Okay, let's go ahead and get going here with the 9:45 start. Stay on time. Thank you all for being here. We're very pleased to have the management from Werner with us this morning at our conference this year here in Nashville. And I think most folks in this room know Werner and the team well, but just for by way of background for those of you who don’t know, Werner Enterprises is headquartered in Omaha, Nebraska, and one of the largest trucking companies in United States; they’re a truckload trucking company, they're really a complete logistics provider for so many of their customers. They've got about approximately 57% of their fleet is under Dedicated contracts and let’s say differentiates your business model from a lot of their public company, truckload peers.

So, from the company today we've got Derek Leathers, Werner’s Chief Executive Officer; and John Steele, Werner’s Chief Financial Officer. So, gentlemen, thank you very much for being here. Derek, let me turn the floor over to you for some introductory comments and then we'll go into Q&A.

Okay, thanks. So introductory comments, I guess we'll start with the obvious, talk a little bit about the freight market and what we're seeing. But in our third quarter call we talked about seeing sequential improvements throughout the quarter and some return in seasonality starting to take place. That's continued as we think about where we're at in the fourth quarter. We've seen seasonality, certainly not 2018, so to be clear we're not seeing what we saw in 2018, but we are seeing some volumes come back into the network. We're seeing conversations and closures of peak business and opportunities that we were confident of in the third quarter that we're now actually seeing and moving in the fourth.

Rate is clearly under pressure for those peak opportunities. So, while volume seemed to be normalizing and developing as expected or even better in some cases than expected, the opportunity to do it at the rate levels seen in 2018 is simply not there. You put all of that in the wash and what you really end up seeing is a peak that looks a lot more like 2016, 2017 than what we saw in 2018, and it's almost exclusively the differences based on peak rate and our rating of those peak loads.

Other than that, our story is what you indicated. We've talked for three years about the return to the way more stable portfolio that would weather the cycle better. And if I was going to make one statement, I think the third quarter this year really proved we were – that we could do what we said we were going to do, which was in a very, very tough freight market, end up running a truckload operation in total at an 88.3% OR, net of fuel, which clearly put it in kind of rarefied air within the public space.
And so that's who we are. We think we're more defensive than we've ever been. We do not think it represents any kind of negative as it – as we think about the next cycle turn. And if you look at 2018 as an example, when Dedicated, people were concerned would be an anchor that simply didn't play out. We were 10% on the year up in rate, 16% in the latter half of the year up on rate, and that's with Dedicated being over half our fleet. So, we were able to take rate in a good market with Dedicated in the mix and we were able to be defensive in a bad market because of Dedicated.

<<Jack Atkins, Analyst, Stephens Inc.>>

Absolutely. And I think that's what people miss a lot of times about Werner. You've got the downside protection with the way your fleets are constructed, but you obviously can participate in the upside and we saw that, we saw that in 2018.

Let's kind of take a step back for a minute and kind of think about sort of, Derek, how you've pivoted the organization here over the last several years as you've been CEO? I think when people look at the last freight recession, obviously, it was a challenge for Werner, you were right in the middle of making a lot of structural changes to the business. And I think now we look at your financial performance, and it really stands out relative to your peers. And so, can you talk about the changes that you brought once you assumed the CEO role? And how Werner is just differently positioned this freight recession than it was really in 2016?

<<Derek J. Leathers, President and Chief Executive Officer>>

Sure. I mean, so one of the watch outs we were attempting to communicate, and I told our team all throughout the changes that you can say whatever you want to say, and until you actually do it, no one's going to believe it. 2016 isn't a great barometer for what Werner is going to look like in down markets. And 2016, it was a down market, but we were renovating the fleet in its entirety. We were philosophically changing how we think about our business.

I had a vision, along with C.L. Werner, our Founder, to return us to that point in quality – of quality at all costs. And we could have done that over a multiyear period and then said – we said let's just do it. We know it's the right thing to do. We know we're going to pay the price for it in the short-term. So, we went out and took our average fleet age from a peak of 2.7 down to 1.8. We took trailers from mid-7s at their worst point down to 4. We raised driver hiring criteria significantly during that period. All of which was painful, and it was all happening during a freight recession.

As a result, those results were terrible. We said that, when we get to a tough market and you see the results of these efforts, and I'm over simplifying because there was a thousand other things that go into that, but that the Werner story would shine through. We needed the third quarter. We needed 2019 that happened to really show what the differences are now with the new culture.

If you're asking me like one of my biggest push backs over the last three years has been when 2018 came along, everybody said it's a new Werner and this is a new world and a
new leadership. And they somehow though fell back and said, but as soon as there's a recession, here's how Werner performs in down markets. And it kind of blew my mind that people would say it's a brand new Werner, brand new day, brand new structure, brand new approach, but we think they're going to be the old Werner in the down market. So, we needed the market to go down. I mean, I didn't want it to go down, but knowing that when it went down, we thought this is a great opportunity to show who we are and we just did that, and we'll continue to do that if the market continues to kind of drag along the bottom. But we think there are signs of life right now.

<<Jack Atkins, Analyst, Stephens Inc.>>

Well, let's maybe talk about some of the signs of life. I guess, as we're sort of looking at the leading indicators of the freight economy and the trucking economy, we're beginning to see some capacity attrition show up. Part of me wonders why we haven't seen more of it more rapidly given how tough it is out there, the hardening of the insurance markets, and I've got a specific question about that, John, for you later on, but I'd love to touch on that. But all these things are kind of coming together to make me wonder how many of these small truckers are going to want to renew their tags in January. So, could you just sort of talk about, I guess your outlook for the supply side over the next, call it six to nine months? And I'm not trying to make an already long question longer, but you also have these regulatory changes happening early next year too, which I think exacerbates some of the problems.

<<Derek J. Leathers, President and Chief Executive Officer>>

Yeah. So, there's a lot in there. But supply’s coming out, but the problem is it takes a long time for – to kill a trucker. And so, things – anecdotal thoughts that – I mean, they do because you can run your trucks and produce cash flow and be losing money and feeling good and paying your bills and thinking everything's okay, and clearly it's not. And so anecdotally, the thing I think about when we talk about it internally is if you look at the publicly traded group, you've got 20% to 25% of them operating at breakeven or in some cases worse. There is no reason to believe that's not indicative of what's happening across the entire industry. It's probably worse than that across the rest of the industry because they're less capitalized, less sophisticated, less able to weather the storm.

And so, if you use that 25% number that's on or at the brink, the question is how many of them can survive until it turns. And I don't think – I think there's going to be a lot of them that won't. 785 or so bankruptcies this year already versus 159 last year in total, five at 500 trucks or greater. I mean, these are big numbers and they'll matter and they're going to continue to happen. I think we'll end the year over 1,000 personally, that's my opinion.

And then you couple that with capacity constraints that are still coming at us; AOBRD to ELD, I still believe is another percent coming out over time. As people make that more restrictive transition and they go into the final form, it may not be a percent, but it's certainly more than half a percent, so somewhere in there that matters.
Drug & Alcohol Clearinghouse is real. When that takes place in January and everybody starts to fill in that database, with anybody that's failed a test, they become unhirable at that point. And so, driver supply gets tougher, growth becomes tougher to come by. Even if you wanted to add trucks, would be hard to do.

You've got hair follicle that's going to happen at some point. We are fully in favor and fully supportive of it. We've been hair follicle testing for four years. The failure rate is 10 times greater. The fact that people aren't being mandated to hair follicle is a shame. The fact we're not even permitted to hair follicle is a travesty and we're going to continue to sing from the mountain top that hair follicle needs to be the standard and we're going to continue to do it in the interim.

So, there's a lot of things out there and I'll leave insurance to John, but that is clearly one of them, and he'll get through some details. But the hardening of insurance and people's rates going up by 50%, 70% or 100% is what it takes to push them over the edge because then they can't renew and can't live to fight another day.

The net of all this, we think it's positive for us. I mean, so for our story we will be just fine through this as long as it lasts. We'll continue to persevere and continue to do well in a tough market. And on the other end of it, there'll be a lot less people to compete with and so we like that. Reality, we don't wish ill on anybody, but everybody gets their own – they make their own bed and so they got to sleep on it. And if they don't make it out the other end, then there's more opportunity, more share for us.

<<Jack Atkins, Analyst, Stephens Inc.>>

Absolutely. John, you want to maybe touch on what's going on in the insurance markets and sort of how you see it?

<<John J. Steele, Executive Vice President, Treasurer and Chief Financial Officer>>

Yes. So clearly there's fewer large insurance companies that want to insure truck liability as some of these large, what's referred to as nuclear verdicts have occurred. Smaller to medium sized trucking companies generally have lower deductible policies to where more of the responsibility for insurance coverage is with the insurance company as opposed to with the trucking company themselves. In our case, we're the opposite. 90-plus-percent of our insurance and claims expense is our self-insured claims experience.

And we renewed our excess or catastrophic coverage above $10 million per claim in August with an 11% increase that basically took us from about $6.3 million to $7 million of premium. And if you're a small carrier and you just can't afford to take on $1 million, $2 million, $3 million of deductible yourself because you're small, you don't have the equity and capacity to do that, you've got a $50,000 deductible. That's a really tough place to be. And you're seeing 50% to 100% increases right now, and that's likely to be a couple of points on your operating ratio that is something they can't afford to do and it's premium-based coverage, they probably have to pay that up front. So, it's a negative on the cash flow side. It's just one more thing that makes it more difficult in this operating environment to be successful as a small to medium sized carrier.
And I guess the thought is if you're a 25 truck carrier, maybe shut your doors because of this. Well, maybe instead of renewing tags on all 25 trucks, maybe renew tags on 20, and that happens thousands and thousands of times across the industry.

But that still doesn't work because if they financed the five trucks that they're parking, they still got to make the payment.

Right.

Last year they got 100% bonus depreciation on the trucks they bought. So, they had a nest egg from tax depreciation benefits. And if they didn't squirrel that away for 2019 and maybe they reinvested it all in driver pay to get the trucks fully seated, now they're in a world of hurt because their book depreciation exceeds tax depreciation this year with 0% tax depreciation. So, cash flow is potentially pretty tough for a small and medium sized carrier, especially if you're relying heavily on the spot market to say, get your drivers back home to your area where you're operating.

Okay. That's very interesting. Let me – John, if I can stick with you for a second. I know you follow shipper inventory levels very closely. You track it very closely. I mean, closer to, I think, any other public company that I'm aware of in terms of just the work you do and the work you put into it.

Could you maybe talk about what you're seeing in terms of customer inventory levels?

Well, part of it is because we're 52% retail. So, we have tried hard to align ourselves with the people who are the winners in retail, people who are continuing to grow their store count, grow
their same-store sales, grow their inventory per store, that all three of those factors translate into freight growth.

And the companies who are continuing to be successful in that market need even a higher level of service. They're trying to compete with one-day Prime, which used to be two-day Prime. Anybody who's buying online through their company, they're trying to get them to online pickup in their store as much as they possibly can and they need a carrier that can consistently each time, every time deliver that product so there's no surprises.

We've seen inventory levels increase a little bit in the first quarter ended April, the second quarter ended July for retailers, but I think it was more trade and tariff related. 4 out of the 11 largest retailers we do business with specifically commented on trade tariffs was affecting their decision making on inventory. Walmart reported this morning, their same-store sales growth was 3.3% in the U.S. It was 2.7% growth on inventory per store. So, they actually have a pretty good shape it appears, for inventories, by far they're the largest retailer of the 11 or 12 that we track pretty closely. So, I would expect we'll see something similar, we'll get the rest of the retailers’ reports over the next 10 days to two weeks.

<<Jack Atkins, Analyst, Stephens Inc.>>

So, I guess putting it all together, Derek and John too, I mean, as you guys talked to your customers and get their sense for how they're viewing 2020, I mean, we'd obviously talked a lot about the supply side a moment ago. I think the demand picture is a little bit more murky, and so it's good to hear John your comments around inventories rationalizing somewhat. Just I'd love to get a sense for the tone of your customer conversations though as they are going through their planning for 2020 because I know you have to get their sense for things as you try to plan for your business next year.

<<Derek J. Leathers, President and Chief Executive Officer>>

Yes. So, a couple of comments, I mean, one would be over the last three years you talked about what changes have we made. One big one that plays right into the question is in 2016 when I became CEO, one of the things I was talking to our team about heavily was we had to rethink how we aligned ourselves with customers and we needed to shift our alignment with winners. And we needed to go through and scrub our entire list of customers and really start to kind of list them out, who's winning, who's losing, who's on the fence, and we need more data to understand what their future looks like. And we migrated our assets and we migrated our focus to those that were winning because people talk about retail being dead because of the Amazon effect. And the fact is they're just dead retailers all over, but retail is alive and well if you're with the right retailer.

So, the retailers we work with are those that are prospering and they're doing good and they're growing their business and they're pretty bullish. The other thing is we focused heavily within that winning category within discount retail because we know that's more recession-proof. And so, we aggressively made a conscious decision to go after discount retailers that are more recession-proof versus others. Ironically, the other end of that spectrum that does really well in
recessions is very, very high-end retailers and everybody in the middle we kind of moved away from.

And so, when we have these conversations, their outlook is pretty strong. Their outlook is pretty bullish. They're looking and growing stores and buying land and leasing new footprints. And that bodes well for us, but that's not to say that the retail outlook is bullish overall, it's just who you do business with, and so I like our alignment.

<<Jack Atkins, Analyst, Stephens Inc.>>

Okay. Well, that all make sense. And I guess, I've been asking folks about the election going into next year. I mean, that's – I think that's overhanging a lot of ways. Are you picking up anything around that issue next year just in terms of customers' willingness to commit to investment? It doesn't sound like you are, but –?

<<Derek J. Leathers, President and Chief Executive Officer>>

Yes, I would not say that's been at the forefront. I mean, this time of year, our customer conversations are so heavily built around peak and Black Friday and making sure we deliver on time, every time, safely, so that they can succeed in their one time a year, where they make all their hay. And so that's been the focus. I think as soon as you narrow down the field on one side of the check-in or on one side of the aisle that'll become a lot more of an active conversation.

<<Jack Atkins, Analyst, Stephens Inc.>>

Okay. Okay. Let me stop there. I've been kind of going on and on for questions. We have – yes, sir.

Q&A

<Q>: Derek, I liked your comment about truck companies. But what about the trucks? In the past, the smaller carriers, they strive to come, they go. The tractors are forever, they just get recycled. It sounds like you're talking, you and John are talking about an inflection point, where either the availabilities – availability of the driver or the barriers to entry of insurance might actually change this food chain so that people actually leave, and the capacity goes away.

<A – Derek J. Leathers>: Yes, it may. I mean, some of that will play itself out obviously over the next 12 months. But as quickly as we built into this over capacity situation, we've now had 10 straight months of orders that are well below replacement level. We had one exception of that in October. That is not a surprising exception in our view. October is when many, many fleets, ourself included; make our orders for the coming year. So, it's a month that is overrepresented in the order space because that's when we kind of solidify and lock in what we're doing next year.

I'm not worried about October's number at all until I see – unless I was to see it again in November, December et cetera. I think you are seeing discipline. And as quickly as it shifted up, it shifted down equally sort of aggressively. And when you see order rates in the single digits,
less than 10,000, I should say on consistent basis and many that were 10,000 or 11,000, you're nowhere near replacement level there.

Where I think it'll show through and be a headwind for us and others next year is just used truck gains. There's still going to be some pressure on the used truck market. We think we're better positioned than almost anyone. Our average age of truck is 1.8 years. And so, the truck we're selling is the truck that those that are replacing their very old truck want to buy. But if they're shrinking their fleet, they're not going to buy as many of them. And so, we know that, this year we got into $15 million to $18 million, I'm sorry, $18 million to $20 million and then guided to the low-end of the range for gains and we will be in the low-end of the range or thereabouts for gains. Next year's gains will be less than that. I can assure you. We don't know what that looks like yet, but it won't be $18 million because there's going to be an overhang from the used truck – in the used truck market.

<Q>: [Question Inaudible]

<A – Derek J. Leathers>: I think the insurance keeps them in the efficiency of those trucks, in many cases keeps them out too. I mean, we've done analysis for fleets that work with us in our brokerage world and we've talked to – that we sell trucks too. And the efficiency gap between a truck that's eight years old and the current model truck that we're selling, the efficiency difference alone pays for the payment. And so, you can't afford to keep running that old truck and this market and the foreseeable market as we forward.

And so, where do they go is a little bigger question because in the old days you could sell them around the world. You can't really do that now with the ultra low-sulfur diesel engine that we have in those, so many of those export markets are gone at least currently. And whether they get scrapped or what happens to them, I don't know. I mean, they ended up in farms and ag and other applications, but not in truckload, if you will.

<Q – Jack Atkins>: Any other questions from the audience? I'll keep going through my list if not. So, feel free to interrupt me at any time. So, I guess, Derek, maybe if we can just sort of think about bid season next year. I hear comments from large brokers on their conference calls talking about we've got to be more aggressive going after contract freight that just sends a shiver down my spine. I guess, can you kind of help me and help us kind of bracket how we should be thinking about rates in the OTR market next year in terms of contracts? I mean, obviously, the general expectation is lower, but is there an opportunity for the first half of the year to be much more competitive than the second half of year to be, show some signs of the market recovery?

<A – Derek J. Leathers>: Yes. So, I think at this point as we sit here, 2020 is most likely going to be a tale of two cities. I mean, you're going to have a first half that's going to be difficult. And we're still going to be burning off excess capacity around the industry followed by a second half that if you just look at current trends, current order rates, bankruptcies and all the things we've already talked about with Drug & Alcohol Clearinghouse and other things. I don't think we're more than a couple of quarters away from having this come into balance or even maybe be back in a situation where rate is more there for the taking.
So, the question is, how do you survive bid season, which kicks off during the first half of the year and as most of its robust activity? And our job is going to be work with our customers and have them try to focus on a longer-term view. And luckily that longer term view is not going to be telling them to lock in the rates or treat us differently because of something that's going to happen two years out. It's going to be something that's happening as bid season is underway. I'm not saying we're going to be positioned great as bid season kicks off, but you'll be able to see the changes that are taking place one way or the other by the time that bid season really gets underway. And if we see capacity continuing to leave, that story is there.

The second part is again, 57% grows into 60% over time in Dedicated, that's a different model altogether. There's a handful of best competitors in that space that can do what we do at best. That's a different market. Our One-Way market is 55% in Mexico or our team Expedited. There's a handful, or less than a handful, that can do that and that's not under direct assault from the digital broker world. The digital brokers’ noise is going to continue to increase. We have to recognize that, they're going to continue to – we're going to continue to live in a world of target rates. And the question is just, how do you respond to that, and our responses you have target rates as a shipper, we have target rates as a carrier and we're going to stick with our target rates. And if that means we've got to have a lower win rate, we're going to have a lower win rate.

And so, we've been tooling and building our sales organization out, so that next year our expectation is win rates are down and versus rate, because that's where we have – how we have to think about it. Comps are going to be tough in the first quarter and second quarter because you've got lapping effects. But if you think about contracts this year, our contract rates held up just fine. Just fine, I mean, we're up in Dedicated, flat in One-Way, but the net was down because of spot and because of projects. And projects were a big part of what we do, and their project activity just vaporized and didn't exist and that drug rate per mile down. But our contracts were not renewing down. We'll have that same level of discipline going into this year, maybe with different results. Time will tell, but we're going to fight the fight every day.

<Q – Jack Atkins>: Okay. That makes sense. So, I guess, and you referenced it there, Derek, in that last answer, but the longer-term view on the fleet 60% Dedicated is sort of the goal. Well, why is that number? Why isn't it higher than that? Just sort of curious, why 60% and not 65%, or 70% or 55%?

<A – Derek J. Leathers>: So, the simplest answer for that honestly is, I just personally believe that setting goals and targets that you can achieve and get to are the reasonable and near enough in term that everybody can mobilize around them, makes sense. Once we get to 60%, I can assure you we'll be having dialogue and we're already having dialogue whether 60% is the right number. Why would it not be 80% someday? Well, to do Dedicated properly at the rate levels and service levels we do at you need a One-Way backup, backstop. You need some version of a One-Way fleet to be able to backstop that play, surge with customers around their big events, do things others can't do, and that's what separates us from any others. So, I need it for that reason.

The other reason is our Mexico franchise and our Expedited franchise is every bit as good as Dedicated even in tough markets. And so, I need some version of One-Way to support those two franchises. What I can tell you is that the One-Way solo driver, you call we haul commoditized
portion of our fleet will be not one single truck greater than it has to be. What that number is moving all the time. As we figure out that we can do even more with less of those trucks, we're going to make those less trucks, but I don't yet feel comfortable until we get to 60% and until we see the Mexico and Expedited, it's at 55% today, that might get to 60% of One-Way and then what's left over is a pretty small number, I can't let it get too small.

<Q – Jack Atkins>: Understood. Understood. There's been a lot made about technology in the transportation industry and I think if – as I look back over the last three to five years, there's been incredible progress made in terms of being able to drive efficiencies in incremental tools for folks across the supply chain. So, Derek, I know this is a topic that's close to your heart. Can you talk about how Werner is leveraging, technology innovation to drive efficiency within the organization?

<A – Derek J. Leathers>: Sure. So, when we came out with a 5T’s strategy, again, simple things, this is who I am, I like simple things our team can rally around.

<Q – Jack Atkins>: I’m a history major. So, I believe you.

<A – Derek J. Leathers>: Perfect. But the 5T’s strategy at its most basic level, it was trying to make it clear to everybody in our organization first and then later investors and others may pay attention to it. The technology has to have a seat at the table. Truckers are really good. We used to go to truck build meetings, and you'd end the meeting and say, we're going to order 400 and somebody get a little squeamish and say, you know, I'm not sure that's enough, let's add 50. We had 50 trucks north of $100,000 a unit and you do that no matter eight seconds of debate. Yet technology things we debate for hours – days to spend $5 million, and we had to get technology a seat at the table.

And so, technology now is an active part of every CapEx discussion for everything we do. It's working. We're focusing on productivity, technology more than any other single thing. So not like to have stuff, not new screens that make people's jobs easier or more fun or more interesting. But things that actually take steps out of the process. We're rolling it out in brokerage and we're very excited with what we're seeing. Our early returns are better than expected.

And the only thing that's been behind schedule is how widespread we rolled it out. You've seen from some competitors that rolled it out more aggressively and maybe too fast the negative implications of a headwind. We've decided to roll it out in a more controlled environment, and we've had better returns on those rollouts and lesser implementation than we would have liked.

That implementation is now going system wide. We think that gains us the ability to operate on lower gross margins, while expanding net margins. Examples of that would be – being able to ingest loads into our system in a fully automated way, be able to do carrier matching in a fully automated way, being able to do forced ranking of carriers based on a variety of criteria that can change based on the customer's load you're covering in an automated way, and we do that today. So, when service is paramount or price is paramount or speed or destination is paramount, we can reshuffle that deck in seconds. We display our options and then auto dispatch to that carrier. These are all things we're excited about.
On the asset side, same thing, we've invested this year in new optimization technology that allows our planners to make decisions more quickly and to stack loads on drivers, way into the future, so they can plan their, not just their day but their week, eliminating deadhead and driving efficiencies through their network. This stuff comes at a cost. We're spending roughly 3X this year on technology than what we did in the preceding five-year average. But it's paying as we go for the most part, a little bit of headwind, second quarter and third quarter, a little bit in the fourth quarter, but we think we're getting that return as we go into 2020. So, we're excited as we look forward.

We know – the other statement I'd make is, look, you can't go to a conference without hearing 50 different tech companies talk about all of these things they can do. And I think one thing that's happened in 2019 that's been beneficial is the marketing materials have had to then be operationalized across shippers in America. And they've learned that some of this stuff isn't ready for prime time yet.

And so that's been helpful because we're a very conservative company. If we say it does this, that's what it does. We did it, they liked it, and now they want to do more of it. Others have been selling out in front of where their actual abilities are, and I think they've paid the consequences of that. Even with all this aggressive pricing in digital brokerage, it's interesting if you look at brokers as a whole, revenues are down despite all that aggressive pricing. And so, I think shippers learned some lessons in 2018 that they're continuing to learn in 2019 that at the end of the day assets matter. And we're proud of our logistics group, we're going to continue to grow it, but assets matter.

<Q – Jack Atkins>: Absolutely. So, John, if I could ask a couple of questions here on costs, we talked about insurance and you gave us a sense for sort of how that’s going to look over the next 12 months. But I know that you guys are being very, very disciplined on costs. You announced an expanded or cost reduction initiative on the third quarter conference call. Can you just kind of walk through how we should be thinking about the opportunity for cost reduction next year to offset some of these inflationary costs that are just inherent in the business. And we just kind of talk about cost more broadly and how you see that trending next year?

<A – John J. Steele>: Yes. 2019 started off, it became increasingly clear that gaining cost savings and efficiencies would be increasingly important. 2018 was a year where rates just kept going up all year long. 2019 has been the exact opposite effect where contract rates have been coming down. Spot rates are down more than 20%. We've got to be lean and mean and more efficient to be able to provide a high level of service at a more competitive cost in a more challenging rate environment to avoid significant deterioration in our operating margin.

So, we had a very systematic approach towards developing and implementing our cost savings project that started earlier this year. Each one that we worked on, we had 130 different items. I would say that probably the greatest area has been in headcount in terms of our tractor to non-driver ratio is up 7% year-over-year. We’re at the highest tractor to non-driver ratio we've been at in over 10 years. That's a combination of a lot of things that are helping to make various tasks and jobs within the company more efficient. I mean, I'll use the example, bots, investing in bot
technology to help with various forms of data entry to automate the process, which gives us, takes a manual process and automates it. It makes the process quicker and more efficient, more accurate. We've applied that, where we can throughout the organization and our technology team is continuing to look at ways to expand on that.

I don't believe we've tapped all the opportunities. I mean, as the year has gone on, our cost savings – the need for cost savings has increased and our improvement programs that we put in place have also been increasing. We were at a $10 million run rate at the end of second quarter when we held our call in July. We had a $15 million annual run rate as we reported in October and I expect that will continue to grow. And it's not just the salary wages line, it's most lines within our P&L. There are opportunities and our entire management team is engaged to identify and implement opportunities and we've got a more structured approach to how we're going about it than we've ever had.

<Q – Jack Atkins>: Well, that's great to hear. And then I guess just following up on that though, just to conclude that line of final questions. As you think about inflationary costs, I mean, I know it's tough in a challenging freight backdrop to improve OR, or to keep OR constant. So, I guess I'm just trying to think about the inflationary costs relative to what you guys are doing on the cost reduction side. Do you think it's going to be enough to mostly mitigate the inflationary costs? I would think it'd be pretty hard to completely offset all that.

<A – John J. Steele>: Yes. Let me try to frame this a little bit better for you based on our third quarter results. So, we stated in our call that our TTS, which is combined Dedicated and One-Way Truckload, rates were up slightly year-over-year. Our operating ratio net of fuel deteriorated 190 basis points. So essentially that tells you our costs, net of fuel, were up roughly 2%. Driver pay and depreciation are the two biggest factors that have caused that. Both of those factors are beginning to moderate as we move into 2020 compared to 2019. I expect both will be up year-over-year in 2020, but they won't be up as much as they were in 2019. We do have a couple of headwinds. Insurance has the potential to be a little bit of a headwind based on our claims experience and the potential for bad jury verdicts.

The other one that's probably a slight headwind in 2020 compared to 2019 is gains on equipment. We've guided to the low level, low end of the $18 million to $20 million range for gains for the full year. We're tracking in the latter part of this year at $4 million of gains per quarter, which would be kind of annualized $16 million, potentially $15 million gain. Depending on how difficult the used truck market is next year, I would expect our gains to be down from 2019 into 2020. That's a little bit of a cost headwind.

<Q – Jack Atkins>: Okay.

<A – John J. Steele>: But we've got a lot of cost initiatives that give us the opportunity on an overall basis to improve on that 2% cost increase. It'd be very difficult to be flat on the cost side with all the factors, but can we make progress reducing it from 2% down to 1.5%, possibly. We've got a lot of good initiatives already in place to give us some momentum. And clearly the overall freight and rate market will influence what we decide to do on the cost side and how aggressive we get.
<Q – Jack Atkins>: Okay, great. Thank you, John. We’ve time for one more question.

<Q>: [Question Inaudible]

<A – Derek J. Leathers>: Yes. So, they need to be raised. I mean, I’ll start with that. Having them at the same $750,000 levels that they've been at for a couple of decades is not acceptable in our view. There are some bills – there's a bill working through that resets that, I’ll call it around $5 million. I don't see that happening. I don't think you're going to go from $750,000 to $5 million. I think that's where it should be, but I don't think that's going to happen.

I think the idea of trying to set it at, let's just take the midpoint of $2.5 million might have some legs, but when you couple it with insurance rates at those smaller carrier levels, they're renewing at 100% rate increases, premium increases. If you then ask them to go from $750,000 to $2.5 million, I think the small business world and those that represent the small business world are going to have a hard time putting their support behind it.

So, we're not banking on that as one of the things that's going to come to the rescue. I think it should happen. We're fully supportive of it happening. It's completely unfair in terms of a level playing field that you have people operating at $750,000 insurance levels because the net effect is nobody pursues them at all. If they have a fatality accident, nobody goes after him. Meanwhile, we have a fatality where we're hit head on in our own lane of travel and you end up litigating for years and years and years when we were hit in our own lane travel.

So that's just the reality if they go after the deep pockets. And so, we'd like to see some movement there. We'll keep pushing for movement. I don't – I'm not counting on that in our long-term plan is happening because I think it's a tough road and especially in the political environment we're in right now depending on what happens next year, I don't see a political will to do anything that would be viewed as anti-small business.

<<Jack Atkins, Analyst, Stephens Inc.>>

Well, we're going to need to leave it there. Derek, John, thank you so much for your time and coming to the conference this year.

<<Derek J. Leathers, President and Chief Executive Officer>>

Thanks.