

Werner Enterprises

First Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers - *Chairman and CEO*

Chris Wikoff - *Executive Vice President, Treasurer and CFO*

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

Operator

Good afternoon and welcome to the Werner Enterprises First 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.

Chris Neil

Good afternoon, everyone. Earlier today, we issued our earnings release with our first quarter 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 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'll now turn the call over to Derek.

Derek Leathers

Thank you, Chris, and good afternoon, everyone. We appreciate you joining us today.

Let me start by saying clearly, our first quarter results did not meet our expectations. We faced several challenges during the quarter, some industry wide, some specific to Werner, but we are acting decisively to address them. At the same time, the underlying progress we're making in growing Dedicated, advancing our technology transformation and more aggressively tightening our cost structure puts us in a stronger position as the environment stabilizes.

Today, I'll address our Q1 performance, provide our perspective on the fluid operating environment, walk through the actions we are pursuing and why we are confident in the long term trajectory of the business.

Let's turn to slide five and discuss our first quarter results. During the quarter, revenues were 7% lower versus the prior year. Adjusted EPS was negative \$0.12. Adjusted operating margin was negative 0.3%, and adjusted TTS operating margin was 0.4%, net of fuel surcharges.

Our performance was negatively impacted by four factors. First, we experienced elevated insurance costs and claims. This accounted for \$0.09 of the adjusted EPS impact, with one verdict late in the quarter representing \$0.08 related to a 2019 incident, which we are appealing.

Adverse nuclear verdicts remain an industry wide issue. We, along with our peers, continue to advocate for reform with state and federal government officials. We will continue to do our part to ensure that a more pragmatic approach to verdicts on these lawsuits will prevail. Second was

extreme weather, which was more pronounced in the areas in which we operate. This represented approximately a \$0.04 impact to our first quarter EPS. Third, our IT spend was more elevated, to progress our technology strategy and transformation. And fourth, were isolated operating inefficiencies and lower utilization stemming from select customer decisions and stop and go activity from tariff induced uncertainty.

The net effect of these headwinds was adjusted EPS being down \$0.25 year-over-year. While our results do not reflect our expectations, there are areas where we continue to see momentum and strength that will position us well as we progress through the rest of the year.

In Dedicated, we were awarded several fleet contracts from new and existing customers during the quarter, representing over 200 trucks that are scheduled to be implemented in late Q2 and early Q3. Awards signed this quarter were the highest since the second quarter of 2022.

Our Dedicated expertise is a competitive advantage that has and will drive growth over the long run. Our customer retention remains strong and interest in our Dedicated solutions from new customers in attractive verticals is on the rise.

Our Dedicated business excels when reliability matters most amongst large enterprise shippers. We expect that supply chain uncertainty in 2025 will continue to play well to our strengths.

In One-Way Truckload, revenue per total mile was up for the third consecutive quarter despite weather disruptions, increased deadhead and network inefficiencies. Over half of the One-Way bid season is complete. Business retention has been good so far. We secured several One-Way awards with some of our largest customers. Contractual rate adjustments have been mixed, although are generally up low to mid-single-digit percent on average.

While our One-Way fleet is smaller versus prior years, we've continued to invest strategically. We remain committed to serving specific specialized segments within One-Way, including Mexico Cross Border, Expedited and highly engineered lanes. Our scale, including one of the largest trailer fleets, provides flexibility and a simplified approach for large enterprise shippers, which is critical during these uncertain times.

Logistics adjusted operating income continues to be positive. While revenue was down 3% and gross margin was down 5% year-over-year, operating expenses excluding purchased freight were down 11%. Sequentially, we saw softer volume in Truckload Logistics, driven by small and mid-sized customers. Gross margin was squeezed in the first half of the quarter, but improved in March.

Moving to slide six. While macro volatility remains, our plan and ability to generate earnings power and drive value remains unchanged. We remain focused around three priorities. First is driving growth in core business, which includes expanding TTS and Logistics operating income margins; increasing One-Way rates; and growing our Dedicated fleet given a pipeline that remains strong. We've been awarded numerous new Dedicated fleets, and we are seeing positive results on several large One-Way bids with strategic customers. We are realizing rate increases on One-Way bids. And within Logistics, we are growing PowerLink and Intermodal.

Second is driving operational excellence as a core competency, which we will deliver by maintaining a resolute focus on safety; providing industry leading reliability, solutions and service to our customers; continuing to advance our technology roadmap and continuing to control cost.

Our commitment to excellence was recently recognized as the Truckload Carriers Association, named Werner, a 2025 TCA Elite fleet. This designation highlights our commitment to providing a top tier workplace for professional drivers. We are progressing our technology strategy and the transition to our Edge TMS platform. Today, all Logistics loads except Final Mile are running through Edge TMS.

We are making progress in TTS with more than half of One-Way Truckload volume and a quarter of Dedicated volume in Edge. We remain focused on transitioning remaining customers and volume to Edge, building out execution capabilities and realizing the anticipated synergies at greater scale.

On the cost containment front, over the last two years, we have taken out \$100 million in cost and continue to execute against our cost savings goal for 2025, which we are increasing from \$25 million, to \$40 million. Chris will cover our actions here and how we are controlling what we can without sacrificing future opportunities.

The final priority is driving capital efficiency. This includes maintaining strong operating cash flow, remaining disciplined and thoughtful in how we allocate capital and maximizing equipment fleet sales.

Capital proceeds exceeded capital expenditures for the quarter as we sold more used equipment than we purchased. We are seeing increased values on used equipment as pricing on new equipment is fluid and recently being influenced by tariffs. We will continue to invest in trucks, trailers, terminals, technology and talent, while maintaining optionality when it comes to evaluating the impact from tariffs on our equipment cost. We reduced debt since year end. Our liquidity is at a new high point as we closed late in the quarter on a new and incremental \$300 million credit facility. As a result, we are well positioned to be opportunistic relative to share repurchase and M&A.

Regarding tariffs, our conversations with suppliers and customers reflect a muddied outlook. The environment is fast moving and ever changing. We think about the impact of tariffs on our business in three categories. CapEx and used equipment gains, exposure to Mexico freight and the broader impact on retail and consumer demand.

Relative to CapEx and used equipment gains, our average tractor age of 2.2 years provides flexibility on equipment purchases and sales. We work with several OEMs with varying levels of supply chain exposure to Mexico and Canada and are in close contact as they assess potential tariff impacts on their products. As information becomes clearer, we are considering several strategies to mitigate the impact of higher prices. This includes delaying new tractor purchases and sales, which is feasible given our low age fleet and/or shifting purchases between OEMs to those less impacted by tariffs.

In the event that tariffs stick, we expect low single-digit percent increases to the cost of equipment and parts, but with favorable offsets with growing demand and improved resale values of used equipment, which we are seeing now as an early development in April.

Relative to cross border freight, approximately 10% of total revenues are from cross border Mexico shipments. This includes both US Line haul as well as revenues generated within Mexico. Most of our cross border business is executed in One-Way trucking and Logistics.

Shipments consist primarily of manufacturing, industrial and food and beverage products. Even though there may be some short term impact from tariffs, supply chains that have been expanding in the region will not change overnight. With over 25 years of experience in cross border operations, we have developed strong partnerships with customers and partner carriers. As one of the largest transportation providers in the U.S., with a strong presence in Mexico, we are firm believers that our expertise in this region is a competitive advantage over the long term, and we plan to continue to operate and grow this business.

And lastly, relative to the broader impact on consumer sentiment and spending, through all the noise and challenges of the last few years, the consumer has remained engaged and resilient. We are seeing stable volumes across our discount retail customer base. 62% of our revenues in 2024 were from the retail vertical. Our more concentrated exposure to non-discretionary retail from our relationships with discount and large value retailers is a differentiator and has held up well in past economic slowdowns.

As the current difficult environment lingers, we anticipate ongoing capacity attrition. Long haul truckload employment is below the prior peak in 2019 and additional exits could be accelerated, providing a more favorable backdrop for larger carriers like Werner, and we stand at the ready.

In summary, while elevated insurance and claims expense and challenging weather negatively impacted our results this quarter and tariff uncertainty looms, we continue to execute our long term strategy while taking near term decisive action to position Werner for success.

Our 13,000 hardworking talented team members are committed to move this company forward. And while our hard work is not yet showing up in the bottom line, we have clear line of sight to structural improvements that are being made to position this company for stronger earnings power.

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

Chris Wikoff

Thank you, Derek. Let's continue on slide eight.

Our performance comparisons here are year-over-year unless otherwise noted.

Adjusted operating loss was \$1.8 million and adjusted operating margin was negative 0.3%. Adjusted EPS of negative \$0.12 was down \$0.25. As Derek noted, this includes a \$0.09 headwind during the quarter from increased insurance costs and another approximately \$0.04 due to the impact of adverse weather resulting in lower One-Way miles per truck. Elevated technology spend is also contributing year-over-year, a reflection of further progress in our technology strategy and transformation.

Turning to slide nine. Truckload Transportation Services total revenue for the quarter was \$502 million, down 9%. Revenues net of fuel surcharges declined 7% to \$444 million. TTS adjusted operating income was \$2 million. Adjusted operating margin, net of fuel, was 0.4%, a decrease of 430 basis points, of which 160 basis points was due to higher insurance and claims referenced earlier. During the quarter, consolidated gains on sale of property and equipment totaled \$2.8 million. Net of fuel surcharges, insurance and gains, TTS operating expenses declined 5%.

Let's turn to slide 10 to review our fleet metrics. TTS average trucks declined to 7,415 during the quarter. We ended the first quarter with the TTS fleet down 5% year-over-year, but only down 10 trucks or 0.1% sequentially. TTS revenue per truck per week net of fuel decreased 1.4%, primarily due to lower One-Way miles per truck negatively impacted by adverse weather conditions.

Within TTS for the first quarter, Dedicated revenue net of fuel was \$279 million, down 7%. Dedicated represented 64% of TTS trucking revenues, consistent with a year ago. Dedicated average trucks decreased 7.1% year-over-year, but was only down sequentially by 1.1% to 4,783 trucks. At quarter end, the Dedicated fleet was down only five trucks or a tenth of a percent from year-end 2024. This is well above our more seasonal trend that averages a 30 truck reduction during the first quarter. At quarter end, Dedicated represented 65% of the TTS fleet. Dedicated revenue per truck per week decreased slightly, down 0.3%, but has increased for 27 of the last 29 quarters and was impacted by one fewer business day versus the prior year quarter.

In our One-Way business for the first quarter, trucking revenue net of fuel was \$154 million, a decrease of 9%. Average truck count of 2,632 declined 5.5% year-over-year and sequentially by 1%. Revenue per truck per week decreased 3.2%, mostly due to 3.5% lower miles per truck per week. Revenue per total mile increased 0.3%, representing the third consecutive quarter of improvement.

One-Way freight conditions were more stable early in the quarter, but weakened in March as trade policy resulted in a more uncertain and cautious environment. Weaker One-Way volumes have lingered in April.

Total miles decreased 9% versus prior year with 5.5% fewer average trucks. Increased miles in PowerLink mitigated some of the decline in One-Way Truckload miles, ultimately resulting in combined miles that were down just under 6%.

Now turning to Logistics on slide 11. In the first quarter, Logistics revenue was \$196 million, representing 27% of total first quarter revenues. Revenues were down 3% year-over-year and 8% sequentially. Revenue in Truckload Logistics declined 5% and shipments decreased 4%, a narrowing year-over-year trend compared to the past several quarters.

Intermodal revenues, which make up approximately 14% of Logistics revenue, increased 14% year-over-year due to 16% more shipments, partially offset by a 1% decrease in revenue per shipment. Final Mile revenues decreased 12% year-over-year and 11% sequentially.

Logistics adjusted operating margin of 0.3% improved 90 basis points year-over-year, driven by double-digit percent OpEx improvement.

Moving to slide 12 and our cost savings program. As macro uncertainty remains, as we have less control over weather disruptions and as litigation and nuclear verdicts remain an industry challenge, we are committed to controlling what we can to expand margins and earnings. As Derek mentioned, two years ago, we set out to achieve a more cost efficient operating model, identifying and executing on \$100 million in savings, helping to partially offset softness in rate and volume as well as select inflationary factors. As we entered 2025, we announced an additional \$25 million cost savings program. Today, we are increasing our 2025 cost savings target to \$40 million.

In the first quarter, we achieved \$8 million in savings towards that goal. We are underway with more aggressive restructuring efforts to drive out additional cost. These savings are aimed at more accelerated pace of realizing synergies from our technology investments, further optimizing headcount and pursuing savings in procurement spend, facilities and real estate, all without sacrificing our readiness and ability to grow as the backdrop improves. The next phase of structural changes should result in enhanced operating leverage as demand returns.

Let's review our cash flow and liquidity on slide 13. Operating cash flow was \$29 million for the quarter, or 4% of total revenue. As expected, net CapEx continues to trend down, yet we maintain a modern fleet and continue to reinvest strategically. First quarter net CapEx was a cash flow positive \$8 million, as we sold more used equipment than we purchased.

Free cash flow was \$37 million, or 5% of total revenues. Total liquidity at quarter end was \$777 million, up nearly 70% from year end, and including \$52 million of cash on hand.

During the quarter, we closed on a new \$300 million committed receivable securitization facility. This facility is priced at a rate below our revolving credit facility and will result in interest expense savings going forward. At quarter end, we had \$679 million of availability on our revolver and \$46 million on the receivables facility.

Moving to slide 14. We ended the quarter with \$640 million of debt, down \$10 million sequentially. Our net debt to EBITDA as of March 31st was 1.7x. We have a strong balance sheet, access to capital, relatively low leverage and no near term maturities in our debt structure.

Let's turn to slide 15. While CapEx in the quarter was light, strategic reinvestment in the business is a top priority. Our track record shows consistency in reinvesting in the business, maintaining a low mile modern fleet and extending our solutions and capabilities.

Over the long term, we will remain balanced, including returning capital to shareholders, maintaining appropriate leverage and being disciplined and opportunistic with share repurchase and M&A. We have 3.9 million shares remaining under our board approved share repurchase authorization.

Let's review our guidance for the year on slide 16. We are maintaining our full year fleet guidance of up 1% to 5%. Fleet growth this year is expected to be driven more by Dedicated versus One-Way. The TTS fleet overall is nearly flat year-to-date, but we have visibility to Dedicated wins implementing late in second quarter and early third quarter with some added startup costs along the way. Growth in our One-Way fleet is more uncertain given the combination of downside risk from west coast volumes and upside with increased driver recruitment.

Our full year net CapEx guidance range is between \$185 million and \$235 million, lower than historical ranges as our portfolio evolves to be more asset light. Year-to-date net CapEx is net cash flow positive. We will have more normalized net spend in the second quarter. While we are not changing the full year guidance range at this point, tariffs on OEM purchases will have an impact on our purchase decisions for the rest of the year. We have some ability to pull back on CapEx spend later in the year if appropriate, although we could also accelerate CapEx if presented with attractive OEM price concessions in the near term.

Dedicated revenue per truck per week decreased 0.3% year-over-year, but is expected to remain within our full year guidance range of 0% to 3%.

One-Way Truckload revenue per total mile increased 0.3% despite elevated deadhead of more than 100 basis points, offsetting \$0.02 of rate per mile year-over-year benefit. Network inefficiencies occurred due to higher freight volatility than usual caused by tariff related uncertainty.

We are updating our rate per total mile guide to flat to up 3% in the second quarter compared to the prior year period.

Our effective tax rate was 23.7% in the first quarter. Our 2025 guidance range between 25% and 26% is unchanged. We are maintaining the full year guide and expect elevated effective tax rate in future quarters.

The average age of our truck and trailer fleet at the end of the first quarter was 2.2 and 5.4 years, respectively.

Regarding several modeling assumptions, equipment gains were \$2.8 million in the quarter, which was consistent with our expectations. We are maintaining our expectation for full year equipment gains in the range of \$8 million to \$18 million. Recently for April, we are seeing select equipment values and gains that are at two-year highs as a result of tariff uncertainty. While positive, it's too early to predict any lasting impact on the rest of the year.

We expect net interest expense this year will be flat to down year-over-year, absent any outsized capital allocation, but higher in first half, then lower in second half.

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

Derek Leathers

Thank you, Chris. Tariff impact remains fluid and adverse insurance settlements continue to pressure results. Disruptive weather was a headwind during the quarter. Technology spend is elevated and used equipment values remained low versus prior years, but are improving more recently.

In parallel to these trends, we've been making structural improvements and strategic investments to bolster long term growth and profitability for Werner. While we wait for demand to normalize, we are aggressively managing costs. 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. We have a modern fleet and continue to invest in our equipment, leading to safety DOT preventable accident per million miles near twenty-year lows over the last two years. We've been making considerable operational improvements in building a leaner, but more powerful organization.

We're a cycle tested team and our historical results demonstrate our ability to generate earnings power as the market improves. With that, let's open it up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

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

Jason Seidl

Could you walk us through Dedicated margins and how you view them versus OTR? And sort of what we should think about the most recent Dedicated wins in terms of long term impacts to the margins in that division?

Derek Leathers

So I guess I'll start by maybe attacking one of the misnomers that we constantly hear about, which is Dedicated being some sort of a drag as this market progresses further from here. We've studied this pretty closely. If you look back over the last ten years, about eight out of ten years, Dedicated does outperform our One-Way margins. We don't disclose margins individually for a variety of reasons, but I can tell you that it stands up very well in both good markets and bad.

As it relates to recent wins, clearly it's a competitive environment right now. And so those wins are contributing to operating margin. Those are not implemented yet. Those will improve the health of the overall network. Those are implementing in Q2 and currently scheduled to be completely launched or at least started in Q2, but some are late enough that we felt it prudent to indicate there could be some drift into early Q3. The pipeline in Dedicated is particularly strong at the moment, So that is exciting. The win rate will continue to be pressured based on the competitive environment we're in, but we like the momentum.

The trucks closed year-to-date exceeded sort of new business truck closes through 2024 for the entirety of the year. And that trend has continued in conversations with customers as we advance in the year. So overall from a positioning perspective, I like where we're sitting there. I like the adds in that part of the network. And I think it positions us well as we build from here.

Chris Wikoff

Jason, I think you were also asking just about the TTS line and some color on the operating margins? So, we've talked about in the past of getting back to long term double-digit margins. 2015 to 2022, six of those eight years, we are in the double-digit margin territory. 2023 was high single digits. So we have not changed our view in terms of double-digit OI margins being our long term target. Obviously, we're a ways off from that. We've had multiple years being impacted of the decline in the One-Way rate per mile, softer Dedicated demand, softer used equipment values and some inflationary pressures. And those continue to be the levers that we're focused on and that will get us back to more of that long term range.

With each of those levers, we're seeing improvement now in all areas, albeit slow. If we just roll back to first half of last year in those areas, One-Way rate, Dedicated demand, equipment market, those were working against us. It was then in the third quarter of last year that we saw for the first time in seven quarters, favorable year-over-year improvement in the One-Way rate. Now we're seeing this momentum that Derek just mentioned in Dedicated, also recently seeing some improvement in equipment gains. So we're still focused on the long term, still focused on those being the levers that will get us there and starting to see some gradual improvement.

Jason Seidl

And so my follow-up guys is this, I know you don't disclose the actual margins, but if we look at 1Q, would you say the margin discrepancy between Dedicated and One-Way expanded?

Derek Leathers

I would say, yes. It's fair to say and that's because of the duress of the One-Way portion of the portfolio. One-Way has been the most competitive section of the portfolio. It remains so today. And so when you think about performance across the quarter, One-Way certainly was a drag on the quarter. Dedicated has had pressure, but still is outperforming by a larger mark today than it would have been even in some recent quarters. Both of those groups obviously are impacted by some of the comments we've made through the prepared remarks relative to weather in particular. And then obviously, the insurance and claims is an outlier that we hope to put in the rearview mirror as we go forward.

Jason Seidl

Understood. I really appreciate all that color.

Derek Leathers

Thank you, Jason.

Operator

And your next question today will come from Ari Rosa with Citigroup. Please go ahead.

Ari Rosa

Good afternoon. So I wanted to understand, Derek, just kind of continuing on that point about putting the insurance issue in the rearview mirror. It seems like there's really not anything structurally changing. What causes that to change? Or what causes that insurance concern to mitigate outside of legislation kind of resolving that and kind of taking away this prospect of nuclear verdicts?

Derek Leathers

Yes, I'll start and then I'll have Chris fill in some detail that we think is pertinent. So biggest of big picture is, you're right – we need tort reform and we need state by state legislation to continue to make its way through so that there can be a fair and appropriate playing field in the case of litigation. We've seen that recently in Georgia. There are several other states that are working on it as we speak. We're going to continue to stay active in that space.

And it really is both the sort of nuclear verdict and outsized settlement side when you're trying to avoid said nuclear verdict. This particular quarter was marred by a case that is a great example of what can go wrong, will sometimes. We're talking about a case with video evidence, body camera footage of a claimant clearly stating that they were not injured, that they did not need medical attention, a case that was a low impact accident by all accounts where actual checks of the equipment was going on to see where the damage was. But the change of judge in Q1 and a series of adverse verdicts within that court case led us to an outcome where that injury became a multimillion dollar jury decision.

I'd like to believe that we can get past those days and not see these sort of rainy-day moments. But clearly, insurance is outsized on a per unit basis, per accident basis. It's a headwind just given what's happened with the ongoing trend in that direction with outsized verdicts. We're going to continue to focus most importantly on the core issue, which is lowering our preventable accident rate, lowering our total incident rate and working to develop better and better drivers as well as

advent of technology, but that will only get you so far. So I can't promise or guarantee or predict the future. What I can tell you is that we do believe we're taking the right steps and preparing our drivers to be the best they can be on the road, but these outcomes are both unexpected and unsavory.

Chris Wikoff

And Ari, just to give you a bit more color and perspective. It was \$44 million for the quarter, north of our eight quarter average, obviously, two consecutive quarters of being above \$40 million, not our expectation. Although we would still look at Q4 and Q1 as being outliers just for different reasons. Fourth quarter was a year-end reserve remeasurement. Q1 having this isolated verdict with some unique circumstances that Derek just walked through. So I would still point to the quarter average, whether you want to look at the last eight quarters or the last twelve quarters, either way, it continues to be in a range of about \$35 million to \$36 million reflective of a cost per claim issue, not a frequency of claim issue. We continue to be pleased with our DOT preventable accident per million miles, which over the last two years was at a twenty-year low. And really don't feel like that has yet to reflect in the trend of that particular line item.

Ari Rosa

Understood. That's helpful. And then just for my follow-up, it seems like every call we're talking about the kind of supply demand issue, overcapacity problem. You mentioned that driver counts have come down, but maybe you could just give your perspective on kind of where the market is, what gets it to finally correct? Could this be the catalyst that maybe gets the market to finally correct and get some of the excess capacity out? Or do you really see it as more of a demand issue or kind of a retransition from an issue of oversupply to an issue of kind of insufficient demand with the tariffs?

Derek Leathers

Yes, Ari, I think it's a great question. Let me back up and just start by saying as we entered the year, we obviously had some optimism relative to where the market was going. We saw that optimism starting to play out in January leading to February and then into March. January and February were muted, so the demand was there, but the weather was not in our favor. And I would remind everyone that although we're a national carrier, our footprint is very heavy Midwest, South, Southeast, and the storm systems that we endured through the quarter were predominantly in those areas.

As we got into March, we saw something different, which was although demand indicators, forward-looking indicators were strong, the tariff uncertainty and some of the network disruptions that came with that became more pronounced. And so, it was less about total demand, but more about the significant network disruptions that come with people holding freight for a day or two, then shipping larger than normal quantities and the inverse of that, people rushing to get freight across the border before a potential tariff impact.

Our exposure, both West Coast as well as the Mexico border, both are about 10% each. And so, that impact was felt in our network. It was more disruptive on the North-South moves because you can make more shorter term decisions and they were. But as we look forward now, I do believe this is a catalyst relative to washing some folks out more aggressively that are unable to compete at these levels that could and should lead to a more rapid cleansing of the capacity roles. BLS employment data is already now below 2019 levels, pre-COVID levels, if you will. And so, there's a lot of trends that look good there.

We do have to caution and we can't own the macro and with the issues going on with that same economic uncertainty, there's certainly some concerns and a lot of contingency planning on our part relative to kind of a bull case and bear case relative to demand. The last thing I would add to all of the above is this sort of air pocket that's been largely talked about over the last several days, whereby we all know there is a significant reduction of inbound freight headed to the West Coast and really East Coast as well from ports in Asia. That air pocket will have to be filled to some extent.

And I think it's only a matter of monitoring and staying close to consumer sentiment and consumer confidence overall to know how much of that pocket gets filled on the backside. Inventory levels are in good shape, or even in certain cases in our network in conversations with customers on the leaner end of where they'd like to be. So that freight has to get made up for at some point or resourced from elsewhere.

All of those are catalysts where we think the large-scale network capabilities that we have can be brought to bear in ways that are more interesting than sort of the aggregate of a bunch of small carriers that might be competing in certain lanes. So we will prepare for that. We'll be ready to respond regardless of which direction that demand side of the equation goes. But yes, I think capacity and that attrition can only accelerate from here based on the backdrop.

Ari Rosa

That's very helpful context. Thanks for the time, Derek and Chris.

Derek Leathers

Thank you, Ari.

Operator

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

Scott Group

Afternoon. So, Derek, with respect to that sort of import cliff you just sort of talked about, is there any way to sort of frame like what percentage of your volume at some point originates overseas? I'm guessing that like the direct port stuff is easy, but some of the more inland stuff that maybe starts overseas is harder. But if you have any sort of ballpark, I think that'd be helpful. And, given that sort of volume air pocket you're talking about, what's realistic in terms of improving margin in Q2? Can we get back to profitability?

Chris Wikoff

Hi Scott, this is Chris. I'll start on maybe both of those topics. First on the West Coast import exposure, roughly about 10% of our One-Way volume is exposed to the West Coast. That has been steady as of late with some of our large customers, but obviously it's something we're very focused on and it could be impactful, broadly for North America freight. But right now, that continues to be steady and our exposure there is somewhat limited.

In terms of your other question on just, I think you were asking how to think about second quarter. Maybe from a revenue perspective on the One-Way side, more uncertainty there for topics that we're discussing here. On a rate per total mile basis, that could be up or down on a sequential basis based on the year-over-year 0% to 3% guide for the second quarter.

However, we do have optimism with the Dedicated fleet growth that we've talked about, the wins there. Also optimism, broadly in Logistics quarter-over-quarter and seeing some favorable trends into the second quarter. We have a solid line of sight on awards in PowerLink and Intermodal and both those businesses just continuing to have momentum and strength, but also in the Truckload Brokerage, which has had periods of being soft last year and also in January and February.

But where we came out of the quarter, Truckload Brokerage is seeing some positive momentum. We had a high point in March of certain award counts in volume. April also appears to be strong. There's also some Q2 pop-up in food and beverage within the Truckload Brokerage space. So, some puts and takes there from a revenue perspective. And then from an OpEx perspective, we will have some Dedicated startup costs with implementing some of those fleet wins in the second quarter and early third quarter. Of course, insurance is an area that has some volatility, but we're seeing momentum in gains and on the equipment values. We also expect to have an accelerated pace of cost reductions in the quarter and some decelerated IT spend in second quarter relative to the first quarter.

Derek Leathers

Scott, the only thing I would add is to the question about direct versus indirect, it is difficult as you stated. We know that if you look across our book of business, our large retail customers and discount retailers in particular have anywhere from call it a 10 to 30 percent exposure rate to China, but that does not include some of the secondary exposures they may have from vendors that they buy from who are ultimately sourcing either pieces or parts or the actual finished good from China as well.

The positive side of that, is that air pocket becomes more relevant for them once we get through this and their need to restock and reload. And the other thing that I would remind everybody is within that spectrum or that basket of goods, we are heavily exposed in the non-discretionary, low-cost end of the spectrum, where not reloading isn't really an option. They have to have those goods on the shelf and have committed with confidence that that is their go forward plan.

So positioning as well as we can, trying to be as close to the breaking news, which is difficult at times, but I still believe maybe with more conviction now than even previously, that for instance, our Mexico exposure is a net positive over time. Yes, it's going to have interruptions and hurdles to get over in the short term. But that is an ongoing reshoring, nearshoring kind of opportunity that customers are leaning into. I recently completed a trip down there and heard loud and clear that they're not blinking on their plans.

Scott Group

And then maybe, just Derek, bigger picture, our model goes back to like the early nineties. I don't think you've ever had an operating loss before. I understand that obviously the environment is challenging. I mean, maybe one thing that felt a little different this cycle, you did more M&A, how are those acquisitions performing? And I don't know, to get out of this sort of hole, are there more drastic changes that we need to be making in order to get back to the margins we want to get, or is it just sort of waiting for a better cycle?

Derek Leathers

No, Scott, I think your question is well stated. Yes, several things – so yes, we had M&A take place at a time where, immediately preceding one of the largest freight recessions that we've seen. So we haven't been able to capitalize to the extent that we had modeled and planned to on some of those assets. We still feel very good about customer receptivity, customer acceptance, and actually growth with core customers within each of those acquired businesses. But it is an opportunity that's yet unlevered, so to speak. We haven't been able to see the operating leverage in that to the extent we would like.

The quarter is, in fact, an outlier, so your model is correct. And yes, it does require us to take more immediate and more dramatic action, which we referenced in the opening remarks. We are taking this seriously. This does not represent who we are, and we are going to make both appropriate near term moves, but always with an eye toward the reality of this too shall change. Said differently, I don't want to wake up in a world where the large network of complex solution sets that we provide to customers, post air pocket, post tariff overhang, et cetera, isn't able to be deployed. And so, I've got to make sure that we've got the core competencies in place, the capabilities and the people to do the job. But make no mistake, yes, we're going to dig deeper. We've raised our cost cutting initiative. It is well known internally that we're going to have to do things different. We take it very seriously.

Scott Group

Thank you, guys, appreciate it.

Operator

And your next question today will come from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors

Following up on the other conversation about pricing and discussions with customers and that sequentially, potentially in One-Way being up or down, can you talk a little bit about the dynamic in that discussion with 60% of your business coming from retail and that being an industry really in the crosshairs of the China uncertainty? How has that impacted maybe the content of the discussions, but also the way bid season has played out versus normal and how much visibility do you have into pricing net-net being neutral this year?

Derek Leathers

Yes, I'll let Chris get into some of the pricing detail. But as it relates to the conversations, I would point you to the reality that these uncertainties are significant for our retail customers. But with those same uncertainties, what they look for in wherever they can find it is certainty in execution. And so that's kind of the point we're trying to make. The conversations have actually been pretty solid relative to them knowing that what will be needed on the other side of this will be different than what they needed going in. Large scale trailer pools, multiple delivery modes, the ability to move quantities of freight in shorter order are things that large, well-capitalized carriers like Werner can do.

That has led to discussions around moving more from spot to contract. That's led to some of the ability to close out on longstanding Dedicated conversations that have been lingering for way too long. That has led to our ability to talk about this business needing to be re-investable for us to be able to sign up to support them as we get later into the summer and clearly prior to peak. So all of that set up from a conversation perspective is materially different than it was a year ago,

and I would say in a positive way. But we've got a lot of work to do. We've got a lot of rates that that we have to work through and Chris has some additional color and detail that he can share.

Chris Neil

Yes, we have now reported three consecutive quarters of year-over-year improvement. Certainly, this quarter at 0.3% in One-Way, was not a significant move. It would have been better had we been able to maintain deadhead a little bit better. I mean rate per loaded mile was up over a percent. So we are continuing to make progress through the bid season. We're over halfway complete with One-Way bid season with about over 50% of our existing business will be repriced and will become effective sometime in the first half.

I would point out that our retention on existing business has been pretty good. We've actually had less churn this year than last year. I think that's just reflective of, you know, an environment where customers are leaning into stable asset backed logistics partners who will, maintain commitments and have the scale to deal with the volatility out there. You know, in general pricing results have been a little mixed, depending on the customer, depending on the lane, but on average they've been relatively consistent with our expectation that we described during our last call of increased low-single to mid-single digit percent increases. So those things have played out as we expected.

We did think the spot rates, earlier in the year coming off of some relatively positive indicators in January and early February, we were expecting spot to improve a little bit in March and then with the volatility that we've got with the tariffs, we just didn't see that. And that weakness in spot rates, will certainly impact our rate per total mile in the second quarter. And I don't mean that ominously, I mean it could be positive, it could be negative just depending on how things go, but it will be impactful to some degree. But we feel good about where we're at with contractual rate increases.

Bascome Majors

And from a planning perspective, as you talk to these retailers and cycle through bid expectations, have the volumes underlying those bids and what you're bidding to changed in any material way, just any information you have to maybe plan capacity around the air pocket that's coming would be helpful?

Derek Leathers

Yes, great question. I would tell you that interestingly, volumes have held up between bid expectation and actual, better this year than we've seen in the last couple of years. Whether that's better planning or better tech on their side or better execution on our side in terms of staying on top of it every single minute of every day, which is the fight we're in right now. But in either case, bid outcomes or awards and bid actuals are tracking much more close this year than they were a year ago. I think that's also an indication though, of aligning yourself with quality carriers, knowing that this too shall change.

And so we'll continue to track that underlying demand. Interestingly, despite all of the noise in the news and for the consumer to have to endure every day has actually remained very strong. With several of our largest customers, we expect, and they expect that to continue. I think that is more reflective than anything of our heavy concentration with discount retail. So you have some migration downstream from customers that might have shopped elsewhere previously, offsetting the overall impact on the end consumer. But the consumer has continued, as we all know, to be more resilient than I think we would have expected, given all of the noise that they've been living through.

Bascome Majors

Thank you both.

Derek Leathers

Thank you.

Operator

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

Chris Wetherbee

Good afternoon. Maybe first I want to drill down on the new Dedicated wins, just maybe get a little bit of color there, whether from a magnitude of the size of the wins, the amounts, the kind of trucks that you might be adding there, the types of verticals you're seeing. We've seen Dedicated come under a decent amount of pressure over the course of the last couple of quarters. Kind of curious if there's something changing there that was driving the wins on your side.

Derek Leathers

Yes, I think there's a few different things. One, we have aggressively pursued new talent in that arena and we've put new bodies to work. That's part of it. We've also launched a pretty aggressive internal team that's cross functional across the organization to make sure that we kind of pick winners off the assembly line, take them off the conveyor belt, so to speak, and really attack those that we think are best fits in our network more than perhaps we did previously or more effectively anyway than maybe we were previously.

And to your point on verticals, it has been a conscious effort to expand outside of our traditional sweet spot of discount retail and really aggressively get after some new verticals. And we've seen early success with ongoing, really positive, I would say, conversations with others in the similar verticals. So we're excited about it. It's tough to be overly optimistic or excited given obviously the Q1 results. But if you look at, and I'm talking financial results, but if you look at win rate, you look at diversification of wins, and most importantly, if you look at new blood or new customer logos on that list, all of those things are cause for excitement.

Chris Wetherbee

Okay, that's helpful. And then just to follow-up to come back to kind of 2Q and forgive the short-term question here, but just sort of want to get a sense. Obviously, this is a relatively unique quarter with 1Q. Sounds like there's some moving parts but maybe revenue skews positive sequentially in 2Q. Just trying to get a sense, it sounds like, maybe some of the weather costs and insurance maybe normalizes to some extent in 2Q. Is that enough to get us to kind of from a breakeven perspective or into the positive side of the ledger on EPS in 2Q?

Chris Wikoff

Yes, Chris, we would certainly be working to get back to positive. You know, if you look over the last four or five years, the Q1 to Q2 EPS has been up and down. It's a range of about \$0.45 between the high and low. Again, some of those down, some of those up, sequentially, but these are uncertain times and I don't know that normal seasonality is fully going to apply here. So we're focused on getting from negative back into positive territory. That would require over \$0.12 of sequential adjusted EPS improvement. I think you heard it right from a revenue perspective of more optimism from a Dedicated standpoint as well as Logistics. Just more uncertainty on the One-Way rate per total mile and just overall One-Way on the top line.

From an OpEx perspective, we will have some Dedicated start-up, but we are expecting some accelerated pace of cost reduction in the quarter. And we mentioned cost savings target being raised to \$40 million, \$8 million of that was realized in the first quarter. So call it over \$10 million on average for the next three quarters to go. And if we can continue to find opportunity and even exceed the \$40 million in the year, then we will do that. Obviously, we're not going to adversely affect our ability to grow and we're not going to place safety and service and reliability at risk. But where we can leverage technology, where we can lean into operational excellence and innovation and find more benefit there, that's structural and sustainable, we'll clearly do that.

Chris Wetherbee

Got it. Thanks for the details. Thank you.

Derek Leathers

Thank you, Chris.

Operator

And your next question today will come from Daniel Imbro with Stephens. Please go ahead.

Daniel Imbro

Yes, good evening. Thanks for taking our questions. I want to follow-up making sure I understand the fleet growth comment, the guide of 1% to 5%. It sounds like that's all going to be in Dedicated. To the comment earlier, Derek, you made on One-Way margin pressures, do we just expect One-Way fleet to keep reducing through 2Q and 3Q sequentially? I'm trying to understand how CapEx is reiterated given the returns in this environment are probably lighter than you expected them to be.

Derek Leathers

Yes, I wouldn't necessarily plan on it reducing, at least not materially. Our focus is clearly Dedicated. Our focus will be to remain in the One-Way game. There are certain precursors to why we need to have a One-Way presence. It's both sort of the training ground and proving ground, not training in the driver capability sense, but in the culture sense for drivers before they're placed in Dedicated. But maybe more importantly, it's really the entry to get to know customers, to get to build relationships and to be able to do business with them, that then expands across the portfolio into everything from Intermodal, to Final Mile, to Dedicated, et cetera.

Our focus on growth will be filling the already closed needs that we talked about on the call, as well as the pipeline that's coming forth from other Dedicated opportunities that we see. Everything is fluid on the CapEx side, just to be clear. We are also navigating tariffs as it relates to original equipment values or from OEMs and we will be cautious to sign up for large increases or really increases at this time relative to equipment and our fleet is in a great position to be able to allow us to do so.

Daniel Imbro

That's helpful, I appreciate it. And then for a follow-up, just wanted to ask on the tech side. I believe you guys use Mastery for your Edge platform and you've talked about those investments for a while here. I guess maybe it's just hard to see in the consolidated results, but what kind of benefits and when would you expect to start seeing the benefits from these investments financially?

And then broadly, I guess your thoughts on the industry, the growth of these better TMS offerings and systems out there. Is that part of what's making small carriers more efficient? Could that be keeping capacity in the market, because they're just getting better and more efficient with routing? Just trying to think about the longer term implications of these tech offerings do improve and get rolled out to the industry.

Derek Leathers

Yes, I'll start with Mastery and our Edge conversion. We are at the point right now in the Edge conversion where the spend is kind of oversized compared to what we believe the long-term run rate may look like, but it's necessary. We're at the most vulnerable stage, call it the red zone, if you will, to use a football analogy, where a lot of really good things are imminent to happen, but we can't afford a mistake. And so where we sit today is, Logistics is fully converted and we're starting to see the productivity gains and you can really see it in the OpEx savings and the ability to do more with less in Logistics.

That is not true yet in One-Way or Dedicated. We are significantly progressing in One-Way and Dedicated, but we're still operating out of multiple systems. We also had to bear the difficult choice knowing that we were converting to a totally new tech platform to not even, not yet at this point, fully integrate some of the acquired companies because we didn't want to integrate them twice. And so there are a lot of synergies ahead of us as we get to the final innings. And this whole conversion is really scheduled to be complete by this time roughly next year.

The predominance of those productivity gains will start to be visible late Q3 into Q4 this year. And so we're excited to get there. Right now, what we have is sort of more of a headwind than a tailwind, both in terms of spend, but also in productivity. And so, we think this too shall pass. But I'm excited about those places where we can see what it looks like with full implementation and it's clearly flowing through to productivity gains and more efficient outputs.

Chris Wikoff

Yes, and maybe just to give you a bit more color there, in terms of the synergies. Derek mentioned the cost reduction in Logistics which outside of Final Mile, is 100% on Edge TMS. We mentioned that the operating expenses are down 11%. We don't disclose the other ratios like load per employee ratios, but those are also on the rise. So, we're definitely seeing on the expense side the productivity gains there from the technology. But also while it's early, we're all seeing top line synergies, greater visibility to freight, greater ability to optimize freight selection, that is showing up on the top line. But it's early, it's small. As we go forward, I think we've really hit a new gear here in 2025 relative to the pace of this transformation.

So, that means a couple of things. It does mean some periods of some elevated cost. We would quantify the first quarter impact on EPS of year-over-year kind of general IT spend to be about \$0.05. So, there will be some pockets of some elevated IT costs. I think as we go through the year, we would look for that to decelerate. But the synergies will also grow from here as we continue to stay focused on the finish line.

Derek Leathers

And to address the second part of your question quickly, Daniel, yes, technology is an enabler, but I don't think that's the core enabler of what's happening with the small-to-mid-sized carrier. I think it's been a combination of bank leniency and the reality of how long it takes to kill a trucker.

You can run a truck at below profitability for a very, very long time, if you're willing to run it out and generate the cash with no ability to then reinvest or to renew. We've seen that as of late, even with multiple bankruptcies just in the last couple of weeks of 200, 300, 150 truck carriers. And I think you're going to see a lot more of that in the news as we go forward from here.

Daniel Imbro

Thanks so much for all the color. Best of luck.

Operator

And your final question today will come from Richa Harnain with Deutsche Bank. Please go ahead.

Richa Harnain

So, Derek, I appreciated your point on the Dedicated win rate. A lot of excitement there with respect to that, with respect to the diversification, the new blood. Should we also be excited about margin potential i.e., is that new business going to be margin accretive over time?

And then, I appreciated your commentary around the supply dynamic in the industry, big picture, but making national news is Trump requiring truck drivers to speak English and pass literacy tests as communication problems mount. So, curious if you had any feedback on that too. Do you think that that could be another enabler of supply out for the industry?

Derek Leathers

Yes, thank you. I mean on the margin enhancing, the answer there would be yes, for a couple of reasons. The most basic level is just as we can continue to put more trucks as a percent of fleet into Dedicated, that business is in fact profitable today. It will continue to be profitable and we're able to spread fixed cost over a larger truck count. We're also in that mix, adding trucks to existing fleets and that's always very desirable. Whenever we can add trucks to existing fleets, we already have the infrastructure in place, personnel and a large portion of the fixed cost accounted for. So, that's also exciting. So, when we think about that 1% to 5% TTS truck growth this year, that's why the heavy focus on greater density growth with existing and new verticals with new logos all gets us optimistic as we look forward.

As it relates to the movement on the English-speaking requirement, I would remind everybody it's always been a federal regulation. It's never been removed. It just simply had enforcement guidance changed in the Obama era. We at Werner have chosen to continue to keep that as a requirement as we bring drivers into our fleet. We continue to test for English proficiency. So we're in great shape, no matter where the enforcement may go from here. It is difficult to change enforcement overnight at roadside levels. It's harder than people may think. But I think if you tie it back to the core reason why that regulation existed, which was safety, then we certainly support that.

The principle behind the original regulation was that drivers need to be able to communicate to first responders at the scene of an accident. They need to be able to communicate whether others are in the cab and what cargo they may be hauling. And they need to be able to interact with and read roadside instructions. So, for all of those reasons, we are a proponent of the concept that it is a different standard than driving a private vehicle and it should be held as one. No different than pilots are required to be able to be proficient in English worldwide. So, the question mark though comes at what will change tomorrow? And honestly I think it would be inappropriate for me to guess.

I think you will see enforcement levels different around the country, but I think any enforcement leads to decisions that customers are going to have to make. Whether you have three loads stopped somewhere in the country or you've got 30, you still have freight not moving, if a driver was to be put out of service. And I think leaning in once again to well capitalized, well developed, with great training program, carriers is a place that customers can look to for that support and therefore we think that is a net tailwind as we go forward from here.

Richa Harnain

Thank you so much. Quick follow-up. Do you think that the industry does comprise a lot of non-English speaking truck drivers, just thinking about it as a potential tailwind?

Derek Leathers

Yes. I do believe there is a decent percentage of the industry that cannot communicate in English. It's very difficult for me to try to give you a number. I've done some soul searching and conversations around the industry and I think most people come back with 10% to 15%. That doesn't mean 10% to 15% of capacity leaves tomorrow because of all of the enforcement issues I've already described. But I think that is a safe kind of range or bookend of what that population may look like.

It's predominantly Latin American, but not exclusively by any stretch. And depending on pockets of the country, there are certain regions where that isn't even the predominant primary language. We again are well positioned for this. And so it's not a great concern of ours relative to our freight moving down the road. But I do think it could have some ripple effects. It's just too early to know how great of an impact it ultimately will be.

Richa Harnain

Thank you so much for all that.

Derek Leathers

Thank you, Richa.

Operator

I'll now turn the call back over to Mr. Derek Leathers, who will provide closing comments. Please go ahead, sir.

CONCLUSION

Derek Leathers

Yes. Thank you, Nick. We want to thank you for taking the time to be with us today. The freight recession is still looming and the uncertainty of tariffs and their impact across the economy remain. However, we're not deterred and our focus on continuous improvement remains. We are focusing on structurally improving Werner for the long-haul. And we have contingency plans for a variety of tariff and economic outcomes moving forward. And we'll be aggressively looking to take out costs in the meantime.

We have a resilient portfolio and a significant competitive advantage to help solve our customers' transportation and logistics needs. And again, I'd just like to close by thanking our customers to whom we are committed to serve as a trusted solution provider, as well as our 13,000 associates for their dedication as we keep America moving. Thanks again for your time today, everyone.

Operator

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