Werner Enterprises

Second Quarter 2026 Earnings Conference Call

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CORPORATE PARTICIPANTS

Derek Leathers - *Chairman and Chief Executive Officer*

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

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

Operator
Good afternoon, and welcome to Werner Enterprises second Quarter 2026 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, sir.

Chris Neil
Good afternoon, everyone. Earlier today, we issued our earnings release with our second 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, CFO and Treasurer.

I'll now turn the call over to Derek.

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

In the second quarter, we delivered 24% revenue growth and 80 basis points of adjusted operating margin expansion. Throughout this prolonged downturn, we stayed focused on safety, streamlined our operations, invested in technology and expanded our portfolio and end markets. These strong second quarter results show that our strategy is working, especially as the broader market starts moving in our direction.

The structural capacity attrition we've been talking about for several quarters is playing out as predicted. This tightness is being driven by intensifying regulatory pressure, specifically around non-domiciled CDLs, English language proficiency, and cabotage enforcement. On top of that, there has also been a sharp reduction in ELD providers, with approximately one-third exiting or having their certifications revoked. This reduction in ELD options is dismantling shadow capacity and compounding structural supply contractions.

Increased enforcement, along with the recent Montgomery verdict, has resulted in shippers and brokers taking an even more cautious view of who they do business with. That plays directly into Werner's strengths, given our strong track record and reputation, and validates our strategic direction.

Our core technology initiatives continue to progress. 100% of Werner's legacy freight is now being ingested into our single EDGE TMS platform, creating better visibility for our associates, expanding solutions for our customers, and establishing the foundation for increased automation.

We continue to see measurable benefits from AI and automated workflows across shipment, optimization, load planning, maintenance, safety, and driver recruiting. While many of these initiatives remain in the early stages, others are already delivering meaningful results in areas such as road breakdown support, carrier payments, and appointment scheduling.

Our focus is now on scaling the most successful use cases across the enterprise to drive further operational efficiencies and structural cost savings through the remainder of this year and into 2027. In short, the structural improvements and portfolio management decisions we've made over the past few years are gaining momentum.

Our ability to anticipate these supply shifts, execute our restructuring plan, and add FirstFleet to our Dedicated business gives us clear line of sight to sustained earnings growth and validates our strategic direction. We are building a leaner, more resilient portfolio that is spring-loaded for this upcycle, and we are increasingly confident in our ability to maximize fleet utilization and deliver a more pronounced step-up in our financial results as we move into the second half of the year.

Turning to slide five. Let's discuss our second quarter highlights in more detail.

In One-Way Truckload, our recent restructuring efforts over the past two quarters are delivering tangible results. Revenue per truck per week growth is the strongest we've delivered in the last decade, driven by exceptional productivity improvement, coupled with a double-digit increase in revenue per total mile.

Recently, we have been securing upper single to double-digit contractual increases in One-Way bids, in addition to ongoing yield management within the portfolio where appropriate. As a result, adjusted One-Way Truckload OI margins improved over 700 basis points year-over-year. More benefit will be realized in the second half from recent repriced business and increasing spot exposure.

Our Dedicated business remains a resilient cornerstone of Werner's portfolio. We've delivered customer retention of over 95% and been successful in securing rate increases on renewals. Dedicated bid activity has been increasing as the one-way market tightens and more shippers search for long-term reliable capacity. Dedicated bid volume in the second quarter was the highest of any quarter since 2020.

Revenue per truck per week reached the strongest year-over-year improvement since the third quarter of 2022. Overall, these results showcase the value customers place on the high service and reliability at scale that our Dedicated solution provides.

It has now been six months since we acquired FirstFleet. I am pleased to report that the business is progressing very well. Continuity with drivers, associates, and customers has been outstanding, and synergy realization is ahead of schedule. Given FirstFleet's strong service and customer relationships, we've achieved a 98% renewal rate on over 80% of the portfolio that is renewed so far. We expect similar results on the remaining fleets scheduled to renew in Q3 and Q4.

And lastly, while the spike in spot rates during the second quarter put further margin pressure on our Logistics business. We remain proactively engaged with customers and are focused on resetting to higher contract rates. As a result, we expect Logistics margins to improve as the year progresses.

As a large asset-backed brokerage company with high-quality standards and a mature vetting process, we expect added momentum from shippers looking to consolidate around larger asset-backed brokers following the Montgomery verdict.

Before Chris discusses our financial results in more detail, let's move to slide seven to summarize our current market outlook for the remainder of the year. First, while we are encouraged to see the supply-driven market recovery strengthening, as discussed in the outset of the call, the reality is that carrier exits are still in the early innings.

Enforcement efforts are continuing. And in our view, greater agency collaboration and exchange of data, combined with utilization of technology, will further accelerate enforcement from here. Long-haul truckload employment has dropped to below pre-COVID levels. Upward pressure on fuel, insurance, and equipment replacement costs will also force additional capacity off the road, reinforcing a highly favorable supply environment.

Tender rejections remain elevated relative to recent years. This, combined with an anticipation for further capacity attrition plus peak volumes, points to ongoing rate lift through the remainder of the year. And with a predominantly supply-side driven turn to this point, any demand improvement would lead to even greater market momentum.

Looking beyond some of the headline noise from such things as elevated fuel prices and interest rates, household balance sheets remain resilient but mixed. Budget pressures on lower-income consumers continues to drive value-seeking behavior, which bodes particularly well for our mix being more concentrated in discount and value retailers, grocery, and non-discretionary freight. Lean retail inventories position demand to eventually play a larger role in the recovery. While trade policy may impact restocking timing, non-discretionary replenishment provides a buffer against near-term volatility.

As expected, and previously communicated, our gains on the sale of used equipment in Q2 were lower sequentially and year-over-year. However, we continue to expect used truck values to improve in the second half of the year. Increased supply from enforcement is likely offset by OEM manufacturing constraints, aging fleets, and higher priced 2027 engines, supporting demand for high-quality used equipment.

Regarding driver availability, competition for high-quality drivers has increased. However, Werner is well-positioned given our vertically integrated Roadmaster school network. While not immune from the market environment, our Dedicated exposure offers predictable roles with frequent home time that in turn attracts top-tier drivers. We are also using AI to increase recruiting capacity and allow our teams to focus on higher-value interactions with candidates and more effectively match candidates with regional demand.

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

Chris Wikoff
Thank you, Derek, and good afternoon, everyone. We'll continue on slide nine. All performance comparisons here are year-over-year, unless otherwise noted.

Second quarter revenues totaled $934 million, up 24%. Adjusted operating income was $27.6 million, up 67%, and adjusted operating margin was 3%, an increase of 80 basis points. Adjusted EPS of $0.22 was up $0.14.

Consolidated gains on sale of property and equipment totaled $1.5 million, down from $5.9 million in the prior year period and $3.8 million in the first quarter. Lower gains negatively impacted adjusted EPS by $0.05.

Our GAAP and non-GAAP results for the quarter include certain non-recurring items, the vast majority of which relate to M&A and restructuring. 45% of the pre-tax adjustments are related to FirstFleet acquisition and 43% relate to costs in connection with our One-Way restructuring. We do not expect further One-Way restructuring expenses going forward. M&A costs will continue as a result of ongoing integration efforts, but to a lesser degree.

Turning to slide 10. Truckload transportation services total revenue for the quarter was $703 million, up 36%. Revenues net of fuel surcharges increased 26% year-over-year at $582 million. TTS adjusted operating income was $32.3 million. Adjusted operating margin net of fuel was 5.5%, an increase of 270 basis points in spite of significantly lower gains. Excluding gains in both periods, operating income margins improved 370 basis points.

The year-over-year improvement was driven from accretive results from the addition of FirstFleet, profitability improvement in One-Way Truckload, and lower insurance and claims expense for our legacy business. After an impressive 45% year-over-year decline in the first quarter in DOT preventable accidents per million miles, we realized a similar year-over-year decline in the second quarter. As a result, insurance and claims expense was at its lowest level since the third quarter of 2024, excluding FirstFleet and excluding the one-time benefit last year related to the reversal of a 2018 nuclear verdict.

Our ongoing decline in preventable accidents is a direct result of deliberate actions and upgrades across our business. We've made ongoing investments in tech-enabled safety tools and equipment that give our drivers and our fleet and safety leaders more actionable insights so they can identify and manage risk earlier. We've also enhanced our driver training, safety programs, and onboarding experience that sets high standards from day one. By equipping our drivers with better equipment, tools, and training, we are building a safer, more efficient fleet.

Our fleet metrics are on slide 11. TTS average trucks totaled 8,712 for the quarter, a 16% increase. The TTS fleet ended the quarter at 8,695 trucks, down 4% sequentially. Truck additions from FirstFleet were offset by slightly lower legacy Dedicated trucks and fewer One-Way trucks.

Within TTS, in our Dedicated business for the second quarter, trucking revenue net of fuel was $434 million, up 51%. Dedicated represented 76% of TTS trucking revenue, up from 64% a year ago. At quarter end, the Dedicated fleet was up 2,110 trucks from where we started the year, a 44% increase from year-end with the addition of FirstFleet. Dedicated average trucks increased 44% year-over-year and 10% sequentially. Dedicated represented 80% of the TTS trucks at quarter end.

Dedicated customers are expanding existing fleets, and we continue to have success with customers in new verticals. Dedicated revenue per truck per week rose 5.4% this quarter, though impacted by the addition of FirstFleet in the mix. On a standalone basis, Werner's legacy Dedicated fleet delivered an 8% increase year-over-year due to better productivity and higher contract rate renewals.

In connection with FirstFleet, we have realized over $3 million in savings year-to-date, resulting in over 100 basis points of margin improvement. We've implemented actions representing approximately $9 million in annual cost savings of which over $7 million will be realized in 2026, exceeding our earlier target. We are on track toward our total synergy goal of $18 million.

In our One-Way business for the second quarter, our strategic restructuring plan is driving tangible results. Trucking revenue net of fuel decreased by 16% to $138 million. As Derek already mentioned, One-Way adjusted operating income margin in the second quarter grew more than 700 basis points year-over-year as a result of the double-digit increases in several key metrics.

Revenue per truck per week increased 27.7%. Miles per truck increased 15.7%. And revenues per total mile increased 10.4%. With approximately 60% of the One-Way portfolio repriced in the first half at higher rates, we expect further bottom-line benefit in subsequent quarters.

From a fleet size perspective, Q2 represented our first full quarter following the conclusion of our One-Way restructuring efforts. Average trucks declined 34% year-over-year to 1,736 trucks. Sequentially, the average fleet reduced by 18% and was down 386 trucks.

Increased driver hiring constraints has limited the speed and pace of driver rehiring after we repositioned assets as part of the restructuring efforts. More recently, our pace of hiring is improving, coupled with deliberate driver retention tools and initiatives.

Overall, our One-Way truckload operation is more profitable, more productive, and more specialized in geographies of choice. One-Way is now contributing nicely to TTS margin expansion. And given the surge in One-Way revenue per truck per week of nearly 28%, TTS also experienced outsized revenue per truck per week growth, increasing 9% year-over-year, the largest quarterly increase for TTS since the third quarter of 2018.

Logistics results are shown on slide 12. In the second quarter, Logistics revenue was $212 million, representing 23% of total second quarter revenues. Revenues decreased 4% year-over-year but increased 8% sequentially. Truckload Logistics revenues, which represented 72% of total Logistics revenues, decreased 10% on 29% fewer shipments, partially offset by 26% higher revenue per load. Mix change between Truckload Brokerage and PowerLink was also a driving factor on year-over-year revenue. Brokerage volumes were lower due to actions to protect yield, while downward pressure persisted in our PowerLink fleet. Higher purchased transportation costs reduced segment gross margin by 260 basis points.

Truckload Brokerage bore the greatest margin pressure due to the pace of buy-side rate volatility. April and May were the most challenging. June gross margins improved and represented the highest margin of the quarter. While Truckload Logistics revenues declined and margins were pressured, revenues in Intermodal and Final Mile grew double-digits. Intermodal revenues, accounting for roughly 16% of the Logistics segment, rose by 18%, driven by a 17% increase in load volume and a 2% increase in revenue per load.

Final Mile revenues, which comprise the remaining 12% of the segment, increased 14% year-over-year and 13% sequentially. Adjusted operating margin for the Logistics segment was negative 1.3%, a 400 basis points decline driven primarily by the gross margin pressure in Truckload Logistics.

Let's review our cash flow and liquidity on slide 13. In the second quarter, we generated very strong operating cash flow, which enabled us to retire nearly half of the additional debt we took on in the first quarter as a result of the acquisition of FirstFleet.

Operating cash flow was $85 million, up 84% year-over-year and comparable to the first quarter of this year. Our second quarter net CapEx was a net proceed of nearly $10 million. As a result, second quarter free cash flow was $94 million or 10% of total revenues. Similarly, on a year-to-date basis, net CapEx is a net proceeds of nearly $8 million and free cash flow is $176 million or 10% of first half revenues.

Net CapEx for the first half of 2026 was nearly $66 million lower year-over-year, primarily due to several largely one-time factors, including selling more equipment and buying less following our One-Way restructuring, modest incremental use of operating leases, and declining technology-related capital spending as we near completion of building the technology stack for our future.

Total liquidity at quarter end was $657 million, including $57 million of cash on hand and $600 million of combined availability under our credit facilities. We ended the quarter with $841 million in debt, consisting of $48 million in assumed low-cost capital leases from the FirstFleet acquisition and $793 million on our credit facilities. Net debt decreased $86 million sequentially and is up $111 million from a year earlier.

Covenant-defined pro forma net leverage at the end of the quarter was two times, including pro forma synergies and trailing 12 months of FirstFleet results. We continue to have a strong balance sheet, access to low-cost capital, and no near-term maturities in our credit facilities.

Let's turn to slide 14. When it comes to broad capital allocation decisions, we will remain balanced over the long term, strategically investing in the business, returning capital to shareholders, and maintaining appropriate leverage. With the acquisition of FirstFleet, our focus in 2026 will continue to be on integrating the business, gaining momentum on realizing $18 million of targeted synergies, and enhancing value.

On slide 15, let's review our guidance for the year. We are updating our guidance to reflect the significant productivity improvement that we are realizing with our assets. At the same time, there are currently fewer quality drivers available across the industry. As we go into the second half, we will continue leaning into productivity enhancements while also ensuring we maintain an excellent driver experience.

Dedicated revenue per truck per week increased 5.4% year-over-year and is up 3.1% year-to-date compared to the prior year period. We are raising our full year guidance from a range of flat to up 3%, to up 3% to 5%. We have been successful securing low to mid-single-digit increases in contract renewals for both our legacy dedicated fleet and the FirstFleet business, while asset productivity has improved with greater density from the addition of FirstFleet.

One-Way Truckload revenue per total mile guidance for the third quarter is up 10% to 13% year-over-year. Second quarter was up 10.4%. We expect ongoing pricing improvement as more contract renewals become effective and as peak projects and freight surface later in the year.

We are revising our full year average truck fleet guidance from a range of up 23% to 28%, to a range of up 16% to 18%. A portion of our previously anticipated growth in the second half is likely delayed beyond year-end, in part from further production gains across TTS, coupled with a slower pace of driver hiring. Average TTS trucks ended the quarter up 3% sequentially and increased 16% year-over-year.

We are raising our full year 2026 net CapEx guidance from $185 million to $225 million, to $215 million to $250 million. The average age of our truck and trailer fleet at the end of second quarter was 3 years and 6.3 years, respectively. The higher CapEx will accelerate fleet modernization and reduce average age of our tractor fleet. The increase also reflects a strategic pre-buy of certain 2026 model year tractors ahead of the 2027 emission standards. These investments are expected to improve reliability, lower repair and maintenance costs, enhance driver satisfaction and customer service and support higher equipment gains in future years. Our effective tax rate in the second quarter was 27.3%, including certain discrete items. We are maintaining our full year 2026 guidance range of between 25.5% and 26.5%.

Regarding other modeling assumptions, we expect net interest expense this year will be between $40 million and $45 million. We anticipate increasing demand for quality used equipment and expect increasing resale values through the end of 2026, given OEM production constraints and the evolving regulatory backdrop that will be an incentive towards high-quality used assets. We are narrowing our anticipated gains on sale of used equipment and revenue-generating assets for the year from a range of $8 million to $18 million, to a range of $10 million to $14 million. Our gains for the first half of the year are $5.2 million.

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

Derek Leathers
Thank you, Chris. In the second quarter, we saw a clear improvement from the actions we have taken. We're are seeing early signs from the recovery beginning to translate into our result and we are certainly not taking our foot off the throttle when it comes to continuing to drive improved results through the remainder of the year and into next.

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

QUESTION AND ANSWER

Operator
(Operator Instructions)

The first question will come from Bascome Majors with Stephens. Please go ahead.

Reed Seay
This is Reed Seay on for Bascome. You mentioned talking about getting, I think you said low to mid-single-digit increases on your Dedicated business. Did I hear that right and why is that not moving higher as we move through the rest of the year? Thank you.

Derek Leathers
Yes, Reed. When we talked about low to mid-single-digit increases, we were talking about Dedicated contract renewals, if that's what you're speaking to, relative to what we're seeing from a price perspective. We did raise our guide on Dedicated revenue per truck per week from the prior guidance, which was flat to 3%, up to 3% to 5%. We are seeing progress in both Dedicated and One-Way. But I guess if you have a more specific question, I could certainly speak to it. In general, the market continues to strengthen and cooperation with customers relative to securing reliable, sustainable capacity are ongoing.

Reed Seay
If we could just touch on the impact from the latest court ruling when C.H. Robinson was ruled an employer of a carrier that they employed. Can you talk about how you expect that to impact your Logistics business and where that could go in terms of cost, and how that could impact the market as a whole?

Derek Leathers
Yes. I guess I'll start by saying, given that they have ongoing litigation and have already talked about an appeal, I don't want to get into the weeds on their case, as I'm not an expert. I will tell you that the verdict that took place in that particular case, the verdict amount I'm speaking to, simply shines yet another light on kind of the risks that are out there. We in advance of Montgomery, the original C.H. ruling, in advance of that case and the Supreme Court had doubled down our efforts on our vetting processes, our carrier qualifications team, and the use of kind of a trilateral set of systems that we use to vet carriers to put ourselves in the best possible position. We're going to continue to lean into compliance everywhere we can, and solid vetting from a customer perspective.

I think the response is varied. Most customers do view this as a legitimate risk and a concern that's at the forefront. We've seen conversations convert quickly from price to quality and reliability. That bodes well both for our asset business, as well as, we continue to try to lead from the front on the Logistics side relative to our vetting processes. So, there'll be ongoing dialogue, I think it's going to become interesting as this all continues to play out. Obviously, I have heartburn with the verdict itself, just given the margin level business that we're in, both in Logistics and in Truckload, and the amounts that continue to increase verdict after verdict. But right now, my focus is on this organization and making sure this organization is putting forth a high-quality product and doing everything we can to put safety at the forefront.

Operator
The next question will come from Eric Morgan with Barclays. Please go ahead.

Eric Morgan
I wanted to ask one on supply. Derek, you noted we're several quarters into the regulatory enforcement actions. I think we're a year or so since we first started hearing about English language proficiency. But you said we're still in the early innings, I know you ran through a few of the initiatives being pursued by the regulators. But I guess I was curious if you could provide some thoughts on what the remaining innings might look like from here, and maybe like how material is what's to come relative to what we've already seen. And yes, I guess just what that means for pricing in the market?

Derek Leathers
Yes, sure. I'll take a swing at that. So, we're about a one-year anniversary, really, since ELP became front of mind. And in that year, the conversation started around English Language Proficiency. Predominantly, that's led to out of service violations and 27,000 plus drivers now being put out of service for various violations of English Language Proficiency. But it quickly advanced to what I'm referring to as it relates to more technical approaches. When you start now looking across the landscape of 550 fraudulent CDL schools being shut down at this point, nearly 10,000 CDL schools being removed from the registry, 700 plus high-risk carrier investigations that have taken place over the last 12 months, and then just overall and more widespread enforcement and honestly, just acknowledgement of how significant the problem is.

What lies in front of us is the ability for FMCSA to have better inter-agency cooperation agreements in place with CBP and others. The ability to layer technology on top of what is largely up to now been kind of a boots on the ground approach, and instead use technology. The new MOTUS system, which has had some interruptions in its launch, but still is a huge step forward from what we had before from a carrier registration perspective. And just the fiscal reality of the government operates on October-October budget, and we know that there's some funding available as they renew that budget this October to bring more resources to bear. All of that collectively just paints the environment that it's circling the wagon, so to speak, on bad actors out there.

It needs to be done. The motoring public deserves that level of enforcement. We're going to continue to be a highly compliant carrier and do everything in our power to lower accident rates, even after having just posted a really strong first half of the year from an accident per million miles perspective. But I think you're going to continue to see folks shut down. Just looking at the 700 plus high-risk investigations as an example, 400 plus voluntarily agreed to cease operations, 60 to 70 more were shut down actively by the government. 3,200 visa revocations as they look now at the B1 visa issue and some of the cabotage stuff that's tied to that. And there's just ongoing efforts relative to auditing CDL issuance and making sure things are done in compliance with Federal Regulations. So, it's going to be a build, it's going to continue to build from here. I think third inning-ish right now is where we're at. And there's still going to be significantly more capacity removed from the road between now and the end of the year. And frankly, it'll probably take into the early parts of next year.

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

Mike Triano
Hello, guys. This is Mike Triano on for Tom. So, you mentioned Dedicated bid activity is at multi-year highs, but drivers seem to be kind of constraining and pushing out that growth to 2027. So, just wondering if you're seeing like the pipeline of trainees in your driver school network pick up at all just since the beginning of the year. And then I guess, related to that, I guess, how does potentially raising driver pay address this issue?

Derek Leathers
Yes. Thank you for the question. Dedicated bid activity is very robust right now. We want to be careful and selective. We want to make sure it's truly Dedicated; driver-involved multi-stop kind of work that stands the test of time. It isn't just a capacity play trying to look for shelter in a very turbulent One-Way market. As we do that and work our way through that, we also have to work with our current customers, relative to repricing, where repricing is the right answer, to make sure we can guarantee that ongoing supply of capacity that we're providing. So far, those

conversations have gone well. We've also raised our guide relative to revenue per truck per week. That's driven a lot by backhaul opportunities, the ability to eliminate more empty miles, and some of the density that came with the FirstFleet operation.

On the driver question, clearly, qualified driver hires are more difficult. As we look forward, that market is tightening. Our schools are playing an active role in producing high-quality drivers into the network. When I say ours, I mean both our vertically integrated Roadmaster schools as well as our tier 1 collection of schools that we work with around the country.

We've also ramped up efforts relative to experienced hires and seen some benefits on that front relative to the lucrative type of jobs we already have within our walls. One of the advantages of being 80% Dedicated is those don't just pay better, but they often have better lifestyles associated to them as well, and repetitive kind of routes that drivers really covet.

And so, we're making more inroads with some of the experienced driver population as part of the solution. And then where applicable, we're working with customers, and again, 80% of it is Dedicated, so we work directly with a customer in a one-to-one relationship on targeted driver pay increases, where that's the right answer. But lifestyle still matters.

Quality of equipment still matters. And basically, the confidence in the job being one that gets them to and through the home with high levels of frequency matters a great deal. And so, we've got the right kind of jobs to be positioning in the market today, and we're going to continue to lean into that.

Mike Triano
Just to follow-up on the Dedicated fleet growth. Is there any amount of contemplated in the full year guide for second half, just in terms of sequential growth from 2Q?

Chris Wikoff
Overall, Mike, I would say for the TTS fleet guide, there is some modest fleet growth that's in that number. Obviously, we've pared back the average year-over-year fleet from the previously 23% to 28% to the 16% to 18%. So, there's still some lift to go in that number. Part of what's bringing that down is a combination of seeing some incremental production gains across the fleet, not just from the One-Way restructuring, but also in Dedicated, which has favorable bottom-line implications. Essentially providing same level of reliability and service to Dedicated customers with fewer assets, particularly with the added density from FirstFleet. But also, as you're alluding to, the slower pace of driver hiring has also brought that down.

As a reminder, with the One-Way restructuring, we had to reposition some assets into different geographies and therefore reseat drivers all at a time when the labor market is tightening. And so, it's really a delay of growth, not a lost opportunity, as we can make some further headway with recruiting retention efforts, which is getting more positive in the third quarter relative to the second quarter. That will lead to more fleet growth through the end of the year and into 2027.

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

Matt Milas
Hello, good afternoon. This is Matt Milas on for Bruce. Thanks for taking the question. I guess to start with respect to demand, curious how the freight trends progressed throughout the quarter, April through June, and whether it's strengthening perhaps into July, whether you see

any customers pulling some freight forward due to tariffs or inventory rebuilding, and to what extent customers are preparing for a more robust peak season this year relative to years past.

Derek Leathers
Yes, Matt. Throughout the quarter, we saw freight continuing to strengthen. Obviously, there are some events that took place in Q2, like Roadcheck and some other enforcement activities, that caused even incrementally tighter markets for periods of time. But in general, everything has been continuing up and to the right relative to overall tightness. I would remind people that July is normally the second weakest month of the year after only February. And so, some of the slight drawback you're seeing in some of the macro data base at this point is not of any concern from our long-term outlook. We still see internally, both with our core customers as well as opportunities in the transactional market, a lot of strength right now. It's still predominantly, we believe, supply driven, meaning contraction of overall capacity, but customers' optimism as they look into the fall at this point is fairly positive.

We work with a lot of discount and non-discretionary type retailers. That stuff tends to turn quickly and get replenished quickly. Inventory levels across the retail space are in pretty good shape, meaning they're no longer bloated. They're either at or below expectations in most cases. So, we know replenishment is going to continue. That also gives some insulation against some of the tariff noise that we faced in 2025 when tariffs were kind of on again, off again, and people were trying to react and at times built excess inventories as a blanket or an insulation to that phenomenon.

Right now, they don't have that luxury. They're going to have to replenish in order to keep store shelves stocked. And we're positioned well to be able to support them as they go through that. Peak season overall is shaping up right now, positively. Those dialogues will continue, obviously, over the next couple of months. And we expect a more normalized peak season this year than we've seen in years past, through a combined impact of both the supply and then later in the year, the influx of demand into the equation.

Matt Milas
Great. That's good color, Derek. Thanks. And then secondly, on the FirstFleet integration, I know you mentioned that the process has gone very well, including some valuable density gains. Can you tell us where you are versus the original synergy targets and I guess whether there's been anything unexpected, both to the upside or downside throughout the process, related to costs or revenue retention, anything like that?

Derek Leathers
Yes. I'll start and I'll turn it to Chris for some detail. But I'll just tell you, I'll start with the big picture. Like every time you do an acquisition, there's always some risk relative to culture, quality, and just, is the team what you think that you're getting along with the deal. All of those things have been very, very positive. It's a great organization led by great people that have similar commitments to safety and service above all else, similar to Werner. We have found the integration, from a culture perspective, going as well as anything we've done to this point. Both teams are committed. We talk the same languages. We have similar profiles with our Dedicated density. And so, it's been really a positive impact I would say to the joint organization, if you will.

On the overall synergy targets in our opening, we talked about being ahead of schedule relative to where we thought we'd be at this point. I'll turn it to Chris. He can give you some details on where those are coming from and kind of why we feel good about the synergy target.

Chris Wikoff
Yes, just as a reminder, we've talked about the $18 million of synergy target over 18 months, and that would equate to a 300-basis point margin expansion for FirstFleet, which would bridge the gap between the FirstFleet adjusted operating income margins compared to our organic Dedicated fleet. So, we're making very good progress in that regard. In the second quarter, we increased FirstFleet margins by over 100 basis points. We did that through $3 million of realized synergies. We've actioned synergies that we believe will equate to $7 million to be realized in the current year 2026, or $9 million on an annualized basis. So, we've actioned effectively half of that $18 million target. So, things are going very, very well. We've said before that this acquisition was accretive from day one.

And in the second quarter, it was a top contributor to the EPS year-over-year growth as well as the TTS margin expansion alongside improved insurance and gains and alongside the benefits that we realized from the One-Way restructuring.

Operator
The next question will come from Ari Rosa with Citigroup. Please go ahead.

Ari Rosa
Hello, afternoon, gents. So, you guys mentioned there are fewer quality drivers out there. I'm curious just if you could talk about the dynamics between the driver pool for One-Way and the driver pool in the Dedicated market. Has the driver pool in Dedicated actually shrunk? It seemed like, or at least others have suggested that a lot of the kind of low-cost capacity or low-quality capacity was more in the One-Way market. Just talk about those dynamics, if you would.

And then Derek, maybe your views on how the cycle plays out. I heard you say we're just in the third inning, but what are your thoughts on kind of capacity coming back into the market or what it would take from a kind of wage increase standpoint to draw people into the industry such that we might start to worry a little bit about kind of supply in the normal cycle taking hold?

Derek Leathers
So, thanks for the question. On Dedicated, I want to be clear, these are the kind of jobs that drivers covet, and so there's only one driver pool. Obviously, it's a collective driver pool where people are tugging every day to pull them from One-Way to Dedicated to private fleets, and we're all fishing in the same ponds, essentially. But the jobs they want are those Dedicated jobs with high quality of life and the compensation levels are commensurate also with it being a premium job with premium expectations. So, I like the positioning we have in a market that is becoming tighter on quality drivers.

The reality, though, is that because it is all one pool, when the One-Way market is as hot as it is right now and when spot rates are doing what they're doing, you do see the normal kind of transition where some folks that have been driving as a company driver maybe want to go out and become an owner-operator again and chase spot rates for a while. And so, there's going to be a lot of give and take on this. Our focus is continuing to build larger quantities of higher quality, long-term career-type jobs. Our driver pay is actually right now in really good shape. We've got a significant amount of jobs in our network in Dedicated and other places where drivers can earn six figures. We have jobs across our network where if we need to make targeted pay adjustments, we will.

But again, in Dedicated, those are negotiated with the customer alongside us. So, if we have difficulties getting that done, then that's a more strategic discussion as to, in a limited asset world, where those assets need to be deployed. We need to have that discussion in a very professional way and hopefully find agreement. So, we'll continue to work to do that. The driver schools play a major role in producing high-quality drivers, especially our Roadmaster network. We see better compliance, better retention, better maintenance and better service records with drivers that are coming out of our Roadmaster school or any of our tier 1 schools that we work with in a partnership basis. So, we've got a lot of solutions in place. We're open-minded to pull on various levers.

As Chris mentioned earlier, as we get into Q3, we've seen the momentum of some of the initiatives that were previously put in place really starting to build, both on driver retention as well as driver hires.

Ari Rosa
That's great. Thanks for that color, Derek. Six figures sounds pretty nice. Just for a second question, if I could, I know somebody asked about some of the nuclear verdict impact and not asking you to opine on C.H. Robinson or anyone else, really. I'm just curious to hear your thoughts on the broader market. Where do insurance costs go? I mean, I think I, like a lot of people were alarmed at the size of the awards being given out. Just give your thoughts on if that's standard, if that's the new normal, if juries are seeing those kinds of numbers as appropriate. What has to happen with insurance costs and how do carriers, how does the industry adapt?

Derek Leathers
Clearly, there is significant pressure on insurers in terms of how do you quantify and try to develop an actuarial for some of these outsized verdicts that are coming out on carriers, because we are working diligently every year to continuously lower the frequency of accidents. And if you look at all the major carriers, which also tend to be the ones that get pursued in these cases, they're all at 20, 25, or all-time low in accident rates. So, the efforts are working. We are making America's roadways safer, and we're focused on it every day. When you cover millions of miles a day over the nation's highways, there will be the accidents that happen. And so, the question is, when do we get more reasonableness in the room as it relates to making sure that we do everything we can to prevent an accident. When accidents do happen, we also try to do the right thing, lean into it, and come to a reasonable outcome.

Where does it go? I think it puts increasing pressure in places that people don't talk about as much. I think small brokers, I'm not sure how they survive the onslaught of this kind of world that we're in today. I worry about the backbone of the industry, honestly, which is the one truck, two truck, five truck carrier. I'm not sure how we, over time, continue to try to vet and utilize what is some of the strongest capacity out there in terms of quality if the new normal is that we've got to have entire safety departments and safety directors and other things inside these organizations, when in fact, what they bring to the table is 20, 30 years of driving history, and they're quality people.

So, all of us are having to navigate this. Where does it go from here? I think it's yet another lid on capacity. To go back to the original question that I failed to answer about how do I see the cycle playing out? It's a tough time right now to try to grow into a good market. I don't think you're going to see a lot of that. I think we've got EPA emissions and engine changes around the corner. They're going to keep a lid on capacity growth. I think we've got a whole lot of margin improvement that needs to take place across the entire industry to make the industry re-investable before we start talking about trying to grow our way into added trucks. I think we have a driver market that is very difficult right now. And will stay that way for the foreseeable future as everybody continues to increase their hiring standards, increase their vetting standards. My only hope is that we don't end up with good drivers being left on the outside looking in because of how stringent everybody's trying to become. We have to be careful, we have to be prudent, but we also have to be willing to give people the opportunity to enter a career that at this point, can become very, very lucrative and not be carrying $200,000 of college debt along with it.

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

Ravi Shanker
Great, thanks. Afternoon, guys. Derek, I'm going to ask you a similar themed question in two parts. The first one is, do you think this cycle is going to be structurally different than usual for Dedicated versus One-Way, just given the extreme capacity reduction we're seeing? Do you expect shippers to kind of fairly significantly pivot towards Dedicated as we get deeper into this up-cycle?

Derek Leathers
I think there are some subtle differences. Tying back to the previous question, I think shippers are probably having some very soul-searching conversations right now about what their own risk tolerance is, given the size of some of these verdicts. And the idea of private fleet conversion is probably more enticing right now than it's ever been. I think that's one thing that's probably a little different. I think in general; we see in every tightening cycle a whole lot of capacity fleets being entertained by shippers where they try to build a Dedicated RFP, but it's really One-Way freight just moving around in a quasi-repeatable manner. We'll be careful with those. It doesn't mean we don't do those fleets, by the way.

It means that we look for how to put them in the home they belong, which should be in One-Way because that's ultimately where they're going to end up when this cycle ever ends up on the other end and capacity may become loose again. I think structurally the cycle is different. Just fundamentally some of the things I've already talked about. Early innings of some of the enforcement stuff that I think will continue over the next couple of years. I think the engine issue is real. Having yet untested engines right around the corner, I think, causes people to be extremely cautious about how many of those they're going to want in their fleet in the short term until we have opportunity to test and prove these new technologies.

I think the driver market; there's no signs on the horizon that you're going to see a sudden influx of folks coming to the rescue. And so, there's a lot out there that does make one feel structurally a little different. But we're way early in this turn for me to be talking about longevity of the turn. But I would just tell you the setup is different than ones I've seen historically. The fact it's supply driven is certainly a different setup right out of the gate.

Ravi Shanker
Got it. If I can ask you the same question on the brokerage side as well, you've addressed Montgomery a couple of times already, but just to kind of nail the point home, are you seeing any signs of shippers moving away from asset light towards asset heavy in a post-Montgomery world, and what does that mean for your mix of business and resources between Logistics and the asset heavy side?

Derek Leathers
Yes, the answer to that is a clear yes. Assets matter. Assets are going to continue to matter. Having quality drivers in those trucks and quality assets on the road is going to matter more than ever. We're going to continue to lean into the programs that we have in place. I'd like to remind everybody, we did a pretty significant structural reset that we now are concluding, and that reset came at certain costs, but it has long term benefits. The cost in the short term was the fleet shrank more than we would have probably liked based on the geographies of where that equipment and those drivers were located versus placing them into the dense lanes with specific focus that we've been talking about for some time, which is cross-border Mexico team expedited and engineered lanes. The benefit is clear.

We're talking about increases in both rate per mile that are relatively unprecedented as well as on utilization. The utilization is a sustainable move, we believe, and we're going to continue to try to push utilization even further through these engineered efforts. So now that the reset is complete, it's our job to build upon it from here. So, yes, there will be some growth, but if we can continue to grow miles on existing assets, it both is more beneficial to the bottom line, but it also gives those drivers in those trucks more money in their pocket. And so, these drivers are being utilized, and staying busy now and eliminating empty miles now in ways that directly benefits them. And so, it's a win-win all the way around. It was just very difficult to get to this point. I'm happy it's behind us, and now we can look forward more optimistically with both a better market, but equally important, a better network setup.

Ravi Shanker
Super helpful. Thank you.

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

Scott Group
Thanks, afternoon. So, I just want to understand a little bit the lower fleet guide, but the higher CapEx guide, and especially with, I think you said you're doing pre-buy, but I thought EPA is getting pushed out a little bit. And then maybe just to marry into this conversation to follow up with that last question about customers preferring assets, and maybe trying to grow the fleet. Maybe this is out of left field, but do you ever think about growing the owner-operator fleet as more of an asset light way to grow the fleet going forward?

Derek Leathers
Yes. So maybe reverse order, but that's not out of left field, and it is something that we're leaning into more closely as we go forward. We think there's some very high-quality owner-operators out there that could benefit from being part of our network, and we are going to work to grow that aspect of our fleet. As we look forward, we'll be prudent about who they are. We're primarily focused on fleets and fleet owners bringing multiples of trucks on board via our owner-operator program, and we do think that that has legs. As it relates to the raised CapEx, really ties back to something that's been a central theme of the call. In a tightening driver market, I want to make sure our fleet is in the best possible position as we enter 2027. The fleet age is up a little bit right now.

I'll remind everybody that the FirstFleet acquisition alone moved the fleet age by three tenths of a year. We knew that we were going to have to work through that bubble as we go forward. We've decided to take some bigger bites quicker in the back half of the year so that our fleet's in the best possible position. That CapEx increase is predominantly replacement with a little bit of what I would call fringe pre-buy. Nothing like pre-buys of the past. And so, I was concerned that there might be an overreaction to the statement. But the simple reality is the OEM network this year is going to basically build at capacity somewhere very close to replacement level, and that'll be it. And so, we are going to partake in a little bit of hedging against the new engine.

You are right, there's some, I would call it more relief than a delay, Scott. There's relief from the new engine as it relates to the non-compliance penalties and some other things that have been talked about. But sooner or later, it's still coming. And so, the longer we can exist with known technologies at known pricing and freshen our fleet a little bit along the way to create a more attractive environment for the driver population, the better. So, it's an all of the above, really, justification. And really, that CapEx move is pretty minor and still represents even at its new level, roughly 8% of revenue. So, it's not outsized by any stretch.

Chris Wikoff
Yes, and Scott, maybe just to give a little bit more color on that. So, this accelerated and higher CapEx, it will also accelerate bringing the average age of that truck fleet down to targeting closer to mid-2s by the end of the year. Getting even further lower throughout 2027 is the goal. Obvious benefits on that of improving reliability, favorably impacting the P&L with lower maintenance or repairs, higher gains, and then, of course, favorability with driver retention. Derek mentioned that this isn't necessarily an outlier, even though it's a lift from our initial guide. We still expect to be free cash flow positive for the full year. And as a percentage of revenue, this will be still upper single digits, which is more consistent with our recent trend and well below the trend from years past of, call it, 10%-13%, so a lot of good reasons for doing it.

Also, just to mention that last question on owner-operator, I would just say the high side of that 16%-18% full year guide on the average fleet growth. The higher side would include not only a better pace of driver hires, but also adding some of those owner-operators to the fleet. Then, at the high side and beyond, also potential for some Dedicated fleet wins of size, where there's an incumbent driver pool that we can vet and onboard more quickly.

Scott Group
Very helpful. And then, I know you don't like to get too specific around sort of margin guides, but any directional color about how to think about truckload margin Q2 to Q3, and when you think Logistics gets back to profitability?

Chris Wikoff
Yes, sure. So just some, maybe broad color, as you say, without us getting too specific. I mean, overall, we would view earnings growth to be at an accelerated pace in the second half, in terms of both adjusted operating income as well as EPS growth. Revenue being steady with some modest incremental TTS fleet growth lift, more trucking revenue given the rate lift and production gains. Truckload Logistics revenue to be steady, the focus there is more on yield and margin focus, and ongoing momentum in Intermodal and Final Mile. From an adjusted operating income standpoint, going from the first quarter to the second quarter, we improved overall consolidated adjusted operating income margin by about 150 basis points.

We would see a similar trend continuing Q3 and into Q4, moving towards mid-single digits, given some of the rate and production momentum in TTS, as well as higher gains and the Logistics gross margins improving as we move forward, interest expense likely lower in the third quarter, given lower debt, elevating again in the fourth quarter, given some of the higher CapEx guide that's largely going to be weighted, obviously, towards the end of the year.

Derek Leathers
Scott, the only thing I'd add to all of that is that Logistics, just to remind folks, we have an outsized exposure in the temperature-controlled environment in our Brokerage unit. Obviously, second quarter had a lot going on, both overall capacity, but also just external weather events in terms of basically the heat that swept the country. So, a lot of the temp protect, temp control type of freight does come at a higher cost. But most importantly, it was one of the capacity sources that was most difficult to procure during the quarter. We saw gross margin improve every month of the quarter in Q2, and so we would foresee getting that stabilized into Q3 and moving forward from there.

Chris Wikoff
Yes, and furthermore what we're seeing very recently in July, particularly in the Truckload Brokerage, is a gross margin per load that's reflective of what we were seeing almost a year ago. So more specifically, that's about a 300 to 400 basis points lift in gross margin versus what we were seeing in the second quarter. With the Truckload Brokerage being about 50% of the segment, that could lead to a, call it, 150 to 200 basis points of margin lift as we go forward now that we're getting on the other side of this margin pressure.

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

Jordan Alliger
Yes, hello, just a couple quick ones. I know you were talking about productivity miles per truck sustainable, obviously, pretty big order of magnitude in the second quarter. Can you maybe give some thoughts or help on the shape of that? Are we talking about sort of a continuation of the year-over-year trend we just saw? And then, I might have missed it, but I know you were talking about fleet growth, I think, beyond this year. And I didn't quite catch your thoughts on Dedicated versus a resumption in potential growth on One-Way, sort of on an apples-to-apples basis looking ahead. Thanks.

Derek Leathers
Yes. Let me start on the production front. The utilization gains we made are directly related to the restructuring that we've just been through. So, the focus on three key legs of the stool in cross-border Mexico, team expedited, and engineered lanes allows us to build the density required to be able to really put these assets out there and use them productively. It benefits our drivers, it benefits our customers, and obviously, over time, it continues to fall to the bottom line. We think that we can sustain the gains that we've made. Obviously, we're not going to see the same slope of the curve as we go forward that we've seen up till now, just because that is a order of magnitude type gain year-over-year that is pretty unique in the industry. But we're excited about some of the progress we've made, we believe we can still do a little bit more on that front.

As it relates to the second part of the question, in a lot of quarters, we've been pretty specific about whether it's Dedicated or One-Way. I think I would caution against that this quarter because the reality is we're in the midst of conversations with customers. We're seeing large scale, kind of mini bids and rebids of routing guides that have blown up. We are being revisited by customers that maybe felt that the approach we took originally wasn't the right answer for them and now realize the value in it. So, we're going to be open-minded. I think the reality is you'll see the opportunity for some marginal growth both in One-Way and Dedicated. We know that we have multiple Dedicated fleets implementing in the third quarter, we also have conversations that are yet to be resolved with a few customers in Dedicated. So, we'll have to work through those.

We are still honoring the contractual terms of contracts that we have with our customers. We're trying to stand by our customers. What you've seen from a rate perspective wasn't an example of Werner going out and defaulting on agreements with customers and chasing spot rates. But rather, it was sort of the old-fashioned way, just finding ways to sweat the assets better, to re-engineer and design and restructure our network so that it operates more efficiently, working through contractual rate increases with our customers.

And then honestly, a big component of it is yielding off the bottom where we couldn't come to resolution. Our spot rate exposure right now is no greater this quarter than it was the same quarter a year ago. As we go forward, we think the opportunity to kind of cement more arrangements into the network that can continue to increase yield are in front of us, and that's why we've changed our guides both in Dedicated and One-Way relative to revenue per truck per week and rate per mile on the One-Way side.

Operator
The final question will come from Chris Wetherbee with Wells Fargo. Please go ahead.

Rob Salmon
Hello, it's Rob on for Chris, and appreciate you guys for squeezing us in here. Could you give us a sense in terms of, Derek, you had just been alluding to this a moment ago, the utilization improvements in the second quarter. It's very rare that we get teens utilization improvements. Was this all tied to the restructuring, or would you attribute some of it to the broader market and some of the AI initiatives? Just curious about your thoughts there.

Derek Leathers
I think it's a mix of a lot of things, obviously. The restructuring is certainly the big horse pulling the wagon, so to speak. What we've done there with a laser focus is try to, in a time when basically One-Way had become, not just competitive but unsustainable, in its form over the last few years. We made the decision to build something that we think will be sustainable long term. As part of that, that caused some short-term pain, as I've talked about, with restructuring of assets and moving of assets and actually shrinking the fleet into a more dense designed network. The good news is that work is behind us. That does lead to the predominance of what you've seen. But clearly, along with that, you have an improving market, which allows better freight choice.

And often that means nearer and better price freight choice, to align with that new network. It gives better focus to our sales teams and our account management group, and our operators to be able to stay in the lanes and stay focused where we know that we're going to be able to be competitive long term and so all of that goes into the mix, to be able to create that utilization gain. We think it's sustainable as we move forward, and we're going to continue to tweak the model.

And speaking of models, tech certainly plays a role in it as well. Our ability now to be able to look at our network and do analysis and optimization days in advance versus sort of same day does create better outcomes. And I would remind people, although we're in the latter innings of some of the tech investment and implementation of the new tech, we're in the early innings as it relates to the realization of the benefits of that technology. So, we're pretty excited as we look out into 2027 and beyond what this technology can do for us. But we still got a lot of work to do to realize its full benefit.

Chris Wikoff
Rob, the only thing I would add to that is, obviously it's a change in the freight mix that led to that productivity improvement, moving towards more team-oriented freight, but also a longer length of haul. And you may have noticed that we did increase, year-over-year, the average length of haul in One-Way by over 100 miles or almost 18%.

Rob Salmon
Yes, which makes the rate improvement that much stronger.

Chris Wikoff
Exactly.

Rob Salmon
When we kind of factor it all in, can you give us a sense in terms of One-Way margins, where we are today relative to kind of historical average cycle margins and kind of where that compares to peak margins?

Chris Wikoff
Yes, we can, Rob. One-Way is positive. It's profitable, a significant margin improvement year-over-year. We alluded to a couple of different times of being over 700 basis points of margin expansion in One-Way. When we look at TTS margin expansion year-over-year as well as frankly the EPS growth year-over-year, there was three big pillars, big contributors of that.

One-Way and the margin expansion being one of those large pillars along with the addition of FirstFleet and how that's been accretive to the portfolio, and then lower insurance and claims. So, it was a big contributor in the quarter. We expect that to continue. Everything that we're talking about here today, the rate lift, the production gains, higher performing freight in geographies of choice, more optionality, that will continue to contribute very well to further expanding margins, in the third quarter and second half.

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

Derek Leathers
Yes, I just want to say thanks for joining us today. While the freight market recovery continues, the supply environment is clearly tightening, and in the early stages, as I stated earlier. Continued capacity attrition and a greater focus by shippers on service, safety, and financial stability all play to Werner strengths. We are well positioned to serve our customers and convert an improving market into sustained earnings growth. Our second quarter results demonstrate that the actions we've taken to structurally improve Werner are translating into stronger performance. We're encouraged by the progress we made this quarter, but we know there is more opportunity ahead. We'll remain focused and disciplined on execution, delivering outstanding service and safety, realizing the full value of FirstFleet, and building on the momentum across our business. So, to close, I just want to thank you for spending time with us today.

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