

Werner Enterprises (WERN)

\$44.52 (As of 07/30/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

Summary

Headwinds like softness in freight demand, weak pricing have been hurting Werner's performance over the past few quarters. The coronavirus outbreak is very worrisome and hurt second-quarter 2020 results significantly due to low one-way truckload and logistics freight demand. Notably, both earnings per share and revenues declined year over year. Werner expects truck growth in the TTS unit to decline between 1% and 3% in 2020 from 2019 levels. During the second half of 2020, one-way truckload revenues per total mile are projected to rise 2% or decline up to 1%. Further, Werner continues to struggle with driver shortages. However, we are impressed with the efforts to reward its shareholders. Werner's cost-cutting measures to combat the sluggish freight scenario are also appreciative. Strong free cash flow generation is an added positive.

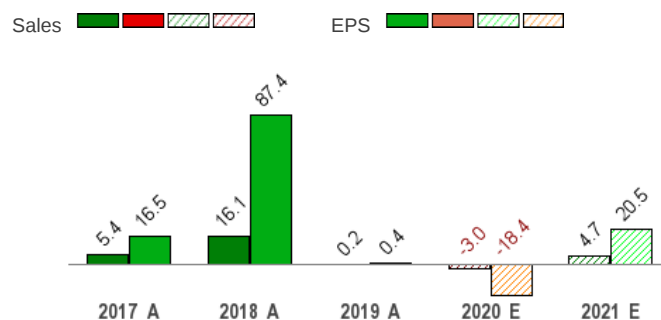
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.95 - \$28.99
20 Day Average Volume (sh)	1,047,622
Market Cap	\$3.1 B
YTD Price Change	22.3%
Beta	0.83
Dividend / Div Yld	\$0.36 / 0.8%
Industry	Transportation - Truck
Zacks Industry Rank	Top 17% (43 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	55.0%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	10/22/2020
Earnings ESP	6.1%
P/E TTM	19.7
P/E F1	22.8
PEG F1	1.8
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	619 E	634 E	640 E	661 E	2,503 E
2020	593 A	569 A	595 E	611 E	2,391 E
2019	596 A	628 A	618 A	622 A	2,464 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.62 E	\$0.62 E	\$0.74 E	\$2.35 E
2020	\$0.40 A	\$0.62 A	\$0.49 E	\$0.64 E	\$1.95 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

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.

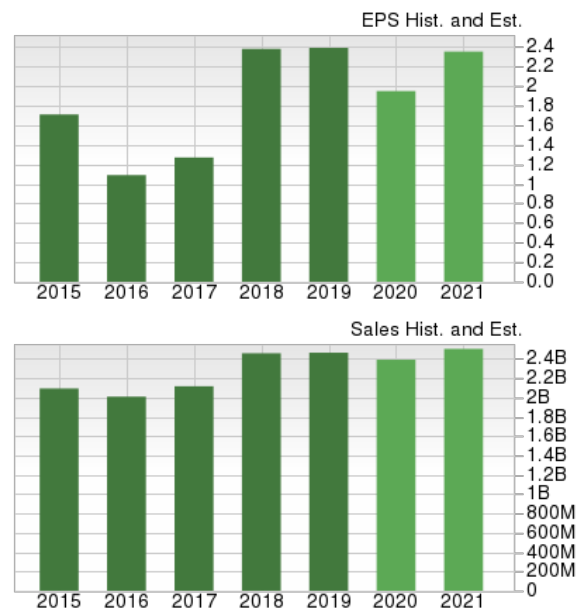
Werner Logistics

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.
- ▲ Werner's cost-cutting measures to combat the sluggish freight scenario are appreciative. 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 \$150 million in 2020 despite coronavirus woes. Notably, \$180 million has already been achieved in the first half of 2020.
- ▲ 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 Jun 30, 2020, the average age of its truck fleet was 2 years compared with 1.9 years at 2019 end. The average age for its trailer fleet was 4.1 years at the end of the June quarter.

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

Reasons To Sell:

- ▼ Due to weakness in the used truck market, truck sales are likely to be lower in 2020 on a year-over-year basis. New truck purchases are also expected to be lower in 2020. The company has withdrawn its 2020 guidance for gains on sales of equipment due to weak demand in used truck market. The company anticipates 2020 truck growth (in the truckload transportation services segment) to decline between 1% and 3% year over year.
- ▼ Cash and equivalents stood at \$65.4 million for Werner at the end of the June quarter, less than the long-term debt (net of current portion) figure of \$175 million. This implies that the company does not have enough cash to meet its debt obligations.
- ▼ The company continues to struggle with driver shortages amid the current labor market conditions. While the impact of coronavirus-related issues was limited in first-quarter 2020, supply-chain disruptions due to the pandemic hurt its second-quarter results more severely due to low one-way truckload and logistics freight demand. Notably, both earnings per share and revenues declined year over year.

Weak freight demand is a major cause for concern at Werner.

Last Earnings Report

Earnings Beat at Werner Enterprises in Q2

Werner Enterprise reported second-quarter 2020 earnings per share (excluding 6 cents from non-recurring items) of 62 cents, which surpassed the Zacks Consensus Estimate of 40 cents. However, the bottom line declined 1.6% year over year.

However, total revenues of \$569 million missed the Zacks Consensus Estimate of \$580.8 million and dropped 9.3% year over year due to lower fuel surcharge and logistics revenues.

Operating income (adjusted) came in at \$57.7 million in the reported quarter, down 3%. Moreover, adjusted operating margin improved 70 basis points (bps) to 10.1%. Operating expenses declined 9.3% to \$516.1 million.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-2.04%
EPS Surprise	55.00%
Quarterly EPS	0.62
Annual EPS (TTM)	2.26

Segmental Results

Truckload Transportation Services (TTS) segment's revenues fell \$445.1 million, from \$479.9 million in the year-ago quarter. The downside can be attributed to \$28.3 million fall in fuel surcharge revenues and 2.2% decline in average trucks in service. Adjusted operating income inched up 7% to \$56.1 million in the quarter. Additionally, adjusted operating margin expanded 170 bps to 12.6%. Adjusted operating ratio increased 170 bps to 87.4%. Notably, lower the metric, the better.

Werner Logistics segment's revenues totalled \$110.2 million, down 16% year over year. Segmental results were hampered by softer freight market, which reduced volumes by 9%. Operating income plunged 39% to \$3.1 million in the quarter under discussion. Further, operating margin fell 120 bps to 2.8%. The Other segment accounted for the rest of the top line.

Liquidity

As of Jun 30, the company had cash and cash equivalents of \$65.38 million compared with \$26.41 million at 2019 end. Long-term debt (net of current portion) totalled \$175 million at the end of the second quarter compared with \$225 million at 2019 end.

2020 Guidance

Werner anticipates truck growth to decline between 3% and 1% compared with its previous guidance where the metric was expected to either remain flat or decline up to 5%. The company did not provide any guidance pertaining to gains on sales of equipment for the current year. Additionally, net capital expenditures (estimated between \$260 million and \$300 million) are in line with its previous guidance.

During the second half of 2020, one-way truckload revenues per total mile are projected to rise 2% or decline up to 1% compared with previous expectation where the metric is expected to decline 5-7%. Effective tax rate is now anticipated between 24.5% and 25.5% compared with the previous guidance in the 25-26% band.

Recent News

Update on Board Changes — Jun 2, 2020

Clarence Werner has quit as the executive chairman of the board. He will, however, continue to serve as the chairman until his term expires in May next year. The company's CEO, Derek Leathers, has been appointed as the board's vice chairman with immediate effect.

Dividend Update –May 14, 2020

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

Valuation

Werner Enterprises shares are up 22.3% and 37% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 20.5% but down 6.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 33.8% and the sector is down 3.3%.

The S&P 500 index is up 1.3% and 9.7% in the year-to-date period and in the past year, respectively

The stock is currently trading at 19.61X trailing 12-month price-to-earnings, which compares to 27.15X for the Zacks sub-industry, 17.27X for the Zacks sector and 20.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.48X and as low as 10.98X, with a 5-year median of 16.76X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 19.82X trailing 12-month earnings.

The table below shows summary valuation data for WERN

Valuation Multiples - WERN					
		Stock	Sub-Industry	Sector	S&P 500
P/ETTM	Current	19.61	27.15	17.27	20.96
	5-Year High	34.48	32.8	19.57	22.25
	5-Year Low	10.98	13.97	11.63	15.98
	5-Year Median	16.76	19.33	15.58	19.2
EV/EBITDA TTM	Current	6.96	11.6	7.73	12.11
	5-Year High	12.62	21.85	11.21	12.85
	5-Year Low	4.02	5.91	5.45	8.25
	5-Year Median	6	8.68	7.39	10.89
P/S F 12M	Current	1.25	1.91	1.32	3.59
	5-Year High	1.36	1.91	1.42	3.57
	5-Year Low	0.7	0.82	0.85	2.53
	5-Year Median	0.93	1.26	1.2	3.59

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
KnightSwift Transportation Holdings Inc. (KNX)	Outperform	1
Marten Transport, Ltd. (MRTN)	Outperform	1
ArcBest Corporation (ARCB)	Neutral	3
Heartland Express, Inc. (HTLD)	Neutral	3
Hub Group, Inc. (HUBG)	Neutral	4
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	3
XPO Logistics, Inc. (XPO)	Neutral	4

Industry Comparison Industry: Transportation - Truck

	WERN	X Industry	S&P 500	JBHT	KNX	SNDR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	1	3
VGM Score	A	-	-	A	B	A
Market Cap	3.08 B	1.12 B	22.57 B	13.61 B	7.35 B	4.37 B
# of Analysts	9	5	14	10	6	8
Dividend Yield	0.81%	0.33%	1.83%	0.84%	0.74%	1.05%
Value Score	A	-	-	B	B	B
Cash/Price	0.02	0.05	0.07	0.02	0.02	0.15
EV/EBITDA	6.65	6.68	12.96	11.86	8.32	7.94
PEG Ratio	1.81	2.53	3.04	1.86	1.39	4.53
Price/Book (P/B)	2.71	2.33	3.13	5.69	1.27	1.93
Price/Cash Flow (P/CF)	7.39	8.11	12.61	13.34	8.84	8.52
P/E (F1)	22.83	27.85	22.06	27.85	20.92	24.22
Price/Sales (P/S)	1.28	1.08	2.42	1.47	1.60	0.97
Earnings Yield	4.38%	3.33%	4.31%	3.59%	4.78%	4.13%
Debt/Equity	0.15	0.16	0.75	0.55	0.06	0.13
Cash Flow (\$/share)	6.02	4.97	6.94	9.67	4.90	2.90
Growth Score	A	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	14.07%	13.09%	10.85%	10.97%	4.77%	NA
Proj. EPS Growth (F1/F0)	-18.46%	-24.32%	-7.75%	-5.24%	-4.69%	-17.84%
Curr. Cash Flow Growth	3.80%	-0.06%	5.39%	-2.99%	-5.66%	-9.43%
Hist. Cash Flow Growth (3-5 yrs)	8.62%	8.82%	8.55%	9.02%	13.36%	7.13%
Current Ratio	1.73	1.68	1.31	1.59	0.85	3.07
Debt/Capital	13.35%	22.32%	44.32%	35.35%	5.87%	11.89%
Net Margin	6.23%	4.23%	10.44%	5.65%	6.28%	3.69%
Return on Equity	14.22%	10.09%	14.73%	22.88%	6.14%	9.52%
Sales/Assets	1.13	1.33	0.52	1.70	0.55	1.20
Proj. Sales Growth (F1/F0)	-2.95%	-2.95%	-1.95%	-0.25%	-5.73%	-6.65%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	2.53%	0.00%	-0.92%	-0.90%	-0.82%	-1.48%
1 Week Price Chg	-2.39%	-2.32%	0.37%	-4.41%	0.18%	-4.46%
4 Week Price Chg	5.22%	7.61%	4.14%	9.12%	3.00%	1.73%
12 Week Price Chg	8.69%	24.64%	12.21%	28.91%	16.03%	16.26%
52 Week Price Chg	37.03%	9.44%	-1.73%	27.49%	26.03%	28.29%
20 Day Average Volume	1,047,622	228,589	1,887,986	947,660	1,847,724	565,365
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	12.39%
(F1) EPS Est 4 week change	0.75%	8.01%	0.38%	7.97%	27.60%	13.09%
(F1) EPS Est 12 week change	1.45%	1.45%	-0.07%	8.42%	27.27%	12.67%
(Q1) EPS Est Mthly Chg	0.41%	3.29%	0.16%	1.82%	30.39%	0.00%

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	A
Growth Score	A
Momentum Score	C
VGM Score	A

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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