Werner Enterprises

Fourth Quarter and Full-Year 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Operator
Good afternoon, and welcome to Werner Enterprises Fourth Quarter and Full-Year 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.

Chris Neil
Good afternoon, everyone. Earlier today, we issued our earnings release with our fourth quarter and full year 2025 results. The release and a 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 2 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. We see signs of encouragement for the industry and Werner as we move into 2026. During this prolonged and unprecedented multiyear downturn, we have focused on executing our strategy to position our business for revenue and earnings growth as demand returns. We diligently cut costs, increased efficiency and continued our technology investment to enhance visibility across our execution modes, streamline and automate our operations and improve customer service.

In the fourth quarter, we made a decision to strategically restructure our One-Way Trucking business to be even more targeted towards specialized expedited, cross-border Mexico and engineered business. Once fully completed, we expect meaningful earnings improvement in TTS in 2026. And most recently, we used our strong balance sheet to deploy capital to acquire FirstFleet, a large high-quality Dedicated carrier.

This acquisition is immediately accretive and dovetails with our strategy to lean further into profitable, sustainable growth in Dedicated with large, complex shippers across diverse markets. With ongoing capacity attrition and the early signs of demand improvement, the outlook for Werner in 2026 is more positive than it's been for several years.

Turning to slide 5 to discuss Q4 and 2025 highlights. Disciplined pricing led to a smaller fleet and lower Truckload Logistics volumes. Higher One-Way miles per truck partially offset those factors, resulting in fourth quarter revenues that were 2% lower year-over-year. Peak volumes in

December in total were flat year-over-year, consistent with expectations. Peak revenues were up mid-single digits due to higher peak pricing compared to the prior year.

In Dedicated, revenues increased by low-single digits in the quarter, driven primarily by higher average fleet size. As we enter a new year, momentum in Dedicated remains positive with a strong pipeline of opportunities and early realization of some rate increases. Customers remain focused on reliable and flexible transportation partners like Werner, who offer creative solutions and high service and scale. The strength of our Dedicated business, combined with FirstFleet, creates a more scalable platform to drive sustainable, profitable growth for Werner's future. I will discuss more about the acquisition momentarily.

One-Way continues to be pressured across the industry. We remain committed to specialized services in One-Way such as expedited, cross-border Mexico and engineered business. We have taken actions to restructure our One-Way operations and offering that will result in profitability enhancement, which we expect to be noticeable in the second quarter. Our vision for One-Way is a smaller, more productive and specialized fleet complemented by asset-light PowerLink carriers.

One-Way Trucking is an integral part of our portfolio and provides several competitive differentiators. First, it serves as valuable experience for drivers before being placed in Dedicated and other high-service fleets. After graduating from one of our 20 vertically integrated training academies, drivers are onboarded through a collaborative pairing process to successfully navigate diverse operating environments while maintaining high safety standards.

Second, it is an entry point to get to know customers, to build relationships and allow new customers to test Werner solutions, service and capabilities on a 1-year or shorter-term basis. And lastly, One-Way provides flexibility and surge capacity for our Dedicated customers and it allows us to support a wide range of customers during times of increased demand.

These restructuring actions are designed to increase miles per truck and shift towards more profitable specialized freight and lanes. Combined with our large trailer pool and PowerLink carriers, we believe this positions us to capitalize on improving market conditions and drive greater margin improvement.

In Logistics, Intermodal and Final Mile, revenues and profits increased year-over-year. Both of these divisions exited 2025 in growth mode, and we anticipate momentum continuing in 2026. Truckload Brokerage results were challenged in the quarter as purchased transportation costs increased, escalating rapidly in December and resulting in lower Logistics operating income in the fourth quarter.

While margin compression has continued into Q1 and was further pressured by the recent large storms across much of our operating area, we expect it to moderate as we work through customer pricing agreements and our ongoing efficiency initiatives take hold.

Moving to slide 6. Our plan to generate earnings power and deliver value creation remains largely the same entering 2026 and is focused on three overarching priorities. First is driving growth in core business, which comprises growing our Dedicated fleet; increasing One-Way production and rates; and expanding TTS and Logistics adjusted operating income margin. All of these are underway. Average Dedicated trucks grew in the quarter and new fleets are being implemented in the first quarter of '26.

Dedicated revenues per truck per week have increased 11 over the last 12 years. The addition of FirstFleet grows Dedicated by 50% and the combined Dedicated portfolio represents over half of our $3.6 billion pro forma revenue.

Dedicated provides more consistent revenue streams with long-term customer relationships. The total addressable market for Dedicated is over $30 billion, and we expect to capture more market share as customers look for stable, financially viable carriers offering high service, expertise and scalable capacity.

We took decisive action beginning in the fourth quarter to restructure One-Way Trucking to improve earnings. In Logistics, we've seen a continuous reduction in cost to serve through tech enablement, while Intermodal is growing at double digits. And Final Mile is seeing the strongest momentum since inception.

Second is driving operational excellence, which will be accomplished by maintaining a resolute focus on safety and service; continuing to advance our technology roadmap; embedding cost discipline throughout the organization; and realizing efficiencies and synergies from acquisitions. Our safety metrics remain near record lows, and our transformational technology journey is progressing and continuing to gain momentum, leading to top and bottom-line synergies.

We remain focused on cost discipline. We've reduced costs by approximately $150 million over the last three years, the majority of which are largely structural and sustainable. In the fourth quarter, OpEx, excluding purchased transportation, fuel, restructuring cost and gains was down 5%. And relative to acquisition integration by midyear 2026, all prior acquisitions, with the exception of FirstFleet, will be fully integrated.

We have a clear line of sight on expanding historical FirstFleet margins through measurable cost synergy realization. We'll also be working to size revenue synergies such as increased backhaul, surge capacity for FirstFleet customers and cross-selling opportunities as our integration efforts begin in earnest.

Our final priority is driving capital efficiency. This includes preserving strong operating cash flow; optimizing working capital; and improving free cash flow conversion while reinvesting in the business. FirstFleet is expected to be cash flow accretive. Our capital allocation will remain balanced to fund growth, invest in technology, return capital to shareholders and reduce debt and leverage over time.

Our technology journey carries on as we make progress on building out functionality in our cloud-based EDGE TMS. By the end of 2025, 95% of One-Way loads and 85% of Dedicated trips were migrated to the platform. Logistics volumes were transitioned to EDGE previously and have contributed to lower OpEx and cost to serve. For example, in the fourth quarter, Truckload Logistics personnel costs declined 15% year-over-year.

With visibility in the platform to all loads mostly complete, teams are now focusing on building out One-Way and Dedicated execution functionality. In addition to EDGE, the organization is also progressing with implementing AI throughout the business. We've streamlined driver onboarding, increased customer visibility, enhanced predictive maintenance and increased speed to bill as just a few examples of an AI-enabled workforce.

Moving to slide 7 to discuss FirstFleet in more detail. We are excited to add FirstFleet, one of the leading pure-play Dedicated trucking companies to the Werner portfolio. We closed on January 27 and hosted a call on January 28. Please refer to the press release and presentation relating to our announcement last week. There are several key takeaways worth noting again here.

FirstFleet accelerates our intentional portfolio shift to higher-margin, more resilient Dedicated business. With more than $615 million in trailing 12-month revenues and 2,400 tractors, FirstFleet expands Werner's scale, network density and geographic reach. FirstFleet deepens and diversifies our presence in attractive end markets with customers in grocery, bakery and packaging solutions. We expect immediate EPS accretion with further benefit from $18 million in annual cost synergies. And lastly, FirstFleet is a strong cultural fit with a shared commitment to safety, service and innovation.

Moving to slide 8, showing a revenue snapshot before and after the FirstFleet acquisition. The combination expands our revenue from approximately $3 billion for Werner on a stand-alone basis to approximately $3.6 billion on a combined basis. As a percent of our portfolio mix, Dedicated grows from roughly 43% of total revenues today to over half on a combined basis.

FirstFleet services many leading customers in attractive and resilient markets. Among its top 10 customers, the average tenure is 17 years, and three of its top four customers have been with FirstFleet for over 25 years. On a combined basis, FirstFleet diversifies our portfolio. Retail remains our largest vertical, though it decreases from 66% to 60% on a combined basis with roughly half concentrated in discount and value retail.

Grocery retail expands, adding more resilient non-discretionary volume. Industrial exposure increases from 13% to 19% on a combined basis, while food and beverage remains steady at 14%. As a result, our overall portfolio is increasingly more durable and resilient, improving revenue stability, deepening customer diversification and enhancing our ability to produce steady revenue and earnings growth.

Before Chris discusses our financial results in more detail, let's move to slide 9 to summarize our current market outlook. Capacity exits continue, driven in part from ongoing broad enforcement efforts and recent tightening between supply and demand suggests that, that pace is increasing.

Consumers remain selective yet resilient, which bodes well for our mix of retail being more concentrated in discount and value retailers. Value retailers are producing good results as middle-class families trade down. And while mixed signals continue to make headlines on the health of the consumer, looking ahead, the potential for lower interest rates and larger tax refunds are creating cautious optimism.

Retailers are operating leaner as the inventory to sales ratio continues its year-over-year decline. While shifting trade policies may affect future stocking timelines, the consistent replenishment of non-discretionary items provides a critical buffer against market volatility.

Spot rates performed consistent with seasonal trends in October and November and then outperformed normal seasonality in December. So far in January, spot rates remain elevated. As the recent winter weather subsides, we expect spot rates to moderate, but we expect an upward trend throughout the year as capacity exits and demand improves.

Used truck values are likely to remain above 2-year lows with pressure tilted upwards longer term. However, we're also cognizant of the possibility that accelerated attrition from enforcement could create short-term pressure. Class 8 net truck builds continue to be below replacement levels and not only signal truckload capacity tightening 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 fourth quarter results in more detail.

Chris Wikoff
Thank you, Derek. We'll continue on slide 11. All performance comparisons here are year-over-year unless otherwise noted. Fourth quarter revenues totalled $738 million, down 2%. Full year revenues also declined 2%. Adjusted operating income was $11.3 million and adjusted operating margin was 1.5%. Adjusted EPS was $0.05. Consolidated gains on sale of property and equipment totalled $2.4 million, down from $6.5 million in the prior year period, which included a $5.1 million gain on the sale of real estate.

Turning to slide 12. Truckload Transportation Services total revenue for the quarter was $513 million, down 3%. Revenues, net of fuel surcharges declined 3% year-over-year at $455 million. On a full year basis, revenue, excluding fuel, decreased 3%. TTS adjusted operating income was $12.7 million. Adjusted operating margin net of fuel was 2.8%, a decrease of 30 basis points. Dedicated fleet growth, lower insurance costs compared to last year and higher equipment gains were more than offset by margin degradation in our One-Way Trucking business.

Let's turn to slide 13 to review our fleet metrics. TTS average trucks were 7,340 during the quarter, down 2.1%. The TTS fleet ended the quarter down 5% and dropped 345 trucks sequentially, also down 5%, both a reflection of the One-Way restructuring that began before the end of the quarter. TTS revenue per truck per week net of fuel decreased 0.4%, 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 1%. Dedicated represented 65% of TTS trucking revenue, up from 63% a year ago. With FirstFleet included, Dedicated will grow to over 70% of TTS. Dedicated average trucks increased 2.4% year-over-year and 1.8% sequentially to 4,954 trucks. At quarter end, the Dedicated fleet was up 10 trucks from where we started the year and represented 68% of the TTS fleet. Dedicated revenue per truck per week decreased 1.1% in the quarter but was slightly positive for the full year.

In our One-Way business for the fourth quarter, trucking revenue net of fuel was $156 million, a decrease of 8%. Average trucks of 2,386 decreased 10% on a year-over-year and sequential basis. 360 fewer One-Way trucks were in the fleet at the end of the year. Sequentially, the One-Way fleet fell 230 trucks.

Revenue per truck per week increased 2.2% due to higher miles per truck. While One-Way revenue per total mile declined slightly year-over-year in the fourth quarter, the negative variance was a result of mix change. The mix issue is a byproduct of the restructuring started in the fourth quarter, ultimately designed to improve profitability. We are focusing on more specialized One-Way like expedited and diversifying to verticals such as pharmaceuticals and technology. This mix change will impact One-Way Trucking revenue per total mile throughout the year.

Miles per truck increased 2.3% in the quarter. On a full year basis, after increases of 2.2% in 2023 and 7.6% in 2024, miles per truck decreased 2.1% for the year. Although empty miles increased

10 basis points, the sequential change from the third quarter to the fourth quarter was 20 basis points lower than last year, reflecting better balance in peak season. For the year, combined One-Way and PowerLink total miles declined less than 2% in spite of average One-Way trucks falling 4.5%. As One-Way Trucking production improves and the PowerLink fleet grows, we'll be able to serve customers efficiently with fewer assets.

To give some further color on the One-Way restructure, we began a strategic restructuring of our One-Way Truckload business, a decisive action designed to significantly enhance profitability and fleet utilization by maximizing production and mitigating unprofitable freight.

The restructuring resulted in a total charge of $44.2 million in the fourth quarter. It is important to note that a significant portion of this is non-cash, totalling $42.7 million, which includes the impairment of $21.7 million of intangible assets and $21 million of revenue equipment. This noncash charge reflects the necessary steps to rationalize our assets and business model for future margin expansion.

Logistics results are shown on slide 14. In the fourth quarter, Logistics revenue was $208 million, representing 28% of total fourth quarter revenues. Revenues decreased 3% year-over-year and 11% sequentially as we focused on yield management. Truckload Logistics revenues decreased 8%, on 9% lower shipments with gross margin contraction. Traditional Brokerage volumes declined 8%, while our PowerLink shipments also fell down 10% due to fewer PowerLink carriers.

Disciplined pricing and load acceptance resulted in lower volume as purchased transportation costs increased during the quarter, rising rapidly in December. Purchased transportation costs moderated slightly in January and have remained relatively high, resulting in ongoing gross margin pressure.

Intermodal revenues, which make up approximately 16% of the Logistics segment, increased 24%, almost entirely from higher volume. Final Mile revenues, which comprise the remaining 12% of the segment, increased 4% year-over-year. Logistics adjusted operating margin of 0.5% decreased by 60 basis points, driven by lower volumes and gross margin contraction, partially offset with lower operating expenses. Fourth quarter operating expenses in Logistics were the lowest since before our ReedTMS acquisition in late 2022, driven in part through technology investments.

Let's review our cash flow and liquidity on slide 15. We ended the year with $60 million in cash and cash equivalents. Operating cash flow was $62 million for the quarter and $182 million for the full year. Fourth quarter CapEx was $69 million and full year was $163 million, less than 6% of revenue compared to just under 8% prior year.

Net CapEx for the year was down $72 million or 31%, in part from an exceptionally low CapEx spend in the fourth quarter of 2025. For the last 9 months of the year, net CapEx was 7.5% of revenue. Free cash flow for the full year was $19 million or just under 1% of total revenues.

Total liquidity at quarter end was $702 million, including $60 million of cash on hand and $642 million of combined availability under our credit facilities. We ended the quarter with $752 million in debt, up $27 million sequentially and up 16% from a year earlier. Net debt increased $83 million or 14% year-over-year. We continue to have strong balance sheet, access to capital and no near-term maturities on our debt structure.

Let's turn to slide 16. 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 and maintaining appropriate leverage. With the acquisition of FirstFleet, our focus in 2026 will be on integrating the business, gaining momentum on realizing $18 million of targeted synergies and enhancing value.

In terms of certain details of the FirstFleet transaction and the impact on our total debt, the total purchase price was $282.8 million, consisting of $245 million for the operating company and $37.8 million for acquired real estate. Approximately $48 million of the consideration was deferred, including a $35 million earn-out that will be measured and if earned, it will be paid after March 2027. The transaction was funded with a combination of cash on hand and incremental debt, which included additional draws on our revolving credit facility and the assumption of FirstFleet capital leases at closing.
As of January 31, 2026, total borrowings under our revolver and accounts receivable securitization facility were $884.6 million, representing an increase of $132.6 million versus December 31, 2025. Assumed capital leases at closing were estimated at $57 million, resulting in a total estimated increase in debt of $189.7 million since year-end 2025. With FirstFleet, we believe we have a compelling set of opportunities to accelerate profitable growth, enhance resiliency through the cycle and deliver on our mission to keep America moving.

On slide 17, we are introducing our 2026 guidance, which includes FirstFleet. We are changing our fleet guidance metric from end-of-period trucks to average trucks as fleet size fluctuates quarterly, creating volatility in end-of-period metrics. Including FirstFleet, our average truck fleet guidance for full year is a range of up 23% to 28%. With the One-Way trucking fleet decreasing further in the first quarter, we expect average TTS trucks from the organic Werner fleet to decline early in the year before showing improvement as the year progresses.

Our full year 2026 net CapEx guidance range, including FirstFleet, is between $185 million and $225 million. The upper end of the range allows for a prebuy in the second half given 2027 EPA emission changes.

Dedicated revenue per truck per week full year guidance range is down 1% to up 2%. We expect low to mid-single digit increases in contractual rates for both our organic Dedicated fleet and the FirstFleet business. However, the combined mix results in a more muted change relative to our Werner standalone metric.

One-Way Truckload revenue per total mile guidance for the first half of the year is flat to up 3%. We are expecting mid-single-digit contract rate increases, but the revenue per total mile is muted due to mix changes from restructuring actions.

Our effective tax rate in the fourth quarter was 20.8%. The effective tax rate for the full year was 20.1% before discrete items. Our 2026 guidance range is between 25.5% and 26.5%. The average age of our truck and trailer fleet at the end of the fourth quarter was 2.7 and 5.6 years, respectively.

Regarding other modelling assumptions. With the acquisition of FirstFleet, we expect net interest expense this year will be between $40 million and $45 million. We anticipate stable used equipment demand through 2026 and 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. Excluding real estate, gains of the sale of used equipment is expected to be in a range of $8 million to $18 million.

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

Derek Leathers
Thank you, Chris. As we reflect on 2025, it's clear that while the environment remains challenging, the actions we've taken over the last several years are beginning to show tangible progress. We made difficult but necessary decisions to redesign parts of the business while continuing to invest in areas that position us for long-term growth and strengthen our long-term earnings power.

What remains constant through uncertainty is Werner's competitive advantage. We are a large-scale, award-winning, reliable partner with a diversified and agile portfolio of solutions designed to meet customers' evolving transportation and logistics needs. Our Dedicated business continues to perform well. Our Logistics platform is gaining momentum, and the addition of FirstFleet meaningfully accelerates our shift toward more resilient, higher-margin revenue streams.

As we recognize our 70th anniversary with a more durable and diversified portfolio and as market conditions improve and demand begins to normalize, we believe Werner is well positioned to generate operating leverage and improved earnings performance as demand accelerates. Most importantly, I want to acknowledge the dedication and commitment of all of Werner's talented drivers and associates, and I want to welcome our FirstFleet family. None of this progress would be possible without the entire team. Their commitment, adaptability and focus on safety and service continue to differentiate Werner every day.

While the job’s not finished, we remain confident in our strategy, disciplined in our execution and focused on controlling what we can as we position the company for sustainable long-term value creation for our customers and shareholders.

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

QUESTION AND ANSWER

Operator
(Operator Instructions)

Our first question today is from Richa Harnain with Deutsche Bank. Please go ahead.

Richa Harnain
Hello. Thanks, gentlemen. It seems like a lot is happening here with the company. You just made this accretive acquisition. You have more organic Dedicated growth maturing, your restructuring One-Way. Trucking market is also undergoing repair. So just in light of all of these things, I know, Derek, you started this conversation by saying you see a better outlook for Werner than you've seen in a long time. But as the dust settles, what is like a normalized earnings power that you see here underlying the business? And how should we expect the cadence of sort of improvement from 2025 levels to play out in 2026?

Derek Leathers
Yes, Richa, I appreciate the question. You're right. There is a lot going on, a lot of moving parts. We are excited about where we came out of it as we go into an evolving market. As we think about '26, we certainly see opportunity for earnings growth. We want to be clear about a few things. We're not abandoning One-Way, but we are a leaner, more agile version of ourselves,

complemented now with a growing and more capable set of PowerLink carriers. So we like the flexibility that provides for us.

The acquisition of FirstFleet, as you mentioned, is something we're very excited about. We do believe it gives us the more durable, stable opportunity for earnings growth as we look out into future years. We've talked about this on prior calls, but over any 10-year period, Dedicated outperforms One-Way on average about 8 out of those 10 years. We recognize that One-Way is at an inflection point from an overall marketplace, but we do not believe any of the moves we've made will prevent our ability to participate in that inflection.

And yet, with all of that stated, when you talk about the progression of that playing out, clearly, Q1 started off with some pressure points, largely or mainly the very significant storm that took place across the entire United States over a period of several days. And so that is going to be a significant headwind in the quarter. We know that. The restructuring work that was done in Q4 takes a while to bear fruit, and we're still kind of in the final stages of that as we were in the early stages of Q1. That's why we pointed toward Q2 is kind of where you see a more material inflection in earnings from our perspective with all of the actions that I've just spoken about.

As the year plays out, clearly, we expect to gain momentum both from marketplace support but also the internal decisions that we've taken to better position the fleet. So, we don't give EPS guidance, and I'm not going to try to drill in more specifically than that, but hopefully, that gives you some color on how we think about the ramp.

Operator
The next question is from Brian Ossenbeck with JPMorgan. Please go ahead.

Brian Ossenbeck
Hello, good afternoon. Thanks for taking the question. Maybe just a little more on the One-Way restructuring. When we look at trying to understand the mix a little bit better because I think contract renewals up mid-single digits, but the One-Way guidance for rate per miles is actually less than that. I know it's mix related, but I thought that would be going the other way if you're going into higher-value areas and whatnot. So maybe you can explain that a little bit more.

And also the prebuy, I think you were one of the first to talk about putting some dollars at work potentially for the pre-buy. So maybe you can bring us up to speed in terms of what's happening there because, of course, there's a lot of different moving pieces with that on the regulation, but also with tariffs. So if you can walk through those two?

Derek Leathers
Yes, sure, Brian. Thanks for the question. Let's start with the rate per mile question. So I'd like to kind of reconcile for everyone that the way contract rate renewals work, we see about a quarter of those rate renewals in Q1. They don't implement immediately. There's always a bit of a lag to implementation with another third of those in Q2 with the same kind of lag implementation concern. So, the guidance we issued was for the first half of the year. So, what you're capturing is the portion of those contract renewals that we're able to affect change on and then a little bit of recognition of the lag effect before they take place.

At the same time, obviously, with a smaller, more agile fleet, we're going to be working relative to yield. And so, you can get rate both through contract renewals, but also through simply freight mix and yield. So, we'll work to exceed the guidance issued. But at this point, with the visibility we have and at the starting point of the year where the market was versus as it's continued to show sort of increasing strength, we've got a lot of work to do between now and then. So flat to up 3% is kind of the net effect of not being able to review it all at once, but contract renewals on an apples-to-apples basis, mid-single digits is kind of where we're at right now and where we've seen some early returns.

Obviously, those are hard fought, and we're willing to walk from some business as we go through this process and place those trucks, if necessary, into what's currently in our network is about a $0.25 premium if those same trucks were placed into the spot market. So essentially dialogues with our customers and how the process plays out will determine what that spot mix is, but there's a willingness on our part for that to grow if necessary.

Relative to the second part of your question, yes, we just wanted to acknowledge that the range was fairly wide given the midpoint of the range and going with a $40 million plus kind of total range that what we're really signalling there is just flexibility. We've got our order board kind of loaded to do up to certain levels. We may, in fact, pull all of those levers as we gain increasing clarity on where the market is at. And as we think about costing going into 2027 potentially being elevated and probably more importantly, technology being less tested. So it's really just signalling an openness to that. It's too early in the year to talk about where we'll actually land or how we may or may not execute on that.

Right now, the first order of business is just fleet refreshing, making sure we keep our fleet kind of where we're at because we feel comfortable with the age. In calls past, we've talked a lot about numbers that were lower than where we're currently at. But I'd remind everybody now with 70%-plus of the trucks in Dedicated that really positions us in a different return to base kind of model and therefore, allows for a different application of equipment. We're never going to let our fleet get old. We always want to run a modern fleet for recruiting reasons. But we do believe our flexibility relative to fleet age is greater as we get more and more densely implanted within Dedicated.

Operator
The next question is from Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger
Hello. I just wanted to come back to the restructuring. Just sort of curious if you could give maybe a little bit more color as to the timing of completion and if there's any, whether it be cost savings that you'd expect to be attached to it or margin improvement related to it or even your thoughts on what it could do for yields as you sort of exit sort of these unprofitable businesses?

Chris Wikoff
Hello, Jordan. Yes, thanks for the question. First, in terms of timing, we started in the fourth quarter. It's continuing here through the first quarter. We expect it to be largely complete by the end of the first quarter. So, we would start to see some of that benefit in Q2, likely noticeable in Q2, but for sure, in the second half, that would be more noticeable and accelerating. So that's kind of the timing on it.

From a margin perspective, I won't get too specific with you, but certainly, it's all aimed at profitability improvement, getting back to positive re-investable margins and doing it with speed and precision and less dependence on some market factors. So that's what it's aimed to achieve, getting back to positive re-investable margins being the key there. So probably not as specific as you would like, but we have high confidence in the impact that will result later in the year and our ability to get that done by the end of the quarter.

Derek Leathers
Yes. And relative to the cost side, obviously, one of the primary objectives of this is to continue the forward march on sweating the assets better, increasing productivity over time. So despite the fleet being smaller, the focus on network fits, density creates certain efficiencies, whether it's lower deadhead or higher miles per truck, all of which also lend themselves to better service outcomes and the ability for us to then extract the value that that service represents. So, there's a lot in the soup, but it's been something that was considered very carefully. And we're excited about kind of what we're seeing from early returns. But for it to flow through and show through to the bottom line, as Chris indicated, we view that inflection point being in Q2.

Operator
The next question is from Tom Wadewitz with UBS. Please go ahead.

Tom Wadewitz
Good afternoon. How do you think about the kind of impact of FirstFleet in terms of profitability and whether that's something that I guess, the synergies from that kind of ramp and you get more from that through the year? I mean, I think, it kind of sounded like that would be relatively low profitability coming in, I don't know, just how we think about that accretion and the margin on that and how that might change through 2026?

Derek Leathers
Yes, Tom, thanks for the question. Yes, on a stand-alone basis, FirstFleet's margins are lower than Werner Dedicated. But at the same time, we've talked about $18 million of identified cost synergies. We think about a third of those can be realized within the calendar year 2026. But by the end of the year, we'll be on kind of a two-third of those run rate. That alone, when fully realized, represents about 300 basis points of margin improvement. So that's something that's pretty exciting, and that's the sort of tangible cost savings that are more measurable really when you're still in the due diligence phase and you're not quite yet in the business.

As we get into the business, obviously, over time, we'll continue to update, but there are revenue synergies. There are some efficiencies that we know we'll gain. Our networks are extremely complementary to one another. And we do feel that we have a line of sight to FirstFleet's margins converging with Werner's traditional Dedicated margins over the next, call it, 18 to 24 months. There's going to be some work to do. But in the short term, it's not a broken asset. It's certainly got opportunity for margin expansion. It's got long-term customer relationships and deeply embedded sort of customer structures and infrastructure built around those existing customers. So, a lot to like, lots to gain from it and we're excited about what it represents.

Tom Wadewitz
Thank you for that. In terms of broader kind of just how we think about TTS margin playing out, is it really a function of kind of how well pricing develops? Or I mean, you have a lot that's Dedicated, right? So that takes longer to kind of see an impact from the market. But is it kind of as simple as that if you get stronger pricing and better freight through the year, then that's the key lever for margin for TTS?

Derek Leathers
Yes. I mean a couple of ways I'd think about that. I mean it is accretive to earnings out of the gate. It is an improvement on the blended TTS margins that you see today because as we've stated

several times, our Dedicated operates significantly better than our One-Way network does. So it's improving sort of the net of TTS. That's pre-synergies. And then as we apply synergies, we can improve further from there.

So there's not really a short-term pain for long-term game play here. This comes into the building. On a positive, we can improve it from there. And our lower but more nimble exposure in One-Way, we believe, positions us very well through this bid season to be disciplined. And we're committed to doing exactly that as well as the optionality, if you will of our PowerLink carrier network to continue to run a lot of those miles.

As we increase production, which we've shown an ability to do, it's not like there's a linear relationship to the fleet size shrinking and the amount of freight we can haul, it's just going to be a much more focused approach towards some of those expedited solutions we've spoken of like Mexico cross-border, some of the work we're doing in the expedited space, overall engineered solutions and some of the verticals we've spoken of in the past, where we're growing our exposure to sort of harder to do higher value or otherwise One-Way freight that it does operate at a premium.

Chris Wikoff
And Tom, maybe just to go back just to make sure that we're clear on the synergies and the opportunity to expand margin for FirstFleet. Those synergies are largely cost synergies. So, to Derek's point, there's very little that's market dependent, that's any change in assumption on rate and renewals on those contracts. Certainly, the market could be helpful in that regard, but that's not what's built into the $18 million of synergies. And it's not too different from our past practice and discipline around cost and identifying synergies.
Just as a reminder, we've identified and realized $150 million of cost savings for the Werner business over the last 3 years, largely structural and sustainable and without sacrificing safety, service and growth. So that same approach is what we're applying to FirstFleet. Obviously, as we get closer to the business and more time working alongside the business, then we'll have an opportunity to refine that further and look for revenue synergies. But we have a high degree of confidence in our ability to realize those synergies and it's familiar to us in terms of how it's built and how we would go after it.

Operator
The next question is from Jason Seidel from TD Cowen. Please go ahead.

Jason Seidel
Thanks, operator. Gentlemen afternoon. You mentioned a lot about the retail side because obviously, that's where the bulk of your exposure is for your end markets. But industrials with the acquisition is becoming a greater part of what Werner does. Maybe you can give us a little update where you see the industrial markets in '26 as there seems to be, at least thus far, a little bit of a mixed bag from some of the transports that have reported?

Derek Leathers
Yes. Clearly, I mean, I think mixed bags from transports reporting is a rear-facing measurement as we look forward and we think about what's happened recently with some of the data coming out relative to the ISM index and where that stands, some of the optimism, I think out there relative to overall economic conditions being better than feared, arguably better than hoped. And then the consumer and the resiliency there, I know that's more of a retail answer. But nonetheless, there's some optimism out there across the board in our view.

Understand, too, that ironically, in some of our manufacturing and industrial, a large chunk of that is really some of this packaging and other things that we're involved with, that feeds directly into kind of retail channels, more focused on e-commerce which is a growing vertical or a growing portion of the economy. And although there's some consolidation in that marketplace, as long as you're with the consolidator and that is who your sort of core customer exposure is with, we feel like we're in a pretty good place.

Jason Seidel
And historically, when the ISM starts to go into expansion mode, how long until you actually start seeing some demand on your end?

Derek Leathers
Yes. Look, our exposure in that space, I mean, you can ask questions about retail all day long and we will probably be a little more versed to be frank. ISM is difficult because as I mentioned, what's composed within that portion of our portfolio really is feeder stock in many respects to retail or in consumer kind of products. The exception to that, obviously, is Mexico.

And so, a chunk of what we do in that is into and out of Mexico. And from both what we're hearing and seeing and experiencing on our own fleet, that portion of it is doing very well because of all of the noise we've just been through relative to tariffs and other changing of supply chains, the direct foreign investment taking place in Mexico to expand plant and equipment with some of the major manufacturers down there. And that portion of our portfolio is heavily tied to that. And we're very optimistic about what the future of that Mexico cross-border franchise looks like.

Operator
The next question is from Scott Group with Wolfe Research. Please go ahead.

Scott Group
Good afternoon. So, Derek, just following up on one of the earlier questions about, like there's a lot of moving parts in the model right now. I know you talked about some weather in Q1 but is there any way to just help us think about, I don't know, from a margin or from an operating income standpoint.

How to think about at least just the starting point for the year in Q1? I mean, Q1 last year was pretty tough. I assume we'll have some degree, or hopefully, we'll have some degree of margin improvement in earnings growth relative to Q1 last year, but sort of any color that you can help us with?

Chris Wikoff
Hello, Scott, this is Chris. I'll start on that one and then Derek can add to it. You're not wrong in terms of first quarter of 2025 was challenging. There are some headwinds and challenges this quarter that we're certainly dealing with in terms of Winter Storm Fern, the broad impact that it had throughout the Southeast, where we are more heavily concentrated. In fact, a few weekends back at really the peak and the brunt of that storm, about 50% or half of our tractor fleet was parked over the weekend. So that was rather unprecedented for us.

So that's a significant storm. We had a storm in the first quarter of last year. We sized that of being about $0.04 drag on EPS. I would say this is a worse storm. We do have some pop-up demand with the aftermath of that storm, but hard to say how long that will be ongoing. And then in addition to that, we obviously have the One-Way restructuring that's ongoing. That's not to say that it makes the quarter worse, but it certainly doesn't make it better, and it's a significant operational lift. So, it's a further distraction.

And then the Logistics margin squeeze, more capacity driven, but significant increase in the buy-side rate pressure, not atypical for brokers, but it's something that we have to manage through for the quarter. So those are challenges, I would say that we would view them as being largely temporary. All of those will pass, including on the Logistics margin squeeze, our ability to eventually pivot and adjust customer contracts and be able to adjust that sell-side rate.

So, I know you'd like more information on profitability and what not. Maybe just to level set, as you know last year, the first quarter was a negative $0.12 of adjusted EPS. The winter storm being worse, but we also have a number of positive momentum that helps us, the momentum and growth in Dedicated, some early rate increases, momentum that we're seeing in Intermodal and Final Mile. And obviously, the momentum that we will see at least for two-thirds of the quarter with FirstFleet, which we expect to add to revenue growth and be accretive from an operating income perspective.

Operator
The next question is from Bruce Chan with Stifel. Please go ahead.

Andrew Cox
Hello, good afternoon gentlemen. This is Andrew Cox on for Bruce. We wanted to get a question about current market dynamics. We're having a difficult time trying to parse through whether or not this supply-led thesis is enough to keep the rate momentum up through year-end. If we look back through January, rates pretty quickly fell off after the peak season and have since risen due to Winter Storm Fern.

We're just trying to understand whether it's based on historical precedents, or some other anecdotes you guys want to provide. But whether or not this supply-led thesis is enough on its own to carry rates throughout the year, we can't seem to think of a previous cycle that was kick started by supply alone. They were always coinciding with some sort of demand impact. So, I just wanted to get your thoughts on whether supply is enough and outlook for demand beyond that? Thank you.

Derek Leathers
Yes. Thanks, Andrew. So, a couple of things. One, I do believe thinking about the supply side of the equation as the kick start is the right way to think about it. I don't think any of us are proposing that the entirety of the turn will be supply and supply only, although enforcement efforts at this point, not only have remained sustainable, they've actually continued to tick up and increase further.

I think that momentum will continue throughout the quarter. I think it's admirable that it's not just one truck at a time at the scale enforcement-type level like it began. And now it's more scalable enforcement, and it's also further upstream. There's enforcement actions going on at the driver training level. There's enforcement actions going on at the electronic logging level. All of these things have a cumulative effect.

We know it's real because we can see it in our own network. We can see it in rejection rates nationwide, and we could see it both pre and post storm. So yes, they fell off from December to

January. That is normal that, that would happen year in and year out. The fall was not as severe as we would have maybe typically seen.

And then the ramp into the storm and post-storm has been far more significant than we've seen in recent years, whether that be other storms or other external factors. And so, all of that would say to me that clearly, some of the noise today is storm related, and we need to recognize that.

But when you see rejection rates as recently as today, crest 14%, that's relatively unprecedented territory. We're starting to be in the world of COVID-like rejection rates at a number like that. Part of it is storm related. So maybe you take 2% to 3% off, 4% even for that, and you're still sitting at double the average rejection rate of what we've seen for multiple years in a row. So, it feels real. It feels like it's finally here.

And I think when you couple the supply constraints, as the kick start to use your words, with the demand inflection of one of the largest tax rebate seasons that we've had in many, many years and potentially with the new Fed share, some increased relief through interest rates for the average consumer that plays out at some point during the year. There's a lot to like about the setup.

In the meantime, one of the reasons we embarked on this One-Way restructure is we're not going to wait and just sit around and expect the market to solve the problem alone, we want to take proactive steps and proactive actions to create an environment within One-Way to be poised and ready to make those moves to be a leaner version of itself, a more selective version of itself and then complement it with the work we do with our PowerLink solutions.

And so that's our plan. That's what we're going to go execute on, and that's where our focus is going to be as we go forward. But I do understand the trepidation or the concern. It's hard to parse when you've got a big storm coming off of a normal January downdraft that's now showing itself as an abnormally strong February, but I think there's more to it than just the storm.

Operator
The next question is from Reed Seay with Stephens. Please go ahead.

Reed Seay
Hello, guys. Thanks for taking my question. I wanted to ask one back on FirstFleet real quick. When you have done these acquisitions in the past, you've gained a lot of new customers, maybe some customers you do know. What does customer retention look like whenever companies like this change hands? Do you have some level of turnover initially whenever there is an acquisition?

And then I also want to follow-up on a question that was asked earlier on the negative mix within One-Way. You did note that it was a negative mix shift from the fleets/units you restructured to the ones you'll be keeping. So, what would be the force that is driving that down from the mid-single digits to maybe your low single digits?

Because I think what we had talked about is you would be targeting more niche, differentiated freight, which we would think would come with a higher revenue per total mile. So, I think that's kind of where our confusion is. So, if you could just clarify that, that would be great.

Derek Leathers

Okay. Sure. I'm going to give that a whirl. That's a lot there. If I don't answer it, feel free to follow-up. Starting with customer retention, every acquisition is different, and every acquisition has a different level of incumbent loyalty and incumbent relationships with their existing customers.

The FirstFleet has a long-standing deep relationship with the core of its book of business. We also know the majority of those customers prior to the acquisition and have previous exposure to them. So, all of that gives us even more confidence. The fact it's Dedicated, which is very difficult to displace and replicate, makes it even more encouraging. So, every acquisition is different.

This one, I would say, from a customer perspective, feels better than most as it relates to our ability to retain it. They're a high-quality carrier with very tenured drivers, with very high service levels. We're only going to enhance those abilities by bringing lower-cost trucks, trailers, tires, fuel and other items to the table and be able to provide them now with additional portfolio options that they did not have as a standalone company.

So said differently, if you're the customer, there's nothing not to like about that. So, we're pretty confident in the customer retention. We're going to work aggressively on the drivers, associates and others to make sure and retain the core of that. And the executive team at FirstFleet is largely intact and staying on board, and those meetings have been ongoing. So hopefully, that answers kind of the first part of it.

The question about One-Way trucking rate per total mile, let me attempt to be a little more clear here. As part of it, you're right, we're going to be more targeted. We're going to be more selective. We're going to lean into aspects of our network that we think we have particular strength. One common theme across those aspects is a longer length of haul.

And when you have a longer length of haul, when I talk about mix, I just have to remind folks that your rate per mile, because that's what we report in One-Way, is lower with the longer length of haul. We're coming out of this restructuring with a significantly larger portion of the fleet operating in sort of a team environment. We're coming out of it with a significantly larger focus on higher value, high service expectation, longer length of haul transit. And as Mexico grows, that always will come with a longer length of haul footprint.

So those kind of work against what you're doing on the contract side and net you out a number with that guide of 0% to 3% that may not look as meaningful, and that's why we tried to apply the additional color of saying on a like-to-like basis, contract renewal approach, that's where the mid-single-digit kind of activity is taking place.

Operator
The next question is from Ravi Shanker with Morgan Stanley. Please go ahead.

Ravi Shanker
Great. Thanks, everyone. So, Derek, just to confirm, you've been the biggest bull on the supply side for the last year now. Just wanted to confirm that you're not turning more bearish on the cycle with this deal rationalization. And also, did you consider doing this maybe a year from now or 18 months from now and you potentially pass the peak? Thanks.

Derek Leathers
Yes. Thank you, Ravi. You're right. I've been consistent in my messaging on the supply side being more real. The enforcement took a lot longer than I would have liked and the scaling of that enforcement has taken even longer still. I think it's gaining momentum, and I think it's very real.

As it relates to One-Way, why now, which I think is a fair and great question. It really came down to the reality of accelerating the return to the margins that we believe are appropriate for our shareholders.

It really comes down to the confidence we have in our PowerLink solutions, sort of that variable capacity model to be able to still serve a lot of that freight, work with our customers, embrace our large-scale trailer pool and assets that allow for them to have maximum productivity at the warehouse level. And we think we can do all of the above with a leaner version of One-Way.

It's not a turn away or abandonment of One-Way in any respect. In fact, we just think it's the better application of scarce resources and scarce capital to continue to put it in long-term Dedicated relationships and support One-Way with those customers that want, deserve and are willing to compensate for that support. And so that's kind of how we got here.

If anything, you mentioned should we have waited a year longer, perhaps we should have done it a year sooner, if anything, but better now than not accomplishing it. So, I'm excited about the outcome. I'm excited where we sit and look forward to being able to demonstrate it as we get through the other side of this.

Operator
The final question today is from Ken Hoexter with Bank of America. Please go ahead.

Ken Hoexter
Hello, great. Good afternoon. Thanks for getting me in. Just checking, Chris, the $35 million earn-out, was that disclosed on the call last week? Is that new news? I just don't think I caught that.

And then the guiding Dedicated fleet to 23% to 28%, can you differentiate that? Does that mean the core? Are you still looking at anything dropping on the core in terms of fleet size in order to get that growth rate? Just want to understand that mix there.

Chris Wikoff
Yes. First on the earn-out, Ken, that at a minimum was in the 8-K that we posted, that may have had slightly more information versus maybe some of the comments that we gave during the call shortly after closing. So that was at a minimum. I think we also mentioned it as part of the call on the 28th.

Ken Hoexter
Perfect. And then the Dedicated fleet size?

Chris Wikoff
Yes, the guide from 23% to 28%.

Ken Hoexter
Yes. Just, I would have thought maybe the mix would have been a little bit higher than that. I just want to understand, is there a signal there that core is declining like what you're doing with One-Way at all? Or a little bit? Or is that just a simple add-on?

Chris Wikoff

No. Just keep in mind there that as a result of the One-Way restructuring, which will continue through this first quarter, and that's an average, by the way. So, there would continue to be a reduction in the One-Way fleet and in our organic business that would be a function of that overall average TTS fleet size that includes FirstFleet.

Derek Leathers
The last thing I would just add too, Ken. Part of the whole density play when you lay over two very dense Dedicated networks over top of one another, it allows, and this is part of the work we are now embarking on, is increased efficiencies with how you utilize assets. And so, you can get more done with less assets when you're doing asset sharing and the ability to kind of work across very dense portions of that network.

So back to sweating the assets, I've talked about earlier relative to One-Way, that's not unique to One-Way. We want to make sure we do that across the portfolio. And so, this is just where we believe is a guide for modelling sake on what that fleet would look like as we get to the end of the year.

Ken Hoexter
And Derek, just to wrap up, if I can, back to Ravi's question on the One-Way, what happens to the trucks now, right? So, if we're all kind of looking at a market that could be inflecting, are the trucks gone once you write them off, you're selling them, you're dumping them somewhere else into the market?

Or is there opportunity, I don't know, if the market really is inflecting rapidly, can you shift them back into play? Can you shift them to Dedicated given you're acquiring into the market? I just want to understand literally what happens to those trucks in the market?

Derek Leathers
Yes, a little bit of all of the above. I mean some of them, we had Dedicated start-ups in the fourth quarter. We were able to shift and move assets that direction as appropriate. We will, in fact, be selling some assets off, and that's part of the overall restructuring as well. We've moved assets to other regions and other applications where appropriate within One-Way. That was a significant part of the cost incurred as part of this restructuring when you have to move trailer pools and assets in significant distances to get them repositioned to be able to capitalize, if you will, on this market that's changing and where it's changing faster. So, there's a little bit of all of the above.
And just to be clear, even on the remainders that we talk about when we say the One-Way restructuring is continuing through Q1, we will be nimble as we go through that, meaning we're going to leave optionality open as we're moving forward. We're going to continue to test waters and understand every day post-storm, what's happening out there relative to the tightness and probably more importantly than the storm, continue to monitor and acknowledge the outcomes of the ongoing enforcement enhancement. And if that continues to play out, this thing could get pretty interesting pretty quickly.

And lastly, I would just tell you, like we have said for many years, we are out working and we're going to be working with Dedicated customers relative to rates and renewals and the ability to flow them back to One-Way in an event that we're unable to gain agreements is another level of flexibility or another lever we can pull, especially in a One-Way market that is if we were to find ourselves in one that's improving even more rapidly than we believe.

Operator

This concludes our question-and-answer session. I'll now turn the call back over to Mr. Derek Leathers, who will provide closing comments. Please go ahead, sir.

Derek Leathers
Thank you. Look, as we continue to navigate this dynamic environment, we're going to keep focusing where it matters most, on delivering superior value to our customers and positioning Werner for the long-term success. We took significant steps in Q4 towards becoming a leaner, more agile organization in One-Way.

We recently added significant scale and capabilities to our Dedicated portfolio via the acquisition of FirstFleet. We remain confident in the progress towards our long-term strategic objectives as well as the strength of our portfolio to solve our customers' complex transportation and logistics needs. Our scale, reach, expertise and diverse range of services position us well in this evolving market. I want to thank you all for spending your time with us today and thank you for your continued interest in Werner.

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