

Werner Enterprises (WERN)

\$33.94 (As of 03/19/20)

Price Target (6-12 Months): **\$36.00**

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: C

Growth: A

Momentum: D

Summary

Headwinds like escalated debt levels, softness in freight demand and weak pricing have been hurting Werner's performance over the past few quarters. What is worse is that the situation is not expected to improve at least in the near term. Werner expects one-way truckload revenue per total mile to decrease 5-7% in first-half 2020. The coronavirus outbreak, due to which shares have declined 11% over the past month, might result in a further downside. 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. Moreover, to improve operational efficiency, Werner is investing in new trucks.

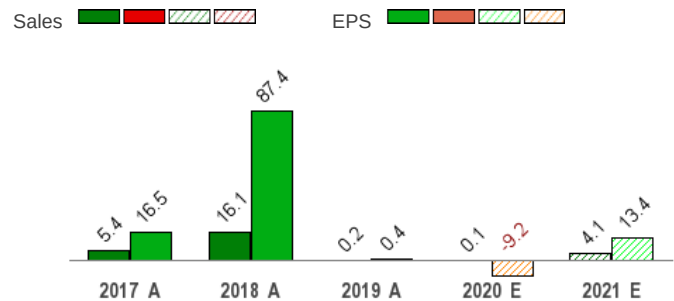
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.04 - \$27.27
20 Day Average Volume (sh)	695,234
Market Cap	\$2.4 B
YTD Price Change	-6.7%
Beta	1.11
Dividend / Div Yld	\$0.36 / 1.1%
Industry	Transportation - Truck
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.7%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	04/23/2020
Earnings ESP	-6.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	593 E	642 E	645 E	651 E	2,567 E
2020	576 E	610 E	626 E	634 E	2,466 E
2019	596 A	628 A	618 A	622 A	2,464 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.48 E	\$0.63 E	\$0.60 E	\$0.70 E	\$2.46 E
2020	\$0.38 E	\$0.53 E	\$0.58 E	\$0.68 E	\$2.17 E
2019	\$0.52 A	\$0.63 A	\$0.57 A	\$0.67 A	\$2.39 A

*Quarterly figures may not add up to annual.

P/E TTM	14.2
P/E F1	15.6
PEG F1	1.2
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

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. The company operates mainly under two segments — Truckload and Werner Logistics.

Truckload

The truckload unit consists of Dedicated and One-Way Truckload. Dedicated offers truckload services by catering to the needs of a specific customer. At 2019-end, fleet size at the Dedicated unit was 4,630, up 2.9% year over year. 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. Trucks in service at the segment increased 3.2% year over year to 8,042 at the end of 2019.

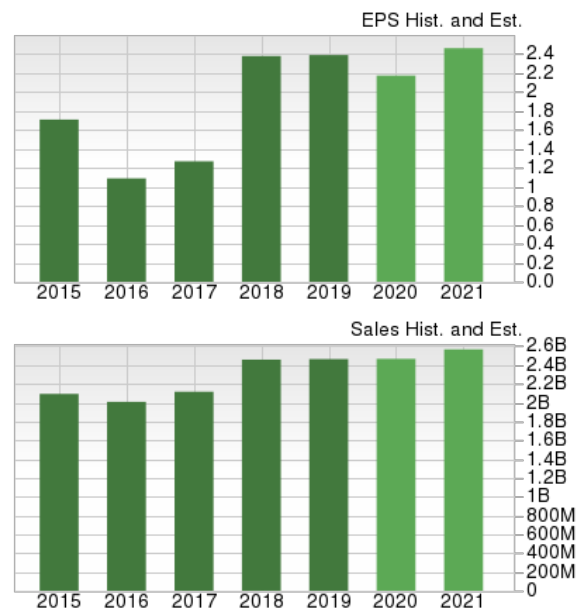
Werner Logistics

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 2019, Truckload revenues accounted for 77% of the top line while Werner Logistics constituted 20% of the total revenues. Other sources of revenues accounted for the balance.

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 2019. As of Dec 31, 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. Additionally, the company is believed to be witnessing improved efficiency and higher productivity on the back of its software advancements. We are also impressed by the company's ability to generate free cash flow. Free cash flow worth \$143 million was generated in 2019, up more than 100% year over year. The metric is expected to exceed \$100 million in 2020 as well.

▲ 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, 2019, the average age of its truck fleet was 1.9 years compared with 1.8 years at 2018 end. The average age for its trailer fleet was 4 years in 2019 flat year over year.

Strong free cash flow generation is a positive at Werner Enterprises.

Reasons To Sell:

- ▼ Slowdown in freight scenario since the beginning of this year is quite worrisome and has been hurting revenues and margins, significantly. Evidently, revenues at the Truckload Transportation Services (TTS) segment, the major revenue-generating division, declined 2% in fourth-quarter 2019. This downside was due to 1.8% decrease in average revenues per truck and lower fuel surcharge revenues. What is worse is that the situation is not expected to improve at least in the near term. Werner expects one-way truckload revenue per total mile to decrease 5-7% in first-half 2020. The coronavirus outbreak, due to which shares have declined 11% over the past month, might result in a further downside.
- ▼ 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 2019 was \$250million compared with \$50 million in 2018 end. Additionally, its debt-to-equity (expressed as a percentage) of 20.3, is above the industry average. 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, net capex declined year over year to \$284 million. However, the 2019 figure was still higher than what was achieved in 2017. Net capex for 2020 is anticipated to be in the band of \$260-\$300 million.

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

Last Earnings Report

Earnings Beat at Werner Enterprises in Q4

Werner Enterprises' earnings per share (excluding 3 cents from non-recurring items) of 67 cents beat the Zacks Consensus Estimate by 7 cents. However, the bottom line declined 10.7% year over year due to softness in freight volumes and weak pricing.

Meanwhile, total revenues of \$621.8 million lagged the Zacks Consensus Estimate of \$633.8 million. The top line also dipped 3.8% year over year, primarily due to lower fuel surcharge and logistics revenues.

Operating income (adjusted) came in at \$63.41 million in the reported quarter, down 14%. Moreover, adjusted operating margin dipped 120 basis points (bps) to 10.2%. Operating expenses decreased 2.7% to \$556.13 million.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-1.90%
EPS Surprise	11.67%
Quarterly EPS	0.67
Annual EPS (TTM)	2.39

Segmental Results

Truckload Transportation Services (TTS) segment's revenues of \$486.57 million slipped 1.6% year over year. This downside was due to 1.8% decrease in average revenues per truck and lower fuel surcharge revenues. Adjusted operating income declined 11% to \$60.37 million in the quarter. Additionally, adjusted operating margin contracted 130 bps to 12.4%. Adjusted operating ratio also deteriorated 130 bps to 87.6%.

Werner Logistics segment's revenues grossed \$120.15 million, down 12% year over year. Segmental results were hampered by reduced transactional freight opportunities, weak pricing and intense competition from logistics rivals. Operating income too plunged 54% to \$3.37 million in the quarter under discussion. Further, operating margin fell 250 bps to 2.8%. The "other" segment accounted for the remainder of the top line.

Liquidity

As of Dec 31, 2019, the company had cash and cash equivalents of \$26.42 million compared with \$33.93 million at 2018 end. Long-term debt (net of current portion) totaled \$225 million at the end of 2019 compared with \$50 million at 2018 end.

2020 Outlook

The company anticipates truck growth to either decline up to 3% or increase up to 1%. Notably, truck count is expected to be slightly lower or flat in the first half of 2020. Gains on sales of equipment are expected to remain moderate due to weak used equipment market and lower trailer sales. The same is predicted in the range of \$6-\$12 million for the current year. Additionally, net capital expenditures are estimated between \$260 million and \$300 million.

During the first half of 2020, one-way truckload revenues per total mile are forecast to decrease 5-7% from the level during the first half of 2019. Effective tax rate is projected in the 25-26% band in the first six months of 2020. The company hopes to maintain the average age of its truck and trailer fleet either at or near the current levels of 1.9 years and 4 years, respectively, in first-half 2020.

Recent News

Dividend Update – Mar 3, 2020

Werner's board declared a regular quarterly cash dividend of 9 cents per share, payable to shareholders on May 5, 2020. of record as of Apr 17. The company has paid dividends every quarter since July 1987.

Valuation

Werner Enterprises shares are up 1.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Transportation sector are down 6.9% and 33.1%, respectively, over the past year.

The S&P 500 index is down 16.8% in a year's time.

The stock is currently trading at 15.18X forward 12-month price-to-earnings, which compares to 16.16X for the Zacks sub-industry, 8.95X for the Zacks sector and 14.12X 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 16.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 16.11X 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 F 12M	Current	15.18	16.16	8.95	14.12
	5-Year High	31.51	25.09	17.02	19.34
	5-Year Low	10.48	13.24	8.95	14.12
	5-Year Median	16.05	17.78	13.1	17.42
EV/EBITDA TTM	Current	5.52	7.72	5.94	8.87
	5-Year High	12.62	23.44	11.11	12.88
	5-Year Low	4.02	5.7	5.85	8.31
	5-Year Median	5.87	8.4	7.41	10.78
P/S F12M	Current	0.95	1.2	0.73	2.58
	5-Year High	1.36	1.57	1.41	3.43
	5-Year Low	0.7	0.79	0.73	2.54
	5-Year Median	0.92	1.19	1.21	3

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	WERN Neutral	X Industry	S&P 500	JBHT Neutral	KNX Neutral	SNDR Neutral
VGM Score	B	-	-	C	B	A
Market Cap	2.35 B	767.96 M	16.45 B	8.94 B	5.26 B	3.19 B
# of Analysts	8	4.5	13	10	9	8
Dividend Yield	1.06%	0.57%	2.67%	1.28%	1.04%	1.44%
Value Score	C	-	-	C	C	C
Cash/Price	0.01	0.04	0.06	0.00	0.04	0.19
EV/EBITDA	5.34	5.51	10.36	8.26	6.05	5.70
PEG Ratio	1.24	1.40	1.49	1.01	1.00	1.40
Price/Book (P/B)	2.11	1.86	2.16	3.95	0.93	1.43
Price/Cash Flow (P/CF)	5.64	5.96	8.92	8.70	6.29	6.21
P/E (F1)	15.69	14.85	13.12	15.12	15.05	14.02
Price/Sales (P/S)	0.96	0.81	1.72	0.97	1.09	0.67
Earnings Yield	6.39%	6.63%	7.54%	6.61%	6.65%	7.11%
Debt/Equity	0.20	0.20	0.70	0.57	0.08	0.14
Cash Flow (\$/share)	6.02	4.97	7.01	9.67	4.90	2.90
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	12.63%	12.50%	10.85%	11.91%	3.05%	NA
Proj. EPS Growth (F1/F0)	-9.05%	3.78%	4.90%	13.70%	-5.63%	3.53%
Curr. Cash Flow Growth	3.80%	-0.06%	6.03%	-2.99%	-5.66%	-9.43%
Hist. Cash Flow Growth (3-5 yrs)	8.62%	9.39%	8.55%	9.02%	13.36%	7.13%
Current Ratio	1.51	1.50	1.23	1.43	0.90	3.02
Debt/Capital	16.84%	19.99%	42.57%	36.37%	7.09%	12.03%
Net Margin	6.78%	5.58%	11.57%	5.99%	6.38%	3.10%
Return on Equity	14.93%	12.78%	16.74%	25.65%	6.68%	10.03%
Sales/Assets	1.15	1.46	0.54	1.70	0.59	1.24
Proj. Sales Growth (F1/F0)	0.11%	3.14%	3.13%	6.77%	-2.18%	-0.26%
Momentum Score	D	-	-	D	C	C
Daily Price Chg	0.03%	-0.50%	1.03%	-0.69%	-7.64%	-2.39%
1 Week Price Chg	-3.55%	-5.98%	-11.01%	-5.73%	-6.06%	0.67%
4 Week Price Chg	-11.57%	-22.92%	-33.45%	-23.53%	-22.32%	-17.70%
12 Week Price Chg	-6.48%	-20.55%	-30.67%	-27.97%	-14.13%	-17.20%
52 Week Price Chg	1.83%	-36.63%	-23.69%	-15.96%	-4.41%	-14.49%
20 Day Average Volume	695,234	273,631	3,981,936	1,045,465	3,136,101	752,384
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.67%	0.00%	-0.85%	-0.79%	0.00%	-0.37%
(F1) EPS Est 12 week change	-5.08%	-4.88%	-1.70%	-6.73%	-1.39%	-5.31%
(Q1) EPS Est Mthly Chg	-3.66%	0.00%	-0.88%	0.00%	0.00%	-3.08%

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	C
Growth Score	A
Momentum Score	D
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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