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Deutsche Analyst: Richa Harnain
Werner Enterprises: Derek Leathers, Chairman and CEO, Chris Wikoff, EVP, CFO & Treasurer and Chris Neil, SVP, Pricing and Strategic Planning

Richa Harnain

Hello again, everyone. Welcome back. Our third presentation of the day. Very excited to have a conversation with Derek Leathers, Chairman and CEO of Transportation service provider, Werner Enterprises.

Derek, you have a lot of history in the world of transportation. I think 30 years of experience, right? You also wear a lot of different hats in the industry, being the second Vice Chairman of American Trucking Association. So, looking forward to hearing your perspective. Also, we're fortunate to have on stage Chris Wikoff, Werner's CFO and Treasurer; along with Chris Neil, SVP of Pricing and Strategic Planning.

It's really special that you all were able to make it today, and we truly value the partnership here at DB. So Chris, you wanted to start with some prepared remarks, giving the audience a better feel for the Werner story. So not going to steal your thunder. Why don't you go ahead and then we'll jump right into my questions.

Chris Neil

Sounds good. Thanks, Richa. I appreciate the opportunity to join you here at the DB conference. I appreciate everyone's attendance and interest in Werner.

Before we get started, just a quick note on disclosures. Please direct your attention to the disclosure statement on slide two. Our remarks today may contain forward-looking statements that involve various risks and uncertainties, which could cause actual results to differ materially. We may also refer to non-GAAP financial measures and reconciliations, which can be found in the appendix of our presentation and in our latest earnings release available on the Investor Relations section of our website at werner.com.

So with that, maybe just a quick overview of the company here, so some metrics that we wanted to talk about. We're a multimodal North American transportation and Logistics company.

We've evolved over nearly seven decades, 69-year-old company with operational excellence, safety and service at our core. We're based out of Omaha, and we have a tremendous scale with nearly 13,000 associates, 7,500 trucks, and 28,000 trailing assets in our network.

And so we're one of the largest trucking and logistics companies in the country, operating the sixth largest Dedicated fleet, a large One-Way fleet, and a sizable Logistics portfolio that now represents nearly 30% of total revenues. We have two segments. And so we refer to Truckload Transportation Services, or TTS for short, and then, of course, Logistics.

So within TTS, which represents about 70% of our total revenues, about two-thirds of that business is our Dedicated business. That's a premium, highly integrated offering, serving large enterprise customers with complex freight needs. We're growing Dedicated and expect to continue to lean into that business as it has more stable earnings due to a number of factors. It has long-term contracts of three to five years, very high service and on-time service requirements.

Oftentimes, many of our fleets also require driver involvement beyond just driving. So driver involvement in unloading is unique in the space. All of those things create stickiness and result in less volatile earnings, and that's why we've been able to grow an average fleet size 14 of the last 16 years in Dedicated. The remaining third of TTS is in our One-Way Truckload business. And there, we're focusing mostly on expedited business, our engineered lanes and Mexico cross-border franchise, where we're one of the largest providers in that space.

And then our Logistics segment, as I mentioned, about 30% of total revenues, definitely a key component of our diversified solution-focused strategy. It's the fastest-growing segment within the company. And within Logistics, we have a Truckload Brokerage segment, Intermodal and then a dedicated Final Mile Solution.

Our solution-oriented Logistics service provides expertise that benefits not only larger customers, but it also expands our reach to small and midsized shippers. Truckload Logistics is about 75% of our total Logistics segment that consists of traditional Truckload Brokerage that you're all familiar with as well as our growing PowerLink service.

PowerLink is our version of power only where we're leveraging our trailer pool and working with third-party carriers. In addition to Truckload Brokerage, we round out our service offerings in Logistics with Intermodal and Final Mile services. Within Final Mile, what we're focusing on there is primarily big and bulky movements. We have a nationwide footprint there. We deliver to homes and then also B to B in verticals such as appliances, furniture, auto parts, and healthcare.

Just to note, our technological advances are really fueling our Logistics growth. We posted a good quarter in the second quarter. We're working hard to build out our TMS platform. That's branded as EDGE TMS. And I think it's interesting to note that Logistics is the furthest along in our transition with all of Logistics loads now living and working through that EDGE TMS platform, which is, in general, improving visibility in customer service.

In terms of our revenue snapshot real briefly. In 2024, our revenues were $3 billion. About two-thirds of our customers are well-known, highly reputable retail customers, the majority being in the non-discretionary space and discount and value retailers. And we serve about half of the top 50 largest US retailers and recognize them as our customers.

The other third of our portfolio is with manufacturing, food and beverage companies and then other verticals. And while large enterprise customers make up the majority of our business, we're seeing momentum in growing our small and medium customer portfolio through our brokerage business.

Retail is our largest exposure by vertical. We view this as a strength, especially in this environment given the bulk of what we do is non-discretionary retail that has more consistent replenishment cycles. In terms of our footprint, what you see here is just a snapshot of our trailer tracking at a moment in time.

You can see there that we provide 48-state coverage, as well as cross-border service to and from Mexico and Canada. We have an expansive network of terminals, offices, and driver training schools, and we're especially strong provider of cross-border moves along our southern border, our Mexico operation celebrated its 25th anniversary last year.

So we've been in that market for quite a while. And we have one of the largest terminals in Laredo, includes a cross-dock facility and we've invested in Mexico with over 100 associates living and working within Mexico. In terms of financial performance, just a few highlights from the second quarter.

We reported revenues of $753 million, down just 1%. Adjusted EPS was $0.11, down year over year, but improved significantly from the first quarter.

We recognized numerous areas of momentum in the second quarter.

The Dedicated pipeline remains strong, start-ups related to new business that we announced previously are progressing as planned. We saw improvement in One-Way trucking miles per truck, which improved sequentially and rate per total mile has increased four consecutive quarters.

Also interesting to note, revenues in all three of our Logistics lines of business increased year over year and adjusted OI improved due to increased volumes combined with strong cost management. We also had a good quarter of gains on sale in the second quarter. They were almost $6 million, which was the first time those have improved on a year-over-year basis in nine quarters.

So we're pleased with the improvement in results in the second quarter, but certainly remain focused and know there's a lot more work to do. So continuing to work on increasing momentum and then improving results further.

On slide eight, just a quick discussion on our strategic priorities. I think it's important to note while we've been navigating this enduring and challenging backdrop, we've also been working to structurally improve the business and we are making progress. Our first strategic priority is driving growth in the core business. Customers are migrating to providers with superior safety and service reliability.

They're looking for sophisticated providers like Werner with scale and reach, and we're seeing that as we continue to grow our Dedicated fleet and win new customers in our other business segments. Our miles and One-Way trucks, as I mentioned, increased recently. That was positive and combined with our PowerLink product, we're offering customers a One-Way solution with a more asset-light footprint.

Our next priority is driving operational excellence. Our focus there on creating and fostering a culture around safety is the core of what we do. That never changes. Our DOT accidents per million miles continues to trend favorably. And we continue to hire and focus on hiring quality professional drivers with our driver school network.

Last is driving capital efficiency. There we're maintaining strong operating cash flow, optimizing working capital, and we're managing CapEx, while maintaining a modern tractor fleet. We have a strong balance sheet and access to capital to fuel growth and return value to shareholders.

And last, just in closing, here's our competitive advantages that we wanted to highlight. We have a powerful diversified business model, including Dedicated, One-Way Truckload and Logistics.

Our approach has created clear and compelling advantages that will continue to fuel growth. It's a privilege to serve over half of the top 50 largest US retailers and to have them as customers. And this privilege along with our strong customer retention rates is a vote of confidence from our customers and showcases what they value, which is expertise and services that we provide, assets and scale that we have, both talent and equipment across North America and the transformational tech journey that we're on to better serve our customers and drive productivity and efficiency improvements.

Although the market remains challenged, we're cycle tested. And we have competitive advantages that enable us to weather the storm and to capitalize in an improving market. Thanks again for joining us. Richa, I appreciate it. That's what we have for prepared remarks.

Richa Harnain

Awesome. Thank you for that comprehensive overview, Chris. So maybe we can start with a mark-to-market on the demand environment. On your last call, you talked about some green shoots with respect to pop-up project activity. Are you still seeing those?

Have they accelerated, slowed down? What verticals are they in? And I know we've had some material tariff updates over the last 24 hours last week. So what are you hearing from customers in light of some of the recent changes?

Chris Wikoff

I'll just highlight demand quickly and then turn it over to Derek and Chris for other parts of that question. Just quickly on the demand side, demand has been seasonally stable in One-Way, but in Dedicated in Logistics, it's on the rise and improving. Within Dedicated, fleet growth is increasing. During the second quarter, average fleet growth was down. But in terms of quarter end truck size and fleet size, we were up 1% in Dedicated.

Overall, across large enterprise shippers, there's a flight to quality. Reliability is back in focus. And when that is at the forefront of shippers' minds, that's when our Dedicated offering is just going to excel the most. So we had a streak of new wins that we papered earlier in the year. We're in the process of implementing those, that's going well. It's across a number of verticals and the pipeline continues to be strong. So we're happy with the momentum in Dedicated, which includes an increase in demand.

And then on the Logistics front, also increasing back to mid-single-digit growth on a year-over-year basis. That was from both volume and rate, although volume was the lion's share of that. And it's really driven from a number of different reasons, higher volume with large customers, some pop-up and project freight, Richa, in your question that you mentioned.

But also seeing top line benefit in Logistics from our technology investments as well as a strong cross-selling between our Truckload Transportation Services, more of the asset portfolio, and the Logistics and more asset-light portfolio. So, really strong and positive momentum from a demand perspective.

Derek Leathers

Yes, and as it relates to customer conversations, obviously, they have been dominated by tariff conversations, by and large, throughout the year. I think the general sentiment has changed a little bit from Q1 into Q2.

Q1, I think customers were honestly trying to time the tariffs and the changing tariffs and quickly realized they were changing too quickly to try to time. So we saw a lot of fits and starts in Q1 with people shipping heavy for a week only to stop shipping for the next week, later to try to redouble their efforts and ship extra volumes. For us, that's predominantly something we experienced North/South Mexico because as it relates to international imports and other things.

If you think about our portfolio being heavy Dedicated, we participate a lot in the middle mile. So things already have been imported. They're sitting in DCs and we're taking them to stores. So while there is fluctuations upstream from us, on a larger scale, so much of what we do is sort of that middle mile work, where we're a little more insulated from those shocks.

As we got into Q2, I think everybody has just accepted the new normal that this isn't going away. And so they've got to kind of make sure they're thinking about product on the shelf. Chris just did a nice job of covering how much exposure we have in retail.

But I would just remind everybody within that retail, it's sort of in that non-discretionary space. It's low-cost, low-value type retail where shoppers are going to have to buy and replenish, kind of regardless of outcomes.

I think customers and us are keeping a very close eye on the consumer. They've held up remarkably well through all of this noise so far. But as we think about the out quarters, what keeps me up at night would just be paying very close attention to consumer behavior. What we do know is that there's migration down the value chain. And so we see that now, that will only continue.

So if uncertainty continues to be on the rise, people migrate down into some of these discount retailers where we are predominantly exposed. So we think that's a real positive. And then the other conversation that's been clear to me as of late, is there is sort of finally for the first time in several quarters, really years, a return toward quality.

So one of the things you see when you get to kind of an equilibrium in the market, is customers starting to really think about – I need an anchor account or two that I know I can count on across a portfolio of solutions to be able to provide them support. And so the conversation has become more constructive as a result. It's not just about price. It's about capability, capacity, scale, reliability. And as soon as that happens, that starts to play more into our strengths.

Richa Harnain

Awesome. So just a quick follow-up on that, and I want to dig into a lot of what you guys said later on. But just on that quality factor, it makes sense to me that you're going to see that on the Dedicated side. On the One-Way side, are you seeing that as well?

Derek Leathers

Yes. Well, I would say what we're seeing is the early indication. So you mentioned in your opening question about the pop-up fleets and projects, right? So when those exist both in Dedicated, but also largely outside of Dedicated, on our One-Way side, even in our Logistics group, we're running some of this pop-up activity.

When they start off as a three-week or four-week pop-up opportunity, but evolve into six, seven, eight weeks. What that really says is that quality matters again because the reason they originally put parameters around it at four weeks is that they believe in that four-week period, they're going to find a better way to place that freight.

They're going to place it in some other kind of mini bids, some other kind of activity. But upon four weeks of working to do that, and there is no better solution, that pop-up gets extended even further. So most of all of the ones we talked about on the Q2 call are still up and running today.

They've all been extended further out in the future. That's kind of the precursor to, okay, now I've got to go out and contractually bind this business at a different rate level. And so we're working through some of those dialogues right now. And of course, as we start to get closer and closer to peak season, the opportunity to place that freight elsewhere decreases. And so those pop-ups could extend into peak potentially.

We don't have those indications at this time. But worst-case scenario, I think you'll find more and more mini activity where we have an opportunity to do some repricing, which is what enables us to have confidence as we've kind of continuously talked about four consecutive quarters of improvement to rate per mile, we see that extending as we go forward further. Now we need more than what we've received for sure to get this back where it belongs, but it's still movement in the positive direction.

Richa Harnain

What's been early feedback? I know you said you're very much in the early innings of converting some of that pop-up activity into maybe more sustained contract level activity at higher rates? Like what's been the reception to that customer?

Derek Leathers

Those dialogues are ongoing. The reception to it is, so generally, when you're doing a pop-up or a project-type freight activity, it's actually in excess of contract rates. It's certainly in excess of spot rates. So it's mutually beneficial to get it to land into a contractual setting. Sometimes if their belief is that demand is transitory in nature, they're going to kind of push that off into the future.

But when you're in week five, six, seven, it's hard to imagine that it's truly transitory demand at this point. And so I think that just lends itself to us being able to go and try to think about that freight differently. Sometimes it will transition into an increase in truck count within a Dedicated fleet, that's already supporting that same customer. Other times, it might translate into increased contractual One-Way business or both. And that's something that we're always in dialogue with our customers about.

Richa Harnain

So Chris, I think you used the word stable when you're talking about the One-Way market right now. And I think generally, you have been on the record saying the next up cycle is really going to be about supply versus demand driven. So any update there since you last spoke to us? What's happening with industry supply load boards, ELP enforcement you talked about was underwhelming initially. But any changes so far? And what's driving that stability? And how can we get it to be better than that?

Derek Leathers

Yes. Maybe I'll start there and then add any color, guys. But I think first off, the primary reason we want to focus on the supply side of the equation is I think we can all admit that the economic backdrop and noise is pronounced. I mean noise in particular is pronounced. And so knowing that we wake up every day and have to refer to social media to figure out what today's tariff rates are, it's hard to hang our hat on demand.

And so instead, we're going to do everything we can to take cost out of the network that we can do ourselves, that's controlling the controllables, and we're going to focus on the health of the overall industry and what's happening from a data-driven, not emotion, but data-driven perspective.

And so when I look at the supply side, we see BLS data now back at pre-COVID levels. So actual employment data within the industry has kind of regressed back not even just to the long-term run rate, but actually below the long-term run rate that you would normally have expected it to be at. In addition to that, we see bankruptcies on the rise, and we're seeing not just bankruptcies, but larger-scale bankruptcies on the rise. You're seeing ongoing attrition out of the industry.

So my main point is with or without demand inflection, the supply side is finally carrying us to and beyond equilibrium, and that's enabling kind of all these broader conversations that we've been talking about until now. Now the downside of that is that means it's not a shock, right? There's no demand shock where you get sort of sudden and immediate inflection, you instead get a slow climb out of the valley.

But on the supply side, as of late, to get to ELP and other things, now we're starting to see regulatory and enforcement issues take supply out even faster. Now underwhelming is probably a fair word if I used it relative to ELP enforcement in the first month, but those things take a long time to get going.

It's easy to proclaim that we're going to have an English language proficiency for truck drivers over the road. It's a lot harder to get thousands and thousands of enforcement officers across the country to apply the standard equally. It's not a new law.

Just as a reminder, if everybody doesn't remember, not a new law, been on the books forever, simply was through an executive action told not to enforce for a period of about eight years and now it's being reinforced again as it was for years prior. We think it's the right thing to do for the side of safety.

We think our positioning relative to that new enforcement is great because we never took English language proficiency out of our onboarding process because it only makes sense if you're going to have an accident over the road you need to be able to interact with the officers, first responders. You need to be able to speak to them in English and tell them what's in the trailer that may or may not be on fire. You can't see the placards.

There's no other way to communicate in an emergency what all is happening at that site. I think what we're going to see is steady increased enforcement on that particular regulation.

And then in conjunction with, it's sort of an irrefutable reality, that people are misusing the B-1 program within trucking. I have absolutely no issue with companies that are using B-1 drivers legally. We've made the decision not to.

So we do not have B-1 drivers in our network, but you can do it legally, but the parameters are very tightly defined. And those parameters are that if you take a load in the United States, under one of these visa programs, you must immediately exit the United States under load all the way back to the country of origin.

You can't go just to the border and you certainly can't go point-to-point in the U.S., nor can we go point to point in any of their countries. And so it's a reciprocal rule that's been around for a long time. The enforcement on that, I think, has larger implications, but it's also further down the road because it's harder to enforce a English language proficiency. And it's really just begun.

And so I think you're going to hear more and more noise about that. And if you think about the overall backdrop of the administration, there's nothing that leads me to believe that they're not going to continue to want to crack down on anything that they view as a threat to domestic labor. And this is a threat to domestic labor. And so I think you're going to see enforcement ramp-up. If that plays out, that just amplifies the supply side of the story with or without any kind of demand shock.

Richa Harnain

Are you saying that it could have a bigger impact because there's a larger population of drivers that break this B-1 visa law and you said you think that it could be important. Even though it's challenging, is it a near-term thing?

Derek Leathers

I think it can have a larger impact because it is black and white, whereas English language proficiency is very subjective, because you do not have to be proficient in English, let's be clear. You simply have to be able to respond to an officer, a roadside officer on key transportation-related facts, and you must be able to read dynamic road signs.

Dynamic road signs being any sign that you see everywhere you go that is posted and could change from one day to the next. If you can't do those two things, then you're going to fail that test, but that's still a subjective enforcement. Whereas B-1 if you're driving from Chicago to St. Louis under a load and you're going to unload in St. Louis, you're irrefutably doing an illegal move.

And so that enforcement level, I think the quantity of folks that have an English language deficiency is probably larger than the number of B-1 drivers, but the ability to enforce in black and white terms is greater on the B-1 side.

Richa Harnain

Okay. So why is it more challenging you think to enforce that B-1 side?

Derek Leathers

Getting people to do the work as it's described. So when you have roadside inspectors now that are currently already responsible for enforcing lots of other things, having to take the extra step. Now I'm going to be blunt. I don't believe it's more challenging. That is the pushback that we get.

My perspective is very simple. If one of my drivers gets pulled over, they're asked to produce proof of a CDL. They're asked to produce proof of a DOT physical. They're asked to produce the bill of lading. So if they're asked to produce all of these same things, any driver should be asked that.

And all you need is B-1 Visa, the non-domicile CDL, and the bill of lading it clearly shows it doesn't go to Mexico. So it isn't a big reach to get to that conclusion. Now they would say it's really hard. It's really difficult. We don't have man power for it. I'm not buying that personally. I think we have to keep the pressure on.

Richa Harnain

All right. We digress quite a bit from what I wanted to ask on the business. But just a real quick look on this, B-1 Visa plus maybe English-language proficiency the amount of drivers out there that can't satisfy those conditions. What do you think is the pool of capacity that kind of is subject to coming out?

Derek Leathers

Yeah, I had previously mentioned that I think it's somewhere between 5% and 15%. I really haven't changed my view on that. That's the combined impact of both. You're clearly never going to catch or enforce across the entire population. But I think that's sort of the goalpost and how much enforcement takes place longer term is sort of TBD.

Richa Harnain

Okay. All right. So let's get back to Werner. So putting both sides together, supply-demand, and you'll talk rates, you talked about how you've seen some good momentum, four consecutive quarters of improvement. It accelerated this past quarter.

I think it was up 2.7%, that's revenue per total mile. You guided to similar in Q3. So have trends progressed since you last updated us, what do you think it's going to take for you to get to the high end of the guide or do better than the 2.7% growth you did in Q2? Is that even a reasonable expectation in your mind?

Chris Neil

Yes, you're right, Richa. We have now produced four straight quarters of year-over-year improvement in that metric. In terms of the second quarter, that was the highest it's been over those four quarters. So we had decent momentum in the quarter. I'd say in terms of a couple of things that might push us to the top end, one of the things is deadhead.

We had a little elevated deadhead in the quarter on a year-over-year basis at least. So if we can make improvements in that area, reduce deadhead a bit, that will obviously help from a total mile perspective. I mean our rate per loaded mile in the second quarter was near 4%. It was up over 3.5%, but deadhead, a few extra empty miles there got us to just under 3%. So I think more network fluidity that would result in a little bit better efficiency can get us down from a deadhead perspective.

Spot rates have been weaker, I should say, in July, which is typical. I mean, that's typical seasonality. You're going to see spot rates decline a bit in July, and they have. Clearly, that would be something else that would get us up on the upper end of our flat to 3% range, as you mentioned, would be to see a little bit of lift in spot here as we go through the last half of the quarter.

So those things are impactful. The last thing that would impact it is just mix, right? I mean if there's continued good options, good freight choices out there, we've got a lot of good tools now that we've implemented that allow us to make the best choices with what freight is available to us at any given day, making the network more fluid, making it more balanced. So if we continue to see stable volumes or maybe a little better than stable volumes as we head out of the quarter, then a better mix would also help us improve that to the upper end of the range.

Richa Harnain

Okay. So it sounds like at least to the mix and the deadhead portion are more in your control. So can you explain or what you're doing with those tools that you spoke about? What are some of the tools you're implementing to get better at those drivers?

Chris Neil

Well, just a number of things. I mean in general, so we're moving forward with our technology journey, and we're working towards creating a single platform with all of our loads that are visible on that platform. We're all the way there in Logistics. We're moving our One-Way and Dedicated business and volume over to that as well. And so once we get all that moved, then we'll be able to have better visibility, which just aids us in making the right choice.

So that's one thing. We've also got a number of other tools that are helping us in terms of load boards and better project margins on certain loads based on network balance. So just a number of things. I wouldn't say it's one thing in particular. It's a number of things across the board that are helping us make better choices in improving that.

Derek Leathers

If you zoom out a little bit, one thing I would just comment on is traditional Werner would have had maybe 10%, 12% of our business in a transactional setting. I don't necessarily want to say spot because it's not spot in the traditional sense.

It could be with customers, it could be on the true load board kind of scraping and other activities, but we are pretty comfortable right now operating with about 20% of our business in that One-Way side being purely transactional, meaning they can move in a hurry and we can make this mix change kind of from Monday to Tuesday, Tuesday into Wednesday, and do it through technology.

We think that makes us more nimble and gives us more ability to react very, very quickly with analytical tools that aid us where in the past, it would have had to have been more sort of tribal knowledge within the building, et cetera. Now we have tools and a vast amount of experience doing it the old fashioned way, and that just puts us in a really good position.

Richa Harnain

Okay. So that segues nicely into my next question, which is what differentiates you in the market. It sounds like your technology is one feature. But on the last call, you spent a lot of time talking about this Derek, maybe being more selective about the business you're bringing on, less commoditized, more engineered type solutions. So talk to us more about that, what's the margin profile of some of the new business opportunities that you're taking on versus the business that you're shedding?

Derek Leathers

Yes, I mean, so when we talk about this, I want to talk and focus on the TTS side, in particular, as I answer. So within TTS, I mean the reality is technology is not going away, visibility, transparency is not going away. And the ability to access data, whether you're a customer, whether you're a shipper or a carrier or a broker carrier or even down to the driver level is only increasing.

And so it's incumbent upon us to recognize that and inside of the TTS network, really make sure we're migrating further and further away from just that pure commoditized you call, we haul A to B type freight.

Lots of people can do that. And that's fine, let them do that. Not a lot of people can do the scale kind of sophisticated work that we do for large complex shippers. So we want to make sure and take those assets in TTS and part of the migration to Dedicated is because it's difficult to serve, it's very defensive. It's hard to train drivers to even accomplish the tasks that we're set out every day to accomplish on behalf of our customers.

But even within One-Way, so focused on cross-border Mexico, where instead of hundreds of thousands of competitors, you can count them on two hands, I mean, there's not that many people that are effective at crossing freight into and out of Mexico at scale.

Same thing on the Expedited side of our business, where we're doing more and more work and focused Expedited and then engineered lanes, like looking to find density within our network and find lanes that are repetitive enough in nature that we can build a much more defensible economic structure around it, where the margins are good. But it's difficult to compete with us because we've just got so much density in that line.

The stuff that doesn't fit that still has a home, and that's where Logistics comes in. Our ability to use power only, to be able to provide service to our customers and not walk away from them on freight they still need to move, but do it in a power only, PowerLink as we refer to it, environment or transactional brokerage, if it's small, midsize shippers that just simply need capacity support, but they want to come to somebody with a portfolio that they can call us on their intermodal needs, their brokerage needs and maybe where applicable their asset needs, and we can kind of fill in all of those blanks.

So those things collectively just put us in a position to separate out of the general population and get into a different swim lane where you do have competitors, you don't have the luxury of only one or two like the rails, but you have 8 or 9 or 10, not hundreds of thousands. And that migration is a conscious decision we're going to continue to embark upon.

Richa Harnain

Okay. Helpful. Maybe we can talk about Mexico a bit. You talked about how that's one of the differentiators, crossing out of Mexico with scale, something Werner does better than most in the market. So it seems like there could be some secular growth around that as well place around of tariffs may be for filling more nearshoring. Are you seeing any signs of that yet? Any customer feedback that, of course, depend?

Derek Leathers

Yes, we're seeing a lot of signs of it. It's early innings, these investments take time. If you look at direct foreign investment in Mexico over the last several years, each year has set an all-time new record, this year has already surpassed last year's new record, and it's only halfway through the year. So we know the inflows into Mexico and direct foreign investment is increasing rapidly.

What I like more about it is where the inflows are coming from. So the mix of that direct foreign investment in Mexico this year is much, much more strongly weighted to US investment and Canadian investment and much lesser weighted to some of the other places where that money was coming from previously. So we have an eye toward that. We have, as Chris said, well over 100 people that work and operate in Mexico and live there.

That's where I cut my teeth at Werner. I came to Werner to start the Mexico division. I lived and worked in Mexico City for years and years. I'm fluent in Spanish. And so when we're down there, we're able to talk to them in their language about their trends and about their projections in ways that I think makes Werner pretty unique.

We're bullish on what we're hearing for their plans. It kind of comes in stages. Stage one, which is already happening, is increasing the number of shifts that you're operating out of your existing manufacturing. Stage two is when you amplify existing plant and equipment to be more productive and increase more product.

But the big stage, which is all the direct foreign investment, is new plants and equipment investments in Mexico to expand the footprint, which will largely, not exclusively, but largely ultimately come into the United States.

Now what we do need, obviously, is more purchases from the U.S. flow into Mexico; it's the balance problem over my 30-plus years of doing this.

Thank you, Richa for reminding me. The balance has just continuously gotten worse and worse in terms of north to south bound. So large-scale companies like ourselves can come up with more creative solutions on how you get equipment into Mexico so that you can support that north bound. That's very difficult to do if you're a regional player.

Richa Harnain

Okay. Maybe you can pivot to cost, Chris, I don't think you've spoken enough. Utilization improved this past quarter, cost per mile down 2%, I think, sequentially. You increased your cost-cutting plan, which Chris you spoke about. Gains on sale, nice guide, first time year-over-year growth in a while. Do you still think there's a lot of opportunity on the cost side? Or do you think you're in like the later innings of the cost story.

Chris Wikoff

No, I think there is more opportunity. They're different. But I think overall, there's more opportunity. Maybe to talk about the cost side and the gains separately. From a cost perspective, just to recap, we did increase our end year 2025 target to $45 million. We achieved $20 million of that in the first half.

Given that pace and the actions that we completed in the first half, it gives us high confidence of realizing the full $45 million, if not a bit more than that in the year. So that is going well, largely structural through leveraging our investment in technology and overall, just continuing to evolve to be a leaner organization. So we like where that is headed. And it's overall part of our DNA. It's part of our discipline.

So naturally, we'll continue to lean into that. And we have more to go in terms of our technology journey. We're seeing the most synergies from technology in the Logistics space, where OpEx last quarter was down 9%, salaries, wages, and benefits was down 12% on a year-over-year basis, yet we had a mid-single-digit growth that was largely driven by more volume.

So that's what we're working towards. Logistics is a good proxy of the benefits from a technology investment perspective, and that's what we're effectively looking for on the TTS side and the more asset side of our portfolio.

From a gains perspective, a very strong quarter, as you noted, about $6 million in the quarter, really our best quarter in the last 1.5 years and really supported from a significant shift in per unit resale values. A big shift from Q1 to Q2. In Q1, we were staying on a per unit basis for tractors near 18-month lows. Thirty to sixty days later in the second quarter, we see just the opposite of being at two-year highs on a per unit resale value basis, if not more. So a big shift there, we need a bit more time to see if that's sustainable. But we like where that's heading.

And I do think that there's more room there as well. In the second quarter, it was about 0.8% of our revenue, which, again, is the best that we've seen in many quarters. Although from a mid-cycle perspective, we would expect that to be at least 1% of revenue, if not beyond 1% of revenue. So if that continues to be sustainable, and I think there's a lot of things that is working in its favor over the long-term, then there is more runway there.

Richa Harnain

In the near term, any change? I know it has just been like two weeks since the last time we talked to you, but in the secondary market, are you noticing sustainability of this trend?

Chris Wikoff

Generally, yes. We watch a number of different data points, including resale values and auctions, although that's apples to oranges versus what we're selling, because of the low age modern equipment that we have, we typically are selling with the warranty that still has some life on it. And we also have a group of repeat buyers in addition to a nationwide fleet sales and network and expertise. So all of those things work in our favor to maximize value. We think we are maximizing value.

And so I think a bit more time is needed to determine how sustainable this is. We did increase our full year guide on gains to $12 million to $18 million. We did $9 million in the first half. So effectively, that guide for the second half is $3 million to $9 million to get to the full year $12 million to $18 million. So we have allowed in that guide some modest step back just because, again, the Q1 to Q2 step-up in those per unit values was pretty significant.

Derek Leathers

If I were to zoom out I'll just add one little bit of color there. I would just say this, having done this for many years. If you look at OEM production levels this year and you look at what's actually going to be sold, not orders, but what will be sold and put into service and you look at announcements that have already come out relative to layoffs and downsizing of workforce across the OEM universe. It takes a long time to build that workforce back. And so my point there is we'll be below replacement level this year.

All indications in my view, are going to be that replacement level-ish or worse next year, and that is a direct proxy for what happens in the used market because if there's not a lot of new coming in, the folks that are out there looking for used, tend to want to freshen their fleet quickly because they know three to four years from now, it's going to be difficult to do so because there's not enough units hitting that secondary market.

So that does provide some confidence that this should hold up, but I do agree with Chris, this is an early trend. So we're not calling our shot yet, but the backdrop looks pretty good for used equipment.

Richa Harnain

Curious what you see as like the appropriate replacement amount?

Derek Leathers

Yeah, I think it's 265 - 275, somewhere in that number to be a replacement. I don't think we'll be hitting those numbers this year. I know that there's OEM contradictory statements to that. I think when the dust settles, you're going to see us somewhere in that neighborhood or below and again in '26.

Richa Harnain

All right. By the way, I've been monopolizing, if anyone has questions, feel free to jump in. So maybe we can just talk margins first, near term then long term. You did 2.8% ex fuel weighed down by some startup costs and things and fuel, et cetera, this past quarter. You talked about maybe the cleaner margin to look at like in the 4% range, zip code.

You've shown some optimism for maybe slightly improved profitability in Q3 versus Q2. Can't it be better than that? I'm just thinking about maybe some confidence on the rate side. You've had this encouraging conversation on potentially gains on sales being a consistent good guy start-up cost sequentially improving. And why shouldn't we see more of a step-up in margins?

Chris Wikoff

Yes, I think there's a lot of good momentum that will continue over kind of call it, the mid- to long-term. The numbers that you were referencing Richa was specifically in TTS, the 2.8% adjusted OI net of fuel, upper 3% nearing 4% and normalizing for some of the Dedicated start-up and some of the headwinds that we did call out.

So in terms of kind of a normalized baseline, I think you're spot on there. In terms of specifically, I think in your question, Q2 to Q3, there's some puts and takes. I think the rate environment will be flat to modestly favorable. I think on the Dedicated side, fleet growth and volume will continue to be favorable.

We'll continue to see accretion from our cost savings program. But I think Q2 to Q3, the gains might take a modest step back some of those start-up costs and headwinds on the Dedicated side will continue to persist into Q3. But I would look for those to be less noticeable in the fourth quarter.

So some puts and takes there, I would call it, a flat to modest improvement from a TTS perspective. Overall consolidated, I think when Logistics has great momentum, top line, bottom line, and it's really set up well in the near term to continue to be expanding margin.

Richa Harnain

Long-term prospects for double-digit margin. You're taking out more structural cost, so that should help.

Chris Wikoff

Yes, I think our pathway there, we continue to feel confident. When we look at the levers that we've talked a lot about in terms of rate lift, we need more mid-single digits on rate lift, more Dedicated volume. We also need that to be more single digit, but it's going to come at a higher contribution margin. So sorry, more mid-single-digit growth, but a higher contribution margin. Continued normalization in resale value.

And then ongoing structural change and leveraging our investment in technology and continuing to be lean and agile. I think the sum of those continue to give us confidence in a pathway to low double digits. TBD on timing. But for us, the pathway is clear. I think it's measurable and it's progressing, particularly in the second quarter, all of those levers for the first time in the last two years are really moving forward in a good direction.

Richa Harnain

Great. And maybe we can end on capital allocation. Yesterday, you announced a nice upping of your share repurchase plan. I think it amounts to 8% of your market cap give or take. Talk about priorities there, why you think this is an interactive time to be buying back your stock despite some of the concerns in the marketplace. What do you think investors seem to be most underappreciating about Werner?

Chris Wikoff

First, I mean, just stepping back, our capital allocation is the same in terms of how we approach it. We'll continue to be disciplined and we'll continue to be balanced. Whether that is continuing to reinvest in ourselves in our future, returning capital to shareholders while also in parallel to all that, continuing to evaluate M&A opportunities. Specific to Q2, yes, $55 million in repurchases, in dollars, 2.1 million in shares repurchased, we believe it was a good value to shareholders, particularly as earnings continue to recover and grow from here.

And it fits squarely into that framework and that balanced strategy. We ended the quarter with 1.8 million shares available under that Board-approved program. So it made sense for the Board, which is the announcement that you're referring to in the last 24 hours. It made sense for the Board to reset that to a new fresh 5 million share approval program to give us ongoing opportunity.

Richa Harnain

I think we're out of time there. Thank you so much.