

Werner Enterprises, Inc.

Third Quarter 2024 Earnings Conference
Call

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CORPORATE PARTICIPANTS

Derek Leathers - *Chairman and Chief Executive Officer*

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 Enterprise's Third Quarter 2024 Earnings Conference Call.

(Operator Instructions) Please note, 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 third 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.

Before we begin, our thoughts and prayers are with those impacted by the recent natural disasters in the Southeast. Hurricanes Helene and Milton have brought devastation to the region, and we wish all those affected by these events a swift recovery. Many of our colleagues and customers have been directly impacted, and I want to thank our team members for providing support to those in need.

Moving to our results for the third quarter. We continue to see positive signs that we believe point to the early stages of an improving operating environment. West Coast imports have been strong, we've secured some contractual rate increases and excess capacity continues to exit, albeit at a slow pace. However, the backdrop for the third quarter remained challenging.

These positive signs were more than offset by several factors, including elevated health insurance claims, higher interest expense, pressure on Logistics gross margin and higher costs in the school network. As a result of these factors, our operating income and EPS declined slightly from second to third quarter.

The combined impact from elevated healthcare claims and driver school costs negatively impacted EPS by over 5 cents per share compared to Q2. Core sequential operational improvement would have been realized in our results if not for these headwinds. While the quarter

remained challenging, underlying data points reflect a market in transition. This is resulting in cross currents for Werner. The improvements we have been making to our business to drive long-term growth and value creation are being primarily offset by a challenging macro environment. While this is painful, it is also temporary.

We remain disciplined on executing our strategy and are continuing to improve the business for today and for the future. As we navigate through this turbulent environment, I'm pleased to report that in Q3, One-Way utilization improved year-over-year for the sixth consecutive quarter and rate per total mile inflected positive.

Strength and momentum continued in our Mexico cross border, Intermodal and Power Only services. Our Dedicated fleet size grew sequentially and revenue per truck increased. We maintained high customer retention in Dedicated, and our cost savings program progressed.

In addition, I'm pleased to report that a small group of professional drivers from our ECM transport subsidiary decertified the union's representation and decided to work directly with company management. In our ongoing effort to remain the best workplace for professional drivers, this demonstrates that our driver-centric culture at Werner is working and that it is as strong as ever.

When the going gets tough, the tough get going. And thanks to Werner's over 13,000 talented team members, their grit and determination is positioning Werner for improved operating leverage and long-term value creation as the market improves.

Let's move to slide five and highlight our Q3 results. During the quarter, revenues were 9% lower versus the prior year. Adjusted EPS was 15 cents. Adjusted operating margin was 2.9%. Adjusted TTS operating margin was 5.3% net of fuel surcharges.

Dedicated demonstrated its resiliency and durability during the quarter. Revenue per truck per week increased year-over-year in Q3 while truck count grew sequentially, and our customer retention rate remained strong at over 90%. While One-Way Truckload remains more pressured relative to Dedicated, we were pleased with another quarter of improved utilization and revenue per total mile turning positive year-over-year for the first time in seven quarters. Our pricing discipline combined with better freight options and strong miles per truck led to revenue per truck per week that increased nearly 7%.

Logistics reported adjusted operating income that was slightly positive. Gross margins were pressured while volumes declined less than 1% sequentially. Our Logistics business is a key component of our strategy. Through our Brokerage, Intermodal and Final Mile offerings, we can provide a greater portfolio of solutions to our larger customers while also expanding our reach to small and mid-sized customers.

Our Truckload Brokerage business complements One-Way trucking by assigning partner carriers to lanes that are less optimal for our own network while adding incremental revenue and earnings. Furthermore, Brokerage provides an opportunity to introduce our service product to customers in a transactional or low risk setting. After showcasing our service and capabilities and developing a relationship with the customer, our business often expands to One-Way Truckload or Dedicated.

Our continued advancement in technology is one of the key enablers of growth in Logistics with a minimal capital investment. Through 2023, we demonstrated 13 consecutive quarters of growth in Logistics. Our business fundamentals remain strong today. We've made two logistics acquisitions in recent years and have moved all of our Logistics business except Final Mile to our

Edge TMS platform. As greater demand returns, we expect improved results in Logistics through both higher rates, as well as, more volume and transactional opportunities.

In short, despite an operating environment that remains challenging, we continue to see positive signs across the business from early One-Way rate improvement to a strong Dedicated pipeline. Evidence of some market tightening response to supply chain disruptions, growing Power Only volumes, and anticipated peak volumes slightly higher than last year.

Moving to slide six, before discussing our 2024 strategic priorities, I want to spend a few minutes underlining the strength and competitive advantage of our Dedicated solution.

Werner is one of the largest, most well-respected dedicated providers in the US. With our focus on safety and service, Werner provides a highly integrated dedicated solution to large enterprise customers who look to us to service complex and hard-to-serve networks. Our ability to design, build, operate, and maintain fleets sets us apart. We solve problems and add value for our customers that view their supply chain as a competitive advantage. This has enabled us to maintain over a 90% customer retention rate.

Given the characteristics of a true dedicated model, our Dedicated business has shown resiliency through this prolonged and unprecedented down cycle. By the numbers, revenue per truck per week has increased year-over-year 26 of the last 27 quarters. And fleet size has increased year-over-year for 14 of the last 16 years.

While the overall dedicated environment has experienced greater pressure than past down cycles, we do not believe that there has been a fundamental change in the dedicated model. Rather, looking ahead, we see opportunities to preserve and grow our existing Dedicated business and to stimulate progress through vertical expansion and private fleet conversion.

With market momentum shifting back to prioritizing capacity, reliability, and service, combined with a total addressable market exceeding \$30 billion, we believe Werner is well positioned to capitalize on a robust pipeline of opportunities.

Moving to slide seven, our DRIVE framework continues to inform our decisions over the long term, representing our commitment to durability, results, innovation, values, our associates, and the environment. With two months until year end, we want to provide an update on progress towards the strategic priorities we laid out for 2024 at the beginning of this year.

When we set these goals, we anticipated a more robust acceleration of macro and industry trends in the second half of the year. While continued softness has impacted outcomes, we are making progress. Our three priorities to generate earnings power and drive value creation are driving growth in core business, driving operational excellence as a core competency, and driving capital efficiency.

Relative to our first priority, driving growth in core business, we are focused on controlling the controllables and implementing changes that position us to grow and capture operating leverage when the market inflects.

For example, we are seeing benefits from consolidating freight into a single platform. With Truckload Logistics now completely transitioned to our Edge TMS platform, and alongside progress converting One-Way trucking customers, both operations now have visibility to freight

needs of select customers. This shared visibility allows us to optimize operators executed and serviced in real time.

The synergies we are creating are already driving incremental revenue, and the benefits will only grow as more One-Way customers are integrated into the platform. Our technology stack is anchored by our in-house designed and architected Edge TMS platform, which is underpinned by a robust API structure.

This allows for seamless and real-time data exchange across other systems and winning technologies, significantly improving decision-making, operational efficiency, and scalability. This seamless connectivity results in benefits such as rate automation and optimized freight selection.

Beyond technology, we've realized other advances that are driving revenue. One-Way miles per truck and revenue per total mile are improving. Mexico volumes are growing, and Power Only revenues are also growing, increasing mid-teens year-over-year and high single-digits sequentially.

We remain confident in the roadmap to get back to our long-term target range of 12% to 17%. Pace and timing are difficult to predict, but the pathway is clear. Later on, Chris will discuss these key levers to bridge the gap to our long-term expectations.

Relative to our second priority of driving operational excellence as a core competency, we've seen advancements here also. In fact, everything we do here at Werner is done with an attention to excellence. As a recent example, Ferguson, a valued customer, recently announced that Werner received their carrier of the year in 2024 in the truckload category. We appreciate these relationships and customers that value how we approach safety, reliable service, and unmatched capability.

As communicated previously, our technology roadmap has been a key focus. In addition to the previously mentioned benefits of our business, migrating to our Edge TMS platform, several other examples illustrate progress in our technology journey, including the automation of our accounts payable processes, being close to completing the migration of our back office to workday and streamlining our internal operations and reducing the time it takes to qualify, onboard, audit, and pay third-party carriers in Brokerage. These benefits continue to advance us towards processes that are better, faster, and cheaper for the long-term.

Through Q3, we've realized \$40 million in savings through initiatives focused on innovation, leveraging technology, and further integrating and centralizing processes across our legacy and acquired businesses. We continue to invest in our future through the 5-T's, trucks, trailers, terminals, talent, and technology, all to position us well when the market turns.

And lastly, our third priority, driving capital efficiency. We reported another solid quarter of operating cash flow, and our year-to-date free cash flow is up year-over-year. CapEx spend and fleet age remain low. Despite the prolonged down cycle, I'm proud of our team's progress on these fronts. These results prove that during the ebbs and flows of market demand, we remain focused on controlling what we can. We continue to push forward with implementing structural improvements that will position Werner for success as the market normalizes.

With that I will turn it over to Chris for a deeper dive into our Q3 performance.

Chris Wikoff

Thank you, Derek. Let's continue on slide nine. Third quarter revenues totaled \$746 million, 9% lower versus prior year. Adjusted operating income was \$21.6 million and adjusted operating margin was 2.9%, a decrease of 48% and 220 basis points, respectively. Adjusted EPS of 15 cents declined 27 cents, primarily driven by a softer used equipment market, lower gains and higher interest expense combined with rate pressure in One-Way and Logistics.

Turning to slide 10, Truckload Transportation Services total revenue for the third quarter was \$523 million, down 9%. Revenues, net of fuel surcharges, declined 6% to \$460 million. TTS adjusted operating income was \$24.5 million, 41% lower versus prior year. Adjusted operating margin, net of fuel, was 5.3%, a decrease of 320 basis points year-over-year, but a 30-basis-point improvement from second quarter. Lower equipment gains drove over 40% of the TTS decline in operating income.

During the quarter, consolidated gains on sale of property and equipment totaled \$2.6 million, a decline of \$6.5 million or down over 71% compared to last year. Net of fuel surcharges and equipment gains, TTS operating expenses reflected our intentional commitment to control costs, declining modestly year-over-year and sequentially, but were more than offset by a 10% smaller average fleet size and a revenue per mile decline of 1%. Year-over-year, One-Way revenue per total mile increased 0.3% in the third quarter and was down 1.2% year-to-date.

Several TTS expense categories showed improvement in the quarter. Insurance and claims expense dropped \$3 million or 10% versus prior year. Operating supplies and maintenance and general supply expense was down \$1 million or 2%. We remain focused on producing higher operating margins and overtime, returning to our long-term TTS operating margin target range.

The building blocks to bridge the gap remain clear. They include first rate improvement in One-Way. Second, incremental growth for existing fleets in Dedicated at a higher contribution margin as we return to normalized volume, third, normalization in the used equipment market and fourth, structural improvements through technology and our cost savings initiatives.

We are seeing pockets of progress in these areas. Our focus and intentionality to influence rate lift is showing as One-Way rate improved year-over-year and sequentially during the quarter, and our cost savings program remains on track and growing.

Let's turn to slide 11 to review our fleet metrics. TTS average trucks declined to 7,414 during the quarter. We ended third quarter with the TTS fleet down 15 trucks sequentially and 9% year-over-year. TTS revenue per truck per week, net of fuel, increased at 3.5% year-over-year during the quarter and has increased year-over-year for 22 of the last 27 quarters.

Within TTS for the third quarter, Dedicated revenue, net of fuel, was \$285 million, down 7% year-over-year. Dedicated represented 63% of TTS revenue, consistent with the year ago. Dedicated average trucks decreased 8.5% to 4,809 trucks. At quarter end, Dedicated represented 66% of the TTS fleet. Dedicated revenue per truck per week increased 1.7% year-over-year, growing 26 of the last 27 quarters.

In an improving market, we remain confident in our position to return the fleet to growth, given demand improvement within some of our existing fleets and our high customer retention. Growth opportunity remains in retail while also focusing on gaining traction in other high-value verticals and hard-to-serve freight opportunities at re-investable margins.

In our One-Way business for the third quarter, trucking revenue net of fuel was \$165 million, a decrease of 6% versus prior year. Average truck count declined 12% to 2,605 trucks. Revenue per truck per week was up 7% year-over-year.

One-Way freight conditions in the quarter were similar to Q2, but there were pockets throughout the country where better freight options existed. West Coast Imports, for example, allowed us to improve our freight mix in the West. We operated some pop-up trucks throughout the quarter and had the opportunity to participate in numerous projects at improving rates. We will continue to utilize our freight selection tools while being methodical, disciplined, and proactive in transitioning our One-Way portfolio to improved rates.

After two quarters of double-digit year-over-year gains, One-Way miles per truck increased a solid 7%. Total miles decreased 7% versus prior year with 12% fewer average trucks. We are lapping strong gains in production and utility and expect year-over-year improvements will moderate.

In addition, our Power Only offering within Logistics continues to grow. Increased miles in Power Only offset the decline in One-Way Truckload miles, ultimately resulting in combined miles that were flat year-over-year.

As a carrier of scale and reach, our ability to produce similar miles with a smaller fleet is unique, and in a tighter market with better rates, the combination of One-Way production gains plus Power Only volume growth translates to improved ROI and provides more optionality for our customers.

Now turning to Logistics on slide 12. In the third quarter, Logistics revenue was \$207 million, representing 28% of total third quarter revenues. Revenues were down 10% year-over-year and 1% sequentially.

Revenue in Truckload Logistics declined 12% and shipments decreased 10%. Shipments decreased less than 1% sequentially as volumes from the existing customer base were generally steady. Intermodal revenues, which make up approximately 14% of Logistics revenue, decreased 1% sequentially but increased 7% year-over-year due to 19% more shipments. This was partially offset by a 10% decrease in revenue per shipment. Final Mile revenues decreased 5% sequentially and 17% year-over-year.

An ongoing competitive environment led to slightly lower sequential Truckload Logistics volumes and gross margins, resulting in adjusted operating income of \$0.8 million. Adjusted operating margin was 0.4%, down 100 basis points year-over-year, driven by rate and gross margin compression.

It continues to be a very competitive operating environment, which is pressuring Logistics margins in the short term. We have taken recent actions, including certain headcount reductions and implementation of other cost controls, to further lower our cost to serve. We are working to improve revenue quality, as well as building our infrastructure and technology to continue to provide industry-leading service and expertise at greater scale.

Moving to slide 13 to discuss our cost savings program. We are increasing our 2024 program again and are now targeting \$50 million. Through the third quarter, we have realized 80% of our revised full year target. We have clear line of sight on the rest of the program and expect to reach our target by the end of the year. As a reminder, these cost savings are largely long-term and sustainable.

While we have been on a journey to reduce costs during this inflationary environment over the last few years, we have continued to reinvest in the business. We have maintained a new fleet and acquired real estate in key geographies. We have also upgraded our terminal network to provide best-in-class amenities to our drivers and create more capacity to perform repairs at our locations.

And finally, we have pushed forward with investing time, energy, and capital towards our technology journey as we work to transition all business units to one TMS platform and build tools to enhance our customers' experience and greater efficiency for our associates.

Let's review our cash flow on slide 14. We ended the third quarter with \$55 million in cash and cash equivalents. Operating cash flow was \$61 million for the quarter or 8% of total revenue, slightly lower than the prior year. As expected, net CapEx continues to trend down. Third quarter was \$88 million, down \$32 million or 27% year-over-year. Year-to-date net CapEx is 9% of revenue compared to 15% for the same period last year, yet we continue to maintain a low-average age fleet. As a result, free cash flow through the first nine months of this year was \$53 million or 2% of total revenues, up 300 basis points year-over-year. Total liquidity at quarter end was \$434 million, including cash and availability on our revolver.

Moving to slide 15, we ended the quarter with \$690 million in debt, up \$20 million or 3% sequentially but flat from a year earlier. Net debt decreased \$12 million, or 2% year-over-year. Net debt-to-EBITDA was 1.6 times, driven by EBITDA margin compression. We continue to have a very healthy balance sheet, access to capital, relatively low leverage, and no near-term maturities in our debt structure.

On slide 16, let's recap our strategic priorities related to capital allocation. We continue to prioritize strategic reinvestment in the business while also being balanced over the long term between returning capital to shareholders, reducing debt and funding M&A. Through the first nine months of the year, we generated nearly \$260 million in operating cash flow. We utilized \$206 million net of used equipment sales for reinvestment in our fleet, terminals, technology, and school network. \$26 million year-to-date was a return to shareholders through our quarterly dividend. We did not repurchase shares during the quarter and, therefore, remained flat at \$67 million in share repurchases year-to-date. We have 3.9 million shares remaining under the board-approved program.

Let's continue on slide 17 and a review of our full year 2024 guidance. Our full year fleet guidance has been adjusted from being down 3% to 6% to being down 6% to 8% year-to-date. We are operating 7% fewer trucks. We see potential for a lower Dedicated fleet in the fourth quarter but expect any decline will be partially offset by growth in our One-Way fleet. Our full year net CapEx guidance range has tightened to be between \$240 million and \$260 million, with the midpoint unchanged at \$250 million.

Through three quarters, Dedicated revenue per truck grew by 1.1% year-over-year and is expected to remain within our full year guidance range of zero percent to 3%. One-Way Truckload revenue per total mile increased 0.3% in the third quarter, slightly better than the top end of our down 3% to flat guidance. We expect the year-over-year change in the fourth quarter to be flat to up 3% as we see increasing opportunity for favorable rate changes going forward.

Total gains at \$8.9 million year-to-date, including \$1.8 million from the sale of real estate last quarter. Excluding the real estate, sales of used equipment and property resulted in a gain of \$7.1 million. We are lowering the midpoint and tightening the range to be \$7 million to \$11 million.

Our tax rate was 23.5% in Q3 and 26.7% year-to-date, reflecting certain one-time discrete items in the first quarter. We are raising our full year guidance range to be between 25.5% and 26.5%. Our average age of our truck and trailer fleet at the end of the third quarter was 2.0 years and 5.2 years respectively.

I'll now turn it back to Derek.

Derek Leathers

Thank you, Chris. We continue to make progress on our near-term initiatives, structural improvements, and strategic tech investments on our path to position Werner for growth as demand returns.

The operating environment remains challenging, and while we were optimistic that the turn would occur before peak season, we are staying the course and focused on controlling what we can.

We are pleased that One-Way trucking revenue per total mile increased in Q3. One-Way miles per truck showed continued year-over-year improvement and the Dedicated fleet grew sequentially.

As a result of the intentional evolution in our business, Werner has never been stronger. We are a more diversified company and better positioned to capitalize on a market turn. We are a cycle-tested team, and our historical results demonstrate our ability to generate earnings power as the market improves and demand accelerates. Through it all, we will remain steadfast in our approach to safety and delivering best-in-class service to our customers.

With that, let us open it up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question today is from Ravi Shanker with Morgan Stanley. Please go ahead.

Ravi Shanker

Great. Thanks. Good afternoon, everyone. Can you just elaborate a little bit more on the health insurance claims and the kind of cost headwinds that you mentioned in the quarter? Just how many of these are one-time issues versus something that may sustain?

Chris Wikoff

Hey, Ravi. This is Chris. Sure, we can unpack that a little bit. Not a ton of specifics that we can really provide around it other than it was uniquely elevated during the quarter, potentially even a record for us. So that's just why we called it out in the results. Certainly, something that can be volatile from time-to-time, but this was more of an outsized level for us. So, it was about 5 cents of EPS impact, at least on a quarter-over-quarter basis, as we noted.

Ravi Shanker

Understood. That's helpful. And maybe as a follow-up, you also said in your prepared remarks that you secured some rate increases this quarter? Can you just talk about the magnitude of what you're looking at for 2025 bid season, maybe starting now through going into the peak of it in like 1Q, 2Q of next year?

Derek Leathers

Yes, Ravi, this is Derek. So, the rate increases that we've been achieving as we went through Q3, and into Q4, obviously we're addressing sort of the most under duress freight in our network first. So those numbers tend to be a little bit outsized, because that freight is freight that really needs to, at this point, either be repriced or replaced, and so there's a level of assertiveness that goes along with that ask based on the current state of pricing with certain customers in the network.

I think it's too early to try to predict what 2025 looks like. I think the next several weeks will really shape and tell us a lot about what to expect going into the formal bid season. What I can tell you is that the slow build that's been occurring in Q3 with some add-on in Q4 has been obviously somewhat impacted by the very natural disasters we opened up the call talking about, and the port strikes as well.

But even in addition to that, there is an ongoing kind of subtle tightening taking place. So, I don't want to call our shot just yet, because I'd like to understand just how much tighter it gets as we go through this peak season. But it is our expectation as we look into 2025 that the time for rates to be going up is upon us. The question is the magnitude, and I think it's too early to tell.

Ravi Shanker

Understood. Thanks, Derek.

Derek Leathers

Thank you.

Operator

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

Scott Group

Thanks. Good afternoon. I think the last couple quarters you've talked about modest sequential margin improvement, which is how it's played out. I don't know, Derek, any thoughts there on how to think about the margins Q3 to Q4? And then can you just clarify? I thought I heard that Dedicated fleet might be lower in Q4, but the One-Way fleet higher. That feels like a change from last couple quarters of trends. I just want to make sure I heard that right.

Derek Leathers

Yes, I'll start with the latter part of that question, Scott, which is relative to Dedicated. So, I think the issue in Dedicated right now as we look at Q4 is we know and have decided on a couple of final exits where we don't believe the profile fits our long-term pricing discipline or our long-term alignment relative to a couple of customers and what their expectations are.

As a result of that, but at the same time, add-backs starting to happen within Dedicated, it's very difficult to predict exactly where that fleet lands, because what happens is we're starting the early signs, and this is what you always see in the early signs of a turn, to start seeing individual Dedicated fleets adding capacity back, adding trucks back in, and they may or may not offset a couple of known exits that we've decided upon. So that's the white noise perhaps you're picking up in trying to understand what's happening there.

As it relates to One-Way, it has more to do with two things. One, proper retention of some of those quality drivers in the short-term, because our pipeline in Dedicated remains robust and so

there are temporary placements where you want to protect and preserve the relationship with some very high-quality drivers we have in those fleets.

And then secondly, but equally important, is as we go into peak and conversations we're having with customers, it's about right sizing the fleet on a very temporary basis to be able to serve our customers and really participate in kind of that opportunity to both serve, but also at more of a premium rate environment over the standard contract language where we're needed. So, we're optimistic about that. It's not a change in strategy, and it is not a long-term read-through, I can assure you.

On the first part of your question on margins, look, we're battling away every day and we've been very careful to word it as moderate. I think that's still the same theme. Chris referenced a very abnormal health insurance quarter that hit us in Q3, that's why we called it out. Absent that, the operational improvements have continued to take place. The moderate margin improvements have continued to take place. We expect to be able to continue to see that as we go into Q4. But we're early in the peak season.

The dialogues are good. Several commitments have landed, there's others still being worked, but it will be moderate because we do still have the macro, which it's hard to own the macro at a point like this in the cycle. And instead, it's going to be focusing on things like the productivity gains we've made and now being able to put those to work in a little bit of a higher-rate environment, the improvements we've made in optimization and collapsing around core customers that look at their supply chain as a competitive advantage, and then maintaining pricing discipline, which will come potentially at the expense of fleet size. But we believe that at this point, that's the right move, given that there is better times on the horizon relative to market conditions.

Scott Group

That's helpful. And just lastly, I haven't really heard anyone talk about the November 18th deadline with the Clearinghouse, so maybe it's not a big deal. But just wondering your take, Derek, if you think this matters from a capacity standpoint for the industry going forward.

Derek Leathers

I think it certainly could. It depends on how that implementation, if that implementation happens. And I think, Scott, what you're probably hearing in terms of quietness out of the conversations with fleets is a lack of confidence in where that lands, how that lands and the significance of any enforcement/implementation.

I would put it in the same category, for instance, as some tightening of visa requirements that are taking place right now relative to the southern border, that we're very encouraged by, but I'll believe it when I see it.

And so, if you go from sort of these six-month visa enhancements that drivers can get and then operate under a B-1 program, and you reduce that to potentially as short as a 10-day visa, it really puts some tightening on capacity because now they really have to do what the law says they should have been doing all along, which is to go into the country, deliver a load, and then exit. That's not what we know is happening in practice.

So, there's a couple of potential capacity catalysts or constraining catalysts, I should say, that we're pretty excited about. But, look, it's been a rough couple of years, and so we're not going to

bank on that. We're going to keep our head down, focusing on what we can improve internally, but certainly be excited if we see those things come through.

Scott Group

Thank you, guys. Appreciate the time.

Operator

The next question is from Brian Ossenbeck with JP Morgan. Please go ahead.

Brian Ossenbeck

Hey, guys. Good afternoon. Thanks for taking the question. Maybe, Derek, just to follow up on your last comment there about maybe engineering the One-Way fleet down a little bit more, just to obviously the fourth quarter you mentioned is going up, but do you feel like you're at a point, where you don't need to make any more of those adjustments to kind of drive further utilization or is it still maybe a little bit more to go as you continue to shift the mix more towards Dedicated over time as you have been?

Derek Leathers

Yes, I mean, we've said on prior calls, and I still feel this way, Dedicated as a percent of total fleet will rise further from where it's at today, most likely. We have other alternatives in the One-Way marketplace to provide our customers both with pure Brokerage, as well as Power Only. I think what they're more interested in is the visibility, the suite of services, the portfolio that we bring to the table.

But if we can create efficiencies at their dock with a unified trailer pool, provide seamless service and visibility to them along the way, that product continues to gain traction and that's why it's one of the fastest growing products in our fleet. So, as it relates to utilization, I want to be clear, these utilization miles per truck increase isn't driven by us shrinking the fleet, although obviously a smaller fleet forces more demand through it.

It really is the result of ongoing engineering and efforts with some of the tech investments we've made to be able to put trucks in the right position to maximize their miles, which both is good for the driver, it's great for the customer, because on those lanes where we do operate with our own equipment, we can further enhance both service, safety and along the way overall productivity.

So that's exciting stuff. It's also a reflection of leaning into Mexico cross-border. It's a reflection of leaning into harder to serve markets where time sensitivity is paramount. All of those things together is why we believe that's a sustainable system change that's taking place here that we can hold on to and will mean a heck of a lot more from an operating leverage perspective as rates improve and those additional miles are not such small margin miles.

So that's what gives us the excitement that we talk about a stronger foundation going into a market turn. It's those things, those operational structural improvements that have been very difficult and don't pay great dividends in a market rate structure like the one we're in today, but pay off in a significant more, a larger contribution rate as rates improve.

Brian Ossenbeck

Okay. And then thanks for that. Just another follow-up maybe on Logistics. Can you give a little bit more color in terms of what the levers of profitability you think might be out there? You mentioned a few of them, account reduction, cost controls, revenue quality. But I would assume some of that improvement on the profitability side looking to get to would probably just take more

of a stronger, less competitive market. But I don't know how much of that you feel you can get to your goal from more of those self-help levers or what really needs a stronger market to get you back to that or get you to the single-digit target? Thank you.

Chris Wikoff

Yes, Brian. This is Chris. Maybe a couple of things there. I mean, number one, I think the fundamentals in Logistics continue to be strong. We've got high customer retention there, serving large enterprise customers and there's a number of things on the horizon, near-term and long-term, that we're optimistic about within Logistics, including how we're leveraging the technology there to improve not only how we're going about serving large enterprise customers, but also the ability to gain more share with small and medium-sized customers within Brokerage.

So that's just overall, we're happy with the segment. It continues to be a competitive space, challenging, particularly within Brokerage. But there's continued strength in Power Only within the Truckload Logistics that is continuing to grow double digits and a lot of positive aspects for that. That's becoming just a greater mix of the Truckload Logistics. It's growing domestic and cross-border. And again, we're utilizing technology there to capture more overflow from assets into the Power Only business. So, I think that's positive as we go forward.

And then, there are certain actions, we've been taking actions on the cost side. Overall, year-to-date, year-over-year, the SG&A expense within that segment are down 9%, specifically around the personnel cost. Those are down 10% year-over-year. But we're obviously focused on staying positive in operating income and gradually expanding the OI margin there. So, we are taking additional actions in terms of, you know, getting further or more lean in the operations as well as other aspects improvements in Final Mile and some other actions that we are taking. So, a lot there, but we are focused on it. And long-term, we feel good about it, but also focused on what we can control in the short term.

Derek Leathers

One of the things I would just add is our tech journey has been most pronounced in the logistic space and that's where we are furthest along. Everything but Final Mile is now residing on our Edge TMS platform. We are seeing seat level productivity that gives us strong confidence that there is a lot of cap space if you will at a seat level to be able to grow revenues and grow margin over time through higher seat level contribution rates. And so, we are excited about that. We need the volume that come along with it, and we needed to make sure we didn't over cut, or build a bridge too far when we feel as though we are as close as we are to a stronger market. So when all that comes together that's something that gives us a lot of encouragement looking forward.

Brian Ossenbeck

Okay. Thanks very much guys.

Operator

The next question is from Jeff Kauffman with Vertical Research Partners. Please go ahead.

Jeff Kauffman

Thank you very much. I wanted to focus a little bit more on pivoting for growth and longer term. I guess two parts to this. Number one, the driver market and not just getting drivers but quality drivers. How long will it take you to pivot to grow, if let's say, you start to see the things you want to see in first quarter, second quarter, next year.

And then separate from that fleet planning with all the new CARB regulations and the '27 EPA out there. How do you feel about managing fleet age and your ability to navigate growth over the next 18 to 24 months.

Derek Leathers

Yes, great question. So, let's start with the driver side. First off, this is where our school network and our vertically integrated approach to developing high quality drivers is a true asset. It's one of the toughest areas over the last couple of quarters because financially, it obviously underperforms when you are shrinking your fleet or even holding your fleet stagnant. That creates a cost overhang that's real, and tough decisions have to be made. It's my belief that having to curtail that capability for short-term gain would have been a major strategic error.

We feel very good about our ability in a stronger market. If we are in a position where we need to grow, specifically Dedicated, and add to those fleets and do so in short order, not only do we get the benefit of having larger fleet and under long-term contracts and higher margin profile, but we also improve and get some self-help on the school side through greater throughputs. That network is built to produce, you know, a larger driver count than what it's being asked to produce today both for Werner and the industry.

The demand for those high-quality drivers increases kind of right alongside overall market demand and the folks coming through those schools both perform better financially because less bad debt, less other kind of other negative issues that go along with a market that maybe isn't as robust from a hiring perspective because remember, roughly half of those graduates end up at Werner but about half of them end up in industry placements. Not all driving trucks by the way but whether that be busses or other activities and across the board that demand has been off, and so we feel really good about our ability to respond from the driver side.

As far as the fleet age and all of the emission changes, I love our positioning there. So that's one of these areas that's underappreciated. It doesn't matter much when the financial results aren't where everybody would like to see them, but the fact that we haven't aged out that fleet and have a bunch of sort of fleet, you know, age debt if you will, where we got to go out and spend tons of money to refresh it and prepare it for potential emission changes puts us in a very unique position. It allows us to use CapEx to grow if growth is there for the taking, particularly on Dedicated again, I want to reinforce that, without having to have outsize CapEx just to try to get our fleet age down to where we would traditionally want it.

So, I think we are in a great position. Our testing on all of the above as it relates to different mission and hand seen technologies is at the forefront. So, we are testing electric. We have got a hydrogen beta test underway right now. We are going to know and be as knowledgeable as anyone on how we can work through that.

And then lastly, you mentioned how will tech enable us as it relates to network design and some of these emission changes. And I think us, like others, are looking at all kinds of creative solutions as to how fleets might manage which trucks and how often they go into an out of certain regions and geographies. And I think that our ongoing Edge TMS journey uniquely positions us to be able to handle that very, very well and to be able to use some of these engineered solutions to design fleets within fleets, to be able to both comply but not be over exposed to some technologies that are very much still yet to be proven. So, we will be able to manage it I think well, and I like the positioning overall.

Chris Wikoff

And Jeff, I would just add one more comment to that back to your first question around the schools and the drivers. During this down-cycle, we have increased our school network in those locations by call it about 50%. We've added several locations over the last couple of years which might sound counter intuitive in the down-cycle to be investing in that area, but it does take a couple of years to create awareness of those schools being in certain geographies. So, we've taken some of the investment and pain in doing that despite a down-cycle. And so, we even more positioned now for this up-cycle with 50% more schools in key geographies than we've been in the past.

Jeff Kauffman

Thank you very much.

Operator

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

Jason Seidel

Thanks Operator. Hey, Derek. Hey, Chris. Hope you guys are doing well. Two quick things. You talked about getting some sequential rate increases, I think, here on the contractual side. How should we think about the upcoming bid season and what do you think you guys need to get to make sure that you can secure some earnings growth for 2025?

And then my second question revolves around that \$50 million target on the savings side. You said you guys are well on the way. You said the overwhelming majority is more what you would consider permanent savings. I was wondering if you can maybe drill down a little bit on that, and just tell us how much is permanent under that \$50 million.

Derek Leathers

Yes, Jason. Thanks for the question. We are, you know, as I mentioned earlier on the call, it is too early for us to predict where the rate environment is ultimately going to land as we get firmly into the bid season. What I can tell you is that early returns have been positive. You can see that in the fact that we had our first year-over-year improvement in rate per mile in the One-Way division, in I think seven quarters. We believe we can build upon that momentum as we go into Q4. We believe that sets the stage and we've seen through recent events that we are closer to tightness than we've been in a long time. Those events being both the port strikes as well as the hurricanes and even some of the pull forward on the west coast that may have happened.

In all cases, it's driven, kind of, a sudden, immediate and relatively steep reaction in the spot market. We've seen across our network, our spot pricing now roughly equate to equal to contracts and in certain geographies now exceed contract for the first time in a long time. And so, all of that are indications of where we are at in the cycle.

As we go into this bid season, there is a clear-cut cost need. So, as it relates to cost justifying increases, that's pretty apparent and easy to do across the industry relative to how difficult this period has been. And then there is the market drivers' where we ultimately will land. I think if you look at the last couple of up-cycles, we've performed head-to-head with the sort of best performers as it relates to rate. It's our expectation we will do the same again, it's just too early to give you an exact number.

Jason Seidel

Understood and then on the cost side?

Chris Wikoff

Yes, hey, Jason. So again, just recapping, it's almost \$100 million over the last two-year period from these cost saving programs. I think you specifically were just asking about the extent that they are permanent. We've said that well over 60% of these are structural and sustainable and I think as we go forward, there will continue to be a high degree of savings that we are realizing and executing on just by their nature are structural and lasting over time.

The way that we approach this is really focusing around operational innovation, leveraging technology as well as M&A integration. So just by the nature of our process, how we go about seeking those opportunities and executing on them, how we identify and prioritize those opportunities they are just naturally areas that come from change that is lasting and permanent. That's not to say all of them are that way but for sure the vast majority are.

Jason Seidel

Okay. Fair enough. Appreciate the time, gentlemen.

Operator

The next question is from Daniel Imbro with Stephens. Please go ahead.

Daniel Imbro

Yes, good evening, guys. I want to step back a bit on the demand backdrop. I think others' discerning season has sounded more mixed on peak season expectations, but in the prepared remarks, you mentioned seeing price opportunities and some underlying improvements though. Derek, try to square that away, and square away kind of what you're seeing in the business that gives you confidence into a more normal peak season. Is that what you're hearing from your customers or kind of what you're seeing in the market? Is there any more color on why you'd sound maybe more bullish on the fourth quarter?

Derek Leathers

Yes, I don't know that I want the read through to be that I'm bullish on the fourth quarter. But as it relates to peak, I can't speak to where others are coming from. I don't know what their dialogues with their customer base is. What I know is in our customer base, we believe we're going to have both a price and volume incremental lift this peak season compared to last. Both of those things are positive. When you can put them together, they're a little more positive.

So that's exciting, but we also know, obviously, that there's ongoing macro headwinds, and peak is only a small part of the overall organization as we think about fourth quarter. And so, it's a mixed bag, right? But yes, in terms of what's the source of my statements, the source is our customers. It's our ongoing relationships that we've built over many, many years. It's their confidence in our ability to actually serve that peak and do what we say we're going to do. And it's our ability to ask for their support and gain it as it relates to the projects that we've signed up for and we'll be performing and already have begun in some cases to perform.

So, you put all that together, that's what gives us the confidence to make the statements I'm making today. But I'd be remiss if I don't remind everybody that no matter how good peak is, it is still a subset of the overall total network of Werner Enterprises. And so, I'm not saying that it's going to be some up and to the right major shift from Q3 to Q4, but it does set us up for sort of that moderate sequential improvement as we go forward.

Daniel Imbro

That's helpful. And maybe on the cash flow side, I think you mentioned you might have paused buybacks this quarter, but following up on an earlier question, you invested a lot in the down cycle, driver schools, reinvesting in the fleet. I guess into 2025, Chris, how would you expect CapEx to trend versus this year? Could that actually moderate and still support growth, or is there further investment needed if we did see a market begin to recover? And then how would share buybacks fit into the algorithm?

Chris Wikoff

Yes, Daniel, first on the CapEx side, we certainly have the optionality and capability to invest in growth, and that is how we first and foremost prioritize capital allocation is reinvesting in the business. So, where there's a need to do that, investing in growth, investing in finding ourselves in a turn and an up-cycle and needing to do that, we can certainly pull that lever and do that. I mean, it's too early to say specifically on what we expect the net CapEx to be for 2025, but certainly we will invest in growth at the appropriate time. By and large, as a percent of revenue, our net CapEx has been trending down. And we think that certainly makes sense just as our portfolio continues to evolve to be more asset light.

From a share repurchase perspective, we're pleased with the long-term value that we created with the \$67 million that we repurchased through the first half of the year. That's modestly accretive right now. Obviously, will be more accretive as earnings improve. And we have headroom in our board approved program to lean back into that when it's opportunistic.

But we continue to evaluate all of the options in terms of deploying capital across a variety of criteria, how it impacts earnings, how it contributes to our long-term strategy and all of that in the context of our leverage profile. So, we look at share repurchase, we look at M&A, where we've been active in looking at opportunities and we'll continue to be balanced in that approach as we go forward.

Daniel Imbro

Thanks so much.

Operator

The next question is from Eric Morgan with Barclays. Please go ahead.

Eric Morgan

Hey. Good evening. Thanks for taking my question. I wanted to ask about the long-term margin range in TTS. It sounds like you're still pretty confident getting back there and appreciate you outlining the drivers earlier. Just wondering if you could offer some high-level thoughts, if we sort of see an average up cycle from here, something akin to pre-pandemic, do you think you can get back in that range within a single cycle or do you think just given where your margins are running today that it could maybe take a little bit longer?

Derek Leathers

Yes. I think we're certainly not able to commit that it could be done in a single calendar year, but a single cycle whereby we see lots of drivers, why this up cycle would certainly be a multiyear event. Those drivers being some of the regulatory environments, some of the emission changes, some of the higher cost of capital, thus a little bit higher barrier-to-entry for the first time in a long time with some of the new engines and emission changes, the ongoing onslaught of sort of nuclear verdicts and the risk profile of entering this business from the outside.

There's lots of different things that make the potential for this up cycle to be a multiyear cycle. We're going to work our tails off to get there as quickly as we can, and I think the timing and pace is it's just too early in this cycle to predict. But that's why we've sort of outlined the pillars of that, both in some of the opening presentation, as well as in some of Chris' answers. Happy to elaborate on any of those if needed. But it's just a bit premature for us to give great granularity to the arrival point in that range.

Chris Wikoff

But, Eric, I would just reinforce again, I mean, we're seeing progress. As we go forward just as a market, the progress is going to be gradual. But we're seeing progress in all of those areas and that's why we have confidence as we kind of dimension each of those building blocks out, that it gets us back to that long-term range and we're holding on to that long-term range.

I mean, we've seen improvement, as we've talked already here on the One-Way side, which is probably the largest contributor of those four building blocks. So, whether you look at spot, supply chain disruption lift, some of these early contract increases that we've talked about and then just what's coming from peak season, I mean, all that contributes to rate improvement from a One-Way standpoint. So, there's progress there.

There's progress on the cost savings. It's really on normalization in that Dedicated demand and normalization in the resale market that have a bit more progress for us to start to see overall progress across all four of those pillars. But I think it's beginning.

Eric Morgan

Yes. Appreciate that. And just a quick follow-up on the guidance in Dedicated. You still have the zero percent to 3% revenue per tractor for the full year. Any way you can put a finer point on that, just given how far along we are in the year. Maybe some puts and takes that might take it up or down from here?

Derek Leathers

I think the biggest reason that it's hard to put a finer point on it is that we're in conversations and actually have started to add back into Dedicated fleets some of those trucks that have exited during the downturn. So, we've talked for several quarters about fleets that are off three to five, five to eight trucks, and it's really the pace and placement of where they add back that will determine some of that.

There are certain Dedicated fleets that obviously operate at a much higher revenue per truck per week profile, because they have higher utilization rates and others that are equally profitable, but have a much lower utilization rate, therefore, a lower revenue per truck per week. All of that goes into the soup and so it's difficult until we have greater clarity on exactly the pace and placement of those trucks to give any finer point than that.

Again, I think the takeaway is less about the percentage and more about the activity. And the activity at this point is positive that we're starting to see some of those add backs. And unfortunately, in Q4, they're countered by the reality that we have a couple of exits that we've decided to execute on relative to it not meeting our margin and long-term strategic profile that we're looking for.

Eric Morgan

Understood. Appreciate it.

Operator

And the final question today will be from Chris Wetherbee with Wells Fargo. Please go ahead.

Chris Wetherbee

Hey. Thanks for taking the question. I guess I wanted to come back to, Derek, your comments about the fourth quarter and I think you talked about it in the context of margins. Sometimes you talk about it in the context, I think, of earnings as well. I'm just kind of curious how to think about the progression to the fourth quarter.

I guess, maybe specifically, is the 5 cents sort of these extraordinary cost items that you recognize in the quarter? Is that the base that we should be thinking about? So, I just want to make sure I'm understanding, like, kind of level set, how we should be expecting kind of the progression from 3Q to 4Q in a rough sense?

Derek Leathers

Yes. I think on the 5 cents, the concern I would have there is, I think, early in the call, somebody asked, is this a one-time event? While I'd love to be able to predict the future health of all of the associates at Werner. I can't.

What I can tell you is this was a very large anomaly in terms of the small number of very large claims that occurred during the quarter. Because of HIPAA laws and other things, it's not like we have great clarity on what exactly those claims were and are they going to recur or not. It would be our belief that there certainly wouldn't be a repeat at nearly the magnitude because that's what history would tell us.

But it is one of the areas of the business that unfortunately we operate a little bit more blind than we would like just out of privacy laws, HIPAA laws and other things where we'd simply like to be able to plan for it if it's an ongoing treatment that's going to extend it further into Q4. So, I don't think it's as easy as just saying, the 5 cents will all come back and that was nothing, a one-and-done situation. But we do believe that a decent proportion of that would likely, based on history, not repeat itself. And then from there, it's just the ongoing grind of all of these operational things we've been talking about continuing to take hold, as well as a potential for a little bit of lift across the normal Q3 to Q4 peak season.

It's not yet a robust peak season. I'm not here to say that. I'm just saying in years past, we've been through a couple of years where we either had more volume but much lower price or perhaps price held up okay, but there just wasn't a lot of peak there to be had. This one is slightly up in volume, slightly up in price. So that has a good setup as we go from Q3 to Q4.

So, I guess that's about as good a clarity as I can give you at this point. And on the health side, it's just something that's an ongoing battle to try to do everything we can to maintain a healthy workforce. But usually when you see these singular claims that are very large individual amounts, it isn't related to ongoing health and wellness. It's related to some sort of unique event that took place and had to be addressed in the U.S. medical system, which is not a place that's got a low price for admission.

Chris Wetherbee

Yes. That's for sure and I appreciate that clarity. That's helpful. And I guess just one other point on the Dedicated fleet. So, I think your end of period count was above the average and I know it sounds like there's some exits that you're making. Do we think about that from the end of period for the third quarter or off of the average number on the Dedicated fleet for 4Q?

Derek Leathers

Yes, great question. I think you think about it from the end of period. I think the end of period number was actually kind of materially up from the average number, which is really an indication of two basic things. One, the landing and implementation of some new business opportunities, said differently, Dedicated is still open for business and we're still landing new accounts.

And two, the add backs that I've been referring to a few different times during the call where we're now starting to see fleets kind of return to their normal size and shape, because even though these Dedicated contracts are Dedicated in nature and binding, they do have certain levels of flexibility to ebb and flow, and as that flow starts to ebb up versus down, you get a lot of natural lift, because we have over 160 Dedicated fleets out there, and so when 2s and 3s start adding back, it really can add up to real numbers pretty quickly.

Again, those are offset in Q4 specifically by a couple of remaining exits that are still in front of us that will be happening. Those are known and it's offset by how many more add backs, as well as some new business coming in into the quarter.

Chris Wetherbee

Okay. Very helpful.

Chris Wikoff

Yes. And just to be specific, the end of quarter Dedicated fleet from end of Q2 to end of Q3 was up 80 trucks, 1.6%. And you're looking at it exactly right, it sounds like. I mean, there was a late in the quarter strong push, particularly with large enterprise customers, both expanding existing fleets as well as recognizing and implementing some new business. So that was a late push and realization late in the quarter.

Chris Wetherbee

Okay. That's very helpful. I appreciate the color, guys. Thank you.

Operator

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

CONCLUSION**Derek Leathers**

Yes. Thanks, Gary. I want to thank everybody for being with us today. Despite the difficult industry environment, we've utilized this downturn to try to bolster Werner and invest for our future positioning. It'll take time for it to fall to the bottom line, but the ongoing progress in production, revenue per truck, and now this quarter, early signs of rate inflection all lead us to better results over time.

We remain focused on sustainable cost cutting, but will not starve our strategic investments and fleet readiness or our technology roadmap or our commitment to safety and service. We'll continue to lean into our differentiators, that's Dedicated, Mexico cross-border and a stronger Logistics portfolio than we've had previously, all with an eye towards operating leverage as the market improves.

I'll close by thanking our over 13,000 associates for their dedication and commitment to our customers, and frankly, to each other throughout this difficult market. Werner is a structurally

stronger company today with a lot to be excited about moving forward. Thanks for your continued interest and support.

Operator

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