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Werner Enterprises: Derek Leathers, Chairman and CEO and
Chris Wikoff, EVP, Treasurer and CFO
Stifel Analyst: Bruce Chan

Bruce Chan

We're going to get started here. Try to keep on time as much as possible. So really pleased to welcome Werner Enterprises. Representing the company, we have to my immediate right, Chris Wikoff, who is the CFO and we have Derek Leathers, the CEO. A lot of stuff to talk about with Werner, from the cycle, to near shoring in Mexico.

For those of you that don't know, Derek has spent a lot of time in Mexico. He speaks fluent Spanish, so he's a particular expert and authority on all the developments there. But maybe just to start with a broad discussion. Obviously there's been a lot of focus on cycle. We've been in this historically long trough period. I know it's been difficult for not just you all, but really everybody in the industry.

How do you think about where we are right now? It sounds like at various points in this conference, maybe on some of the conference calls, there have been some signs of positivity. But then if I think back to the conference in the past two years, we were talking about green shoots at the same time. So how do you feel right now and given that context – how do we know that this is it for real?

Derek Leathers

Well, I think after all we've all been through, it's hard to know for certain that it's for real, but it certainly feels different. And even if you harken back to a year ago, yes, we talked about we thought things were showing some signs of improving. And if you look at spot rates over the course of last year, they did in fact improve starting in Q2 and really for the remainder of the year. And we've seen some inflection points in the Fall that were direct responses to some disruptions.

And one of the things I always point to is, it's not just spot rates in the aggregate that give you the greatest window or the greatest idea, but it's how do they behave immediately after any kind of supply chain disruption. Whether that was the port strikes or the storms, if capacity was indeed as loose as everybody or some people believe it is, there'd be no reason to see sudden and immediate impacts from a spot rate perspective, and especially not at the magnitude that we saw after some of the Fall storms as well as the port disruption.

So that's one indicator. The other indicator that gives us a little more positivity right now as we go into 2025 is, we talked on our call a week ago that, our peak volumes this year versus last were over double in terms of volume and price per load was also up and so the opportunity for customers to go and secure that capacity obviously was more difficult. We have solutions that they found attractive, and we were able to solve those problems for them but at a different price point. And that has not been the case for the last

several years. It's just been very difficult to get rewarded for the difficult nature of project freight during peak season. So those are things that point us in a positive direction.

And the last one would just be two consecutive quarters of rate per mile growth in our One-Way truck division is an indicator that the market obviously is, I'm not saying it's tight, but I think very close, if not at equilibrium. And then our forward-looking guidance for the first half of the year is 1% to 4% revenue per total mile increase in the One-Way division. All of that really paints the picture that the conversations are changing, discussions are different.

One last thought on this, because I just think it's relevant, because we've been asked this 100 times today, but the industry is highly fragmented, obviously, everyone knows that. And with that fragmentation becomes kind of two different realities at times when you're at a turning point in a cycle. So, while both things can be true, large carriers with national networks are seeing that tightness and that responsiveness from customers to move large volumes of freight. And at the very same time, 90% of the industry, which is made up of small carriers, are not yet seeing that or have the visibility to it. So, neither person is misrepresenting the reality they're living in. It's just two different realities when it's early in a cycle change.

Bruce Chan

That's really helpful. Obviously, there's been a lot that's happened this year already, not least of which are some pretty significant weather disruptions. But when you think about the customer conversations that you've had so far, especially around rate, how does that square with the guidance that you've given?

Obviously, the guidance is what it is. But do you feel better about it based on what you've seen so far? Is it still a little bit soft out there? And we really do have to wait for March, which is when you get a true read on how the quarter's going to go?

Chris Wikoff

Yes, I'll maybe just start with that a little bit. At least speaking with respect to our One-Way business and just the bid season and how that's shaking up. I mean it's still very early, but so far, it's positive. You're right. We need to get through the first quarter and even through the first half there's roughly call it 55%, 60% of our bid season that we'll see in this first half. Early on we need to get to March and beyond. But so far in terms of that low-to-mid single digit of rate improvement, 1% to 4% in the first half, we're on track with that so far with what we're seeing.

Bruce Chan

That's probably not too controversial to say that most of what's been driving the cycle is just supply and that's a little bit different than what we've seen in the past. Several years ago, I think you all did a very interesting study or survey of small carriers to determine where the capacity was coming from? What was driving the capacity coming into the market? I don't know if you've done any updates on that study or if you have any thoughts on what's keeping all this small mom and pop capacity around and what point we start to see that moderate?

Derek Leathers

Yes, I think what you're referring to is, we did some analysis a couple years ago, looking at coming out of COVID, what the average small-to-mid sized carrier might have accumulated in terms of cash because they both had higher rates that they were working with, but they also were the beneficiaries of significant amount of direct stimulus programs, whereas large carriers largely did not participate in those programs at all. And it was our belief that they were coming out of COVID with cash accumulation that was very significant, and it was going to take 12 to 18 months to burn that off. Even in a market that was being priced under their operating costs.

I think we were relatively accurate on that. Certainly, on the longer end of it, it wasn't 12 months, it was more like 18. But what we didn't anticipate was the amount of banking forbearance that seems to be out there in the market on past due loans and on all the debt these carriers are carrying. We've had conversations with multiple banks, but probably more importantly with many, many carriers. And I'm astonished at the amount of carriers out there that are interest only or actually had suspended payments altogether and have been sitting on suspended payments for a while. And what's interesting now is the market obviously is starting to show some signs of life and some improvement on the horizon.

But I think for folks that are 9, 10, maybe 12 months in arrears, you're not going to make it up. It's too late for that. So, there's a lot more that's going to continue to wash out. I think it's still going to be relatively slow, but it has been picking up. You've seen an uptick in the last, call it 12 weeks of data versus the preceding 12. I think we're going to see that trend continue, but it's going to continue to also take time to get this back into a steadier state.

And as far as how quick and up and to the right the turn is, I don't want to say I'm indifferent because obviously we need a better market to be able to perform and honestly just to cover the cost of capital and reinvest on behalf of our customers than what we're getting today. But if it is slower, it's just going to wash more folks out and cause more consolidation and set up for a longer run on the other side. We'll be prepared either way and we're going to make the necessary adjustments as we go.

Bruce Chan

Just thinking through some of the other near-term elements and then I promise we're going to get more into the longer-term strategy at Werner because I think that's an important part of the discussion. But there's been some commentary on some of your competitors' conference calls about inventory preloading as people think about all the different regulatory policies that may or may not be coming in. Have you seen any of that? Whether it's related to the port strikes, whether it's related to tariffs, and is there any concern that maybe there's a developing air pocket for the remainder of the year?

Derek Leathers

We canvas our customers all the time. We have this conversation, and I will preface this by saying, if you think about it sort of logically, it would be in their best interest to tell us that they were preloading inventory and they were bringing inventory in ahead of tariffs or ahead of port strikes, because it would cause some caution to our feeling about this thing getting tighter. And yet despite that being a benefit to them, if they were to misrepresent that, which I'm not saying they would, but if they would, but they haven't, they've been exactly the opposite.

What we've largely heard, it's not true of every customer, there are exceptions, but largely we have heard they're just not in a position to feel as though they can plan or change their strategic direction based on tariffs that are on one day, off the next, going to be implemented, but then postponed, maybe going to be implemented at a certain rate and then the rate changes and instead they're taking a longer term view and really focusing on delivering the kind of goods to their customer that their customer wants at a normal cadence.

So, do I believe there's an air pocket of inventory? No. Do I think there's some things around the edges where people probably hedged their bets and brought some things in? Sure. But I think that's a very small component of what's happening out there. I think it's supply and if anything, I actually think if you look at inventory levels coming out of peak season, I think we're going to see as all the retailers start reporting and everything that their inventory levels are in pretty good shape.

Bruce Chan

So as promised, moving a little bit longer term. There was an interesting comment on our trucking panel that really talked about shifts in shipper strategies and trying to, I think, address risk a little bit better than maybe they had in the past. And that would focus on more Dedicated reliance, more focus on maybe spot or brokered lows to handle some of the overflow. And the natural squeeze over time is going to be on One-Way truck. If I look at your strategy over the past few years, it seems like that's been bearing out. It seems like you've been responding to that change. Would you agree or disagree with that assessment, and would you say that that's something that you've been actively trying to pursue in terms of the long-term positioning?

Derek Leathers

Yes, I mean, I don't want to speak on behalf of our shippers per se on that, but I will say, our philosophy, our strategy, the one that I've been trying to lead and implement at Werner is very aligned with what you just stated. I mean, I think Dedicated is here to stay. It's a long and stable platform. It gives shippers the kind of service that can't be replicated by Brokerage or One-Way or other types of means. It gives us the stability to have kind of a long-term investment horizon to be able to put money back in the business and then overflow can be handled with Brokerage and Power Only and putting loads into the spot market where appropriate. And although those are going to come at a premium at times, they're also going to come in a significant discount at other times.

We think Dedicated is here to stay. 2024 was interesting because the bid pipeline was very robust throughout the year, but the close rate was very low, because we took a pretty disciplined approach. And if you're going to get into an agreement that's a multi-year agreement and it's bad in year one, it's probably not going to age better. So, we wanted to be prudent about what we got into now as capacity and the market gets a little closer to balance. We're in a situation where those conversations are taking on a different tone.

I think people know and need to implement and find solutions within their network for quality Dedicated providers because there was a lot of new entrants in Dedicated in the last few years and many of them have failed as they've tried to perform at the levels that are required. And that just presents opportunities for us to go in and maybe re-enter the game with a customer that we've exited now that they understand the value proposition of somebody like Werner.

Bruce Chan

That's a great point, because I think there are a lot of people that may be willing to mortgage their future, so to speak, and sign a contract up front that may look good at first, but over time and through different cycles turn pretty bad pretty quick. I guess when you think about Dedicated, we sort of perceive it as a much more stable business. But is that in some ways more competitive than One-Way truck or less so?

Derek Leathers

I don't know that anything is more competitive than the truly commoditized end of One-Way trucking. And that's the unfortunate reality is technologies come to bear, which is a good thing overall. It drives efficiencies and One-Way trucking, water's going to find its easiest path, we know that, we accept that. And there's places we can compete very successfully in that area on some of the engineered lanes that we build, expedited some of the cross-border Mexico. But if it's just general freight A to B, that belongs probably elsewhere, either in our Brokerage portfolio or our Power Only portfolio. Or perhaps it goes Intermodal or perhaps it just belongs in someone else's network that's not going to get less competitive anytime soon.

And frankly it's entirely uninvestable at this point from an inside the house perspective. Like you just can't make money doing that particular portion of the supply chain, at least not enough to justify the amount of investment it takes to run a high-quality trucking company.

Bruce Chan

And you did talk about some of the competitiveness on the Dedicated side and that you have an opportunity to pick up business as some of those bad contracts shake out from competitors. Do you think we're at the point now in the market where things have really settled out and the opportunity for fleet growth is going to be consistently up and to the right? Or is there still a little bit more of that to work itself out of the system?

Chris Wikoff

Well, maybe just first on our guide for 2025 in terms of the TTS fleet growth, 1% to 5%, majority of that coming from Dedicated. Consistent with this conversation, I mean that continues to be our long-term strategy and that's continued to be a very strong pipeline. It was a strong pipeline of bid opportunity in 2024, continues to be as we enter this year.

But I think there's been some, as Derek said, some more positive conversations, more quality in that bid pipeline, higher customer engagement and conversations where shippers are focusing back on long-term reliability capacity, having more strategic conversations. That's really the premise of Dedicated being highly integrated with large enterprise shippers. And so, the more that reality comes back into focus, that's where Dedicated really is going to excel again. And so, we think 2025 will play very well into that.

Bruce Chan

And then just sticking on the broad sort of portfolio of solutions. I want to spend a little bit of time on Werner Bridge. That's something that maybe doesn't get a ton of airtime, but if you can maybe characterize for the audience what Werner Bridge is? What you're trying to do there? What the kind of opportunity is you think long term?

Chris Wikoff

Yes, I would just start by saying, I mean just very simplistically, I mean it's a marketplace, you know, digital, online, branded, real time marketplace for shippers and carriers to come together and it being Amazon-like in terms of having preferences both for shippers and carriers to come back to, to do repeat business and to make it more streamlined to facilitate transactions for both sides.

Derek Leathers

Yes, and all of that is well said. And then above and beyond that, just, you know, our ability to leverage Werner Bridge for the day-to-day operations on our traditional Brokerage platform relative to connectivity with carriers. And there's a lot of automation built into the Bridge that allows us to do things with higher productivity levels than we'd otherwise do without having taken the time and the investment in this digital marketplace. But the marketplace itself is really starting to gain steam. We're starting to see progress there. We're pretty excited about what the future looks like with it.

Bruce Chan

So just characterizing that portfolio. A lot of different investments, a lot of different changes to the mix of businesses. A lot of opportunities certainly. But I think there are probably a few investors that struggle with how to perceive the valuation with a business mix that looks like this versus, the sort of traditional truckload carriers of old that did one thing and did one thing only. When you think about the growth profiles, Chris, of the business, when you think about the defensibility and stability of a business like Dedicated, when you

think about the growth opportunity of Werner Bridge – is there a strong case to be made for an upward re-rate or is the current level of valuation fairly reflective of the returns and opportunities in the business?

Chris Wikoff

Well, as we've just gone through this down cycle, we've been focused on a number of things. Investing ourselves, controlling what we can and positioning us best for when there's a strong market. And you know, part of that has been investing in just broadening the solution set, waking up every day and approaching our customers with broad solution-oriented go-to-market strategy, trying to solve more broadly their supply chain solutions. And look, we still feel compelled by Dedicated and particularly being a carrier of larger scale servicing large enterprise customers with highly complex and mission critical freight over a long-term contract. We want to continue to grow in that area, but doing that, in parallel to that, we're also broadening the solution set to be more of a partner for our large enterprise customers.

Derek Leathers

Yes, I would just add like I mean 40,000 foot – if you take a look at the portfolio, do I believe that people are properly valuing or thinking about Werner in the new context? No, but I also think we've got to earn that. It's our job to put forth the results that justify a different rating. But a third of our business is in asset-light now and people just kind of overlook that. That's a big number.

Out of the two-thirds that are in TTS, as Chris indicated, two-thirds of that is in Dedicated, which is a long stable relationship with 90% plus retention rates. If you look at CapEx as a percent of revenue, it wasn't long ago that we consistently guided to 11% to 13% of revenues was what it was going to take from a CapEx perspective. But with this growth of the non-asset side of our business, that number is now sub 10%. Last year it was just shy of 8%. We're guiding this year to a similar kind of number. And so, the opportunity for this business to become a better kind of return on invested capital profile is in front of us. And now it's a matter of the market as it takes shape and continues to improve. We've got to execute in that market, and we're prepared to do so.

Bruce Chan

And to that point you've been fairly successful in growing that non-asset side of the business. I think initially when a lot of the asset carriers started building out these operations there was some concern that the difficulty of competing with these large-scale pure-play brokers would be pretty significant. Why do you feel like as an asset-based carrier or a legacy asset-based carrier you have a competitive advantage in offering a brokerage or asset-light service?

Derek Leathers

Well, I think it starts with, I mean you said, the ability to compete. So, the first step was to be able to compete. And I think we've proven we can do that. I mean look at our growth rates, look at the fact that Logistics this year is on a 12-month run rate of call it just shy of $900 million. Clearly, we can compete, we earned that freight. We went out and competed.

The advantages that we have, when we look forward, is when you think about Power Only and our PowerLink solution, the ability for a shipper to not have this rainbow trailer fleet out in their yard and instead be able to rely on Werner for a consistent asset-based solution on X number of lanes and then those same Werner trailers being able to be loaded and then used with power-only solutions to handle lanes that maybe aren't as congruent or don't fit our network as well.

But that shipper wants ease of transaction and so we can give them the same quality service, a better ease of transaction than a traditional broker and provide them really with the solution that they're looking for. And if you think about where this trend's going with automation inside their warehouses – as they continue to automate, invest in all this productivity tools and other things inside these warehouses, it all falls apart if you've got a live load and live unload. You have really got to come up with solutions that solve for that problem. And I think that's something we and others can bring to bear that gives us, if not equal footing, perhaps even some advantage footing with certain shippers in certain scenarios.

Bruce Chan

On our policy panel, Dan Horvath from the ATA talked a lot about tort reform and some of the problems right now with the insurance, talked about some of the problems with the legislative, judicial intersection with regard to trucking. And one of the things that he mentioned that I didn't know is that if there's an accident involving a truck in a passenger car, you're not allowed to talk about the fact that the passenger may not have been wearing a seatbelt, which frankly I find insane. But obviously ballooning insurance costs, claims, jury verdicts have been a major issue for everybody, including yourselves.

Is there anything on the horizon with this administration or maybe that you're doing internally to address some of these problematic issues? And if I were also to ask, in terms of pressure on supply right now, do you see these elevated premiums as being a major catalyst for driving supply out of the market. I know that was a lot. I apologize.

Derek Leathers

I mean first and foremost the thing we have to do is continue to lower our accident frequency. And you know, 2024 was the second lowest year in the last 20 years. We're going to continue to drive that lower as we go forward. That's through driver training, driver development. It's through technology on the truck. It's honestly a lot through technology on the cars. That's a big part of it because we're not going to solve distracted driving. But if we can get the car to at least help itself a little more, that's very, very beneficial. All of those things play a role.

But then you get to tort reform and that's a state-by-state battle. And we're going to fight those battles. We're going to fight every claim on a case-by-case battle. If it's our fault, we'll take ownership. But often it's not. And we're going to fight it to the bitter end.

We're working across, we have some concepts that we think make sense, that maybe speaking to the new administration, there could be some viability to. For instance, why are we in interstate commerce? And yet all of our accidents and litigation has to take place in a state venue versus federal court. And just elevating it to federal court with a better venue with a more sort of consistent application of the law would be a big step in the right direction.

Litigation financing and bringing that to bear, where people, a juror should know if somebody's being financed to litigate against you. And it shouldn't, if you think about it, at the core of who's at fault, that doesn't change that, it just lets them know all of the facts. And to your seatbelt example, there's 20 plus states that still don't allow a passenger that's injured while not wearing a seatbelt to be introduced into the court case. That's ridiculous. There are many states where DUIs aren't allowed to be introduced into the courtroom. That is a major problem.

We've got to have a level playing field. If we're going to get sued, because we did something wrong, again, we will take ownership. But in the vast majority of these cases, the facts do not support us being the at fault driver. And so, we've got to fight. But some of those fights you lose and that results in premiums that continue to go up and to the right regardless of experience. In every other industry you think about, if our experience continues to go down every year and our accident frequency gets better and better and better. At some point, you'd like to at least hold the line on premiums. If not, see it go down and instead it goes up and to the right year-after-year. And it's a collective issue that impacts everyone and we've got to be more vocal about it.

Bruce Chan

And we've got about five minutes left, so I just want to make sure an opportunity to ask some questions or get some questions answered from the audience. Satish, go for it.

Audience Q&A

<Q>: [Question Inaudible]

Derek Leathers

All right, well, there's a lot there, but I'll give it a shot. The Final Mile big and bulky business that we bought, I'll start with this, we're very happy with it. It was a problem that many of our existing customers wanted us to solve. It wasn't like we just speculatively went out and bought a business and decided to figure out how to do big and bulky. They were pressuring us for many years. So, the customer synergies have been pretty good. What was unexpected in that acquisition was that the big and bulky industry bottom would fall out coming out of COVID, and so the industry, the macro has been really depressed. As bad as trucking overall has been, big and bulky has been worse.

Despite that, that business has held up fairly well. We've got great pipeline opportunities in there right now. Customer response has been good. Yes, we found equipment synergies because, yes, it's a different kind of truck, but they're still made by the same people, and we buy a lot of trucks, so we've got buying power and the ability to negotiate, that a standalone company couldn't have done.

Technology will be the next phase. We've been on a big tech journey that we're three years into and we've got a year and a half left, and we made the difficult decision to not merge, not integrate them twice. On all four of our acquisitions, which we're very happy with, the customer response on all four, they have different degrees of financial success at this point in the transition, largely driven by the macro. But in all four, we made the difficult decision to leave them on their standalone systems with the exception of ReedTMS, which is the logistics company out of Tampa. Because we've taken all of our logistics onto our new EDGE TMS system. As we're able to integrate them more from a system standpoint we'll get more synergies again. And so that all is pretty exciting as we look forward.

We're not just bouncing off the bottom from the macro freight perspective. We've got some tailwinds in front of us as we further integrate and further gain synergies. As far as whether we buy truckload versus final mile. I honestly, I think it's every case is different. I mean for me, if there's one thing we've learned is as much as we thought culture was the most important, I think I feel that way times five right now after going through four of them. Without knowing what the culture of the two organizations is, having all the same financials doesn't mean much to me because if I can't work with one of those folks or we don't see eye to eye on the way the world works, then that's going to be a problem. So, let's just decide that early that versus later.

Bruce Chan

Couple minutes left just on the sort of tariff and cross-border near shoring issue. Obviously, a lot of noise about that in the press recently. Werner's been an early mover on cross-border capability. Has that slowed down at all? Have you found that customers are a little bit more reluctant to pursue those opportunities given what's gone on? Or has that actually accelerated at this point?

Derek Leathers

No, I mean if you look at direct foreign investment in Mexico in the last three years, it's exploded. I mean it is exploding as we speak. I think 2023 was the largest year since 2006. 2024 surpassed the 2023 number by the end of May. 2025 is on track to eclipse that number. I don't think it's going to go away. They're not going to blink over tariffs. They don't like it, it causes uncertainty, it probably delays some projects, it probably pushes things out a little bit. But the opportunity in front of us for sort of this North American supply chain I think is simply too great. And I think it'll push through.

My view on tariffs, I'm not an expert, don't have any inside knowledge, I'm not saying I do, but I think Mexico and Canada in particular, those are likely to be transitory. I mean it's kind of a threat to gain certain negotiation or negotiating things at the table and over time I think those probably aren't as sticky whereas some of the stuff that caused this near shoring some of the concerns with China and other countries I think that is sticky and I think those tariffs are going to stay and so I think if anything over the long-haul not in a

quarter maybe not in a year, but over the long haul I think I'm more bullish on the Mexico-U.S. trade lane now than I am even prior to all of this sort of white noise that we're going through on a short-term basis.

Bruce Chan

All right, tremendous Any other questions out there from the audience? We have about one minute left so maybe we'll give you one minute of your afternoon back, but really appreciate your attention and want to say a big thank you to Werner, to Derek, to Chris, great having you here and great learning a little bit more about Werner, so thank you.

Derek Leathers

Thanks for having us.