mean, I think it's going to take both. It's going to take fleet growth to get that fleet size back up to a level that is more supportive of the fixed cost structure that we have. That was certainly a weight on results as that fleet declined a bit and we weren't able to bring down fixed costs quite as much as the fleet declined. And so, as we add back trucks, as Nathan referenced, then the contribution margin will be better, and I think that will enhance our margin profile just in general in Dedicated, and over TTS just in total.

Eric Morgan

Okay. You have a 12% to 17% margin target in TTS kind of long term. I know you're kind of understandably not committing to a time frame for getting back to that range. But is there a way to think about how much price you need to get there? Assuming price is the main driver. I mean I know you guys have cost initiatives as well that I wanted to touch on, but maybe just talk about how you get back into that range and what we should be looking for?

Chris Neil

Well, the good news is – you look back at '24 and our margins in TTS improved sequentially throughout the year. Without the insurance reserve adjustment in the fourth quarter, they would have exceeded 7%. So still a bit away from the guidance range but making some solid improvements there. You're right, Eric. I mean, the One-Way rate per mile would be the biggest lever. That's clearly been the biggest problem, so to speak, throughout this downturn has been two consecutive years of rate decreases in One-Way. So getting some help in the market, along with some of the things we've done intentionally to improve freight selection, some of the investments we've made in technology to help with optimization. I think that will help within One-Way, take advantage of the opportunities that present themselves as the rates go up.

Growing the Dedicated fleet, as we mentioned, I think, is really the second thing that would help us get that margin back and growing Dedicated as a percentage of TTS would be beneficial.

The cost environment that you mentioned, we've really focused on our cost structure. Over the last couple of years, we've taken $100 million of cost out of our company really over the last two years. Our goal for 2025 is a little less than that at $25 million, just as we're thinking optimistically about an improving environment and wanting to be in a place that we can support that growth.

And so, a little bit less from a cost-out perspective, but still in a good position. And then lastly, would be the opportunity for the used truck market to improve. That's certainly been a headwind on a year-over-year basis, as you think about our margins in TTS with that used truck market that's been weak. But we feel at this point that it's been stable for us at least at a lower level. And we would imagine that as the market continues to improve throughout the course of the year, that there'd be some lift and some benefit in that used truck market. You do have some regulations out there in front of us also that could create some opportunity for folks to buy a relatively new, low mileage, used truck instead of spending additional dollars for what could be a much more expensive unit here in a few years.

Eric Morgan

Yes. Okay. Appreciate that. We have a few minutes left. Maybe we can queue up the rest of the audience questions, please. In your opinion, what should Werner do with excess cash - bolt-on M&A, larger M&A, share repurchases, dividend, debt pay down or internal investment?

Nathan Meisgeier

Yes. So, I'll take it, the first one is clearly internal investment. The thing we're going to do with capital is invest back in the business. So, something we're committed to and going to focus on.

Share repurchase is something we did in the first half of '24. And certainly, we'll do opportunistically. All the other options that were on the table there are things that we'll do according to what's in front of us. So, pay down of debt with interest rates where they are right now, that might be a good move.

Like I said, share repurchase last year. M&A is something that we haven't touched on yet, but 65 years of our existence, and we didn't do a single acquisition. And then in the last four years, we've done four acquisitions over that time period. So, it's something that we're getting some muscle memory on and focused on something that's going to fit our portfolio where we need it, something that has a culture fit, something that's additive and accretive and making sure that the culture fits Werner's culture as well.

Eric Morgan

I just wanted to come back to the M&A comment. Where would you be looking to deploy capital on that front? And given you have confidence in a gradual improvement in the cycle from here, could this be a time to be looking at traditional truckload? Or is that not the right way to think about it?

Chris Neil

Well, I think in general, we would probably be more aligned with looking at either Dedicated or an asset light. We haven't talked much about Logistics. We have a $900 million Logistics business. Our largest acquisition was in the Logistics space, and we feel like Logistics is a very nice complement to the One-Way trucking business that we do.

And consistent with our goal of trying to increase Dedicated as a percent of TTS. I'm not saying we wouldn't do a One-Way investment, but most likely, that would be on the bottom of the list as you look at Dedicated, getting into a different vertical perhaps, but continuing to expand our scale in Dedicated.

And then looking at Logistics and what can continue to complement what we do today, whether that's a new vertical, something different from a geography perspective, maybe a new service line.

We have a strong balance sheet, and I think we have the ability to be flexible with our investments moving forward, whether it's M&A or continued dividend or share repurchase or anything else. So, we feel really good about the strength of our balance sheet and the ability that it gives us to move in a variety of different options, depending on what's in front of us.

Eric Morgan

Okay. Great. I believe we're out of time. So that will wrap it up. And I really appreciate you guys being here.

Chris Neil

Thanks for having us. Appreciate it.