

Werner Enterprises (WERN)

\$38.73 (As of 01/17/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

Summary

Shares of Werner have underperformed its industry in a year's time due to headwinds like escalated debt levels, softness in freight demand and weak pricing. Weak freight demand has been hurting the company's performance over the past few quarters. Werner expects one-way truckload revenue per total mile to either have declined up to 3% or be flat year over year in 2019. Additionally, high capital expenditures are limiting its bottom-line growth. Further, Werner continues to struggle with driver shortages. However, we are impressed by the company's efforts to reward its shareholders. Werner's cost-cutting measures to combat the sluggish freight scenario are also appreciative. Initiatives to modernize its fleet are encouraging as well. To improve operational efficiency, Werner is investing in new trucks and trailers.

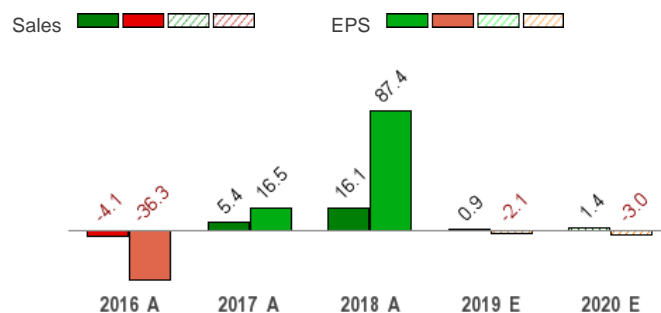
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.21 - \$27.27
20 Day Average Volume (sh)	373,473
Market Cap	\$2.7 B
YTD Price Change	6.4%
Beta	1.19
Dividend / Div Yld	\$0.36 / 0.9%
Industry	Transportation - Truck
Zacks Industry Rank	Bottom 6% (239 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.0%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	02/05/2020
Earnings ESP	-3.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	579 E	625 E	628 E	641 E	2,513 E
2019	596 A	628 A	618 A	634 E	2,479 E
2018	563 A	619 A	630 A	646 A	2,458 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.40 E	\$0.57 E	\$0.61 E	\$0.67 E	\$2.26 E
2019	\$0.52 A	\$0.63 A	\$0.57 A	\$0.61 E	\$2.33 E
2018	\$0.38 A	\$0.61 A	\$0.66 A	\$0.75 A	\$2.38 A

*Quarterly figures may not add up to annual.

P/E TTM	15.7
P/E F1	17.1
PEG F1	1.4
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

Overview

Werner Enterprises, Inc. is a transportation and logistics company founded in 1956. Headquartered in Omaha, NE, the company is primarily focused on transporting the truckload shipments such as retail store merchandise, consumer products, grocery products and manufactured products. It is believed to be one of the largest companies in terms of total operating revenues. The company operates mainly under two segments — Truckload and Werner Logistics.

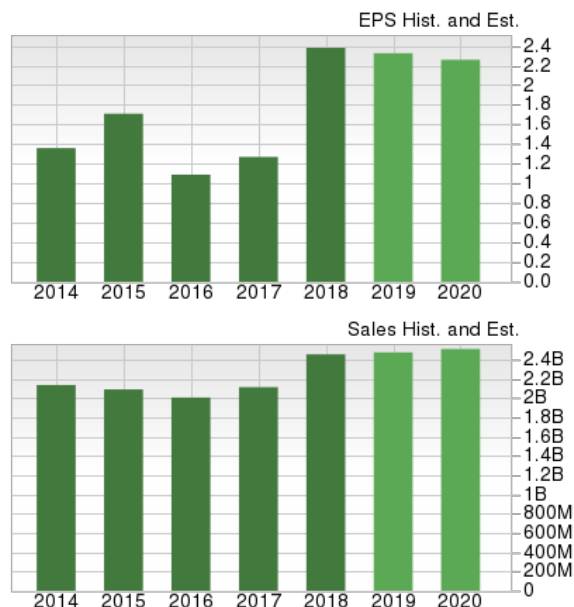
Truckload

The truckload segment consists of Dedicated and One-Way Truckload. Dedicated offers truckload services by catering to the needs of a specific customer. Meanwhile, the One-Way Truckload comprises medium-to-long-haul van (Van) fleet, expedited (Expedited) fleet, regional short-haul (Regional) fleet and Temperature Controlled fleet. The medium-to-long-haul van transports various consumer nondurable products and other commodities while the expedited fleet delivers timely truckload services. The regional short-haul fleet provides truckload van service across the United States. Meanwhile, the Temperature Controlled fleet renders truckload services for temperature-dependent products using temperature-controlled trailers.

Werner Logistics

The Werner logistics segment is a non-asset-based logistics service provider. The segment operates under five units: truck brokerage (Brokerage), freight management (Freight Management), intermodal (Intermodal), Werner Global Logistics international ("WGL") and Werner Final Mile ("Final Mile"). The Brokerage segment completes customer shipments utilizing contracted carriers while Freight Management provides single-source logistics management services. The Intermodal unit offers rail transportation services conjointly with rail and drayage providers whereas the Werner Global Logistics international offers management of global shipments. Meanwhile, the Final Mile caters to home and business deliveries of bulky products.

During 2018, Truckload revenues accounted for 76.5% of the top line while Werner Logistics constituted 21.1% of the total revenues. Other sources of revenues accounted for the balance. At 2018-end, the company's Truckload unit had 7,820 trucks while the Logistics unit had an additional 40 intermodal drayage trucks. The company's financial year coincides with the calendar year.



Reasons To Buy:

- ▲ Werner's efforts to add shareholder value via dividends and shares repurchases are commendable. The company has a consistent track record of paying dividends since 1987. The last dividend hike was in May 2018 when it raised the quarterly dividend by 29% to 9 cents per share (36 cents annually). With regard to buybacks, the company repurchased 1.3 shares for \$42.3 million during the first nine months of 2019. In 2018, it bought back approximately 2.1 million shares worth \$72 million. As of Sep 30, 2019, it had 4.3 million shares remaining under its current buyback program.
- ▲ Werner's cost-cutting measures to combat the sluggish freight scenario are appreciative. While the company identified expense savings of \$10 million in the second quarter, the same increased to \$15 million in the third. Approximately, \$10 million of these savings are expected to be realized in 2019 itself. A further uptick is expected in this regard, going forward. Additionally, the company is believed to be witnessing improved efficiency and higher productivity on the back of its software advancements.
- ▲ The company focuses on investing in new trucks and trailers to improve its operational efficiency and reduce fuel costs. To this end, it aims at maintaining a relatively young fleet of trucks and trailers compared with the industry's standard. As of Dec 31, 2018, the average age of its truck fleet was 1.8 years compared with 1.9 years at 2017 end. The average age for its trailer fleet was 4.1 years in 2018 compared with 4.7 years as of Dec 31, 2017. With consistent efforts for fleet upgrade, as of Sep 30, 2019, the average age of the company's truck fleet was lower than the industry standard at 1.8 years, flat year over year. For 2019, the company hopes to maintain the average age of its truck fleet at 1.8 years (or near this level) and that of the trailer fleet at 4 years (or near this level).

Werner's cost-controlling measures to combat the sluggish freight scenario is encouraging.

Reasons To Sell:

- ▼ Slowdown in freight scenario since the beginning of this year is quite worrisome and has been hurting revenues and margins, significantly. As evidences, Werner successively reported lower-than-expected earnings per share and revenues in the second and third quarters of 2019. Results were hurt by the softness in freight demand and weak pricing. The trend is likely to have continued in fourth-quarter 2019 as well. Detailed results will be available on Feb 5. With weak freight demand at the company's one-way truck load unit, it anticipates one-way truckload revenue per total mile to either decline up to 3% or remain flat year over year for full-year 2019.
- ▼ Although Werner is benefiting from the latest software advancements, its operating costs associated with these technological developments are denting the company's operating margins in the short term. Additionally, the company continues to struggle with driver shortages amid tight labor market conditions. We are also concerned about Werner's increasing debts. As an evidence, long-term debt (net of current portion) at the end of third-quarter 2019 was \$275 million compared with \$50 million in 2018 end. Additionally, its debt-to-equity (expressed as a percentage) of 25.8, is above the industry's average of 20.1. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt.
- ▼ As the company invests heavily in new trucks and trailers, capital expenditures are always on the rise. Notably, capital expenditures totaled \$349 million in 2018 compared with \$198.8 million in 2017. Although these expenses are focused on the company's long-term growth prospects, it is important to note that such high expenses have the potential to hurt bottom-line growth. For 2019, it expects net capex to have been at the lower end of \$275-\$300 million range. Albeit lower than the 2018-level, the projection remains high.

Weak freight demand is a major cause for concern and is affecting revenues and margins significantly.

Last Earnings Report

Earnings Miss at Werner Enterprises in Q3

Werner reported third-quarter 2019 adjusted earnings per share (excluding a penny from non-recurring items) of 57 cents, missing the Zacks Consensus Estimate of 60 cents. The bottom line also declined year over year. Results were affected by softness in freight demand and weak pricing.

Total revenues of \$618.3 million also lagged the Zacks Consensus Estimate of \$624.6 million and decreased 1.8% year over year primarily due to lower fuel surcharge and logistics revenues.

Operating income (adjusted) came in at \$54.16 million in the reported quarter, down 11.6%.

Moreover, adjusted operating margin dipped 90 basis points (bps) to 8.8%. Operating expenses decreased marginally to \$564.91 million.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.02%
EPS Surprise	-5.00%
Quarterly EPS	0.57
Annual EPS (TTM)	2.47

Segmental Results

Truckload Transportation Services (TTS) segment's revenues of \$480.4 million slipped 1% year over year. This downside was due to 1.5% decrease in average revenues per truck and lower fuel surcharge revenues. Adjusted operating income declined 13% to \$49.7 million in the quarter. Additionally, adjusted operating margin contracted 140 basis points (bps) to 10.3%. Adjusted operating ratio also deteriorated 140 bps to 89.7%.

Werner Logistics segment's revenues grossed \$121.3 million, down 6% year over year. Segmental results were hampered by weak intermodal volumes due to delayed peak season and increased truck capacity. Operating income too plunged 37% to \$3 million in the quarter under discussion. Further, operating margin fell 120 bps to 2.5%. The "other" segment accounted for the remainder of the top line.

Liquidity

As of Sep 30, 2019, the company had cash and cash equivalents of \$14.35 million compared with \$33.93 million at 2018 end. Long-term debt (net of current portion) totaled \$275 million at the end of the third quarter compared with \$50 million at 2018 end.

2019 Outlook

The company anticipates truck growth at the lower end of 3-5% for the current year. However, truck growth is not expected in the fourth quarter of the year. Meanwhile, one-way truckload revenue per total mile is anticipated to either decline up to 3% or be flat year over year. The company expects gains on the sales of equipment at the lower end of \$18-\$20 million. Effective tax rate is predicted at the lower end of the 25-26% band. Net capital expenditures are estimated at the lower end of \$275-\$300 million. The company hopes to maintain the average age of its truck and trailer fleet either in the range of 1.8-4years or near this level.

Recent News

Dividend Update – Nov 22, 2019

Werner's board declared a regular quarterly cash dividend of 9 cents per share, payable to shareholders on Jan 21, 2020. of record as of Jan 6. The company has paid dividends every quarter since July 1987.

Valuation

Werner Enterprises shares are up 16.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Transportation sector are up 17.1% and 11.2%, respectively, over the past year.

The S&P 500 index is up 23.8% in a year's time.

The stock is currently trading at 17.05X forward 12-month price-to-earnings, which compares to 20.03X for the Zacks sub-industry, 13.35X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.51X and as low as 10.48X, with a 5-year median of 16.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 18.04X of forward 12-month earnings.

The table below shows summary valuation data for WERN

Valuation Multiples - WERN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.05	20.03	13.35	19.2
	5-Year High	31.51	25.09	16.98	19.34
	5-Year Low	10.48	13.24	10.46	15.17
	5-Year Median	16.18	17.88	13.11	17.44
EV/EBITDA TTM	Current	6.28	9.43	8.07	12.38
	5-Year High	12.61	23.44	11.11	12.86
	5-Year Low	4.08	5.75	5.97	8.48
	5-Year Median	5.09	8.43	7.41	10.67
P/S F12M	Current	1.06	1.52	1.16	3.57
	5-Year High	1.36	1.57	1.44	3.57
	5-Year Low	0.7	0.79	1.03	2.54
	5-Year Median	0.92	1.18	1.23	3

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (239 out of 254)



Top Peers

ArcBest Corporation (ARCB)	Neutral
Hub Group, Inc. (HUBG)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Marten Transport, Ltd. (MRTN)	Neutral
Schneider National, Inc. (SNDR)	Neutral
XPO Logistics, Inc. (XPO)	Neutral
Heartland Express, Inc. (HTLD)	Underperform
Knight-Swift Transportation Holdings Inc. (KNX)	Underperform

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	WERN Neutral	X Industry	S&P 500	JBHT Neutral	KNX Underperform	SNDR Neutral
VGM Score	B	-	-	B	B	B
Market Cap	2.68 B	950.25 M	24.65 B	12.22 B	6.40 B	4.19 B
# of Analysts	9	4	13	10	8	7
Dividend Yield	0.93%	0.38%	1.73%	0.91%	0.64%	1.01%
Value Score	B	-	-	B	C	B
Cash/Price	0.01	0.03	0.04	0.01	0.02	0.12
EV/EBITDA	6.44	6.44	14.11	12.03	7.00	6.01
PEG Ratio	1.36	1.63	2.08	1.31	1.20	8.47
Price/Book (P/B)	2.52	2.45	3.39	5.57	1.14	1.91
Price/Cash Flow (P/CF)	6.87	7.20	13.81	11.73	7.54	7.40
P/E (F1)	17.14	18.91	19.19	19.71	17.95	17.88
Price/Sales (P/S)	1.08	1.08	2.69	1.33	1.27	0.85
Earnings Yield	5.84%	5.19%	5.21%	5.07%	5.57%	5.57%
Debt/Equity	0.26	0.26	0.72	0.59	0.15	0.14
Cash Flow (\$/share)	5.64	4.98	6.94	9.77	4.98	3.20
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	11.09%	11.09%	10.56%	12.15%	2.66%	NA
Proj. EPS Growth (F1/F0)	-2.87%	9.43%	7.57%	19.00%	-1.82%	4.51%
Curr. Cash Flow Growth	29.53%	43.50%	14.73%	33.00%	145.02%	28.69%
Hist. Cash Flow Growth (3-5 yrs)	9.10%	11.52%	9.00%	12.27%	15.83%	NA
Current Ratio	1.31	1.31	1.24	1.29	1.29	2.19
Debt/Capital	20.52%	22.67%	42.99%	37.09%	12.84%	12.20%
Net Margin	6.95%	5.46%	11.14%	5.46%	7.80%	3.58%
Return on Equity	15.02%	13.93%	17.16%	28.45%	7.99%	11.12%
Sales/Assets	1.17	1.52	0.55	1.70	0.62	1.29
Proj. Sales Growth (F1/F0)	1.41%	2.13%	4.16%	6.92%	-1.05%	0.34%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	0.16%	-0.42%	0.27%	-4.24%	-1.42%	-0.38%
1 Week Price Chg	2.83%	0.08%	0.39%	1.75%	1.72%	1.30%
4 Week Price Chg	6.61%	1.98%	2.95%	-0.73%	4.89%	9.28%
12 Week Price Chg	2.22%	-2.39%	7.76%	-0.93%	-0.48%	4.55%
52 Week Price Chg	21.33%	8.58%	22.29%	14.77%	18.36%	14.01%
20 Day Average Volume	373,473	170,791	1,536,375	701,918	1,552,167	513,473
(F1) EPS Est 1 week change	-1.17%	-0.72%	0.00%	-0.88%	-0.27%	-0.86%
(F1) EPS Est 4 week change	-1.36%	-1.09%	0.00%	-1.66%	-4.48%	-2.32%
(F1) EPS Est 12 week change	-6.20%	-7.45%	-0.40%	-3.40%	-8.70%	-6.25%
(Q1) EPS Est Mthly Chg	-4.03%	0.00%	0.00%	0.63%	-4.99%	-6.94%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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