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Werner Enterprises: Derek Leathers, Chairman and CEO, Chris Wikoff, EVP, CFO & Treasurer

Tom Wadewitz

I'm Tom Wadewitz and I cover freight transports at UBS. It's a pleasure to have Werner with us today. Derek Leathers and Chris Wikoff, Derek is the CEO and Chris is the CFO. We're going to follow with the fireside chat format.

And I guess just to get things started. So, Derek and Chris, thanks so much for joining us. What are you seeing in terms of the freight markets these days? I think the commentary we've heard from some of the LTL updates that talk about November tonnage have been kind of muted. October seemed kind of muted. I think truckload, there's like some evidence of peak season, but just not maybe a lot to get excited about. So does that kind of match up with what you're seeing? And how are you thinking about freight activity at the present time?

Derek Leathers

Yes, Tom. So first off, thanks for having us. We enjoy being here every year. Yes, as far as peak season, so we talked about this on our third quarter call a little bit. Last year was the first sort of year in several years that we saw what I would call a normalized peak season where we both saw volume up and the ability to be compensated for the additional work involved in delivering all of that extra volume. On the third quarter call, we were kind of mostly through, but not completely through, all our peak season conversations with customers. And at the time, we talked about this one shaping up to be very similar to a year ago. So normal seasonality, normal opportunity for peak with a few differences that were mostly self-directed by us.

We've always been a bit of an outsized exposure to the West Coast peak and maybe underrepresented in some of the peak projects more in the interior. This year, although the opportunity relative to rate is outsized on the West Coast, so is the cost to serve because you've got to continue to reposition those assets back to the West Coast. And so, this year, we had what we believe to be a more strategic, more thoughtful kind of approach to peak. The net of all of that is that at this point, volume is still shaping up as expected to be similar to flat to slightly up from a year ago. The opportunity from a pricing perspective is as attractive as it was a year ago. So, we like the setup.

One big difference, and it could play a little bit into your opening comments about tonnage being more muted in October and November. One big difference was – peak season this year from the beginning was sort of expressed as being later in the year by our core customers, and it's played out that way. So, we knew going into it that the ramp-up would be later than normal. And as a result, more freight compressed into a shorter time frame. And it's playing out that way.

And so we are very, very busy right now, but that is a seasonal comment more than anything. But I think it's reflective of both the consumer holding up a little better than maybe even our customers expected them to do, as well as a little bit of the overall flight to quality, which I'm sure we'll talk about more as the session continues with all of the enforcement and regulatory actions happening around us, I think customers are, in fact, looking to have a more stable provider base than maybe they realized they had just a few short months ago.

Tom Wadewitz

Okay. And so in terms of maybe a little later start to the peak activity, that's kind of offset by, maybe the same amount of overall peaking activity, but just over a more compressed period of time?

Derek Leathers

Yes, I think so. I mean, I think customers' forecasting has continued to improve year-over-year. And I think that drives part of this later start because they get a better feel for exactly what they need to move and where they need to move it to. I suspect in their enterprises, AI is having an impact as well in terms of getting better at these predictions. I think some of it was shippers keeping dry powder just out of the same concern for the consumer that, frankly, we had as well. But if you look at the Black Friday early returns, they're positive year-over-year, and they exceeded expectations year-over-year in most categories. And I think the consumer has, in fact, stayed more resilient. So, there's sort of a race to replenish right now and keep stuff on the shelf from now through the end of the year.

And then the last thing that we've talked about for several years is there's this ongoing growth in sort of that gift card market that pushes peak even into early January in some cases because replenishment extends further than it did maybe 10 years ago as people more and more are opening up gift cards on Christmas Day and then go and spending those cards versus what they might have done 10 years ago where there was actual gifts under the tree.

Tom Wadewitz

So, I mean your commentary sounds at least somewhat constructive on peak, right? Like you're kind of saying, well, Black Friday sales were pretty good. Customers racing to restock. It sounds like constructive comments. Is that a little better than you thought?

Derek Leathers

I think it's a fair read. I mean I think when we were sitting in mid-summer, the concern I had, and I don't think I was alone with that concern was just how the consumer was going to hold up between high interest rates, sort of inflationary pressure at the doorstep, just tariff noise and uncertainty that caused consumers to probably be, in my view, maybe more hesitant. We were monitoring like delinquency rates on credit and overall sort of debt load of the consumer. You put all that together, in mid-summer, we would have been a little concerned about how peak might have shaped up.

As we sit here today, we're definitely more constructive than we were then. But to be fair, we're probably a little more constructive than we were even on the call for Q3 because it's one thing to have all of the projections from your customer. It's another thing for those projections to come true. And those are actually coming through at pace, on volume, as predicted. And so that's encouraging. And we think, if anything, there could be some upside to what we've talked about up until now, but we'll have to let it play out before we know for sure.

Tom Wadewitz

Okay. So, it seems like it's shaping up to, risk is a little more to the upside than the downside.

Derek Leathers

Yes, I think that's right. The one call out, again, I just want to go back to my West Coast comment. There is a trade-off where we are consciously making relative to the rate side of peak in that West Coast is by far the highest premium dollar availability during peak season, but it's also by far the highest cost to serve because of the distances involved in getting back to the West Coast to be able to serve the next round of imports or whether it's already domestically warehoused. And this year, we have a more distributed peak season portfolio. It's our belief that, that's going to be better economically, even though the premiums won't be quite as extreme by having a lower exposure to the West Coast than we did previously.

Tom Wadewitz

So, you have a lower exposure to West Coast this year, and that helps you on cost to serve a little bit?

Derek Leathers

It helps a lot on cost to serve, and you have a little less of a premium involved with it because your cost to serve is less, but it doesn't hurt you on the economics at all. And we actually think if we can continue on the current path that the opportunity for better economics are there.

Tom Wadewitz

Okay. I guess peak is dominating activity. How do you think about what this means maybe for your freight view going into '26?

Derek Leathers

Yes, I mean I think we have a whirlwind of backdrop issues that are kind of circulating right now relative to the freight view in '26. We're not looking at '26 and focusing all of our attention on some sort of major demand inflection. I think the economy is still relatively moving sideways at the moment. And so we've got to build our thought process around not banking on a major demand inflection. However, on the supply side, there is just a whirlwind of activity. And so, when we think about the friction that's already happening in the network, not just our network, but nationally relative to some of the supply impacts and that are taking place, it sets a better stage going into 2026 bid season than we've had in previous years.

It's been several years since we've had enough sort of frictional activity in Q4 to set the stage for more constructive conversations going into the '26 bid season. This year is shaping up in better shape than that. And so that's the sort of supply-demand kind of dynamic. The other reality is just bankruptcies are continuing to rise and the duress of the industry is more and more apparent. And so, we're having very frank and open discussions with our shippers about the sustainability of it all. Like if you really want to continue down this path over the longer term, it's only inevitable that you're going to push enough people under, that those that are left standing, of course, we will be one, are going to be in shorter and shorter supply.

And so we see shippers that are willing and able to take some sort of derisking approaches to making sure that they align with a couple of quality carriers in their portfolio to build a more strategic view, whereas for two straight years, it's sort of been here's my 15 bid criteria and price, one through 14 and 15 might be some one random other item. And there's a little bit of a more holistic perspective going on out there right now.

Tom Wadewitz

So, what are you seeing to the extent you have visibility on 2026 bid season? What's your kind of look during 4Q? What do you see so far?

Derek Leathers

Yes. It's very early, obviously. The 2026 bid season hasn't even really kicked off in earnest. What we are seeing is the ability to work with shippers on this derisking model, which has not been apparent for two to three years in a row, whereby you can take some portion of the bid off-line prior to the bid, secure some assurances on that piece of the business. Those are what I would call our sort of connective tissue of our network, where it's important to us, but it's also important to them to de-risk going into the bid season with the entire book of business.

And so, for the first time in several years, we're able to pull some freight off ahead of the bid, take small marginal type increases on that piece of business. That bodes very well for us from a stability perspective. It de-risks for them what could or could not be coming during the bid season relative to how much tighter this might get. And I think so for both parties, it's a good strategic decision.

That has not been a conversation that was happening over the last couple of years at all. And so, I think that's a window into where we're at in the market. We've got a little ways to go before this thing actually gets tight enough for what I would call meaningful change, but it would be our expectation that we've had five straight quarters of increase in rate per mile in our One-Way Van division, but they've been very minor, minor changes.

We cannot afford as an industry for that to be as minor as they've been leading up to this. So now the debate is going to be how big is needed. And I would tell you that our view on that and their view on that still has some time to percolate.

Tom Wadewitz

Right, okay. So, when you derisk something, are you getting like 1%, 2% rates on it? Or are you getting more than that?

Derek Leathers

It depends. It's a case-by-case basis really. I would say, in general, it's lower than mid-single digit. It could be bigger than 2%, but it's not 5%, 6%, 7% if you're de-risking something. And so, it doesn't mean that those conversations don't happen, and it doesn't mean there's not lane-specific levels where those kind of numbers do happen, but that would be the minority of cases. Most of it is going to be what I would call really maybe marginal increase in rate in exchange for a small portfolio of that bid to be pulled off. Maybe some perspective would make sense there.

So if we're talking about a bid that has \$30 million of exposure for us, that de-risking conversation might start at \$10 million, but it probably settles at something like \$5 million to \$7 million that's pulled off ahead of the bid so that we have stability, they have stability and then we can go into the bid and those numbers in the bid might be dramatically different than what that de-risk exercise looked like. But it's still a good exercise for us because it allows us to keep the core of the network in place as we then go and reshuffle the deck, if you will, through the bid process.

Tom Wadewitz

Right, Okay. Yes, that makes a lot of sense. So, what's your best guess on kind of what the '26 bid season comes out to? Do you think you get mid-single digits, 5%, 6% rates in '26? Or I know it's a bit of a guess given it's a ways out and a lot of moving parts, but what's your thought?

Derek Leathers

We tend to shy away from trying to get too specific on it. But I think all of the dialogues, that's going to be the range that's in discussion. The question is going to be, believers and non-believers, right? I mean there's going to be some shippers that are going to aggressively look to take one more bite at that apple. And I suspect our exposure to those shippers will be decreased through the bid cycle. There's other shippers that recognize and realize what's happening relative to the enforcement side of the equation and their exposure to that enforcement exercise.

These folks have brands that they've built up over decades and having your brand exposed potentially to providers that are putting your brand at risk through their activities is something that I think concerns the best-in-class type shippers. And so, we're having those dialogues right now. And I think the reality is it's irrefutable that current compensation levels to move freight in America is not reinvestable and it is not sustainable. And we just have to have a very professional, educated debate with them. Some are going to understand that and believe that and support that, and they're going to grow in their presence in our portfolio. Others are going to take a contrarian view and probably decrease in their exposure in our portfolio.

That's why we guided, if you look at Q3 to Q4, we changed our guidance down relative to truck count because this is the time for discipline. And so, we revised our guidance to negative 2% to 0%. And I'm here today to tell you that we will be below that guidance range. We are taking discipline serious right now. We're analyzing our One-Way network very aggressively, and we're looking to configure that One-Way network for the turn and put those assets in the places where we think they matter the most, where they support our long-term vision of how One-Way in our network needs to operate, continue to focus on sort of the North-South Mexico cross-border franchise, continue to lean into our expedited services franchise. And as that continues to grow, we're going to put more assets towards the more sustainable, more profitable end of the spectrum and less and less assets in the One-Way kind of random commoditized end of the network.

We can still help and support our customers there through PowerLink, our Power Only solution, and we can bring to bear solutions like Intermodal and other things. But that network is not one that shippers have placed in my view sufficient value on for a long enough period of time that we've got to make some tough decisions on what One-Way looks like in our future, but yet still leave enough exposure to that marketplace through this market turn to be able to participate and reap the rewards as things tighten up.

Tom Wadewitz

So maybe I just want to refresh again what we had talked about for 4Q truck count. I don't know if you were talking total, or just One-Way, and then kind of how –you now think that's even a little lower than what you thought before.

Chris Wikoff

Yes, sure. So just to recap the guide for the most recent TTS fleet guide for the year was going to be down 2% to flat. And so, as Derek just mentioned, we anticipate being further south below the low end, below 2%. It could be a few additional percentage points. So, we even call it down 4% to 6% for total TTS fleet. Dedicated has been growing, has growth at the end of the third quarter. Dedicated was up given new implementations in the second quarter and the third quarter. New implementations for Dedicated in the fourth quarter will be a bit light, which is very seasonal. A few shippers look to implement new fleets during peak. But we've continued to paper some new wins. And even into the first quarter, we'll have some additional new wins that we'll be implementing.

But the reduction, as Derek just said, is largely in the One-Way space. It's all aimed at margin expansion, will translate to margin expansion in 2026. But it's some meaningful and intentional moves, being very selective with our shippers, the type of freight, the geography of freight and leaning our assets more into expedited, cross-border specialized aspects of One-Way. And those that are more on the spectrum of more commoditized in One-Way, we can leverage our PowerLink offerings, a more asset-light offering within Logistics to support essentially a One-Way offering. But all of that combined, does translate to a smaller One-Way fleet, smaller TTS fleet ending the year.

Tom Wadwitz

So, the number you're saying it was kind of flat to down 2% for total TTS and that's like year-end versus prior year-end?

Chris Wikoff

Yes, that's correct.

Tom Wadewitz

Okay. And so now that instead of being flat to down 2%, might be down 4% to 6%.

Chris Wikoff

Correct.

Tom Wadewitz

Okay. So that's a pretty big change then, especially if it's all in One-Way.

Chris Wikoff

Yes.

Derek Leathers

Correct. It feeds the total TTS number, but it will appear almost exclusively in One-Way. And that's just part of, like I said, I mean, we've been given a very clear message by the marketplace as to the value placed on One-Way, and we're responding to that message accordingly.

We're going to make sure we do what's right for margin expansion going into 2026, structuring a leaner, lower cost to serve One-Way network at the size that it needs to be and move forward from there. I mean I will remind people that over a 10-year period, Dedicated outperforms One-Way 8 out of 10 years anyway.

And yes, we're aware that the years that it doesn't, are the first couple of years of a turn. So, we don't want to eliminate One-Way right now, the wrong time to do it. But we want to have a leaner, meaner version of One-Way with a higher expedited exposure, higher cross-border exposure, where we believe the fruits of our labor are more appreciated.

Tom Wadewitz

So how high are you comfortable being in terms of like mix of total fleet that's Dedicated? I think that's increased over time, but I mean, are you comfortable with 75% Dedicated versus One-Way? Or is it kind of like you get up to 70%, that's kind of the peak?

Derek Leathers

I think the better way for us to think about it is sort of we will ratchet it, not predetermine a final number. But I think at this point, we're very comfortable saying that we would be willing to be 70%. And right now, we're sort of in that 65%, 66% range, but we'd be more than willing for it to be 70%. Over time, we think that number could be higher. There was a time not too long ago where we thought 65% was kind of the upper limit because of all of our ability to surge with our One-Way fleet. But I think we underestimated our ability to cross-serve amongst Dedicated fleets and the synergies that we get with more and more density in Dedicated in certain geographic areas. And so, we've got multiple solutions that we can bring to bear in order to surge and support our Dedicated customers that are advantageous for them but also for our bottom line.

And so, 70% is something I'd be comfortable with today. I can assure you when we get to 70%, we'll be reexamining those levels and asking the question whether we can go further. And I think we can. I don't think there's any hard stop at any point. What we really want to do is make sure everything we do is in a less commoditized area of the business. So Dedicated is obvious. So is Mexico cross-border, many fewer people can do that very well. It's a much more quality competition set that you're faced with in Mexico cross-border. And then building and executing on truly team expedited freight is difficult work. We're good at it. We're getting better at it every day. And so we're going to continue to lean in that direction as well.

Tom Wadewitz

What percent of your One-Way would be team, roughly?

Derek Leathers

Teams take various forms. So, I want to be careful with that. I mean we have developmental teams, right, teams that are newly formed that are joining and becoming true team expedited over time. We do a lot of leader teams. So, like our leaders lead those new drivers into the fleet. They've already been to schooling. They've already been to four days of orientation. They go out over the road and they're in an observation mode only for a significant period of time.

But then at some point, we want them to operate more like a leader team, which is not dispatched at a true team level, but that's part of that mix. If you take all of the different team-like capacity, so that also all of our engineered solutions where we're slip seating a truck, that truck is essentially a team truck, but it's got two different drivers and two different shifts. You put all that together and you're kind of bumping 50%, let's say. And that number, we think, has some ability to grow.

Tom Wadewitz

Okay. So yes, it's a pretty big exposure on that. Chris, if I go back to like Dedicated fleet 4Q versus 3Q, is that you're saying maybe like the growth or the ramp-up of new fleets is a little slower, like the pipeline is good?

Chris Wikoff

Yes. Pipeline continues to be very strong in Dedicated. The fourth quarter is just typically one where there's fewer new implementations. So certainly, Dedicated fleet is not going backwards. Just for the fourth quarter sequentially, we're just saying it would be flat or modestly up. Just not seeing the sequential increase in the fleet that we saw in the second quarter and in the third quarter given those more significant new fleets that we were implementing.

Derek Leathers

I mean the simple reality is fourth quarter is not a time to implement really anything brand new because the house is somewhat on fire in terms of freight volumes and everything else. And so you just got to focus on delivering peak and doing it at a very high level.

Tom Wadewitz

Yes, makes sense. So, if I put this together, so you got some optimism on the way peak is playing out. I think your own activities to reduce the One-Way fleet a bit. Is this kind of positive to how you were thinking about earnings performance 4Q? Is this a little negative to how you were thinking about it before? Or is this kind of broadly on track with what you were thinking about it when you reported 3Q?

Derek Leathers

Yes, so Q4 has got a lot of moving parts, obviously. Peak is shaping up as expected, with maybe a slight opportunity to the positive. The restructuring type work, the analysis work of fleet size and everything represents short-term headwinds, like you do face headwinds when you're going through rightsizing a fleet and getting all of the assets in the right position for the best entry point into 2026. So, the wash is probably as expected for Q4, maybe a slight bigger headwind than tailwind, but that's very short term in nature.

Some of the positives are we've got through the knot hole on the implementation cost largely that we've talked about for two quarters in a row with some of the new Dedicated verticals that we've entered into. And now we kind of know those businesses better. They're performing as expected. And as we go into '26, we're in a clean slate then moving forward with those fleets and how they were originally modeled.

Chris Wikoff

And the One-Way production, that was down year-over-year in the third quarter. That was more temporary in nature. We talked about that on the earnings call. And so that is back to where we want it to be in the fourth quarter. So sequentially, Q3 to Q4, that's more of a tailwind from both a revenue and an operating income perspective. And that's not to say that there isn't further opportunity to grow production on the One-Way side, particularly as that fleet becomes leaner and meaner in 2026. But relative to where we were in the third quarter, we're back to kind of pre-Q3 levels.

Tom Wadewitz

So how do you think about, I think that OR in 3Q, there are a couple of items you identified and say, let's take this out to get kind of a better picture on TTS OR. How do you think about like OR progression in 4Q?

Chris Wikoff

Sequentially improved.

Tom Wadewitz

Sequentially improved and that's excluding the items you identified in 3Q?.

Chris Wikoff

The One-Way production being a bigger driver of that sequential improvement.

Tom Wadewitz

So, what's kind of the right base number in 3Q that we should look off of, do you recall for 3Q TTS OR where you say there's some improvement in 4Q?

Chris Wikoff

Yes. I think with excluding some of the Dedicated start-up, we were more in a 2% to 3% range.

Tom Wadewitz

Okay. So, you're kind of, call it, 97.5% OR and maybe off that level, you can see some improvement in 4Q. Is that ballpark?

Chris Wikoff

Yes.

Tom Wadewitz

Okay. All right. How do you look at 2026 OR? I mean, I know the pricing environment is paramount, right? So, lacking perfect visibility on that, it's hard to be prescriptive on OR. But I guess, inflation has been challenged in the backdrop the last couple of years. Is inflation less? Is that helpful? Is there kind of more idiosyncratic you do that can help the OR? I mean maybe if you assume, let's say you get 3% to 4% rates across your kind of TTS fleet, I don't know if that's like a reasonable assumption. What can you do on the OR side?

Chris Wikoff

Yes, certainly, rate matters. So 3%, 4%, north of mid-single digits, that's all helpful. And again, given the enforcement backdrop and other factors, it sets us up better than recent prior periods and prior years to achieve a more significant rate lift in '26. But there's other factors as well. You talked about inflation. Inflation has moderated a bit compared to prior years, but there's still pockets of inflation. We see it in insurance and cost per claim, in supplies and maintenance, cost of equipment, particularly with tariffs and the backdrop there, as well as in employee benefits and the cost of health care.

So, there's certainly pockets of inflation. The combatant to inflation is multipronged. It's cost discipline, rate, as we said, but also operating efficiency, whether that's in production or in other operational gains, including synergies that we can get from our multi-year investment in technology. So all of those are in play in 2026, aimed at margin expansion. On the cost discipline side, what we've done over the last couple of years of, call it, last few years actually of about \$50 million in cost takeout per year, most of that being structural and sustainable. In any one given year, really what that's doing is it's combating inflation. The cumulative effect of that helps for sure. And again, we've been doing that for three years. So, we'll continue to lean into that discipline. But rate will help. And we were just talking about production, particularly in One-Way, improving miles per truck, sweating the assets as we revamp the fleet a bit over the coming months in One-Way, and that will help as well.

Tom Wadewitz

So, if you get 3% to 4% rates, if you execute on your program, given what you know to date, can you get 150, 200 basis points in TTS margin improvement? Is that ballpark? Do you think it's a lot better? Do you think it's tough to get to that level?

Derek Leathers

No. I think the expectation is roughly at that level, with that level of rate. We're not putting that rate out there as the foregone conclusion as the upper limit, obviously.

Tom Wadewitz

You'd like to be better, yes.

Derek Leathers

Yes. We're going to do what we can do, and we're going to have the discipline, and we're going to demonstrate the discipline to make sure and prioritize rate over volume right now. It's the necessary point in the cycle that we're in. We have to focus on making sure that we're compensated for the work we do. The work is not getting any easier.

And in fact, with length of haul continuing to compress nationally, the work, the amount of touches, the amount of drop hooks, unloads and loads per revenue dollar is increasing. So, the work is actually more and more difficult over time. And that's why we really continue to lean into the Dedicated model.

We do believe, by the way, in a tightening market, Dedicated isn't some anchor. We actually are excited about the opportunity for Dedicated to demonstrate margin expansion itself. You get that through better backhaul opportunities at a better rate with more backhauls being filled than moving empty. You get it through more opportunities for the Dedicated pipeline to become even more robust. You get it through yielding underperforming Dedicated fleets out of the network and replacing it with better-performing fleets, all of which will be part of the 2026 game plan.

Tom Wadewitz

So, is the kind of ballpark what I mentioned reasonable?

Derek Leathers

Yes, I think it's reasonable.

I would call to just remind everybody, 60% of the business is bid in the first half. Most of those implementations don't start until Q2. So, when you talk about this margin expansion and everything, we're talking about sort of the back half-loaded because of when the new rates actually hit the street, so to speak, in terms of billing at the new level.

Tom Wadewitz

Sure. Yes, totally makes sense. If there are any questions, please raise your hand. I'm happy to take questions from the room. I want to shift to, I guess we should cover the regulatory side in some more detail, and then I want to talk about, Werner Logistics, which I inadvertently referred to as VAS on a quarterly call, I've covered you guys for a long time.

How are you thinking about, I hear the administration seems very focused on their initiatives, DOT and FMCSA to bring out the questionable capacity and focus on drivers and getting the right drivers in the market and the wrong drivers out. So, it seems like there's a great intention and a lot of focus. The debate I hear is like, well, enforcement is the key, right, to whether there is traction and how much traction on this. How do you think about what enforcement means? Who's doing the enforcement, who needs to stay focused to get that capacity out? How do you think about the way this all plays out?

Derek Leathers

Yes. So, I think it depends on the regulatory issue, right? So, there's a handful of different issues simultaneously playing out right now. So ELP was the first one to kind of hit the news. That was back in June, ramped in July. It's been greater enforcement each month subsequent to July, currently running at about a 30,000 annualized run rate of enforcement for putting people out of service for not being able to speak English. We think that's a critical safety issue and one that needs to continue to be enforced, and we're excited that they're doing it. I think it will only ramp further from here. The question is, I don't know that the numbers will show through at a greater and greater number because I think people are getting the message that it is going to be enforced. But that is a state one, right? So when you talk about is it federal, is it state, that one generally gets enforced at weigh stations and roadside inspections, and it really is up to each state to decide, unfortunately, their appetite for enforcement.

But as that enforcement ramps in more states, there's just nowhere to go from here. And so it really has the impact of being a national level enforcement. If you end up with 13, 14, even 15 states enforcing it diligently, that's about all it takes to kind of shut down any kind of transcontinental avoidance that's taking place otherwise.

Tom Wadewitz

And do you think that's kind of the rough number of states that are enforcing it?

Derek Leathers

Yes. Right now, I think that's right. But it's increasing. We're seeing increased enforcement by new states each month. And so I don't think you'll see decreasing enforcement. And I think the focus of the administration is such that if they've shown an appetite for anything, it's enforcement. And so I think they're going to continue to do so. You transition into the B1 cabotage issue, B1 drivers do a cabotage. That's more of a federal enforcement issue, more of a Homeland Security and/or CBP type issue. That enforcement will take many, many different paths.

But we have seen even just as recently as this week, trucks being impounded, drivers being removed from the vehicle for running what is supposed to be an entry into the U.S. and an immediate exit. And instead, they're running domestic freight. And so that is a harder to quantify transgression because it's hard to know exactly where and when it's happening, but they've shown a willingness to dig into the data, and they are absolutely at least signaling that, that enforcement is only going to increase from here.

The non-domiciled CDL issue, numbers are all over the board, but I think it's extremely comfortable to say there's 200,000 of them. I think there's more, but let's just say 200,000 non-domiciled CDLs with the vast majority of those being issued outside of federal guidelines.

There's a stay on the rule, but yet after the stay on the rule took place, individual states have already announced they're no longer issuing non-domiciled CDLs. So, whether there's a stay or not, if the state makes the decision to not issue those, then that pretty much puts a cap on that capacity going forward. So, we applaud those efforts. We think that rule was exploited. We think it has put the motoring public at risk, and we think it does need to see increased enforcement.

Next layer is the electronic logging. They've finally wrapped their arms around the amount of fraud that's taken place in the electronic logging environment. We obviously operate in every one of these categories I've talked about legally and appropriately. And so, we're excited. Seldom do you see people encouraging enforcement of their industry. I'm really happy they're doing it because we like our positioning across the board on these issues.

But the electronic logging, we have a self-certification process in the U.S. We're the only modernized country in the world that does that. It doesn't make any sense. If electronic logs are important, certifying them is probably pretty important, too. And so they announced yesterday that they're going to launch a certification process. And that's going to take that population of electronic logging companies down considerably. I think Canada has nine companies that control about 90% of market share. We have over 1,000 ELD providers in the U.S., all of which self-certified that they're doing it right. I think we're all comfortable saying if there's 1,000 of them, there's a whole lot of them that aren't. And so getting that cleaned up is something that we are encouraged by.

It feels like I'm missing one. ELD, ELP, B1, non-domiciled CDLs, and entry-level driver training. This last night, DOT issued a statement that after an investigation that they've been conducting that up to 44% of the CDL schools in America are not following federal guidelines to train new drivers. I don't know that number. I haven't had time to understand where they got that number. But like I've said to many people today, let's just cut it in half or a little more than half and call it 20%. If 20% of the schools in this country are operating outside of federal guidelines and they're able to be shut down or guidelines enforced, that will have a huge dampening effect on people entering the industry and which is a positive. I mean we shouldn't allow somebody to go to a CDL school for 3 days and think that they're qualified. We have the largest vertically integrated school network in the country at Werner, and our folks go to school for five to seven weeks. After that five to seven weeks, they come to Werner. We put them through four days of classroom additional instruction orientation, if you will. Then they go out with a leader for another five to seven weeks. And then at the end of all of that, then they get the keys to a truck. You cannot go to a school for three days and be handed the keys and think that's safe for America.

Tom Wadewitz

So when you add it all together, what do you think the number is of drivers that potentially could get pushed out of the market over the next one to two years?

Derek Leathers

Well, first off, I'll say I think there's a lot of overlap between the various groups we just talked about. I think the same group that is at risk for ELP violations, English Language Violations, is the same group that is often holding a non-domiciled CDL, which is the same group that is using ELDs that may not be completely compliant with the law. But despite all of that, I think it's very comfortable to you can get to a number of about 200,000 if you assume that it's all duplicated across the various groups for those issues, you could easily get to that number. So, the bigger question is what does the over-the-road one-way truckload environment look like in size, and it's not as big as people think. You hear lots of commentary about 3.5 million, 3 million, 2.8 million. But that's inclusive of a whole bunch of dedicated fleets, a lot of private fleets, a lot of other things.

When you peel that onion back, I think you get a lot closer to 1 million to 1.5 million total drivers out there in that over-the-road competitive marketplace doing one-way freight delivery. If 200,000 of them are operating outside of the laws of the land and over time, they're able to be removed, that is a meaningful impact to supply and one that is sticky because it's enforcement-based, not financial based, and so if you can't reenter because you still have the same deficits you had prior to being exited, you're not going to re-enter easily. And so it creates a significant impact on supply in over-the-road trucking, truckload in particular. Those drivers are not generally in LTL. They're not generally in dedicated, and they're certainly probably not in private fleets. They are in over-the-road kind of One-Way, "you call, we haul" type trucking, and that's where the pain has been by far the most across the industry.

Tom Wadewitz

Okay, great. We don't have a whole lot of time left, but we can run over a little bit. What's happening in Logistics? It seems like you've been doing some pretty exciting things with technology and your ability to really automate some of the load booking process. So maybe just some kind of quick thoughts on how are you using tech and how far along you are in the use of that in Logistics?

Derek Leathers

Yes. So I mean, I'll zoom out for a second and just say our tech journey is the single largest hill we've ever tried to climb from a technology standpoint. We've been doing it now for several years. We're kind of in the later innings finally. We're very excited about what it can bring to bear when we're complete. That completion will really run throughout the entirety of 2026. And it's never really complete.

Obviously, you have to continue to invest and iterate and evolve. But we'll have large-scale completion, if you will, by the end of '26 for the most part. But the proof point really shows best in Logistics. Logistics was the first to convert to the new tech stack. And I think the biggest proof point is that volumes are up, call it, roughly 10% and yet OpEx is down 10%. So we're able to push more through the pipe and do so at a lower cost to serve.

And Logistics is still iterating their improvements in the tech stack itself. And so, we're excited as we think about 2026 relative to not just Logistics, but the overall portfolio as we're starting to finally get more of the headwinds removed of operating in two systems and being able to benefit from the tailwinds of transitioning to the new primary tech stack that we've been building for these years. A lot of that tailwind won't really take place in the asset side of the business until the latter half. Right now, it's probably a net headwind slightly, and that will continue for Q4, Q1 and most of Q2. But at some point, that flips. And we're on schedule and on budget. So that matters a lot. But it's been a very, very steep hill to climb.

In Logistics, I'm equally excited going into 2026 with what's happening in Intermodal in our fleet, the ability to both grow volumes and margin in Intermodal, what's happening in our Power Only, which is one of the fastest-growing portions of our business. We refer to that as PowerLink and the margins that that business is able to produce. We continue to see opportunity to expand and grow that as we go forward. Our Final Mile business has landed several opportunities that implement really in the first half of next year that bring to bear finally the premise behind why we bought that business because we bought that business right before the big freight recession, especially in the big and bulky world. So timing wasn't great, but the learnings that we've developed and the muscle memory over time will serve us well as we go into 2026.

So overall, that Logistics business looks promising. It probably crests \$1 billion sometime in 2026. We think that's important, and it's an offset from a return on asset perspective to the more capital-intensive part of our business, which is TTS.

Tom Wadewitz

Okay, great. With that, I think we're out of time, and we should wrap up. But Derek and Chris, thanks so much for the time, the great insights. We appreciate it, and thanks for joining us at our conference.