

Werner Enterprises

Third Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers – *Chairman and Chief Executive Officer*

Chris Wikoff – *Executive Vice President, Treasurer and Chief Financial Officer*

Chris Neil – *Senior Vice President of Pricing and Strategic Planning*

Operator

Good afternoon, and welcome to Werner Enterprises Third Quarter 2025 Earnings Conference Call.

(Operator Instructions) Please note that this event is being recorded. I would now like to turn the conference over to Chris Neil, Senior Vice President of Pricing and Strategic Planning. Please go ahead, sir.

Chris Neil

Good afternoon, everyone. Earlier today, we issued our earnings release with our third quarter results. The release and supplemental presentation are available in the Investors section of our website at werner.com. Today's webcast is being recorded and will be available for replay later today.

Please see the disclosure statement on slide two of the presentation as well as the disclaimers in our earnings release related to forward-looking statements. Today's remarks contain forward-looking statements that may involve risks, uncertainties, and other factors that could cause actual results to differ materially.

The company reports results using non-GAAP measures, which we believe provides additional information for investors to help facilitate the comparison of past and present performance. A reconciliation to the most directly comparable GAAP measures is included in the tables attached to the earnings release and in the appendix of the slide presentation.

On today's call with me are Derek Leathers, Chairman and CEO; and Chris Wikoff, Executive Vice President, Treasurer, and CFO.

I will now turn the call over to Derek.

Derek Leathers

Thank you, Chris, and good afternoon, everyone. Today, I will speak to what we are seeing in the market, how that is translating into our performance, and what we are doing from a strategic standpoint to further position Werner for long-term growth.

While the second quarter was more favorable, the third quarter presented some challenges, namely in our One-Way business. However, there are several positive developments that we can highlight from the quarter.

In Logistics, we continued a double-digit growth trajectory with lower operating costs year-over-year, despite some anticipated change in mix. In One-Way trucking, revenue per total mile increased, the fifth consecutive quarter of year-over-year improvement. And in Dedicated, revenue grew sequentially and year-over-year as momentum continued from recent business awards and start-ups. We are building a foothold in new verticals like tech and aftermarket automotive parts. Our new customers are seeing the value of our strength and scale in Dedicated in these new applications, but there is a short-term upfront investment as we pursue these opportunities.

In terms of the challenges in the quarter, in Logistics we experienced margin pressure from mix changes and in One-Way we saw decreased miles per truck, although we view this as temporary as One-Way production has been recovering throughout October. Start-up costs in Dedicated were more elevated compared to the second quarter and more than we anticipated. Overall, as market dynamics remain unpredictable, we are keeping focus where it matters most, on delivering superior value to our customers and positioning Werner for long-term success. We remain confident in our business fundamentals and progress that we are achieving toward our long-term goals and strategic objectives.

Moving to slide five. Our focus remains on three overarching priorities: driving growth in core business; driving operational excellence as a core competency; and driving capital efficiencies. Here's where we are on these priorities.

First, driving growth in core business. Our Dedicated fleet is growing and conversations with customers regarding the cost advantages of for-hire Dedicated fleets are resonating. We've been awarded several new fleets, and the pipeline remains strong with momentum growing in new and attractive end markets of choice. Service levels are high and have been recognized recently by several strategic shippers naming Werner Dedicated Carrier of the Year. All Logistics divisions produced top line growth the past two consecutive quarters, with Intermodal achieving its highest quarterly revenue in 11 quarters. We continue to offer compelling solutions to our customers who are finding value and entrusting us to solve their supply chain challenges.

Second, driving operational excellence as a core competency. This priority is anchored by a culture of safety, service, reducing our cost-to-serve profile, and transforming how we do business. We continue to trend favorably on our DOT preventable accidents per million miles, which declined low-double-digit percent from Q3 of last year and year-to-date is below our 5, 10, and 15-year averages.

Our 2025 cost savings plan is progressing as planned, and by the end of third quarter, we achieved 80% of our \$45 million in cost saving target for 2025 and remain on track to reach the full goal by year end.

We are also progressing well on our technology transformation, positively impacting both efficiency and our safety performance. We've often said this is a multiyear journey, but we are in the later innings. As this takes hold, the benefits will be more evident. Our tech transformation, to say it plainly...it's a lot. The scope across our business is expansive. This is not just another tech upgrade. Rather, over the past four years, we've completely rebuilt our technology stack from the ground up, replacing every single component, creating a modern, scalable, secure, cloud-based platform. While others bolt on AI to their legacy systems, we built an integrated foundation that connects every part of our business from pricing and planning to safety, billing, recruiting, and more. Our Cloud First, Cloud Now strategy is paying off. It allows us to take full advantage of our new tech stack, automating processes, and layering new AI agents quickly and effectively.

For example, our largest expense in one back-office department has been lowered by 40% over the last two years through modernization and AI automation while maintaining full service levels. We see the benefits of this in four areas, safety, data, analytics, and operational efficiency. And even more important, an enhanced experience for our customers, drivers, and third-party carriers.

For example, technology benefits safety and our driver experience through enhanced in-cab situational awareness and visibility, such as through real-time anticipated weather and routing technology and installing side view cameras that talk seamlessly with other systems. The

technology data and cloud storage of video also provides opportunities for enhanced training and driver development.

Our third-party carriers benefit from optimized load matching based on our carrier preferences and enhanced communication. Operationally, we benefit from greater efficiencies across our business. Orchestrated intelligence is changing how we operate every day, consolidating systems, automating steps, and using AI to streamline end-to-end workflows. We see this efficiency growing across the shipment lifecycle from pricing and load booking to route planning and invoicing.

As a result, dwell time is down, planning efficiency is up, and thousands of customer and driver interactions are now handled each week by conversational AI. And most importantly, our customers benefit, as we continue to roll out the EDGE TMS platform and ecosystem across our business. Our goal is for our customers to have increasingly more information, visibility, and transparency.

We've seen the financial benefits of our tech transformation reflected in Logistics, with multiple quarters of meaningful OpEx reduction year-over-year while growing volume and top line. We're already seeing progress across our TTS segment. Given the size and complexity of managing assets and drivers at scale, the lift is larger but so is the impact.

Our final priority is driving capital efficiency. Despite the challenging operating environment, we continue to generate solid operating cash flow, maximize value on the sale of used equipment, and invest for growth.

Let's turn to slide six and discuss our third quarter results. During the quarter revenues increased 3% versus the prior year. Revenues, net of fuel, increased 4%. Adjusted EPS was negative \$0.03. Adjusted operating margin was 1.4%. And adjusted TTS operating margin was 1.9%, net of fuel surcharge.

We previously disclosed a legal settlement agreement entered into in October for \$18 million related to class action litigation that had lasted more than a decade involving claims related to driver pay. We also incurred legal fees of \$3.4 million in the quarter related to this litigation. These costs represent a \$0.26 negative impact to GAAP EPS but are removed as part of adjusted EPS. In Dedicated, we're continuing to see steady momentum in adding new business while maintaining solid retention. Shipper conversations continue to be constructive as customers remain focused on reliable and flexible transportation partners who offer creative solutions with high service and scale.

In One-Way Truckload, revenue per total mile increased sequentially and was up modestly again year-over-year. Contractual rate changes that became effective were mitigated by spot rates that declined in July and August before increasing in the latter part of the quarter. One-Way production was lower year-over-year driven by three factors: fleet composition, onboarding of new drivers, and some network softness.

We rebalanced driver capacity to launch new Dedicated and specialized freight, which temporarily created inefficiencies in the One-Way network. Overall, we're now on the other side of those transitions with a more focused One-Way fleet, sustained Dedicated growth, and the flexibility of our PowerLink solution to capture higher margin peak freight as the One-Way fleet moderates into Q4.

In Logistics, revenue increased sequentially and year-over-year. However, gross margin was pressured as the conclusion of higher-margin project work was replaced with contractual business. This mix change resulted in startup costs and contributed to an increase in purchase transportation.

Before Chris discusses our financial results in more detail, let's move to slide seven to summarize our current near-term market outlook.

Demand in Q3 was below normal seasonality for most of the quarter. However, we did see improvement in One-Way trucking demand through September and so far in October. While concerns about consumer health persist, consumers remain resilient with rising retail sales and moderate inflation relief. These are supportive signs for retail. However, beneath the surface, there are other concerns. Consumer confidence is lower, real growth is modest, and many consumers are in preservation mode rather than expansion mode. As a result, we like our mix of retail being more concentrated in discount and value retailers.

Retail inventories appear to have mostly normalized. While some inventory was pulled forward ahead of Q3, non-discretionary goods have had more consistent replenishment cycles. Spot rates trended higher starting in September and into October and are expected to follow normal seasonal patterns for the remainder of the year, with upside potential supported by ongoing capacity attrition.

Customers have provided additional insights into their peak season volume estimates. Shipment forecasts vary by customer, but in total, peak volume and pricing are estimated to be similar to last year, with more balance across the network. Capacity continues to exit, and recent supply-demand tightening would suggest the pace is increasing, given developments surrounding non-domiciled CDLs, B-1 visas, and English language proficiency. As challenging operating conditions continue, we are also seeing an uptick in bankruptcies as a further limiter. We are well positioned on these issues and will benefit as the market comes more into balance.

Given the dynamic tariff backdrop, uncertainty related to the cost of Class 8 trucks remains. We expect used truck values are likely to remain stable in the near-term, particularly for assets with lower miles and remaining warranty. Class 8 net truck builds are now well below replacement levels and not only signal that a potential truckload capacity tightening could be ahead, but also that more carriers could be looking to refresh their fleet in the used equipment market.

With that, I'll turn it over to Chris to discuss our third quarter results in more detail.

Chris Wikoff

Thank you, Derek. We'll continue on slide nine. All performance comparisons here are year-over-year, unless otherwise noted.

Third quarter revenues totalled \$771 million, up 3%. Adjusted operating income was \$10.9 million and adjusted operating margin was 1.4%. Adjusted EPS was negative \$0.03. Discrete tax items negatively impacted adjusted EPS by \$0.08 in the quarter. Consolidated gains on sale of property and equipment totalled \$4.5 million.

Turning to slide 10. Truckload Transportation Services total revenue for the quarter was \$520 million, down 1%. Revenues, net of fuel surcharges, were flat year-over-year at \$460 million. TTS adjusted operating income was \$8.9 million. Adjusted operating margin, net of fuel, was 1.9%, a

decrease of 340 basis points. 200 basis points of the decrease is attributed to higher insurance and claims expenses and 50 basis points are associated with Dedicated startup costs.

Insurance costs were lower than the previous two quarters, but significantly higher year-over-year as costs during the prior year quarter were below \$30 million, a low point going back to the first quarter of 2022. Investments in new Dedicated fleet startups exceeded \$2 million in the quarter, a \$0.03 impact on EPS. Startup costs in the third quarter were higher compared to the second quarter.

Timing of these costs was difficult to predict or to pass on, given the new verticals, freight and customers represented by the majority of the wins earlier in the year. We are now seeing the startup expense dropping off. So far in October, these related costs are down 75% from the third quarter run rate.

Let's turn to slide 11 to review our fleet metrics. TTS average trucks were 7,503 during the quarter. The TTS fleet ended the quarter flat year-over-year and down 100 trucks, or 1.3% sequentially. TTS revenue per truck per week, net of fuel, decreased 0.7%, primarily due to lower miles per truck, partially offset by higher revenue per total mile.

Within TTS, Dedicated revenue, net of fuel, was \$292 million, up 2.5%. Dedicated represented 65% of TTS trucking revenues, up from 63% a year ago. Dedicated average trucks increased 1.2% year-over-year and 0.2% sequentially to 4,865 trucks. At quarter end, the Dedicated fleet was up 125 trucks, or 2.6% from where we started the year and represented 67% of the TTS fleet.

Dedicated revenue per truck per week grew 1.3% and has increased 29 of the last 31 quarters. Lower production in the startup fleets negatively impacted this metric by 140 basis points in the quarter. It often takes 90 days or more before new fleets meet targeted production as drivers are sourced and integrated into the fleet, equipment is positioned, and routes are optimized. In our One-Way business, for the third quarter, trucking revenue, net of fuel, was \$160 million, a decrease of 3%.

Average truck count of 2,638 increased 1.3% year-over-year and was up slightly on a sequential basis. However, end-of-period One-Way trucks declined 2.4% as the fleet size decreased throughout the quarter. Revenue per truck per week decreased 4.3% due to 4.7% lower miles per truck, only partially offset with higher revenues per total mile, up 0.4%. Miles per truck declined more than expected in the third quarter. Over the past two years, we've realized significant gains in One-Way production and modest year-over-year decreases in the first half of this year.

As Derek mentioned, the Q3 change in trend reflects shifts in fleet profile and new driver onboarding and, to a lesser degree, some early quarter network softness. While seating Dedicated growth had tangential impacts on One-Way production, we are in a more favorable position now and production has already improved through October, returning to nearly flat versus last year. Revenue per loaded mile increased 0.8% year-over-year. Deadhead was slightly higher, increasing 32 basis points year-over-year and 15 basis points sequentially, resulting in a 0.4% increase in revenue per total mile. Although total One-Way miles decreased 3% versus the prior year, combined One-Way and PowerLink miles rose over 4%, enabling us to serve customers efficiently with fewer assets.

Logistics results are shown on slide 12. In the third quarter, Logistics revenue was \$233 million, representing 30% of total third quarter revenues. Revenues increased 12% year-over-year and 5% sequentially. Truckload Logistics revenues increased 13% and shipments increased 12% with

gross margin expansion. Our PowerLink offering led the growth, up 26%, while traditional Brokerage recorded mid-single-digit revenue growth. Higher volume was the driving factor with modest rate improvement.

That being said, Logistics volume in October softened and margins have been pressured as purchase transportation costs have increased. Intermodal revenues, which make up approximately 15% of the Logistics segment, increased 23%, almost entirely from higher volume.

Final Mile revenues decreased 1% year-over-year but increased 4% sequentially. Logistics adjusted operating margin of 1.8% improved 140 basis points, driven by volume growth and lower operating expenses. The operating margin expansion is net of added pressure on Logistics gross margins as some higher-priced project business was replaced with contractual business. Our ability to scale in Logistics at lower cost is driven in part by our technology investments and our EDGE TMS platform.

Moving to slide 13 and our cost savings program. Through the third quarter, we have achieved \$36 million in savings towards our \$45 million goal. Actions to achieve the full \$45 million have already been taken, giving high assurance of achieving the remaining \$9 million in the fourth quarter. 2025 marks the third consecutive year of cost saving achievement in the range of \$40 million to \$50 million per year. We will continue this discipline into 2026. Leveraging our technology investments will help, along with additional initiatives aimed at improving profitability in One-Way and extending our operating efficiency in Logistics. We look forward to discussing our 2026 cost savings program with you next quarter.

Let's review our cash flow and liquidity on slide 14. Operating cash flow was \$44 million for the quarter or 5.7% of total revenue. Net CapEx was \$35 million, or 4.6% of revenue. Year-to-date, net CapEx is 4.2% of revenue. Free cash flow year-to-date is \$26.2 million, or 1.2% of total revenues. We ended the quarter with \$725 million of debt, unchanged sequentially. Our net debt to adjusted EBITDA as of September 30th was 1.9x.

We have a strong balance sheet, access to capital, relatively low leverage, and no near-term maturities in our debt structure which provides ample financial flexibility to invest in growth and value-enhancing opportunities. Total liquidity at quarter end was \$695 million, including \$51 million of cash on hand and \$644 million of combined availability under our credit facilities.

Let's turn to slide 15. When it comes to broad capital allocation decisions, we will remain balanced over the long term, strategically investing in the business, returning capital to shareholders, maintaining appropriate leverage, and remaining disciplined and opportunistic with share repurchase and M&A. In August, our Board authorized a 5 million share repurchase program, replacing the prior program. We did not repurchase any shares in the quarter.

Let's review our guidance for the year on slide 16. We are adjusting our full year fleet guidance range from up 1% to 4%, to down 2% to flat. The TTS fleet is down 0.1% year-to-date. Implementations of new fleets in Dedicated remain ongoing, but the One-Way fleet decreased during the quarter and is expected to further decline through year-end. We are tightening our full year net CapEx guidance from a range of \$145 million to \$185 million, to a range of \$155 million to \$175 million, with the midpoint unchanged.

Dedicated revenue per truck per week increased 1.3% year-over-year and is up 0.4% for the first 9 months of the year. We are tightening the full year guidance range to flat to up 1.5%.

One-Way Truckload revenue per total mile increased 0.4%. For the fourth quarter, we expect revenue per total mile to be down 1% to up 1%, compared to the prior year period, mostly due to mix plus structural changes anticipated in One-Way aimed at profitability improvement in 2026 and greater operating leverage and readiness as capacity tightens and the macro improves.

Our effective tax rate in the third quarter was higher than usual due to discrete income tax items, specifically a \$4.7 million return-to-provision adjustment, which unfavorably impacted adjusted EPS by \$0.08. We expect our fourth quarter effective tax rate to be between 26% to 27%.

The average age of our truck and trailer fleet at the end of third quarter was 2.5 and 5.5 years, respectively.

Regarding other modeling assumptions, gains of \$4.5 million was down from \$5.9 million in the second quarter as expected, on nearly 20% fewer tractor sales and over 40% fewer trailers. Despite the sequential pullback, unit gains were almost double compared to a year prior. We expect resale values to remain generally stable given OEM production constraints and the evolving regulatory backdrop that will be an incentive towards high-quality used assets. We are narrowing our full year guidance range for equipment gains from a range of \$12 million to \$18 million to a range of \$14 million to \$16 million.

With that, I'll turn it back to Derek.

Derek Leathers

Thank you, Chris. In summary, while we experienced significant challenges in One-Way this quarter, results across the rest of our business are steadily improving. What remains constant during these uncertain times is our competitive advantage. We are a large-scale, award-winning, reliable partner with diverse and agile solutions to support customers' transportation and Logistics needs.

As this challenging operating environment continues, we are taking actions to position the business for long-term growth. Our fleet is new and modern due to the investments made in the last few years, we're progressing through our transformational technology journey, and our balance sheet is strong, enabling flexibility in our capital allocation strategy.

With that, let's open it up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Your first question today will come from Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger

Good afternoon. Given some of your comments for the fourth quarter so far on spot picking up, maybe demand a little better, productivity, some of the start-up costs dropping off, is there a way you could maybe frame up how to think about hopefully improvement in TTS operating ratio? As we move from 3Q to 4Q, would that be the expectation? Thank you.

Chris Wikoff

Hello Jordan, I'll take that one. This is Chris. Yes, maybe at a high level just to give you some inputs going Q3 to Q4. Q4, we would expect it to be, call it, seasonally softer, down sequentially with revenue softness in Logistics. I think there will be some operating income upside with some of the items that you mentioned, start-up expenses dropping off, some One-Way production rebounding, and our cost discipline holding. There's some offsets with some further Logistics gross margin pressure and lighter gains.

Operator

Your next question today will come from Bruce Chan with Stifel. Please go ahead.

Matt Milask

Good afternoon. This is Matt Milask on for Bruce. Thank you for taking our questions. To start, I believe you said that the pace of capacity reduction related to regulatory enforcement appears to be accelerating. One of your competitors pointed to potentially larger impact there than what ELDs had several years back.

We're curious if you could comment on the magnitude of reduction, you might ultimately expect here, maybe what the timing might be, and any color or early signs that you're seeing across the business or within the customer conversations that you've had around this.

Derek Leathers

Thanks, Matt. Thanks for the question. So yes, on the pace, we'll start with the one that started first, which was really the ELP side of it. We've seen ongoing increases in the pace and aggressiveness of the English language proficiency enforcement. Right now if you were to look at current trends, it would project out to be about 30,000 annually that would be placed out of service. But each month, that trend has increased in momentum.

And I think as more states realize this is serious and it is a safety concern and enforcement increases, that number could certainly move north. But as of late, that focus has really been shifted or added to by the focus on the non-domiciled CDL front. There's lots of estimates out there, but a fairly conservative one appears to be 200,000 non-domiciled CDLs. And as we see enforcement starting to ramp up on that issue, it shows through as it relates to regional tightness and regional movements in the spot market.

So I don't think anybody is here today saying the spot market has fundamentally moved up and to the right nationally, but it's very clear that it's moved and followed trends in markets where enforcement has been ramped up. As recently as a few hours ago, I saw there was a press conference where in Indiana, they had a focused enforcement activity that took another 100-plus drivers off the road, of which I think upper 40s were Class 8 CDL holders. That type of enforcement and momentum we expect to continue.

I would argue that, in total, when you take the B-1 visa cabotage issue, the ELP issue, and the non-domiciled CDL issue, I would concur that that is larger than what we saw with the introduction of ELDs. The last enforcement around the corner that we believe the administration is aware of is actually relative to ELDs, and that's some of the ELD fraud that may be occurring out there on the nation's road.

It's way too premature for me to try to put a number on how vast that may be. But I'm encouraged by all of the enforcement opportunities to improve safety on our nation's roadways, and I applaud the administration for taking those matters very seriously.

Operator

And your next question today will come from Jason Seidl with TD Cowen. Please go ahead.

Jason Seidl

Thank you, operator. Derek, Chris and Chris, afternoon here. That's some good color that you just gave. If I could just tack on to that and then ask you questions about where you think the rates are going for bid season. But what do you think the overlap is between non-domiciled and ELP? That's something that we haven't been able to get a handle on even as we ask people.

And I guess as we look for the bid season, what are your early thoughts on bid season for '26? Can it look better than this past year, the low-single digits? Or do you think not with the demand environment that we're in now?

Derek Leathers

Yes, so the overlap question, I agree, I think it's probably the most nebulous of all of the numbers to try to get your arms around. But honestly, I'm not sure that it matters a whole lot, right? If we have significant enforcement on the non-domiciled CDL issue, even if it only means the non-renewal of such licenses as we go forward, you can very quickly get into a significant number of drivers.

I think the bigger thing that gets overlooked often is what's the numerator, what's the denominator. And so what we're talking about here, even at Werner within our own results, is we have pointed very clearly to the duress being in the One-Way, over-the-road network. That duress is pronounced through the proliferation of a lot of things to include the B-1 visa cabotage opportunities, ELP, and lack of enforcement of existing laws, and the non-domiciled CDL proliferation that we've seen over the last four to five years. And so, it is a significant portion of that population that we're talking about.

Now is it as high as some of the estimates I've seen? I don't know. But even if you cut those estimates by half and you look at 150,000-ish of those overlapping drivers, if you will, that's a significant change in market dynamics. And so, yes, I think this enforcement does continue to put us in a position for a bid season that shapes up to be better than a year ago.

But all of that is sort of a week-to-week, month-to-month monitoring of what's happening with the attrition, what's going on in the bankruptcy front, does lender leniency continue to tighten slightly as used truck values improve and all of the above, not to mention just overall trucker duress out there and the need for increased rates, I think puts pressure going into bid season for us to try to do even better than what people were achieving this year.

This year's bid season, we were for the first time, and you've seen it in five consecutive quarters, seeing increases in our rate per mile. As we came out of bids, we were seeing more stability in the outputs of those bids. But we need a lot more where that came from. And I think that's something that's well known. And the last piece on this enforcement is we tend to think about it only as law enforcement, but there is increasing awareness from insurance providers of some of the risks that these issues represent to them.

And as insurance companies are starting to dig in and, think differently about fundamentally underwriting some of these carriers, I think that's yet another barrier that really has not been present in the past that's starting to show its head. For the record, on all of the above issues, we like our position and our fleet position very much, and we encourage increased enforcement on all of the above.

Jason Seidl

Listen, I'm sure that's the case. And on the insurance side, do you think that's something that we could see quickly accelerate, putting sort of more capacity out of the marketplace?

Derek Leathers

All I can speak to is actual conversations that I'm aware of that are happening as we speak between insurers and their underlying carriers and documentation and vetting that is certainly ramping to a level that was not previously in place. All of that, I think, is good for the industry and good for public safety.

Operator

And your next question today will come from Tom Wadewitz with UBS. Please go ahead.

Tom Wadewitz

Good afternoon. Wanted to ask you on the, I guess, the popular topic on the call here. So you mentioned, Derek, that the numerator and denominator are important in figuring out this kind of potential regulatory impact on supply in the market. What do you think the denominator is? Do you think it's like third-party for-hire truckload that you would say, it's like 1 million drivers? Is it 2 million? How do you kind of allocate the exit in terms of estimating a percent impact, whatever you think that numerator is?

Derek Leathers

Tom, thank you for the question. Yes, I think when you think about Class 8 over-the-road, one-way, not private fleet driver base, where this is having the most profound impact and frankly covering most of the nation's highways with this type of category of driver and or skill set, I think it's less than a million, but approximately that number.

So let's just say a million. And then if you go back to the earlier conversation where I think conservatively between the triple impact of B-1 cabotage - so I'm not anti-B-1. I've said that many times, we don't use them in our fleet, but if you're using them legally, so be it, but cabotage is prohibited under the program - ELP, and non-domiciled CDL, you're going to quickly get to a number that looks something like 150,000 to 200,000, and that's if you're being very, very conservative in my view.

Tom Wadewitz

Okay and how much price do you think you need to get back on a more favorable margin trajectory? I mean, it seems like just the cost pressures are relentless on insurance.

Derek Leathers

Well, I'll start on the insurance side and maybe Chris will jump in, and we can give you some more color. But I would tell you that I believe, obviously, as recently as this first quarter this year, we had one that came out of nowhere based on some unique situations down in Louisiana. But we have started to find a normalized run rate, if you will, of insurance that I think is somewhere in that call it, \$35 million to \$38 million range. It may ebb and flow slightly from there.

What I'm proud of is that we continue to post near-record lows in accidents per million miles, DOT preventables, work comp injuries, etc. But it's the same story you guys have heard way too many times, which is it's the outsized one-off nuclear verdicts and/or settlements that throw a lot of noise into the number. We believe we're properly accrued and that we've really done a very diligent job relative to reserves as we look forward.

And we're attacking the most important thing, which is frequency and bringing it down month-over-month, quarter-over-quarter, anywhere and everywhere we can. So on the insurance front that would be my answer. On the rates, obviously, you asked the question what do we need. We need a lot. I mean, so does the entire industry. Not a very technical answer, but we're going to get everything we can.

I think shippers are starting to become aware more and more of how their freight may or may not be moving the way they thought it was and by whom it may be getting moved compared to what they thought it was. And we need to make sure that we get this industry back to re-investable levels, at a high-quality level, with vetted, qualified, competent drivers behind the wheel. And that is certainly the work that we'll be doing as we go forward with our shippers.

Operator

And your next question today will come from Ravi Shanker with Morgan Stanley. Please go ahead.

Nancy Hipp

Hello, this is Nancy Hipp on for Ravi. It would be helpful to hear a couple more details on peak season and your thoughts towards the end of the year, especially with your non-discretionary focused consumer base with this recent extended government shutdown?

Derek Leathers

So peak season, if I start at 40,000 feet, I think the best way to think about it from our view is that it's going to look similar to a year ago. Now there's some puts and takes in that, that make it maybe a little cloudier. A year ago, inside some of those peak numbers were some projects related to hurricanes and storms and natural disasters that at this point don't appear to be the case for this Q4.

Overall, discount retail holding up pretty well and what we're seeing in terms of opportunity sets look comparable. We've made some conscious decisions as we talk about One-Way being under duress to reallocate assets relative to where we're participating in peak, where we think it fits our network better. It may or may not demand the same premium, but if it doesn't have the same cost associated to it, that's still a win.

So we need that to play out and see what those volumes come in at. But in general, we're working with customers that are doing better than most. They are in the end of retail or on the retail spectrum where people are migrating to, not migrating away from and their projections and same-store sales are holding up pretty well. So what we know that's on the books today looks pretty good and similar to a year ago.

What we don't know is whether there's upside from there given some of the enforcement issues and other freight and mini bids that it could cause. We're not in a position to talk with a lot of optimism about that today because I think this enforcement trend needs to continue to gain traction before we would see that.

Operator

And your next question today will come from Scott Group with Wolfe Research. Please go ahead.

Scott Group

Afternoon. So, you've talked about regional tightness in a bunch of areas. We're hearing that from a lot of folks. I'm just curious like as you're seeing some areas get tighter, are other areas getting looser? Meaning is there some chance that these guys are leaving the states that it's being enforced and they're going to the states where it's not being enforced. And so the net impact is there's regions that get tight, but the net impact isn't as significant as maybe we'd think?

Derek Leathers

Yes, Scott, I understand the question. Thank you for that. But no, I don't believe that's the case. We absolutely believe there is some avoidance going on. So I want to be clear about that. Some out-of-route miles being ran to avoid states of enforcement or areas of enforcement. We believe there's some of that happening. But where we're seeing the tightness happen, often we have the ability to follow up and get more specific on what's happening in the market, whether it be through our used truck sales network, our local boots on the ground, a terminal in the area.

And what we're hearing back is - no, 20 drivers didn't report to work today and they're not coming back because they're concerned about enforcement, or the fleet that's involved with whoever those drivers may be, let go of 30 drivers today or closed their doors. We've seen some truck cancellations from fleets that were purchasing trucks from us that unbeknownst to us had drivers of those types maybe in their fleet and have had to cancel because they now are sitting with open trucks.

So no, because they're predominantly in the over-the-road application, Scott, and predominantly doing, therefore, national freight kind of one-way freight, you can't really avoid your way around the problem, and especially now as more and more states are starting to step up their own enforcement. We may think about 48 states, but you really have a select number of major highways in America and that's where that freight is traveling. And as long as you've got a state or two somewhere along that route, the enforcement starts to tighten pretty quickly.

Scott Group

Okay. That all make sense. And then just I wasn't clear the sort of the answer about how to think about Q4. Do you think we'll see some improvement in the truckload operating ratio from Q3 to Q4? I know someone else already asked, but I don't know that I followed the answer.

Chris Wikoff

Hello, Scott. This is Chris. So maybe just repeating what we did earlier. I mean, overall, some of the softness is going to be more so from Logistics. Within TTS, at least on a sequential basis, revenue more or less stable to up, but you unpack that and there's more opportunity with the Dedicated fleet, revenue per truck growth, peak contributing, but the One-Way fleet being down a bit.

And then from an expense perspective, there's upside in TTS with those Dedicated start-up expenses that are dropping off very quickly. We alluded to some of that. Early here in November it should be completely gone. We are expecting some lighter gains. Resale values, I think, will continue to be sustained. But obviously, it depends on the quantity and the number of units that we're selling. So that would really be the puts and takes that I would give to you from a TTS perspective.

Operator

And your next question today will come from Eric Morgan with Barclays. Please go ahead.

Eric Morgan

Good afternoon. Thanks for taking the question. I wanted to ask on utilization. I think you mentioned some specific shifts or factors that drove the step lower in the quarter that was unrelated to the softness that you saw. So maybe you could just elaborate on that. And then I think you said it's improving in October. So should we just expect that to step back up in 4Q? And is that market-driven or something that you're taking action on?

Derek Leathers

I would tell you that it wouldn't be the right read-through relative to the productivity in the Q3 to associate it to some sort of significant volume gap or volume issue, per se. These were really issues that stemmed from a variety of factors. One being that, as we were seating these Dedicated trucks and going through these new vertical start-ups, we had mix issues in the fleet in One-Way as a result.

I would remind everyone that One-Way is really, in many cases, the source of Dedicated drivers. That's where those drivers come from. Our team mix was lower in Q3 than it will be as we look into Q4 as a result of teams that are breaking up to go become a Dedicated driver. That's certainly part of it. There's some friction involved in the production numbers when you're moving trucks and moving drivers out of one area into another as part of some more significant start-ups. So that was certainly part of it.

And then we had some mix issues in the quarter that were unique to Q3 from a year-over-year perspective relative to projects a year ago that were different in their makeup and mix in Q3 and much smaller in their representation. So all of that went into the soup.

When we look at Q4 and we look at October specifically, that's why we felt it important to call it out in the prepared remarks. We've made significant progress in stabilizing that production issue and really setting ourselves up for a strong peak as it relates to production and the ability to serve our customers.

Eric Morgan

Appreciate that. And maybe just to circle back on your view on the spot market. You said rates have been improving in September and October. And then I think in the prepared remarks, you called out the upside potential from these regulatory changes we've been talking about. I think the numbers you threw out there could be pretty meaningful. So your formal outlook, I think, is just for normal seasonality, I believe. And then the One-Way revenue per mile guidance is flat at the midpoint despite the contract renewal. So, I guess, any way to quantify what that upside looks like into year-end, and early '26?

Chris Neil

Eric, this is Chris. Speaking of One-Way Trucking rate per mile, so you're right, we were flat at the midpoint. We have had five consecutive quarters of increases. And as you think about spot, you summarized it well. It was weaker earlier in the quarter. It has improved in September and now into October. And you're right, we did call for normal or expect normal seasonality, but potentially with some upside, given some of this enforcement that we've been talking about.

In terms of the projection and the guidance on the One-Way rate per mile, I mean, there's a couple of things, obviously, that would influence that. Our contractual rates are pretty much set. Bid season is over. Our results were, as we've talked in the past, mixed, with low-to-mid single-digit increases. So those rates are established.

So the peak season will have an influence clearly on our Q4. Last year, we had a decent move from Q3 to Q4, much of that related to peak. And so if we're able to attain a similar peak season in terms of volume and rate this year, then that trajectory might be similar. And then, of course, you have spot and mix as well, and with a smaller fleet, hopefully, we can be a little bit more selective with some of the freight options that are out there.

Derek Leathers

The only thing I would add is, as Chris indicated, our spot exposure intentionally right now is a little greater than what has been historically. That number is still moving, but it's still below contract in many cases. So we need it to continue to move. It does generally move in Q4. And if enforcement ramps up, it moves even faster. So a little bit of a hedge perhaps by going to the negative 1% to positive 1%, but we're trying to provide clear data that we know as we sit here today and leave ourselves an opportunity to improve upon it.

And then lastly, I mentioned it earlier in the comments, so I'll just reiterate it again. As it relates to the peak season, the volumes, and premiums, we think the outcomes will be similar, but we've made decisions to attack peak season this year where we have better density, where we have better ability to serve and less costs to go along with it. And so, therefore, you're not necessarily extracting the same level of premium, but your gross margin, if you will, should look similar and with an opportunity for upside. So that's exactly how we're trying to think about it. But it does mute a little bit of premiums if you just did, for instance, an all West Coast strategy.

Operator

And your next question today will come from Reed Seay with Stephens Inc. Please go ahead.

Reed Seay

Thanks for taking my question. I'm going to circle back to the capacity side. Not to harp on it too much, but I think one of the things that we've been looking into, and other people have been concerned about is that you've had a lot of people come off the roads that could get on the roads with the news of the new enforcement that is expected to drive improvement in rates. So something like this would obviously impact the actual impact of rates. Is this something you're keeping an eye on and how do you think about that as a potential governor to this upcycle?

Derek Leathers

Reed, I think it's a great question, and yes, it is something that we're thinking about. We would have some level of visibility, obviously, just in our Brokerage arm and in our PowerLink solution arm as well. And I've talked with them recently about are you seeing changes or differences in sort of new applicants and new people that are wanting to do business with us. And around the edges, I think their answer would be yes. That doesn't really surprise me. I mean, I do believe that you might see some folks come back into the market, but I think it would pale by comparison to what appears to be a much more significant issue than really anybody had full appreciation for relative to some of the CDL issuances and the percentages we talked about earlier.

So a couple of ways to skin that cat. I mean, one, earlier I talked about, just take half the number of some of these estimates and that's where you end up at the 150,000 level. Another way would be take the full estimate and assume that you're going to have a whole bunch of people come back in. I guess my point is in any way you think about it, it appears if enforcement appetite remains, and I think we would all agree the backdrop on that seems to be yes, there is capacity that will be exiting this market, and it will be more meaningful than what we've seen up till now.

Reed Seay

Got it. That's very helpful color. And then if I could just ask on the technology side real quick. You focused on it a bit there in the prepared remarks, but can we get a little more color on exactly where that's being applied within the TTS segment and within the Logistics segment? It sounds like you've done a lot of work with that technology.

Derek Leathers

Yes. So, Logistics is nearly fully implemented. I mean, it's ostensibly fully implemented. And now it's just iterations of improvements as we go forward, each iteration bringing forth additional productivity gains. But it's being applied across our Logistics group to automate any and everything that we can and take friction out of the process.

You can see it flow through in our OpEx expense as a percent of revenue and the dramatic improvements that we're making on that side. And we believe there's more to come as we can continue over time to take another step up in growth once we get through this sort of short-term buy side pressure that's out there, take that step up in growth and continue to add volumes. I mean, they are comfortable in their belief that we can take on more volume without adding a corresponding OpEx to go with it.

On the Truckload or TTS side, we're at a different stage. We're at a stage where more and more every week, we have more and more of our volume in the new system. But until you can unplug and disconnect and convert completely, often it represents a headwind. I mean, it's a net headwind in the short-term.

To offset those headwinds, we're deploying it. Lots of AI across multiple places, whether it be in recruiting, billing, collections, all the way across to be able to automate more and more processes and do more with less. It allows our higher-level folks that are in those areas to still use all of the knowledge they've developed over all of these years, but to have a much broader impact and sphere of influence over the process and automating many of the manual tasks.

Chris Wikoff

Reed, I would just add a little bit to that. Obviously, we're committed to the technology investments and furthering the journey, getting across the finish line, but also committed to seeing more of those synergies and benefits, particularly as we go into the next year, as it relates to margin expansion and part of our cost savings program.

Obviously, we're not guiding on a cost savings program for next year. We'll do that at the next quarter, but we will be looking to more of that program to come from tech enablement type of savings, just given where we are being in these later innings. Still some more to go. But as we move forward into next year and throughout the year to be seeing more of that operational gain from the investment to this point.

Operator

And your next question today will come from Brian Ossenbeck with JPMorgan. Please go ahead.

Brian Ossenbeck

Good afternoon and thanks for taking the question. Derek, maybe just an industry-wide question for you. With the insurance costs how they are, and the claims trending in the direction they are, unfortunately, what do you think is needed to really get some progress on that, not just for Werner, but for the entire industry?

Are we seeing any improvements on tort reform? Anything you're excited about or states that are moving forward? Because ultimately, I'm just not sure if the shipper is going to pay for the higher insurance claim, if they think that's more of a trucking industry problem and not theirs.

Derek Leathers

Yes, I think it's a multipronged approach. We have to continue as an industry. But that industry, the definition of the industry, I think, needs to include shippers, insurers, and everybody all in to attack tort reform. That's a state-by-state battlefield. It's very difficult. It usually takes in any one state multiple years from the time a bill is first proposed to before you finally get it across the finish line.

We've seen lots of recent successes in multiple states around the country doing so. And I think that battle needs to continue to take place. We need to continue to engage where appropriate in states that have elected judges and have shown significant judicial bias against companies or pro-plaintiff bias. What we're asking for is a level playing field. We, the industry, would like to just believe that all facts of a case should be relevant and be able to be considered.

The fact that we still have nearly half the Continental United States with gag rules relative to whether a claimant was wearing a seatbelt is just simply unacceptable. I mean if they're making decisions to not wear a seatbelt and then suffer significant injuries as a result, I think every juror in America would like to know that fact, because otherwise, they're making ill-informed decisions. So we've got to engage at the judicial level.

And then finally, I think we have an environment right now where we need to be full-court press on federal legislation that moves accidents and interstate commerce from the state court system and into a federal jurisdiction and federal courts, so that at least we've got some standard set of playing rules, and everybody can understand the level of professionalism that takes place there.

Does that guarantee positive outcomes every time? No. Does it mean anybody is trying to skirt their responsibility from an accident that's their fault? Absolutely not. But we cannot continue to live in a world where accidents can grow overnight due to bad facts or bad rulings from what should be a defense verdict, into a multimillion-dollar verdict the other way. So it's going to be long and hard fought. You can probably tell by my voice, there's some passion for it, and we're going to stay engaged along with many other of our brethren in this industry.

Brian Ossenbeck

I appreciate all that. And I understand it's a pretty difficult road ahead, but it sounds like some progress. One other quick follow-up on another topic you're passionate about, Derek. Just the B-1 visa, the cabotage. I know there's some enforcement mechanisms for more ELP testing than non-domiciled issue. But is there any way to address and maybe get some tighter enforcement around the illegal uses of the B-1, as it relates to cabotage?

Derek Leathers

Yes, I believe there is. I mean, obviously, like many things, there's a difficult or a resource obstacle or issue involved with how much current enforcement people are able to do. If they're now trying to enforce ELP and they're enforcing non-domicile and then asking them to additionally enforce B-1 cabotage. There is efforts underway.

The government is engaging on this B-1 cabotage issue as we speak. And I know that there's some creative tech that they're engaging with, I'll just leave it at that. That excites me because I think it will present an opportunity for them to do it more systemically than just with roadside inspections and stops. But the reality that we all know is that there are drivers crossing the southern border or northern border every day.

And we know that in talking to CBP officials and others that it is not uncommon and in fact, more the norm that they don't cross back for 21 to 27 days. If that's the case, nobody will convince me or I think any reasonable person that the only thing they did was to drive to destination, pick up a load, and then exit the country. And so all of the above for the benefit of the nation's highways and public safety on those highways needs to be enforced. And we plan on continuing to be a loud voice to that effect.

Operator

And your final question today will come from Chris Wetherbee with Wells Fargo. Please go ahead.

Chris Wetherbee

Good afternoon, guys. Thanks for squeezing me in here. You know, Derek, in your prepared comments, you mentioned One-Way trucking demand through September improving and then so far in October. So, I guess, I just wanted to come all the way back to that. It sounds like what we've heard from some other folks was maybe a little bit different than that over the course of the last few days. So I want to maybe see if you could expand a little bit on what you're seeing, particularly in the month of October.

Derek Leathers

Chris, I would start by just reminding you that the makeup of our customer base is heavily retail. Obviously when you start getting into September, October, our exposure to the effect of what is happening in preparation for peak and during peak is probably a little different than some of our competitors. So not discounting any comments they may have had, but yes, we have seen some uptick in September and that strength has continued through October thus far.

I would tell you that that's seasonally normal for us. So, it's not like we're trying to call that out as some out of the norm anomaly of some sort. That's what we would expect, and that is what we're seeing, and we felt it worth mentioning. That's also why the confidence in both secured peak opportunities as well as those in discussion give us the confidence to speak to similar volumes, similar impact as a year ago, which was a more normalized peak, following a couple of years in a row of very subseasonal peak.

Chris Wetherbee

Okay. Yes, I think in this environment seasonality is not necessarily a bad thing. And then maybe just quickly, the Dedicated pipeline, you guys mentioned that. I'm just kind of curious, as you maybe just think not just 4Q, but kind of how you think about that into the first half of next year, it sounds like it's building.

Derek Leathers

Yes, the Dedicated pipeline is holding up. This time of the year, discussions taper off in Dedicated a bit because everybody is focused, both us and them, on obviously getting through peak season and delivering on the expectations of their customer. But our pipeline is robust. We've got a lot of stuff that is already pre-committed into Q1 next year.

We do very few implementations in Q4. That's always the case. But Q1 is shaping up pretty nicely. And the overall store prospective pipeline that folks that we're in the, call it, 5th, 6th, 7th inning with also looks pretty good. So, our expectation next year is, you know, that we're going to continue to lean into the Dedicated pipeline. We think it has more of a value proposition in a tightening One-Way market.

We think people in this enforcement level market that we're in today, where people are paying more attention to that, I think Dedicated also even looks a little more attractive. But we will be very cautious. And our Dedicated implementations that we choose to take on will be true Dedicated. So difficult-to-serve, defensible-type fleets, not just volume or One-Way fleet, sort of masquerading as Dedicated.

We want the sticky stuff, the stuff that, yes, can be painful. I'll remind everybody again about the implementation cost pain we've just been through. But it's worth the pain because once you're on the other side, the ability to retain that fleet well into the future is something that we've proven very good at it, and we expect that to be the case in those as well.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Derek Leathers for any closing remarks.

Derek Leathers

Thank you. I just want to thank everybody for being with us today. We've talked a lot about the macro environment remaining uncertain. But as we enter in this year's peak season, the health of the consumer and our retail alignment sets us up well to put the Werner capabilities on full display. Enforcement on a multitude of fronts is leading to ongoing capacity attrition, and the tariff-related noise seems to be settling in.

The ongoing structural improvements to our costs, combined with the recent increases in productivity, put us on improved footing to leverage the upside as the market comes further into balance. This prolonged freight recession has, like any challenge, strengthened us even further for the long haul. Again, I'd like to thank you for spending your time with us today and your continued interest in Werner.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.