Deutsche Bank 2026 Chicago Industrials Summit
Werner Enterprises (WERN) August 11, 2026 10:00am ET
Deutsche Analyst: Richa Harnain
Werner Enterprises: Derek Leathers, Chairman and CEO, Chris Wikoff, EVP, CFO & Treasurer and Chris Neil, SVP, Pricing and Strategic Planning

Richa Harnain

Welcome, everyone, to Deutsche Bank's Industrials Conference for 2026. I'm Richa Harnain. I head up the Equity Research Transportation franchise here. So very pleased to have Werner Enterprises with us today. Derek Leathers, Chairman and CEO; along with Chris Wikoff, CFO; and Chris Neil who heads up the Investor Relations effort along with a number of other responsibilities.

Thank you for the full suite here. And yes, maybe we could jump right in, and I'll start with you, Derek. Perhaps you can start with level setting on where we are in the cycle. You seemed very constructive on your earnings call a few days ago. And so just yes, I wanted to hear more on kind of what cards the market is dealing you before we talk about specific strategies that Werner is implementing around that framework.

Let's start with the supply side. You used the term “early innings” to describe where we are with respect to some of the recent initiatives on capacity and cleaning that up. Can you just elaborate there on what makes you think we're so early, what could be next, et cetera?

Derek Leathers

Yes, sure. There's a lot there, but I'll certainly take a swing at it. We are in in the turn now versus like the pending turn. I think it's been a supply-driven turn, which is different than what we've seen historically. Usually, when these kind of tightening events happen, it's driven by upticks in demand. This one has been supply led with a lot of the attrition that's been taking place.

I used “early innings” because there's a multifaceted level of enforcement going on. I think most of the focus has been on the non-domiciled CDL and people have a belief that these will fade out over this sort of expiration time line that's been widely publicized over the next, call it, now we're down to probably more like a year to 15 months. But the reality is there's a lot more going on than that. And so, when I say early innings it’s because I'm speaking to everything from what we're seeing with - start at the beginning of the funnel, right - the schools and school networks around the country where they're actually going in and validating that these schools are, in fact, training drivers versus just issuing training certificates. They've removed about 10,000 schools from the Federal Registry already. They've closed down approaching 850, 900 schools at this point. As that school closure rate continues, that tightens supply even further, but it should be tightened if you're not actually training these drivers. By contrast, for instance, we've had 9 of our schools audited and came out of those audits with flying colors, like almost like 0 defects across the 9 schools. And so, we're comfortable that what we're doing is trying to train drivers the right way.

On the electronic logging side, which has probably got the least attention, I think that's where a lot of my earlier innings comments come from. They've stopped nearly 500 at this point, new entrants into the marketplace because the ELDs didn't pass the basic kind of sniff test of certification and they were too easily able to be edited or manipulated. They've taken many of the existing ELD providers out, but there's

a lot more that needs to happen. So, at the starting point of all this, there was over 1,000 electronic logging companies registered in the United States. By contrast, 90% of market share in Canada is done by about 9 companies. And really two to three of those companies have the bulk of that, and that's because they don't allow self-certification.

And so, as we start going down a path of more government oversight of electronic logging, which should exist in our view, seldom does this industry ask for regulation. But in this case, they need to be certifying these electronic logging devices. You're going to see a lot more capacity that's only able to operate today because of its ability to manipulate hours. The reason the market was so saturated was 10 trucks were able to behave like 15. And so, as you take those 10 trucks out, you're really taking the equivalent capacity of 15 trucks out because you can't operate with these extra hours and kind of reset your logs on a daily basis. So, it's kind of the combination of all of that.

And then other legs of that stool are things like increased interest in cabotage enforcement for the first time in many years, and that needs to exist. So, these are B1 drivers crossing the border into the U.S. By law, they should deliver, have to pick up and go back immediately to the country they came from. In reality, we know from CBP data that they were spending 21 to 27 days in the United States on average for every trip, which means they're not just hauling that trip, they're hauling four or five trips while in the country. And so, with proper enforcement techniques that are still in the early innings of rolling out, more of this will be captured. And as it gets captured and caught and therefore removed, I think the supply side tightening continues to strengthen.

And then the last statement is just all of the above is done without any real demand impetus. And I think there's a lot of positive reasons to believe that demand is going to continue - or worst case, stay stable, but the more likely case as we get into the latter half of the year is Christmas is still going to come. Peak season is still going to be a reality. You're going to see demand inflection. And when that happens, combined with increased enforcement, I think the tightening gets much more significant.

Richa Harnain

Yes. I want to get into the demand side. But just real quick, on the supply side, you talked about maybe October, some budget increases that could help the government sort of enact some of these increased enforcement actions. I know you're very much involved in that process. So, what are you hearing there? What could come?

Derek Leathers

Yes. I mean from the federal motor carrier safety side and DOT, they kind of work October to October from a budgeting perspective. So, whether it's new monies or just reallocated monies that they have access to increase their efforts. And so, I don't want to get too specific on the stats because I might misquote them. But from an order of magnitude, the budget for FMCSA is about $1 billion. FAA, I believe it's $36 billion or $37 billion, and the order of magnitude of who you have to try to manage and keep safe in FMCSA, is 10x what you have to do on the aviation side in terms of number of entities you're trying to manage and enforce compliance on. And so, they need more funding. But whether they get more funding or not, I've been assured they have the available resources, and they will only get more resources as they're able to go through this new allocation process post October, which will increase enforcement.

Richa Harnain

Okay. Very good. All right. So, let's shift gears to the demand side. On your call, you talked about like lean inventory levels in retail. I believe you characterized customer feedback generally as being fairly positive heading into the fall. So, just discuss that more - what are your customers telling you? And how are you feeling about the demand setup for Werner into peak? I know you said there will definitely be a Christmas, things like that.

Derek Leathers

Yes, because of our outsized exposure to retail, we keep a very close eye on retail inventories and what's happening at the retail level. You can't really broad brush it, obviously, because every retailer is in a little bit of a different situation. But as we look across our network of customers, what we see is that the COVID hangover is over. They've got inventories either where they want them or in many cases, even a little leaner than their long-term historical run rate. Some of that's efficiencies on their part. But regardless of that, what it really means is they're in a replenishment mode.

And so, as we see the consumer resiliency staying stronger than I would have honestly expected at this point. And you see retailers adapting to the consumers' behavior, which is to be a little more frugal, a little more thoughtful with their spend, winning retailers are winning. And that's who we do business with. We're heavily exposed in discount retail. We're heavily exposed into folks that are catering to that sort of more thoughtful, more prudent consumer. And so, we're pretty optimistic as we look into the peak.

Obviously, it's early in peak season discussions. But what we're hearing, what we're seeing, leads us to believe that we'll be back to a more normalized peak kind of activity this fall. And that bodes really well with the setup for us to be able to do what we do, which is to provide solutions at scale to retailers that are built around peak season and do so effectively.

Richa Harnain

What does that mean, Derek, normalized peak? Like what is that relative to what you had last year? How much greater?

Derek Leathers

Well, last year started to approach from a volume perspective what looked and felt a little more normal than we've seen in a few years, but the market conditions weren't right for the pricing to be reflective of how difficult peak season work is. So, in other words, it wasn't quite the opportunity to be rewarded for how difficult what we pull off is during peak season.

This season is shaping up to be more normalized in volume, but also in the pricing capabilities that we've displayed. If you go back, you have to go back to like the COVID years and even prior to see the kind of lift that's expected during peak season, based on the complexity that comes along with those solutions that we provide.

Richa Harnain

And just how does inflation influence your thinking? Like, right, you talked about how the consumer has been pretty thoughtful, but resilient. And then even on the regulatory side, inflation is becoming a hotter topic with what's happening in the Middle East, what it means to energy prices and things. Do you feel like there's any sort of hesitation from the administration to endorse some of these policies to cut capacity because they are inflationary or because it's about safety, it is getting bipartisan buy-in and you feel good about sustainability of both demand and supply in light of inflation?

Derek Leathers

Well, I think you mentioned earlier that I stay pretty close to the ongoings in D.C. And I do. And one of the reasons I do is exactly to your question. I've, early on, had some concerns that there might be some willingness or some ability or desire to trade off enforcement for what could be inflationary pressures on truck pricing or transportation pricing. The messages we've received have been loud and clear; there is no trade-off for safety, like they're unwilling to bend on anything that's safety related.

And the facts support that this has been a less safe environment over the last several years. This influx of capacity operating outside of the rules has clearly demonstrated a negative impact on safety on America's roadways. If you look at all the largest well-capitalized carriers in America, we're at 2025 or in some cases, historic lows in accident per million miles and yet the industry has shown an increase in some of these accident per million mile metrics as well as fatalities on America's roadways. That's unacceptable. And if all the largest players are getting safer and safer, yet the whole industry metric is moving up, there's only one reason that's happening, and that's because of some of this influx. So, they're laser-focused on cleaning it up, and they've shown no desire to make a trade-off, and I feel confident they're going to continue.

The last thing I would just say is I think it's a little bit overblown when people think about it from an inflationary impact because transportation, just the transportation portion of product cost is somewhere in that 3%, 3.5%, 3.7% range. So even if that number rose by 25%, you're talking about a pretty minimal impact on the cost of goods, and they've already demonstrated the ability to mitigate much larger impacts than that with tariffs and other things without it sorting through to end customer inflation. So, I think they'll get creative on their side to hold that out of the cost of goods. We deserve, need, and are going to request to be paid fairly for our services. The industry hasn't been reinvestable in several years, and it's time we have to get back to the health that we need to be able to reinvest in this business.

Richa Harnain

And on the demand side, inflation hasn't really been a problem?

Derek Leathers

Yes. I think it changes consumer behavior. We see consumers trade down in the choice of goods, but they're still - we're in the very consumer-centric, perishable nondiscretionary categories. They're going to buy that stuff. They might buy a different quality of it, but it still takes the same amount of space in the trailer. So, whether it's private label or name brand, it consumes the same amount of space in our trailer, and so we've seen volumes hold up very well with some of our core retailers.

Richa Harnain

I'm going off a few tangents because you talk really fast. So, I think we can squeeze in a couple more questions. All right. So maybe just marrying those two things, supply/demand. I mean, you're already seeing some very solid rate recovery. One-Way revenue per truck per week growth was the strongest you said in like a decade. Dedicated legacy revenue per truck per week up high single digits. I know a lot of the progress was just by like lower truck count, too, and I do want to get into that some of the company-specific stuff you're doing.

But maybe looking out, you raised your outlook for rate. What's it really going to take to get to the high end of your outlook of 5% for Dedicated? You're already at 3% in the first half. Supply/demand look poised to improve from here. Peak looks good. So, tell us, what gets you to your target, what needs to happen to exceed it? Maybe, Chris, do you want to take that?

Chris Wikoff

Yes, sure. So just to be clear, for the listeners, I think, what you're referring to, you're referring to Dedicated revenue per truck per week guide that we raised to 3% to 5%. So, you're right, for the first half of the year, we were up 3%. For the second quarter year-over-year, Dedicated revenue per truck per week was up 5% just on our organic business, given that we did have an acquisition of FirstFleet at the end of January that was all 100% within our Dedicated portfolio.

On an organic basis, we were up closer to 8% on a year-over-year basis. So, what's driving that? And how does that play into having confidence of this 3% to 5% range for the full year on a year-over-year basis? I mean one points to the contractual rate renewals, which in Dedicated, we're seeing low to mid-single-digit rate renewals. There's also a utility and a production improvement aspect that can drive up revenue per truck per week. We're seeing that both in One-Way given our One-Way restructuring that we talked about the last couple of quarters, but not just in One-Way, we're also seeing that in Dedicated, in part, given the improved density that really came with the FirstFleet acquisition, largely being more Southeast concentrated. So, with that density, which we're still settling into, given that the second quarter was the first full quarter of having that acquisition as part of the portfolio, that density allows us to utilize the assets in Dedicated just more productively, more efficiently, and in essence, able to support the same reliability requirements and same volume for our Dedicated customers with less assets. So, both of those are contributing to both the overall and the organic number that we saw in the second quarter and gives us confidence of that getting within that 3% to 5% guide for the full year.

Richa Harnain

Okay. And then just are you satisfied with like low to mid-single-digit rate renewals in Dedicated? Or do you think like just given what we're seeing in the spot market, like should we continue to expect acceleration from there?

Derek Leathers

Well, one thing I would just point out there to start is the Dedicated starting point is in a much healthier position than where One-Way was. And so, the role it can play in getting the overall back into the double-digit long-term range that we've talked about, we can push that Dedicated portfolio forward without asking

for sort of outsized increases. But understand like any of the stuff, it's an average. So, there are fleets that are absolutely in more need than that, and there are fleets on the other end of the spectrum that might be very healthy. And what we're really looking for is more efficiency in that fleet. It doesn't have to come through rate.

So, like Chris stated, you can do a lot of things with revenue per truck per week that doesn't have to impact the customer from a rate per mile perspective or rate per day perspective because we simply sweat the asset more. And we're able to do that and still get that increased revenue to the bottom line quicker. So, there's a lot of ways to move Dedicated. I know it's the hardest thing for folks to really wrap their mind around unless they're inside the business and looking at it every day. But to kind of bluntly answer your question, we're going to ask for what we need on a customer-by-customer basis, and all of that is with the aspiration to get the business back to reinvestable levels, which includes getting TTS to double-digit margins.

Richa Harnain

Okay. So that's what you meant the double-digit.

Derek Leathers

Yes.

Richa Harnain

Okay. So, let's talk about the shape of the recovery. You talked about depressed July trends. I think you said it was the second weakest month of the year. I know there's been a lot of consternation in the market around maybe the seasonal slowdown that we've been seeing. Does it feel normal to you at this point? And how do you think the back half sort of builds as it relates to momentum? When do we start to see trends kind of come back from maybe the August to the summer lows, if you will.

Derek Leathers

I think the market is very skittish right now, to say the least. And so, the reaction or overreaction to any data point seems to be at all-time highs. If you look at July, first of all, my comment about July being the second weakest month of the year was an industry comment. That's like industry-wide, if you just look through history, July is a seasonally slow month; it always has been. You come off the 4th of July hangover, everybody kind of slows down. Automotive always takes a big drop down in July, they have for decades. A lot of reasons why tonnage slows down in July.

But rejection rates are still hovering at or near 14%. I mean that's very high levels. Anything north of 10% is a very tight market indicator. Spot rates have settled some, but they settled off of a rate that increased more rapidly and to higher highs than we've seen in any of the prior cycles in terms of its pace of acceleration. So, there's always going to be a temporary moment. It's a matter of when does it come.

But I would just tell you, in our network, in our conversations, in our dialogue, there's nothing but increased momentum. There's no other indications other than increased positivity, increased momentum and probably most importantly, increased acceptance from the shipper community that this is real, and it's here to stay. Enforcement and other activities that are taking place are going to continue to keep a pretty decent lid on the supply side for a while. And as we get closer into the Fall peak, it's just going to get tighter from here.

So, there's no concerns from my perspective with some of these little snippets of news that we've seen in July.

Richa Harnain

You have a Dedicated portfolio, you have a One-Way portfolio. Are you seeing the flow go more to one place than the other? Like is there more of a drive to Dedicated given that maybe you have more long-term sort of capacity? Or do you think people are more willing to commit to One-Way and see what happens?

Derek Leathers

Well, I think this stuff happens in waves. So, I'll go back to the early innings, like in the early innings of a turn like this, the first thing you see is a tremendous amount of freight that's in the spot market or has been in the spot market that's looking to find a home in contract. And shippers are quickly trying to pull it back, rebid it, mini-bid it and get it into contract. And that's where all of their focus is because it limits their immediate pain and the immediate exposure that they have in spot. And so that's been ongoing. It's only picking up in pace. The volume of that type of activity seems to increase week over week over week.

The secondary wave is when they start to look for long-term security or long-term safety via Dedicated. And what we'll do is we'll have the same disciplined approach there that we have traditionally, which is if it's truly Dedicated, so it's driver involved, complicated freight with potentially even specialized equipment, that's the kind of stuff we want to see in land and Dedicated. It's stickier. It's long term. Once you have it, you keep it not just for a year or two, but often for decades.

The other stuff - it's One-Way business that they're trying to package up and put into a continuous move format, we have interest in that. We're going to be looking at those and bidding those. That kind of freight will reside in our One-Way network because that's really what it is. And someday, when this turn sees its way through the other end, that always gets unbundled and redistributed and put back into the spot market eventually. And so, we want to house that where we think it belongs. But we'll be disciplined there. And we're going to stick within One-Way to kind of the three big pillars of cross-border Mexico, expedited freight and then some of the verticals around pharma, medical and health care in general because those are areas that we think are closely aligned with very high service expectations, more complexity than general One-Way freight and things where we can build a real relationship over the long haul.

Chris Wikoff

And Richa, it might be worth just clarifying, particularly for the listener, I mean, the basis of your question, we have leaned more into Dedicated in terms of being a growing mix of our overall TTS business, the Truckload Transportation Services business. More recently, total TTS tractor fleet being around 8,700 trucks, but Dedicated being about 80% of them or about 7,000 trucks. So, we are more heavily weighted on the Dedicated side, particularly with the FirstFleet acquisition. So yes, rational question of where do we look to grow. We like the benefits that come with Dedicated, everything that Derek said of it just being more difficult to serve with large complex shippers, but it comes with benefits of being a more integrated partner with our customers, long-term sticky contracts, roundtrip billable miles. And there's a higher expectation around reliability, which is becoming more and more valuable right now for the shipper, but that also comes with more of a premium and just the durability of those long-term, highly integrated type of contracts and partnership.

But on the One-Way side, because of the restructuring that we've talked about the last couple of quarters, which in the second quarter was really showing some very strong proof points with raising margins over 700 basis points year-over-year, revenue per truck that I think you alluded to earlier, which surged almost 30% up year-over-year. So that's showing a lot of benefit. And in the second quarter, we were wrapping up that restructuring. Some of the slower pace of hiring just delayed some of reseating some of those trucks as we moved assets out of certain markets and into more profitable markets as part of restructuring. So, my point with all this is, even though we're more weighted on the Dedicated side, there can still be some more growth in One-Way as we continue to reseat those trucks and really settle into the post restructuring environment of One-Way, which is really showing to be a strong contributor to expanding TTS margins.

Richa Harnain

Okay. And part of that restructuring, I know your fleet count or you had 18% fewer trucks in One-Way and a lower legacy Dedicated count, too, right?

Chris Wikoff

Sequential basis, yes.

Richa Harnain

How much of that influenced the headline rate figures I referenced earlier? And just like what are the key underpinnings of why the fleets declining? When can we get to a point of fleet growth?

Chris Wikoff

So yes, the 18% of One-Way being smaller fleet, that's Q1 to Q2. So that was expected as part of the overall One-Way restructuring effort, which may have been a noisy narrative over the last couple of quarters. But again, I think the proof points have been really strong in the second quarter. So really at the core of it, what One-Way restructuring was aimed at was moving towards higher-performing freight with customers and markets that just have greater upside as the market tightens and coupled with some operational and structural changes that maximize production. So, of the about 28% increase in revenue per truck per week, about 16% of that was from production improvement, more miles per truck, longer length of haul, more team-oriented type of freight. And then the rest of it was in double-digit revenue per total mile improvement, essentially rate improvement. So really a combination of maximizing some tightening of the market, but also benefiting from some operational and structural changes.

So, does all of that contribute to those better metrics? Yes, absolutely. That was the intent, and it was a significant contributor to our ability for the overall segment TTS, for us to be able to nearly double operating margins Q1 to Q2 in TTS and on a year-over-year basis with One-Way restructuring being a big enabler to do that. The FirstFleet acquisition was highly accretive, so that helped. Also, insurance and claims being meaningfully down year-over-year, that helped. But the One-Way restructuring was a very large contributor to margin expansion in the quarter.

Derek Leathers

And the only thing I would add is to maybe get right to the heart of, I think, what you mean or what you're looking for in your question is, we didn't get that rate by just yielding off a bunch of freight because we shrank the fleet. Like that's not what happened. Some counterpoints to that would be this - like in addition to the rate that we got in Q2 year-over-year, I would point out that our length of haul actually increased nearly 100 miles or right at about 100 miles. That generally brings the rates down when you go longer length of haul, rates go lower per mile. And so that was a counterweight to the progress that we were still able to show.

But possibly the bigger thing in all of that is that as we went through the restructuring and we had to level set where we wanted our network to be and where those trucks would exist, what it forced us to unfortunately not be able to do is benefit nearly as much in Q2 from the spot market itself. So, our exposure in the spot market in Q2 was about half what it was in Q2 of the prior year. So, with half the exposure on a percent basis, even less than half on a pure miles basis, we were able to produce the 10% plus rate per mile lift.

As we've now stabilized that fleet, so we're not looking to continue to shrink it. Now we have jobs advertised in markets where we want to stay and want to be and we're able to reseat and grow from there. It becomes much more of an interesting dynamic relative to rates because you are able to, in fact, get a normalized amount of your fleet exposed into the spot market while also settling in on these new lanes and then working to find even increased productivity gains as we get better at the lanes that we are now settling into. And so, there's a lot of optimism in the building about how we can continue to tweak this going forward, but it must also begin with, the shrinking is over, like now we have to start to grow from here.

Richa Harnain

And it sounds like much more thoughtful about the growth that you target with the assets you have; you kind of referenced earlier like not all Dedicated is equal. Like you want to be in the right sort of Dedicated. Maybe talk about the competitive dynamics and the areas you want to compete in and what makes you more well positioned to win versus the competition?

Derek Leathers

Yes, sure. I mean it starts with we want to work with large enterprise-type customers that have scale, whereby if you win a Dedicated fleet at a site and you do a really good job, that organically leads to site two, three, four, five over time and you end up able to sell deeper into the portfolio.

There's more cross-selling opportunities to other products we have because you're so entrenched in Dedicated, and that's a long-term relationship. The characteristics of stuff where it's often driver involved freight. So, our driver is doing a lot more than just being a truck driver. He's actually participating at the store level with deliveries into the back room. In some cases, they have access to the delivery locations. They can do night deliveries, unattended deliveries, things like that. We like it when it's really truly Dedicated from a service expectation. So, I often say 98% in One-Way service levels will get you carrier of the year every time and it will get you fired in Dedicated and because the expectation is that much higher. And so that's harder to haul, more driver involved, more tech involved in terms of the routing and optimization to build and model these fleets. That's the kind of work we like doing. If it happens to require

specialized equipment, in many cases, even better because it's even more difficult from a capital perspective once you're in, you're able to perform for that customer for many, many years.

Richa Harnain

You still want to be heavy growth in Dedicated, or can it also be in One-Way?

Derek Leathers

Yes, I think you'll see growth on both sides of the ledger. Dedicated will be decision by decision, fleet by fleet, opportunity by opportunity. That's why it's always the hardest to put a number on where you think you'll be. I can tell you the pipeline in Dedicated is very, very strong right now. The question of what gets through the other end of the pipe based on our pickiness and our pricing discipline, that will always be a bit of a TBD, but we have multiple fleets that we know are coming or implementing in the back half of the year, and we're excited about that.

On One-Way, it's really a matter of having gone through a very difficult restructuring. And as Chris mentioned, oftentimes when you move those trucks and assets, the driver is not moving with it. And so, we lost some drivers through this process. And now we're stabilized and able to reset.

Chris Neil

Longer term, I think as Chris mentioned, we've been leaning into Dedicated more over the last decade, obviously, much, much larger. But I think Dedicated share gain over the course of the next 5 to 10 years is probably going to be significant. So, as we talk about where we're going to assets. I just mentioned that whether it's in One-Way in the short term or Dedicated, there's opportunities for both. But I think it's important as you think about the landscape to think about Dedicated being a place where there will be share gain to carriers of scale with reliability and a vetting process. I think that's something that we thought about for a while and why we've leaned into Dedicated more over the last five to ten years.

Richa Harnain

And is driver availability a gating factor coming up more and more. How is that?

Derek Leathers

Yes. I mean it's certainly going to be a tough driver market out there. There's no doubt about that. There's plenty of people that have CDLs out there. The question is, are they able to be vetted? Are they able to meet the strict safety and regulatory requirements that we're looking for in our fleet. But we're pretty uniquely positioned. I mean when you have 3/4 of the jobs you're out there trying to recruit for or in Dedicated where they're home nightly or home multiple times a week, that's an attractive job. They're also coupled with pay packages that are generally above average compared to like a One-Way alternative. And so, it's better pay, better lifestyle. So, all the way around, that's the job they're looking for. And so, we like that.

We love the fact that we've got our own driver school network that produces very high-quality drivers, and we have tons of metrics to compare drivers coming out of our schools and their safety standards and their retention, maintenance cost, everything across the board, they're coming out ready to drive and to do a really good job we put them with a trainer and we finish them with another, call it, three to five weeks of

additional oversight and training to prepare them even further. So, we know how to do this, and we know in a tight driver market that, that's something that I would call it a net tailwind. The driver market will be a headwind, but it's a net tailwind relative vis-a-vis our competitors based on some of the job offerings we have as well as the infrastructure we've previously built around our driver schools.

Chris Wikoff

And in the third quarter, the pace of hiring as well as the trend line on retention, both of those are improving in the third quarter relative to the second quarter. So that's helpful. And as those things go, so will go the fleet in terms of opportunity for growth in the second half. And as we sit here today, the TTS fleet is up versus where we ended the second quarter.

Richa Harnain

Okay. And are you seeing any sort of trend of like owner-operators in One-Way, maybe having a more difficult time, like you said, there's maybe a flight to quality almost. Are those carriers just finding it really hard to secure freight on their own and they're choosing to drive more with Werner? Is that happening yet?

Derek Leathers

Yes. I mean I think that's part of the evolution, like I talked about different waves of thinking, right? So early on after Montgomery, I found it interesting because I thought a lot of the online commentary, especially from owner-operator type community was cheering from the mountain top thinking it was awesome that this ruling came out, and I thought kind of the opposite for them. I thought I was worried for them because it's going to be very difficult to vet an individual owner-operator in this new world that we're in, post-Montgomery. And I think a more logical step is that you're going to find a lot of them looking for, when they come to that conclusion on their own, it's going to take some time. But I think they're going to need to come and find shelter inside of larger fleets and operating as an owner-operator with carriers like Werner.

We are certainly gearing up for that and have seen some early success, but it's very early and the numbers are immaterial at this point. But we want to have a welcome home for those high-quality drivers that we can bring into our own fleet, make sure that we do the additional vetting that we need, wrap them up in our own safety and other programs where they can participate and we can make sure that we're putting an asset out there we can be proud of.

Richa Harnain

And even though rates have improved, your margins are up a lot. I know you also monitor the competitive landscape quite closely. The small carriers, maybe not just owner-operators, but more like the middle tier. Are they still struggling because of like things like insurance and getting the loads? Or are they benefiting from this rate environment that now we're seeing more of a recovery in terms of financially?

Derek Leathers

Well, I think to the extent that they're able to and participate within the spot market, they're seeing some rate relief like everybody else is. But I mean there's a lot of carriers that are still in a very precarious situation after the last three to four years we've been through, many of which aren't going to make it still. And so, I

mentioned on the call that it's not just enforcement. I do think we're going to continue to see some attrition across the small and medium size because of the position they were put in for three and a half years of really kind of the Wild West out there in many respects. And so that's unfortunate. Hopefully, they can make it. I hate seeing four and five decade-old companies going under, and we saw way too much of that over the last couple of years.

Richa Harnain

All right. So, let's talk about profitability improvement opportunity. I think, Chris, on the last call, you gave us some pretty pointed thoughts on what to expect in terms of margin expansion into next quarter and year-end. Maybe remind us of what those were and discuss the key drivers of that, which are in your control, so things aside from the cycles we talked about and sort of how to think about contribution of the various items.

Chris Wikoff

Yes. First, we can talk more on a consolidated basis, and then we can talk individually about the TTS segment and Logistics. But overall, prior to the second quarter, the three quarters prior to that, so second half of last year and the first quarter of this year, consolidated adjusted operating income margins was roughly around 1.5%. In the second quarter, it doubled. It was right around 3%, so 150 basis point increase. What we said on the last call is that, that type of a trend, that zip code could be possible as we go from Q2 to Q3, so continuing to expand margins. And then as we progress through the entire second half and the rest of the year, it's our expectation that we'll continue to expand margins and be approaching on a consolidated basis, more of the mid-single digits as we exit '26 and enter into 2027. So that's on a consolidated basis, now kind of what's happening underneath that.

From a TTS perspective, revenue lift ongoing in the second half given further rate improvement from renewals, the productivity gains that we're seeing will also be helpful in terms of revenue per truck in both One-Way and the Dedicated. So that will be helpful. Some modest fleet growth from a revenue perspective. And then on the bottom line, obviously, a lot of that rate improvement and production improvement goes right to the bottom line. As we're modestly growing the fleet, particularly in Dedicated, as we add trucks to existing fleets, that comes at a higher contribution margin. So, all those help to contribute to expand margin in TTS. Plus, we anticipate second half of the year, we will have an improved gains on the sale of used equipment, a better second half versus the first half. And we have $18 million of synergies that we've targeted for the FirstFleet acquisition and the ability to expand margins 300 basis points over the course of, call it, 1.5 years, but that's well underway. It's ahead of schedule. There's $7 million that we believe we will be realizing out of that $18 million in this current year 2026, the majority of that in the second half. So, all of those are compounding for TTS and gives us confidence in our ability to continue to expand margins there. In the second half, we were right at mid-single-digit operating margins in TTS, 5.5%, and we expect to be up to the right over the next couple of quarters.

From a Logistics perspective, more pressure on margins, particularly in Brokerage in the first half of the year, just given the volatility and spike in spot rates and just the impact on our purchase transportation costs in a Brokerage environment for us that's more weighted towards contract type of freight. So, less ability to be as agile on the sell side as the purchase transportation costs were increasing at a rapid pace. We knew that was temporary. It was temporary. As we came into the third quarter, those margins were meaningfully

improving. We're talking like an improvement versus second quarter of 300, maybe upwards of 400 basis points. So, when you just extrapolate that across the overall segment, that gives us confidence of getting back to positive adjusted operating income margins in the second half. So certainly, second half versus first half will be a contributor to margin expansion just given the Brokerage margins improvement.

Unknown Audience Member

(Inaudible question)

Chris Wikoff

Yes, we've talked for many quarters for quite some time now of confidence that we have of getting back to low double-digit margins for TTS. So, your question was overall Werner, but TTS, two-thirds of our portfolio, 5.5% in the second quarter, but a pathway back to low double-digit margins at the mid-cycle. And the bridge to get there, so call it that additional 600 to 700 basis points from where we are at today is a combination of market help, meaning further rate improvement, some demand improvement in Dedicated, where we're adding trucks at a higher contribution margin and then also the improvement in the sale of used equipment and better gains, which the last several quarters, six to eight quarters, gains have been in a 40 to 50 basis points as a percentage of revenue.

But in normal mid-cycle and peak years, that's more to the tune of 150 to 200 basis points. So, gain normalization alone on used equipment could contribute 150 basis points by itself. So, all of that in kind of the market help side. But then there's self-help, what we're doing in production that should continue. What we're doing on the FirstFleet synergies that's very much on track and will continue to be more and more accretive. The cost discipline that we've shown in the past years, coupled with more technology-enabled synergies and cost savings as we go forward. When we think about our technology transformation journey, which we're well into over the last two or three years, we're later innings on kind of the build of the tech stack, but I think we're in early innings of the synergies to come from technology.

So, multiple piece parts to get there, but we've continued quarter after quarter to challenge ourselves internally on that pathway back to low double digits. And because of that, we continue to have confidence that that's where we should land at the mid-cycle.

Richa Harnain

Chris, how quickly do you think you can get there? And do you feel like mid-cycle, you said at the mid-cycle, you kind of want to be there. Do you think the mid-cycle could be more like further out because the cycle could be longer?

Chris Wikoff

I don't think we're at the mid-cycle today. I don't think we're going to be at the mid-cycle between now and the end of 2026. Could we be at mid-cycle in 2027? Yes, very possible. I think it is going to be an elongated up-cycle for all the reasons where we started this conversation of it's supply driven. That's going to continue. The enforcement is going to continue to ramp, and we really haven't even gotten into the demand side of things. Maybe that's on the horizon with where ISM has been now for 7 consecutive months and the July report that just came out being much more constructive than June and I think at a 4-year high in terms of

the ISM PMI manufacturing index. So, some constructive things on the horizon from a demand standpoint, as we said earlier, but not yet reflecting in tonnage or in freight. So, I think that's more upside as we go into 2027.

Richa Harnain

So, when would you be happy if you get to a double-digit margin?

Chris Wikoff

I would expect that there's good opportunity for us to get there in 2027. And we'll be narrowing that gap over the next five or six months, as we close out 2026.

Derek Leathers

I think just to frame that a little bit, just remind everybody that we're two-thirds of the way through the first bid cycle since the start of a turn that wasn't clearly turning at the first part of the year. So, we've got to get through a couple of cycles, but I agree with Chris. I think it's in the cards, and we've got a lot of work to do. A lot of work to do that, but I think it's in the cards in 2027. But we need to at least get through one full bid cycle and start the second one to be able to have more confidence to be able to answer that more clearly.

Richa Harnain

When do you think is the starting point on the next bid cycle officially because I know everything is kind of fluid.

Derek Leathers

Yes, it's interesting because we'll still be finishing 2026 stuff up in Q3 and Q4 and yet 2027 and not widespread, but in select cases, will already be kicking off. So, this fall, you'll already see certain select 2027 bids like coming to market. And I think the other opportunity that's just very robust right now is regardless of any of that, the mini-bid reality, the reality of people finding freight coming back to their desk that they thought was covered through prior bids that isn't actually covered because of attrition, because of enforcement, because of whatever the case may be, we're seeing a high volume of that type of activity, and I expect that will just continue as we go forward.

Richa Harnain

Were you the one that said maybe we shouldn't call them mini-bids anymore or something because they're always, it just feels like normal course of business now?

Derek Leathers

I don't think that was me, but I concur with the thought.

Richa Harnain

So maybe we touch on a lot of the topics I had on my list. But I guess on the Montgomery situation, you talked about the positive influence that's had on your business, the flight to quality. And you successfully

fought your own nuclear verdicts. I'm switching to this Lupus case, by the way, and how it's impacted CH Robinson.

You fought your own nuclear verdict in recent years. I'm sure you feel for the Robinson team. But just talk to us more about the implications for your business. You do have a brokerage arm, and it does rely on third-party operators where you don't have explicit control over that carrier safety standard. So how do you deal with this risk? And what do you think about like insurance renewals and things like that? Is that a risk for you?

Derek Leathers

It's a new world that we're dealing with, post-Montgomery and then obviously, the verdict that just took place recently. I mean the biggest thing we need to continue to focus on is making sure we have the best-in-class vetting and very significant oversight to our Brokerage operation. We're continuously evolving that. And I would just remind folks that as the technology improves, and I don't mean just ours, I mean, third-party technology that's out there improves, it's our ability to access that technology and put it to work.

And so, our ability to vet is improving all the time. We believed that the Montgomery decision was going to go the way it went. So, we had significant work underway throughout this entire year to reexamine and rechallenge whether there was any better tech that could do more for us on the vetting side. We feel like we're in really good shape, but it's a never-ending battle, like we have to continue to iterate on all of the above to make sure that we're doing the best- putting our best foot forward every day relative to vetting. In general, as I sit here today, I feel like we're in a pretty good spot, but we've got to continue to work at it.

On the shipper side, I think there's clearly been a market reaction to Montgomery and also the Texas verdict, where size matters. I talked on the call about assets matter. Assets matter, size matters. Those things matter, and they want to work with folks that not just have the safety record and the performance data that we can demonstrate to them and the vetting processes that we can demonstrate to them, but they also want the scale and the size of the balance sheet. They want to make sure that they're not working with somebody that's going to put their business at risk the first time they have an accident because there is no insulation between them and the ultimate plaintiff. Our job is to, obviously, first and foremost, and we talk about it all the time, nothing we do is worth getting hurt or hurting others. That has to be how we live and breathe every day. So, we've got to continue to try to drive accidents lower.

But when and if they happen, we've got to make sure that we've got the right structure from an insurance perspective, and we've got to make sure that we have the right ability to weather that storm and stand up and respond to whatever that tragedy might be. Yes, I do feel for CH. I do think these nuclear verdicts continue to get out of hand. And I do believe we're going to wake up in a world of $30 eggs someday if we don't get it under control. But there's a lot of work that's being done to try to figure out what is the best practice, how do we deem a carrier safe. It would be really nice if we lived in a world where an organization that exists called Federal Motor Carrier Safety Administration was able to clearly label a carrier as safe or unsafe. We're not in that world today. Like we need clarity, and we're going to continue to push for that out of FMCSA and DOT.

Richa Harnain

Any questions in the room before we wrap up?

Unidentified Audience Member

Why is Logistics still under earning?

Chris Wikoff

Yes, the margin pressure in Brokerage was the biggest factor in the first half. And so now that, that is real time correcting over the last several weeks. I mean, early into July, it was already correcting meaningfully compared to the second quarter. So that's going to be very helpful.

On the Intermodal side, which is growing double digits, but there also was some margin pressure just with some higher fuel cost that was not necessarily being passed on to the customer in the second quarter, some higher drayage costs. So those are some aspects that are now improving. So that will also help.

But overall, we're still targeting low to mid-single in terms of kind of aspirational margins for the overall Logistics segment. Just working through, and I think we're on the other side of those Brokerage margins as well as some volume drop in our PowerLink or power-only fleet, which we're in the process of building back as well.

Richa Harnain

And the insurance cost premiums rising impact?

Chris Wikoff

Well, I think they're going to rise for everybody as a whole, just like on the asset side, ours have risen modestly compared to the rest of the industry. I think it's going to be the same on the Brokerage side. We have those policies in place. I think it's the smaller carriers where they're not only going to see significant premium increases, but there's wholesale policies that they don't even have that they have to go after at a time where they're really backed into a corner and going to be forced to take a big bite in order to secure these policies to stay viable as much as possible as a small broker.

Richa Harnain

We kept you for longer than I said. But thank you so much. Thank you for being here.

Derek Leathers

Thanks for having us.